Closing A New Accounting Loophole: Residual Value Guarantees

Companies are always inventing new ways to manage earnings, and we're constantly reviewing the latest tricks, loopholes, and accounting rule changes to ensure we continue to have the best fundamental data in the world. We enjoy shining lights in dark corners and uncovering the truth.

By now, reports of data center accounting shenanigans are everywhere. In February 2026, The Wall Street Journal highlighted how Ernst & Young identified Meta's (META) data center lease accounting as a "Critical Audit Matter" due to "the significant judgement required in determining that activities that most significantly affect the variable interest entity's economic performance…"

However, investors are likely unaware of another new trick that hides major liabilities off-balance sheet. Our regular readers became aware when we published our analysis of the hidden $500 billion accounting trick impacting the largest players in the AI race on February 18th.

The latest loophole: Residual Value Guarantees (RVG).

What is a Residual Value Guarantee?

An RVG is a lease provision where the lessee promises that the leased asset will be worth a minimum specified amount at the end of the term. If the asset's actual value is lower, the lessee must pay the difference. These payments, should they occur, represent a real liability, but unless they are probable, no liability is recorded.

How Meta Uses RVGs to Hide Billions in Potential Liabilities

Meta's Blue Owl joint venture provides a real-life use case of RVGs. In the company's 2025 10-K. The Meta Residual Value Guarantee is a contingent liability where Meta guarantees to cover the shortfall if the market value of a specialized data center (specifically, the $27 billion Hyperion project) is less than a pre-agreed amount upon lease termination. This acts as a backstop for investors, ensuring they recover funds if Meta exits early, while keeping the debt off-balance-sheet for Meta.

Key details about the Meta RVG:

- Purpose: It supports a ~16-year, $27 billion Blue Owl joint venture for AI data center construction, allowing Meta to treat the project as an operating lease rather than debt.
- Trigger: The payment is triggered if Meta terminates the lease early or does not renew it within the guaranteed period.
- Calculation: If triggered, the payment equals the guaranteed value minus the actual market value of the facility, capped at an agreed amount.

This RVG keeps the massive construction cost off-balance sheet for now, yet represents a significant, long-term contingent liability if AI infrastructure needs change or if the data centers become obsolete. Both Meta and Ernst & Young believe it is unlikely that Meta will pay the RVG, so the company does not record the RVG as a liability.

How We Inform Our Clients

It is fairly normal for leases to have these kinds of contingencies included in them and they often go unrecorded and unmentioned. Meta's RVG is unique because (1) it's so large and (2) the pace of change in the value of data centers is so high.

We include an Analyst Note on our Stock Rating for Meta to alert clients to this potential RVG liability. While we don't include the RVG as a liability in our calculation of total debt, investors need to be aware should the economics of this deal change.

We routinely identify the most dangerous earnings distortions and accounting loopholes in the market and implement every update, such as this, into our models.

That means as long as you're a Stock Tracker or higher member, you'll get every update and improvement, included with your membership.

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

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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