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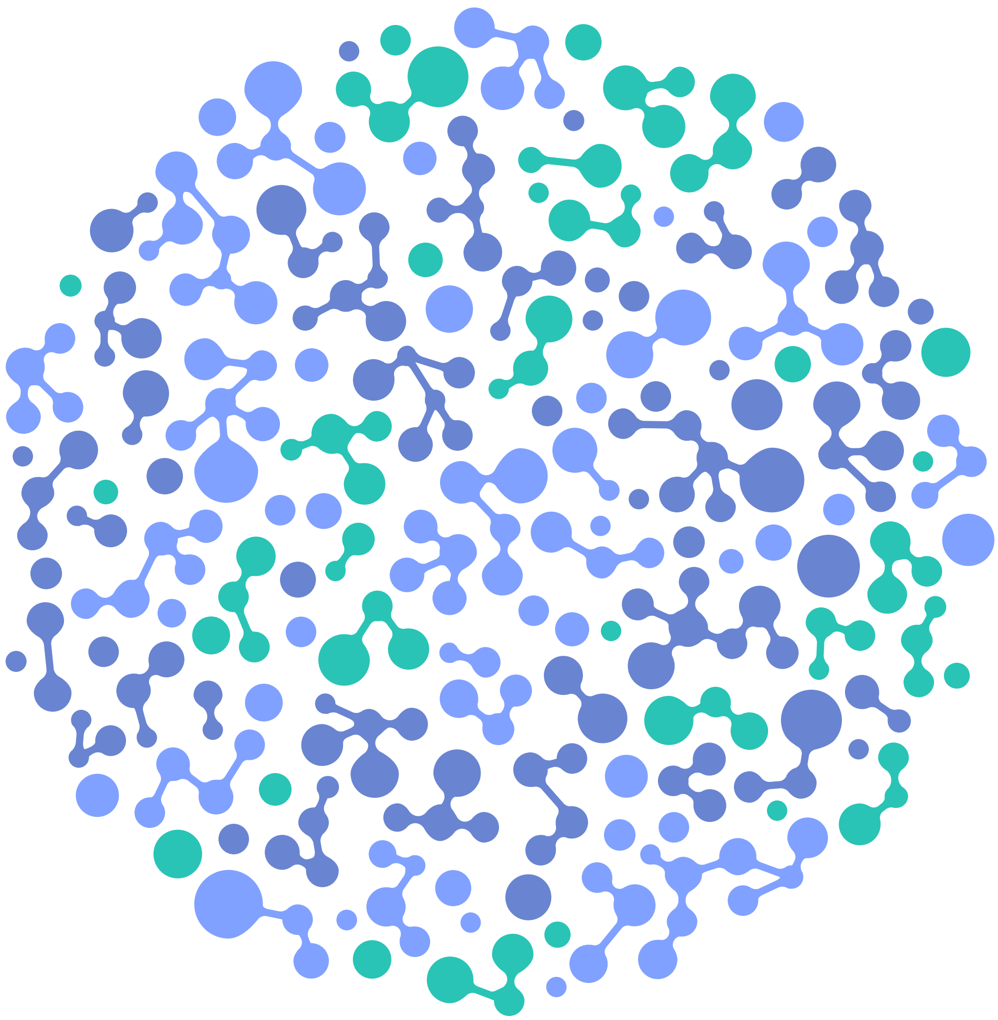

Life Sciences Industry Accounting Guide

Compensation

March 2021

Other Deloitte Publications

Other Deloitte publications, such as our Roadmap Series, are available on the Deloitte Accounting Research Tool (DART), a comprehensive online library of accounting and financial disclosure literature. The Roadmap series includes titles on the following topics:

Business Combinations

Business Combinations — SEC Reporting Considerations

Carve-Out Transactions

Comparing IFRS Standards and U.S. GAAP

Consolidation — Identifying a Controlling Financial Interest

Contingencies, Loss Recoveries, and Guarantees

Contracts on an Entity's Own Equity

Convertible Debt

Current Expected Credit Losses

Debt

Distinguishing Liabilities From Equity

Earnings per Share

Environmental Obligations and Asset Retirement Obligations

Equity Method Investments and Joint Ventures

Equity Method Investees — SEC Reporting Considerations

Fair Value Measurements and Disclosures (Including the Fair Value Option)

Foreign Currency Transactions and Translations

Guarantees and Collateralizations — SEC Reporting Considerations

Impairments and Disposals of Long-Lived Assets and Discontinued Operations

Income Taxes

Initial Public Offerings

Leases

Noncontrolling Interests

Non-GAAP Financial Measures and Metrics

Revenue Recognition

SEC Comment Letter Considerations, Including Industry Insights

Segment Reporting

Share-Based Payment Awards

Statement of Cash Flows

Transfers and Servicing of Financial Assets

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Preface

The life sciences ecosystem encompasses a wide array of entities that discover, develop, and manufacture health care products. Such entities include pharmaceutical manufacturers; biotechnology companies; medical device, diagnostic, and equipment manufacturers; and service companies such as drug distributors, contract research organizations (CROs), contract manufacturing organizations (CMOs), and health technology companies.

Finance and accounting professionals in the industry face complex issues and must exercise significant judgment in applying existing rules to matters such as research and development (R&D) costs, acquisitions and divestitures, consolidation, contingencies, revenue recognition, income taxes, financial instruments, and financial statement presentation and disclosure. The 2021 edition of Deloitte's *Life Sciences Industry Accounting Guide* (the "Guide") addresses these and other relevant topics affecting the industry this year. It includes interpretive guidance, illustrative examples, recent standard-setting developments (through February 28, 2021), and key differences between U.S. GAAP and IFRS® Standards. In addition, this Guide discusses accounting and financial reporting considerations associated with the coronavirus disease 2019 ("COVID-19") pandemic that apply specifically to the life sciences industry.

Appendix B lists the titles of standards and other literature we cited, and Appendix C defines the abbreviations we used.

We hope this Guide is helpful in navigating the various accounting and reporting challenges that life sciences entities face. We encourage clients to contact their Deloitte team for additional information and assistance.

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Chapter 9 — Compensation

9.1 Industry Issues

9.1.1 Common-Stock Repurchase Transactions

Various stock transactions with employees[1] of an emerging nonpublic entity (the "nonpublic entity") involve significant judgment and complexities that may have a material impact on the nonpublic entity's financial statements. In addition, such transactions often have certain tax implications for both the nonpublic entity and its employees. These stock transactions can be between the nonpublic entity and its employees, a preexisting investor and the nonpublic entity's employees, or a new investor and the nonpublic entity's employees.

9.1.1.1 Accounting Considerations

9.1.1.1.1 Transactions Directly Between a Nonpublic Entity and Its Employees

When a nonpublic entity repurchases common shares from its employees at an amount greater than the estimated fair value of the shares at the time of the transaction, the excess of the purchase price over the fair value of the common shares generally represents employee compensation.

ASC 718-20-35-7 (before the adoption of ASU 2018-07[2]) states the following:

> The amount of cash or other assets transferred (or liabilities incurred) to repurchase an equity award shall be charged to equity, to the extent that the amount paid does not exceed the fair value of the equity instruments repurchased at the repurchase date. **Any excess of the repurchase price over the fair value of the instruments repurchased shall be recognized as additional compensation cost.** An entity that repurchases an award for which the requisite service has not been rendered has, in effect, modified the requisite service period to the period for which service already has been rendered, and thus the amount of compensation cost measured at the grant date but not yet recognized shall be recognized at the repurchase date. [Emphasis added]

For example, a nonpublic entity may repurchase shares from its existing employees in connection with a convertible preferred stock financing, whereby the entity may set aside a specified amount of the financing to repurchase common stock from its existing employees and thereby provide liquidity to its employees. It is not unusual for an entity to repurchase common shares by using the price established for the preferred stock in the most recent round of financing. Accordingly, a nonpublic entity would need to evaluate whether the price of the preferred stock is equal to the value of the common stock. Typically, the value of preferred shares will exceed the value of common shares (under the assumption that there is one-to-one conversion) because of preferential rights normally associated with preferred shares. As a result, the excess amount would be reflected in the nonpublic entity's financial statements as compensation cost in accordance with ASC 718-20-35-7.

[1] While Sections 9.1 through 9.1.1.3 specifically consider the guidance related to repurchase transactions with an entity's employees, the concepts discussed therein are also applicable to repurchase transactions with nonemployees who provide goods or services to the entity.

[2] For a discussion of ASU 2018-07, see Section 9.2.1.

9.1.1.1.2 Transactions Directly Between a Preexisting Investor and the Nonpublic Entity's Employees as Part of a Financing Transaction

Occasionally, investors intending to increase their stake in an emerging nonpublic entity may undertake transactions with other shareholders in connection with a recent financing round. These transactions may include investors' purchase of common shares directly from the founders of the nonpublic entity or other individuals who are also considered employees of the nonpublic entity. Because the transactions are between employees of the nonpublic entity and existing shareholders and are related to the transfer of outstanding shares, the nonpublic entity may not be directly involved in them (although it may become indirectly involved by facilitating the exchange or not exercising a right of first refusal).

If there is sufficient evidence that a transaction is an arm's-length fair value transaction, it may be necessary to treat the transaction as a data point in the estimation of the fair-value-based measurement of share-based payment awards. If a transaction involves founders or a few select key employees, however, it may be difficult to demonstrate that the transaction is not compensatory. If the price paid for the shares exceeds their fair value at the time of the transaction, it is likely that the nonpublic entity will be required to recognize compensation cost for the excess regardless of whether the entity is directly involved in the transaction. It is important for a nonpublic entity to recognize that transactions such as these may be subject to the guidance in ASC 718 because the investors are considered to be holders of an economic interest in the entity.

ASC 718-10-15-4 (before the adoption of ASU 2018-07[3]) states the following:

> **Share-based payments awarded to an employee of the reporting entity by a related party or other holder of an economic interest in the entity[4] as compensation for services provided to the entity are share-based payment transactions to be accounted for under this Topic unless the transfer is clearly for a purpose other than compensation for services to the reporting entity.** The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to its employee in exchange for services rendered. An example of a situation in which such a transfer is not compensation is a transfer to settle an obligation of the economic interest holder to the employee that is unrelated to employment by the entity. [Emphasis added]

Although the presumption in such transactions is that any consideration in excess of the fair value of the shares is compensation paid to employees, nonpublic entities should consider whether the amount paid is related to an existing relationship or to an obligation that is unrelated to the employees' services to the entity in assessing whether the payment is "clearly for a purpose other than compensation for services to the reporting entity."

9.1.1.1.3 Transactions Directly Between a New Investor and the Nonpublic Entity's Employees as Part of a Financing Transaction

Transactions between a new investor and a nonpublic entity's employees need to be given consideration similar to that given to transactions between a preexisting investor and a nonpublic entity's employees. If, in connection with a financing transaction, a new investor repurchases common shares in the nonpublic entity from employees of the nonpublic entity, there may be compensation expense that should be recognized. Although the new investor did not hold an economic interest before entering into the transaction with the nonpublic entity, the new investor is not dissimilar to a party that already holds economic interest in the nonpublic entity and may have similar motivations to compensate employees. As noted in ASC 718-10-15-4, a share-based payment arrangement between the holder of an economic interest in a nonpublic entity and an employee of the nonpublic entity should be accounted for under ASC 718 unless the arrangement is clearly for a purpose other than compensation for services.

[3] See footnote 2.

[4] ASC 718-10-20 defines an economic interest in an entity as "[a]ny type or form of pecuniary interest or arrangement that an entity could issue or be a party to, including equity securities; financial instruments with characteristics of equity, liabilities, or both; long-term debt and other debt-financing arrangements; leases; and contractual arrangements such as management contracts, service contracts, or intellectual property licenses."

9.1.1.2 Valuation Considerations

While the examples above describe situations in which it is likely that the nonpublic entity would recognize additional compensation cost, we are aware of fact patterns in which a secondary market transaction between an investor and a nonpublic entity's employees represents an orderly arm's-length transaction conducted at fair value. In these fact patterns, the nonpublic entity can adequately support a conclusion that the transaction was conducted at fair value and therefore did not result in additional compensation cost. Often, the stock repurchase is a secondary market transaction, the nonpublic entity does not enter into a separate financing transaction concurrently, and the investor has not acquired a significant ownership interest in the nonpublic entity. If the nonpublic entity can support a conclusion that the stock repurchase transaction was conducted at fair value and was not compensatory, we would expect the entity to incorporate the transaction into its common-stock valuation, which a third-party valuation firm typically performs to ensure compliance with IRC Section 409A and determine the fair-value-based measure of the nonpublic entity's share-based payment arrangements. For this type of transaction, we would expect the nonpublic entity to consider both compensatory and noncompensatory indicators when evaluating the substance of the transaction.

Upon determining that a secondary market transaction is noncompensatory, a nonpublic entity should consider the guidance in paragraph 8.07 of the AICPA Accounting and Valuation Guide *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* when assessing whether it should factor the secondary market transaction into its IRC Section 409A valuation for determining the fair value of its common stock. See Deloitte's June 6, 2018, *Financial Reporting Alert* for a summary of this guidance as well as a flowchart detailing the steps outlined in the guidance.

9.1.1.3 Tax Considerations

For tax purposes, stock repurchases are generally treated either as capital (e.g., capital gain) or as dividend-equivalent redemptions (e.g., ordinary dividend income to the extent of earnings and profits). Repurchases from current or former service providers (i.e., current or former employees or independent contractors) give rise to an additional question about whether any of the proceeds should be treated as compensation for tax purposes.

In the assessment of whether a portion of the payment is compensation, a critical tax issue is what value is appropriate for the nonpublic entity to use when determining the effect of the capital redemption. That is, the nonpublic entity must determine whether some portion of the consideration for the repurchase represents something other than fair value for the common stock (i.e., compensation cost). When a repurchase exceeds the fair value of the common stock, there is risk that some of the purchase consideration is compensation for tax purposes. The determination of whether such excess is compensatory depends on the facts and circumstances, and **there can be disparate treatment for book and tax purposes with respect to compensation transactions** along with ambiguity in the existing tax code. Relevant factors include whether the repurchase is (1) performed by the nonpublic entity or an existing investor or (2) part of arm's-length negotiations with a new investor, who may not have the same information as the nonpublic entity about what is considered to be the fair market value of the stock. If the purchaser is not the nonpublic entity, it is relevant whether the shares will be held by the buyer, or whether they can be converted into a different class of stock or put back to the nonpublic entity. Another factor is whether an offer to sell at a higher price is limited to service providers or is available to shareholders more generally.

While any tax liability resulting from additional compensation is the obligation of the individual, the nonpublic entity has an obligation to (1) withhold income and payroll taxes from payments to employees and (2) remit the employer share of payroll tax. If the nonpublic entity does not withhold payroll taxes from an employee in a transaction when the excess purchase price is compensatory, the nonpublic entity becomes responsible for the tax and should evaluate whether it should accrue a liability in accordance with ASC 450, which addresses the proper accounting treatment of non-income-tax contingencies such as sales and use taxes, property taxes, and payroll taxes.

An estimated loss contingency, such as a payroll tax liability, is accrued (i.e., expensed) if (1) it is probable that the liability has been incurred as of the date of the financial statements and (2) the amount of the liability is reasonably estimable. See Chapter 6 for a discussion of the measurement of a loss contingency.

In addition, the nonpublic entity would need to evaluate whether it has any arrangements in place with its employees that would make it responsible for its employees' tax liability.

An entity has a legal right to seek reimbursement for the payroll tax liability (although not for income tax withholding, penalties, or interest) from employees if the IRS makes a determination to seek the withholdings from the entity. Accordingly, an entity could record an offsetting receivable from the employees for the payroll tax withholdings. However, an entity will need to assess the collectibility of such a receivable, including whether the entity has sufficient evidence of an employee's ability to reimburse the entity for the payroll tax liability and whether the entity has the intent to collect this receivable from the employee.

Given the complexities of this type of transaction, including the evaluation of existing tax law, entities should consult with their accounting advisers when measuring the liability under ASC 450.

For further considerations related to common-stock repurchase transactions, see Deloitte's June 6, 2018, *Financial Reporting Alert*.

9.2 New Accounting Standards

9.2.1 Accounting for Share-Based Payment Arrangements With Nonemployees (ASU 2018-07)

In June 2018, the FASB issued ASU 2018-07, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Before adopting the ASU, entities apply ASC 505-50 to account for nonemployee share-based payments issued for goods and services. ASC 505-50, before the ASU's amendments, differs significantly from ASC 718. The ASU supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. However, some differences remain between the accounting for employees and nonemployees under ASC 718, primarily related to the (1) manner and period of cost recognition and (2) fair-value-based measurement.

For more information about ASU 2018-07, see Chapter 9 of Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards* and Deloitte's June 21, 2018, *Heads Up*.

9.2.2 Accounting for Share-Based Payments Issued as Sales Incentives to Customers (ASU 2019-08)

In November 2019, the FASB issued ASU 2019-08, which clarifies the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606. Under the ASU, entities apply the guidance in ASC 718 to measure and classify share-based payments issued to a customer that are not in exchange for a distinct good or service (i.e., share-based sales incentives).

For more information about ASU 2019-08, see Deloitte's November 13, 2019, *Heads Up*.

9.2.3 Changes to Disclosure Requirements for Defined Benefit Plans (ASU 2018-14)

In August 2018, the FASB issued ASU 2018-14, which amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU's changes related to disclosures are part of the FASB's disclosure framework project, which the Board launched in 2014 to improve the effectiveness of disclosures in notes to financial statements.

For more information about ASU 2018-14, see Deloitte's August 29, 2018, *Heads Up*. For further discussion of important accounting considerations related to defined benefit pension and other postretirement benefit plans, see Deloitte's November 13, 2020, *Financial Reporting Alert*.

Appendix B — Titles of Standards and Other Literature

AICPA Literature

Accounting and Valuation Guides

Assets Acquired to Be Used in Research and Development Activities

Valuation of Privately-Held-Company Equity Securities Issued as Compensation

Audit and Accounting Guide

Revenue Recognition

Clarified Statements on Auditing Standards

AU-C Section 501, “Audit Evidence — Specific Considerations for Selected Items”

AU-C Section 620, “Using the Work of an Auditor’s Specialist”

Issues Papers

Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories

86-2, *Accounting for Options*

Other

AICPA Technical Q&A Section 2260.03, “Other Assets; Legal Expenses Incurred to Defend Patent Infringement Suit”

FASB Literature

ASC Topics

ASC 105, *Generally Accepted Accounting Principles*

ASC 205, *Presentation of Financial Statements*

ASC 210, *Balance Sheet*

ASC 220, *Income Statement — Reporting Comprehensive Income*

ASC 230, *Statement of Cash Flows*

ASC 235, *Notes to Financial Statements*

ASC 250, *Accounting Changes and Error Corrections*

ASC 260, *Earnings per Share*

ASC 270, *Interim Reporting*

ASC 275, *Risks and Uncertainties*

ASC 280, *Segment Reporting*

ASC 310, *Receivables*

ASC 320, *Investments — Debt and Equity Securities*

ASC 321, *Investments — Equity Securities*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 326, *Financial Instruments — Credit Losses*

ASC 330, *Inventory*

ASC 340, *Other Assets and Deferred Costs*

ASC 350, *Intangibles — Goodwill and Other*

ASC 360, *Property, Plant, and Equipment*

ASC 405, *Liabilities*

ASC 410, *Asset Retirement and Environmental Obligations*

ASC 420, *Exit or Disposal Cost Obligations*

ASC 450, *Contingencies*

ASC 460, *Guarantees*

ASC 470, *Debt*

ASC 480, *Distinguishing Liabilities From Equity*

ASC 505, *Equity*

ASC 605, *Revenue Recognition*

ASC 606, *Revenue From Contracts With Customers*

ASC 610, *Other Income*

ASC 705, *Cost of Sales and Services*

ASC 710, *Compensation — General*

ASC 715, *Compensation — Retirement Benefits*

ASC 718, *Compensation — Stock Compensation*

ASC 720, *Other Expenses*

ASC 730, *Research and Development*

ASC 740, *Income Taxes*

ASC 805, *Business Combinations*

ASC 808, *Collaborative Arrangements*

ASC 810, *Consolidation*

ASC 815, *Derivatives and Hedging*

ASC 820, *Fair Value Measurement*

ASC 825, *Financial Instruments*

ASC 830, *Foreign Currency Matters*

ASC 835, *Interest*

ASC 840, *Leases*

ASC 842, *Leases*

ASC 845, *Nonmonetary Transactions*

ASC 848, *Reference Rate Reform*

ASC 855, *Subsequent Events*

ASC 860, *Transfers and Servicing*

ASC 905, *Agriculture*

ASC 915, *Development Stage Entities*

ASC 930, *Extractive Activities — Mining*

ASC 942, *Financial Services — Depository and Lending*

ASC 944, *Financial Services — Insurance*

ASC 946, *Financial Services — Investment Companies*

ASC 948, *Financial Services — Mortgage Banking*

ASC 954, *Health Care Entities*

ASC 958, *Not-for-Profit Entities*

ASC 960, *Plan Accounting — Defined Benefit Pension Plans*

ASC 985, *Software*

ASUs

ASU 2010-27, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers* — a consensus of the FASB Emerging Issues Task Force

ASU 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers* — a consensus of the FASB Emerging Issues Task Force

ASU 2014-02, *Intangibles — Goodwill and Other (Topic 350): Accounting for Goodwill* — a consensus of the Private Company Council

ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*

ASU 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810,* Consolidation

ASU 2014-15, *Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*

ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* — a consensus of the FASB Emerging Issues Task Force

ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*

ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*

ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2016-02, *Leases (Topic 842)*

ASU 2016-08, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*

ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

ASU 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing*

ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*

ASU 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*

ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*

ASU 2016-17, *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-20, *Technical Corrections and Improvements to Topic 606,* Revenue From Contracts With Customers

ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*

ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

ASU 2017-05, *Other Income — Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

ASU 2017-11, *Earnings per Share (Topic 260); Distinguishing Liabilities From Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception*

ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*

ASU 2017-13, *Revenue Recognition (Topic 605), Revenue From Contracts With Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments* (SEC Update)

ASU 2017-14, *Income Statement — Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606)* (SEC Update)

ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*

ASU 2018-07, *Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

ASU 2018-10, *Codification Improvements to Topic 842,* Leases

ASU 2018-11, *Leases (Topic 842): Targeted Improvements*

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*

ASU 2018-14, *Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans*

ASU 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* — a consensus of the FASB Emerging Issues Task Force

ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606*

ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*

ASU 2019-01, *Leases (Topic 842): Codification Improvements*

ASU 2019-04, *Codification Improvements to Topic 326,* Financial Instruments — Credit Losses*, Topic 815,* Derivatives and Hedging*, and Topic 825,* Financial Instruments

ASU 2019-05, *Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief*

ASU 2019-08, *Compensation — Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Codification Improvements — Share-Based Consideration Payable to a Customer*

ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*

ASU 2019-11, *Codification Improvements to Topic 326,* Financial Instruments — Credit Losses

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*

ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815* — a consensus of the FASB Emerging Issues Task Force

ASU 2020-02, *Financial Instruments — Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02*, Leases (Topic 842)

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

ASU 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*

ASU 2020-06, *Debt — Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*

ASU 2021-01, *Reference Rate Reform*

Concepts Statements

No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*

No. 6, *Elements of Financial Statements*

No. 8, *Conceptual Framework for Financial Reporting — Chapter 8,* Notes to Financial Statements

Proposed ASUs

No. 2015-340, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance*

No. 2017-210, *Inventory (Topic 330): Disclosure Framework — Changes to the Disclosure Requirements for Inventory*

No. 2017-280, *Consolidation (Topic 812): Reorganization*

No. 2019-500, *Income Taxes (Topic 740): Disclosure Framework — Changes to the Disclosure Requirements for Income Taxes (Revision of Exposure Draft Issued July 26, 2016)*

No. 2019-790, *Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting*

Other

Proposed Concepts Statement 2014-200, *Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements*

FASB Staff *Revenue Recognition Implementation Q&As*

IFRS Literature

IFRS 2, *Share-Based Payment*

IFRS 3, *Business Combinations*

IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*

IFRS 9, *Financial Instruments*

IFRS 10, *Consolidated Financial Statements*

IFRS 11, *Joint Arrangements*

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 15, *Revenue From Contracts With Customers*

IFRS 16, *Leases*

IAS 1, *Presentation of Financial Statements*

IAS 7, *Statement of Cash Flows*

IAS 10, *Events After the Reporting Period*

IAS 12, *Income Taxes*

IAS 17, *Leases*

IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

IAS 27, *Separate Financial Statements*

IAS 32, *Financial Instruments: Presentation*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

IAS 38, *Intangible Assets*

IAS 40, *Investment Property*

IRC

Section 78, "Gross Up for Deemed Paid Foreign Tax Credit"

Section 163(j), "Interest; Limitation on Business Interest"

Section 382, "Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change"

Section 409A "Inclusion in Gross Income of Deferred Compensation Under Nonqualified Deferred Compensation Plans"

Section 422, "Incentive Stock Options"

Section 423, "Employee Stock Purchase Plans"

PCAOB Literature

Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

SEC Literature

CF Disclosure Guidance

Topic 9, "Coronavirus (COVID-19)"

Topic 9A, "Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources"

Topic 11, "Special Purpose Acquisition Companies"

Final Rules

No. 34-88365, *Accelerated Filer and Larger Accelerated Filer Definitions*

No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Business*

No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*

FRM

Topic 1, "Registrant's Financial Statements"

Topic 2, "Other Financial Statements Required"

Topic 3, "Pro Forma Financial Information"

Topic 5, "Smaller Reporting Companies"

Topic 7, "Related Party Matters"

Topic 10, "Emerging Growth Companies"

Interpretive Release

33-10403, *Updates to Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement Into the Pediatric Vaccine Stockpile or the Strategic National Stockpile*

Regulation S-K

Item 103, "Business; Legal Proceedings"

Item 201, "Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters"

Item 301, "Selected Financial Data"

Item 302, "Supplementary Financial Information"

Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations"

Item 305, "Quantitative and Qualitative Disclosures About Market Risk"

Item 402, "Executive Compensation"

Item 404, "Transactions With Related Persons, Promoters and Certain Control Persons"

Item 407, "Corporate Governance"

Item 503, "Prospectus Summary"

Item 601, "Exhibits"

Regulation S-X

Rule 1-02(w), "Definitions of Terms Used in Regulation S-X (17 CFR part 210); Significant Subsidiary"

Article 2, "Qualifications and Reports of Accountants"

Rule 3-01, "Consolidated Balance Sheet"

Rule 3-02, "Consolidated Statements of Comprehensive Income and Cash Flows"

Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"

Rule 3-14, "Special Instructions for Financial Statements of Real Estate Operations Acquired or to Be Acquired"

Rule 3-16, "Financial Statements of Affiliates Whose Securities Collateralize an Issue Registered or Being Registered"

Rule 4-08(g), "General Notes to Financial Statements; Summarized Financial Information of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 4-08(n), "General Notes to Financial Statements; Accounting Policies for Certain Derivative Instruments"

5-02, "Commercial and Industrial Companies; Balance Sheets"

5-03, "Commercial and Industrial Companies; Statements of Comprehensive Income"

Article 8, "Financial Statements of Smaller Reporting Companies"

Rule 10-01(b), "Interim Financial Statements; Other Instructions as to Content"

Article 11, "Pro Forma Financial Information"

Rule 11-01 "Presentation Requirements"

SAB Topics

No. 1.M, "Financial Statements; Materiality"

No. 5.A, "Miscellaneous Accounting; Expenses of Offering"

No. 5.Y, "Miscellaneous Accounting; Accounting and Disclosures Relating to Loss Contingencies"

No 11.A, "Miscellaneous Disclosure; Operating-Differential Subsidies"

No. 13, "Revenue Recognition"

No. 14.B, "Share-Based Payment; Transition From Nonpublic to Public Entity Status"

No. 14.D, "Share-Based Payments; Certain Assumptions Used in Valuation Methods"

- No. 14.D.1, "Expected Volatility"
- No. 14.D.2, "Expected Term"

SEC Securities Act of 1933 General Rules and Regulations

Rule 144, "Persons Deemed Not to be Engaged in a Distribution and Therefore Not Underwriters — General Guidance"

TRG Agenda Papers

TRG Agenda Paper 6, *Customer Options for Additional Goods and Services and Nonrefundable Upfront Fees*

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TRG Agenda Paper 41, *Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation*

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Superseded Literature

AICPA Statement of Position

96-1, *Environmental Remediation Liabilities*

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Issue 00-21, "Revenue Arrangements With Multiple Deliverables"

Issue 01-8, "Determining Whether an Arrangement Contains a Lease"

Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"

Issue 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001"

Issue 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received From a Vendor"

Issue 08-6, "Equity Method Investment Accounting Considerations"

Issue 09-2, "Research and Development Assets Acquired in an Asset Acquisition"

Issue 09-4, "Seller Accounting for Contingent Consideration"

FASB Interpretations

No. 14, *Reasonable Estimation of the Amount of a Loss* — an interpretation of FASB Statement No. 5

No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109

FASB Statements

No. 5, *Accounting for Contingencies*

No. 52, *Foreign Currency Translation*

No. 95, *Statement of Cash Flows*

No. 114, *Accounting by Creditors for Impairment of a Loan* — an amendment of FASB Statements No. 5 and 15

No. 123(R), *Share-Based Payment*

No. 133, *Accounting for Derivative Instruments and Hedging Activities*

No. 141, *Business Combinations*

No. 141(R), *Business Combinations*

No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51

Appendix C — Abbreviations

Abbreviation	Description
AETR	annual effective tax rate
AFS	available for sale
AICPA	American Institute of Certified Public Accountants
AMT	alternative minimum tax
API	active pharmaceutical ingredient
APIC	additional paid-in capital
ASC	FASB Accounting Standards Codification
ASR	accelerated share repurchase
ASU	FASB Accounting Standards Update
BCF	beneficial conversion feature
BEAT	base erosion anti-abuse tax
BEMTA	base erosion minimum tax amount
BPD	branded prescription drug
CAM	critical audit matter
CCF	cash conversion feature
CECL	current expected credit loss
CFC	controlled foreign corporation
CFR	Code of Federal Regulations
CMO	contract manufacturing organization
CODM	chief operating decision maker
CRO	contract research organization
DTA	deferred tax asset
DTL	deferred tax liability
EBITDA	earnings before interest, taxes, depreciation, and amortization
ED	exposure draft

Abbreviation	Description
EDGAR	SEC electronic data gathering, analysis, and retrieval system
EGC	emerging growth company
EITF	Emerging Issues Task Force
EPS	earnings per share
ESPP	employee stock purchase plan
EU	European Union
EUR	euros
FASB	Financial Accounting Standards Board
FDA	Food and Drug Administration
FDII	foreign derived intangible income
FIFO	first in, first out
FIN	FASB Interpretation
FOB	free on board
FRM	SEC Division of Corporation Finance Financial Reporting Manual
FVTOCI	fair value through other comprehensive income
GAAP	generally accepted accounting principles
GILTI	global intangible low-taxed income
GPO	group purchasing organization
HFI	held for investment
HFS	held for sale
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	incurred but not reported

Abbreviation	Description
IFRS	International Financial Reporting Standard
IIR	investigator-initiated research
IP	intellectual property
IPO	initial public offering
IPR&D	in-process research and development
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	incentive stock option
IT	information technology
LCD	liquid-crystal display
LIBOR	London Interbank Offered Rate
LIFO	last in, first out
M&A	merger and acquisition
MD&A	Management's Discussion & Analysis
MSL	medical science liaison
NFP	not-for-profit entity
NOL	net operating loss
NQSO	nonqualified stock option
NSO	nonstatutory option
OCA	SEC's Office of the Chief Accountant
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board

Abbreviation	Description
PCC	Private Company Council
PP&E	property, plant, and equipment
PRV	priority review voucher
PTRS	probability of technical and regulatory success
Q&A	question and answer
QIP	qualified improvement property
R&D	research and development
R&E	research and experimentation
REMS	risk evaluation and mitigation strategy
ROU	right of use
SaaS	software as a service
SAB	Staff Accounting Bulletin
SEC	Securities and Exchange Commission
SME	small to medium-sized entity
SPAC	special-purpose acquisition company
SPPI	solely payments of principal and interest
SRC	smaller reporting entity
S&P 500	Standard & Poor's 500 Index
TD	Treasury Decision
TRG	transition resource group
USD	U.S. dollars
UTB	unrecognized tax benefit
VIE	variable interest entity
VWAP	volume-weighted average daily market price

The following is a list of short references for the Acts mentioned in this Guide:

Abbreviation	Act
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
Exchange Act	Securities Exchange Act of 1934
FAST Act	Fixing America's Surface Transportation Act
JOBS Act	Jumpstart Our Business Startups Act
Securities Act	Securities Act of 1933
2017 Act	Tax Cuts and Jobs Act of 2017