

The new top line – what investors want to know as you implement IFRS 15



As you prepare to implement the new revenue standard, think about how you will communicate the change to your investors and analysts. They've told us they would like you to:

- **Communicate early**
- **Be transparent and forthcoming with information**
- **Describe how the change affects your company specifically – without boiler plate descriptions**
- **Clearly explain and reconcile differences between IFRS 15 and IAS 18**
- **Avoid the temptation to hide bad news along with the transition**

This short guide highlights what finance and investor relations teams should consider as they prepare to transition to and communicate about IFRS 15. We share what investors and analysts have told us they expect companies to act upon, as well as the pitfalls to avoid.

“You can't escape the news that things aren't good by burying it in the news about IFRS 15.”

“We commend those companies that have already quantified the impact of the new standard.”



Investors' and analysts' views matter because:

- A new accounting standard can have a major impact on how investors perceive the performance of companies and even whole sectors, especially where they think the old standard is inadequate. If addressed properly, this could have a **positive impact**.
- Their view of your company is influenced by how you react to and implement a new standard – is management being **transparent** and **proactive**?
- Analysts' valuations are not just based on future cash flows but also on profitability. Since IFRS 15 affects both sales and profit, it will greatly influence analysts' work, and potentially their **recommendations on your company**.



Important points to remember:

- Investors want to understand what changes to your revenue numbers are due to real growth and what proportion stems from the accounting standard change. Burying bad news or blaming poor results on IFRS 15 does not provide the **clarity** that investors deserve and need.
- The market does not like uncertainty and will try to fill in any gaps in information – ensure that you are the one providing the messages about the effect on your company, not letting the market guess. Consider having an **educational call or meeting** for your analysts.
- Investors don't buy the argument that information about revenue is commercially sensitive – on the contrary, they think such information is already known to your competitors, so **disclose** clearly as much as possible.
- Investors do not look at a new standard in isolation. They want to know what its **tax impact** is, and are also interested in the **cost of implementing** it – for example, how much are you spending on new software or employee training?



Investors want companies to:

- **Communicate early** – be ahead of the curve. If the impact of the new standard is material, it is important to get that message to your investors and analysts as early as possible.
- Use the new standard as an **opportunity to improve your disclosures**. Current revenue policy disclosures under IAS 18 are generally seen as boiler plate and not very useful. Therefore, take this chance to provide **more meaningful notes** about how your revenue model works and how you run your business – this will help build and improve rapport with your analysts.
- Explain clearly the differences between current practice and the new standard, allowing investors to perform **reconciliations**.
- Indicate what has changed as a result of the new standard and what is due to the underlying economics of your business.
- Provide information on **contract duration** and explain how contracts roll over – this will enable analysts to assess earnings quality and future earnings volatility.
- Present **comparatives** (for at least three years) to show the impact of the new standard, not just at the group level, but also at a divisional level. This will enable analysts to understand what is happening in the business.

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