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New Revenue Recognition Rules Could Create a Speed Bump for Offerings in 2018

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New revenue recognition rules (ASC 606 and IFRS 15) are required to be adopted by most public companies starting January 1, 2018 and most private companies starting January 1, 2019. These changes are widely regarded as some of the most significant accounting changes since the adoption of the Sarbanes-Oxley Act of 2002. Companies may choose between the full retrospective method and the modified retrospective method to implement the new rules.

- Companies implementing with the full retrospective method must revise and reissue fiscal 2016 and 2017 financial statements in connection with their Form 10-K for 2018
- Companies implementing with the modified retrospective method need not reissue prior periods but must instead provide additional footnote disclosure and record the cumulative effect of the change in opening retained earnings on January 1, 2018

As discussed below, companies electing to use the full retrospective method may find their ability to access the capital markets delayed until they have revised and reissued all required prior periods.

One issue that companies using the full retrospective method need to address is when they will reissue financial statements for prior periods to give effect to the new principles. Absent a need or desire to access the capital markets, a company could, at least technically, wait until the comparable current period is presented – i.e. reissue financial statements for Q1 2017 in the Form 10-Q for Q1 2018, reissue Q2 2017 in the Form 10-Q for Q2 2018 … and reissue fiscal 2016 and 2017 in the Form 10-K for 2018. It remains to be seen, however, whether investors will demand that companies issue revised financial statements more promptly, at least for companies where the change in policy causes material revisions to financial reporting.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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