Everything You Need to Know About Accounting Rule Changes

We are excited to announce the newest addition to the Education section of our site: the Financial Accounting Standards Board (FASB) Tracker. The FASB Tracker is your one-stop shop for knowing how changes in accounting standards affect investing. This new section gives you the scoop on what's happening at the FASB and International Accounting Standard Board (IASB) and how it affects fundamental analysis.

We recognize the difficulties in keeping up with all the new accounting standard updates, amendments, and clarifications that come from the FASB and IASB each year. The goal of this new resource is to cut through the noise and give investors clear insights into what matters when it comes to accounting rule changes.

Check Out the FASB Tracker

Importantly, we will focus on how the FASB and IASB change how to assess the underlying *economics*, not just accounting, of business performance and valuation. This new section of our site will identify which accounting rules require adjustments to earnings models and when those changes go into effect. We will also tell you which accounting rule changes require no changes.

The FASB Tracker focuses on detailed explanation and analysis of the most impactful rule changes. See below for a list of deep dives into recent rule changes.

- The Impacts of Operating Leases Moving to the Balance Sheet
- How Operating Lease Discount Rates Can Mislead Investors
- Pension Cost Accounting Rule Change
- Not Requiring the Amortization of Capitalized Interest Disclosure Is Not Good for Investors
- Removing the Hedge Ineffectiveness Disclosure Requirement Is Not Good for Investors
- How Companies Implemented the New Revenue Recognition Standard
- How ASU 2016-01 Impacts Invested Capital and OCI

This kind of work is our specialty. We have spent many years training our machine learning engine to read SEC filings, reverse accounting loopholes, and build the only comprehensive database of footnotes disclosures. No one understands the economic meaning of accounting data as well as we do, as featured in this Harvard Business School and MIT Sloan paper.

This article originally published on November 15, 2019.

Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

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Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies (featured by Harvard Business School), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, Core Earnings: New Data and Evidence, shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This paper compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

"…the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications." – page 20

Pick better stocks:

"Trading strategies that exploit cross-sectional differences in firms' transitory earnings produce abnormal returns of 7-to-10% per year." – Abstract

Avoid losses from using other firms' data:

"…many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat…" – page 14

Build better models:

"Core Earnings [calculated using New Constructs' novel dataset] provides predictive power for various measures of one-year-ahead performance…that is incremental to their current-period counterparts." – page 4

Exploit market inefficiencies:

"These results … suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures." – page 26

Fulfill fiduciary duties:

"An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A." – page 33-34

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