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Original Article

Financial statement recasting and credit risk assessment

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Abstract

This article examines the importance of adjustments to corporate financial statements for credit risk assessment. Prior research has tended to examine individual adjustments one at a time. As correlations among adjustments and control variables may bias inferences when researchers examine a single adjustment and ignore other adjustments, our results provide important new information about previous research by documenting whether or not such bias exists. We find that financial statement recasting adjustments – which aim to better reflect firms' indebtedness, financing costs and recurring earnings than reported financial numbers – are reflected in bond yield spreads and have an economically significant impact on credit pricing and loss forecasting. Among individual adjustment categories, we find that those for off-balance-sheet leases, defined benefit pensions and securitized debt have an economically significant impact on credit pricing and loss forecasting.

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