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*Leases*
*Noncontrolling Interests*
*Non-GAAP Financial Measures*
*Revenue Recognition*
*SEC Comment Letter Considerations, Including Industry Insights*
*Segment Reporting*
*Share-Based Payment Awards*
*Statement of Cash Flows*
Acknowledgments and Contact Information

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About Deloitte’s Life Sciences and Health Care Practice

Deloitte and its subsidiaries have approximately 312,000 professionals with a single focus: serving our clients and helping them solve their toughest problems. Deloitte’s Life Sciences and Health Care practice is among the largest in the world, leveraging the extensive knowledge, skills, and experience of over 24,000 professionals in 90 countries. Our practice offers a distinctive menu of professional services delivered in an integrated approach that address all segments of the life sciences and health care industry. We work in four key business areas — audit, advisory, tax, and consulting — but our real strength comes from combining the talents of those groups to address clients’ needs. Bloomberg Businessweek and Fortune consistently rank our organization among the best places in which to work, which is good news for our talent and our clients alike. When the best people tackle the most compelling challenges, everyone wins.

If you have any questions about this publication or ways in which we can help your organization, please contact the following Deloitte industry specialists.

Jeff Ellis
U.S. and Global Audit Leader — Life Sciences
Life Sciences Industry Professional Practice Director
Deloitte & Touche LLP
+1 412 338 7204
jeellis@deloitte.com

Dennis Howell
Senior Consultation Partner,
Accounting and Reporting Services
Life Sciences Deputy Industry Professional Practice Director
Deloitte & Touche LLP
+1 203 761 3478
dhowell@deloitte.com
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Preface

March 2020

To our clients, colleagues, and other friends:

The life sciences ecosystem encompasses a vast array of entities that discover, develop, and manufacture health care products. Such entities include pharmaceutical manufacturers; biotechnology companies; medical device, diagnostic, and medical 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 2020 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, 2020), and key differences between U.S. GAAP and IFRS® Standards. In addition, this Guide discusses the outlook for the life sciences industry in 2020. Further, while many of the key accounting and financial reporting considerations stemming from the coronavirus disease 2019 (COVID-19) outbreak are related to topics addressed in this Guide, we encourage you to review Deloitte’s March 25, 2020, Financial Reporting Alert, which discusses accounting and financial reporting considerations associated with COVID-19 that are broadly applicable as well as those 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.

This Guide is available on the Deloitte Accounting Research Tool (DART).

We hope this Guide helps you navigate the various accounting and reporting challenges you face. We encourage you to contact your Deloitte team for additional information and assistance.

Sincerely,

Jeff Ellis     Dennis Howell
U.S. and Global Audit Leader — Senior Consultation Partner, Accounting Life Sciences and Reporting Services
Life Sciences Industry Professional Life Sciences Deputy Industry Professional
Practice Director
Practice Director
Deloitte & Touche LLP
Deloitte & Touche LLP
Chapter 9 — Compensation

9.1 Industry Issues

9.1.1 Common-Stock Repurchase Transactions

Various stock transactions with employees 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) 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.

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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 Sections 9.2.1 through 9.2.1.3.
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) 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 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.

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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. Under the ASU, most of the guidance on such payments to nonemployees is aligned with the requirements for share-based payments granted to employees.

Share-based payment arrangements with employees are accounted for under ASC 718, whereas before the adoption of ASU 2018-07, nonemployee share-based payments issued for goods and services are accounted for under ASC 505-50. For entities that have not yet adopted the ASU, ASC 505-50 and ASC 718 differ significantly. Differences include, but are not limited to, the guidance on (1) the determination of the measurement date (which generally is the date on which the measurement of equity-classified share-based payments becomes fixed), (2) the accounting for performance conditions, (3) the ability of a nonpublic entity to use certain practical expedients for measurement, and (4) the accounting for (including the measurement and classification of) share-based payments after vesting.
9.2.1.1 **Key Provisions**

9.2.1.1.1 **Scope**

ASU 2018-07 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. As a result, most of the guidance in ASC 718, including most of its requirements related to classification and measurement, would apply to nonemployee share-based payment arrangements.

9.2.1.1.2 **Measurement Date**

One of the more significant changes under ASU 2018-07 is related to the determination of the measurement date, which is generally the date on which the measurement of equity-classified share-based payments becomes fixed. ASU 2018-07 eliminates the guidance in ASC 505-50 on determining the measurement date for nonemployee share-based payment arrangements. Rather, for equity-classified awards, the measurement date would generally be the grant date.

9.2.1.1.3 **Vesting Conditions**

Under ASC 718, service and performance conditions are vesting conditions, while market conditions are incorporated into the fair-value-based measurement of share-based payments. ASU 2018-07 extends that guidance to nonemployee awards and modifies the definitions of service and performance conditions to incorporate characteristics of nonemployee awards. Accordingly, the ASU expands the definition of a service condition to include “a nonemployee delivering goods or rendering services to the grantor over a vesting period” and the definition of a performance condition to include the “performance of the grantee if such performance is in accordance with the terms of the award and solely relates to the grantor’s own operations (or activities).”

The treatment of nonemployee share-based payment performance conditions under ASU 2018-07 is significantly different from that under existing guidance. In recognizing the cost of nonemployee awards, an entity generally is precluded by ASC 505-50 from considering whether it is probable that the performance conditions will be met. Rather, if the quantity and terms of nonemployee awards depend on counterparty performance conditions, the entity measures any cost recognized on the basis of the “then-current lowest aggregate fair value” of the awards as of each reporting period until the performance conditions are “known” (i.e., achieved). This can often result in a scenario in which the lowest aggregate fair value is zero and no cost is recognized until the performance conditions are achieved, even if the performance conditions are expected to be met. Under ASU 2018-07, the guidance on nonemployee awards with performance conditions is aligned with the guidance in ASC 718 on employee awards. Accordingly, an entity is required to recognize any cost on the basis of the probable outcome of performance conditions.

9.2.1.1.4 **Forfeitures**

As in the case of employee awards, ASU 2018-07 permits an entity to make an entity-wide policy election for all nonemployee awards to either (1) estimate forfeitures or (2) recognize forfeitures when they occur. The policy election is independent of the entity’s policy election for employee awards. If the entity elects to estimate forfeitures, it should recognize the cost of nonemployee awards on the basis of its estimate of awards for which the goods are expected to be delivered or the service is expected to be rendered, and the entity should revise its estimate as appropriate.
9.2.1.1.5 Fair-Value-Based Measurement

Under ASC 505-50, nonemployee share-based payment awards are measured at the fair value of either the consideration received (i.e., fair value of the goods or services received) or the equity instruments issued, whichever is more reliably measurable. In practice, such awards generally are measured on the basis of the fair value of the equity instruments issued. Under ASU 2018-07, nonemployee awards are always measured on the basis of the fair value of the equity instruments issued, in a manner consistent with the measurement for employee awards. However, in calculating the fair-value-based measurement of nonemployee stock options and similar instruments, an entity can elect on an award-by-award basis to use the contractual term as the expected term.

9.2.1.1.6 Practical Expedients for Nonpublic Entities

ASU 2018-07 permits nonpublic entities to use the same practical expedients as those provided for measuring employee awards. Specifically, ASU 2018-07 allows nonpublic entities to use the following practical expedients:

- **Calculated value** — A nonpublic entity is required to use calculated value to measure its stock options and similar instruments granted to employees if it is unable to reasonably estimate the fair value of such awards because estimating the expected volatility of its stock price is not practicable. This practical expedient also applies to nonemployee awards and needs to be consistently applied to both employee and nonemployee awards.

- **Intrinsic value** — A nonpublic entity may measure all liability-classified share-based payment awards granted to nonemployees at intrinsic value instead of fair value. If an entity has already elected to apply the practical expedient to employee awards, that election would also apply to nonemployee awards (i.e., this practical expedient must be consistently applied to both employee and nonemployee awards).

- **Expected term** — A nonpublic entity that does not elect to use the contractual term as the expected term of an award may, as a practical expedient, estimate the expected term for nonpublic stock options and similar awards granted to nonemployees that meet the conditions in ASC 718-10-30-20B. The practical expedient is an entity-wide accounting policy election that must be consistently applied to both employee and nonemployee awards. Under the practical expedient, the expected term is generally estimated as the midpoint between the nonemployee’s vesting period and the contractual term of the award.\(^5\)

9.2.1.1.7 Classification

The guidance in ASC 718 on the classification of employee share-based payment awards also applies to nonemployee awards under ASC 505-50 before they vest. However, under ASC 505-50, nonemployee awards become subject to other guidance in U.S. GAAP that generally applies to financial instruments (e.g., ASC 815) once performance is complete (i.e., the awards are vested). By contrast, employee awards remain within the scope of ASC 718 (even after they vest) unless they are modified after the holder ceases to be an employee (except under an equity restructuring that meets certain criteria). Since ASU 2018-07 aligns the classification treatment of employee and nonemployee awards, nonemployee awards will generally remain within the scope of ASC 718 unless they are modified after the awards vest and the nonemployee is no longer providing goods and services (except under an equity restructuring that meets certain criteria).

\(^5\) An exception to using the midpoint is an award that has an implicit vesting period and a performance condition that is not probable of being met. In this circumstance, the expected term is the contractual term.
9.2.1.2 Transition and Related Disclosures

ASU 2018-07 generally requires an entity to use a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all (1) liability-classified nonemployee awards that have not been settled as of the adoption date and (2) equity-classified nonemployee awards for which a measurement date has not been established. In the application of a modified retrospective approach:

- ASU 2018-07's transition provisions do not apply to equity-classified awards for which a measurement date was previously established under ASC 505-50 because of the existence of a performance commitment or because performance was complete.
- ASU 2018-07 requires equity-classified awards (for which a measurement date has not been previously established) to be remeasured on the basis of their adoption-date fair-value-based measure.
- An entity applies the guidance on modifications of an award from liability to equity classification (i.e., the unsettled liability award as measured on the adoption date would be reclassified to equity) to determine the cumulative-effect adjustment to equity for unsettled awards that are currently classified as a liability but will be classified as equity under ASU 2018-07.
- An entity should not adjust the basis of assets that include nonemployee share-based payment costs if the assets are completed (e.g., finished goods inventory or fixed assets for which amortization has commenced).

However, if a nonpublic entity changes its measurement of nonemployee awards to calculated value instead of a fair-value-based measure, the ASU requires the entity to use a prospective approach.

In the first interim and fiscal year of adoption, an entity is required to disclose the following:

- The nature of and reason for the change in accounting principle.
- The cumulative effect of the change on retained earnings in the statement of financial position as of the beginning of the period of adoption.

9.2.1.3 Effective Date

For PBEs, the amendments in ASU 2018-07 are effective for fiscal years beginning after December 15, 2018, including interim periods therein. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted if financial statements have not yet been issued (for PBEs) or have not yet been made available for issuance (for all other entities), but no earlier than an entity's adoption date of ASC 606.

For more information about ASU 2018-07 and further discussion of the accounting for nonemployee awards before and after the adoption of the ASU, see Chapter 9 of Deloitte's A Roadmap to Accounting for Share-Based Payment Awards.
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).

9.2.2.1 **Background**

As discussed above, the FASB issued **ASU 2018-07** in June 2018. That ASU amends the guidance in ASC 606-10-32-25 on consideration payable to a customer to expand the scope of the form of consideration to include equity instruments granted in conjunction with the sale of goods or services. Accordingly, under **ASU 2018-07**, share-based sales incentives are outside the scope of ASC 718 and must be accounted for under ASC 606. While ASC 606 addresses how to recognize share-based sales incentives (i.e., as a reduction of revenue), it does not provide guidance on the measurement (or measurement date) of such incentives. Therefore, upon the adoption of **ASU 2018-07**, there is no guidance that addresses the measurement of share-based sales incentives. To clarify the accounting for such incentives, **ASU 2019-08** requires an entity to measure them in accordance with ASC 718.

9.2.2.2 **Key Provisions**

9.2.2.2.1 **Scope**

**ASU 2019-08** applies to share-based payments granted in conjunction with the sale of goods and services to a customer that are not in exchange for a distinct good or service. Entities apply ASC 718 only to measure and classify share-based sales incentives, and they reflect the measurement of such incentives as a reduction of the transaction price and recognize it in accordance with the guidance in ASC 606 on consideration payable to a customer. Entities that receive distinct goods or services from a customer should account for the share-based payment in the same manner as they account for other purchases from suppliers (i.e., by applying the guidance in ASC 718). Any excess of the fair-value-based measure of the share-based payment award over the fair value of the distinct goods or services received should be reflected as a reduction to the transaction price and recognized in accordance with the guidance in ASC 606 on consideration payable to a customer.

9.2.2.2.2 **Initial Measurement and Classification**

**ASU 2019-08** clarifies that share-based sales incentives are reflected as a reduction in the transaction price on the basis of the grant-date fair-value-based measure in accordance with ASC 718 (for both equity-classified and liability-classified awards). In addition, share-based sales incentives may contain vesting conditions (i.e., service or performance conditions that must be satisfied for the customer to vest in an award) or conditions that affect factors other than the vesting of an award (i.e., market conditions, service or performance conditions that affect factors other than vesting or exercisability, or “other” conditions that do not meet the definition of a service, performance, or market condition). Under the ASU, both vesting and nonvesting conditions should be evaluated in accordance with ASC 718, which specifies that vesting conditions, unlike nonvesting conditions, are not directly factored into the fair-value-based measure of the award. Therefore, the amount recognized as a share-based sales incentive would (1) reflect the actual outcome of any vesting condition and (2) incorporate in its measurement any nonvesting conditions.
While vesting and nonvesting conditions are not subject to the variable consideration guidance in ASC 606, such guidance could still be applicable in certain circumstances. For example, an entity should apply ASC 606-10-32-7 and estimate the fair-value-based measure of an equity instrument before the grant date when a grant date has not been established but (1) the customer has a valid expectation that a share-based sales incentive will be issued (e.g., because of an entity's history of issuing share-based sales incentives or its ongoing negotiations related to the issuance of a share-based sales incentive for which the terms of the equity instruments have not yet been finalized) or (2) other facts and circumstances indicate that the entity intends to issue a share-based sales incentive. In the period in which a grant date is established, the entity adjusts the transaction price for the cumulative effect of calculating the fair-value-based measure on the grant date. This treatment is similar to the accounting applied when the service inception date precedes the grant date for employee awards. For example, an entity could enter into a revenue contract with a customer for the purchase of goods or services while negotiating a share-based sales incentive with that customer. If a grant date has not been established for that award because the terms are still being negotiated, the entity would be required to estimate the fair-value-based measure of the award and reflect that estimate (or a portion of the estimate) as a reduction of the transaction price. That estimate will be adjusted in each reporting period until a grant date has been established.

As discussed above, the classification of share-based sales incentives is subject to the guidance in ASC 718. Therefore, an entity applies ASC 718-10-25-6 through 25-19A to determine whether an award is classified as equity or a liability. As in the case of other nonemployee awards, if (1) the award is subsequently modified when vested and (2) the grantee is no longer a customer, the award becomes subject to other U.S. GAAP (e.g., ASC 480, ASC 815) unless the modification is made in conjunction with an equity restructuring that meets certain conditions.

### 9.2.2.2.3 Subsequent Measurement and Presentation

Under ASU 2019-08, share-based sales incentives are measured on the grant date (for both equity-classified and liability-classified share-based payments) in accordance with the guidance in ASC 718. Further, since both vesting and nonvesting conditions should be evaluated under ASC 718, a change in the probable or actual outcome of a service or performance condition that results in a change in the measurement of the award should be reflected as a change in the transaction price.

By contrast, any changes in measurement that are due to the form of consideration are not reflected as changes to the transaction price but instead are presented elsewhere in the income statement. This includes changes to the fair-value-based measure of liability-classified awards that are not related to service or performance conditions. If such changes are not due to the form of consideration (i.e., changes in the probable or actual outcome of a service or performance condition), they are reflected as changes to the transaction price on the basis of the awards' grant-date fair-value-based measure.

ASC 718 requires that entities measure equity-classified share-based payment awards on the grant date and not remeasure them unless the awards are modified. Entities should determine the grant-date fair-value-based measure of the award on the basis of the probable or actual outcomes of any service or performance conditions (whether vesting or nonvesting). The probable or actual outcomes are reassessed in each reporting period, and the final measurement of the award associated with the ultimate outcomes of those conditions will be reflected as a reduction of the transaction price. Therefore, any changes to the total measurement of a share-based sales incentive would not be attributable to the form of consideration and should be recognized as a change to the transaction price.

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^7 See ASC 718-10-55-108 through 55-115.
Under ASC 718, liability-classified share-based payment awards must be remeasured at the end of each reporting period until settlement. However, ASU 2019-08 requires that entities reflect only the grant-date fair-value-based measure of a liability-classified share-based sales incentive as a reduction of revenue in accordance with ASC 606. Any changes to the measurement of the share-based sales incentive after the grant date that are attributable to the form of the consideration (i.e., not due to the probable or actual outcome of any service or performance conditions) would be reflected elsewhere in the income statement. Therefore, although entities would be required to remeasure liability-classified share-based sales incentives at the end of each reporting period until settlement, they would not reflect as an adjustment to revenue subsequent changes to the fair-value-based measure that are attributable to the form of the consideration.

9.2.2.2.4 Recognition
An entity applies ASC 718 only to the measurement and classification of share-based sales incentives. To recognize and present such incentives, the entity should apply the guidance in ASC 606 on consideration payable to a customer.

For example, under ASC 606-10-32-27, an entity would recognize the grant-date fair-value-based measure of share-based sales incentives as a reduction of revenue when (or as) the later of either of the following events occurs:

a. The entity recognizes revenue for the transfer of the related goods or services to the customer.

b. The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity’s customary business practices.

In accordance with the above guidance, an entity will typically recognize a share-based sales incentive as a reduction of revenue when, or as, the entity recognizes revenue for the transfer of the related goods or services to the customer. Because the vesting of share-based sales incentives may not align with the recognition of revenue for the transfer of the related goods or services to the customer, an entity will need to use judgment in those circumstances to determine what the “related” goods and services are.

9.2.2.2.5 Disclosure
The FASB decided not to establish specific disclosure requirements for share-based sales incentives because ASC 606 and ASC 718 already provide guidance on disclosures related to revenue transactions and share-based payment arrangements. Accordingly, an entity should evaluate the disclosure requirements in both ASC 606 and ASC 718 when it grants share-based sales incentives to customers.

9.2.2.3 Transition and Related Disclosure
An entity adopts ASU 2019-08 by applying the same transition provisions as those in ASU 2018-07. If an entity adopts ASU 2019-08 in the same fiscal year that it adopted ASU 2018-07, it should apply ASU 2019-08’s provisions retrospectively for all relevant prior periods, beginning with its initial ASU 2018-07 adoption date. It should also make a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which it adopted ASU 2018-07.

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8 As discussed in Section 9.2.2.2.2, there may be circumstances in which a grant date has not been established but the customer has a valid expectation that share-based consideration will be issued. In such circumstances, the entity should apply the variable consideration guidance in ASC 606-10-32-7 and estimate the fair-value-based measure of the equity instrument before the grant date.
If an entity adopts ASU 2019-08 in a fiscal year after the fiscal year that it adopted ASU 2018-07, it should elect to apply ASU 2019-08’s provisions in one of the following ways:

- Retrospectively for all relevant prior periods beginning with its initial ASU 2018-07 adoption date, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which it adopted ASU 2018-07 (i.e., use the same transition method as that used by entities that adopt it in the same fiscal year as their adoption of ASU 2018-07).
- On a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which they adopt it.

### 9.2.2.4 Effective Date

For PBEs, the amendments in ASU 2019-08 are effective for fiscal years beginning after December 15, 2019, including interim periods therein.

For all other entities that have early adopted ASU 2018-07, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods therein (the same adoption date as that for PBEs). For all other entities that have not early adopted ASU 2018-07, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 (the same adoption date as that in ASU 2018-07).

Early adoption is permitted for all entities (including in an interim period), but adoption may not be earlier than the date on which an entity adopts ASU 2018-07.

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.

#### 9.2.3.1 Key Provisions

##### 9.2.3.1.1 Addition and Removal of Disclosure Requirements

ASU 2018-14 adds requirements for an entity to disclose the following:

- The weighted-average interest crediting rates used in the entity’s cash balance pension plans and other similar plans.
- A narrative description of the reasons for significant gains and losses affecting the benefit obligation for the period.
- An explanation of any other significant changes in the benefit obligation or plan assets that are not otherwise apparent in the other disclosures required by ASC 715.
ASU 2018-14 removes the requirements for an entity to disclose the following:

- The amounts in accumulated OCI expected to be recognized as part of net periodic benefit cost over the next year.
- Information about plan assets to be returned to the entity, including amounts and expected timing.
- Transactions resulting from the June 2001 amendments to the Japanese Welfare Pension Insurance Law.
- Information about (1) benefits covered by related-party insurance and annuity contracts and (2) significant transactions between the plan and related parties. (Entities separately need to provide the related-party disclosures required under ASC 850.)
- For nonpublic entities with Level 3 plan assets in the fair value hierarchy measured on a recurring basis, a reconciliation of the opening balances to the closing balances. (However, those entities would still need to disclose transfers of plan assets into and out of Level 3 and any purchases of Level 3 assets by the plan.)
- For public entities, the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits.

9.2.3.1.2 Clarification of Disclosure Requirements

ASU 2018-14 also clarifies the guidance in ASC 715-20-50-3 to require disclosure of (1) the projected benefit obligation (PBO) and fair value of plan assets for pension plans with PBOs in excess of plan assets (the same disclosure with reference to the accumulated postretirement benefit obligation rather than the PBO is required for other postretirement benefit plans) and (2) the accumulated benefit obligation (ABO) and fair value of plan assets for pension plans with ABOs in excess of plan assets.

9.2.3.2 Effective Date and Transition

For PBEs, ASU 2018-14 is effective for fiscal years ending after December 15, 2020. For all other entities, the ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. Entities are required to apply ASU 2018-14’s amendments on a retrospective basis.

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 1, 2019, Financial Reporting Alert.
Appendix B — Titles of Standards and Other Literature

The following are the titles of standards and other literature mentioned in this Guide:

**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*

**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 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 712, Compensation — Nonretirement Postemployment Benefits
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 835, Financial Instruments
Appendix B — Titles of Standards and Other Literature

ASC 840, Leases
ASC 842, Leases
ASC 845, Nonmonetary Transactions
ASC 860, Transfers and Servicing
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 2016-02, 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 2016-16, 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 2016-20, 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
Appendix B — Titles of Standards and Other Literature


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 2018-17, 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

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. 2015-310, Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material
No. 2015-340, Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance
No. 2017-200, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent)
No. 2017-210, Inventory (Topic 330): Disclosure Framework — Changes to the Disclosure Requirements for Inventory
No. 2017-280, Consolidation (Topic 812): Reorganization
No. 2019-730, 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
No. 2019-770, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting
No. 2019-790, Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting

Other FASB Proposal

International Standards
IFRS 2, Share-Based Payment
IFRS 3, Business Combinations
IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations
IFRS 9, Financial Statements
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 (Revised 2007), 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 (Revised 2011), 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 199, “Income Attributable to Domestic Production Activities”
Section 382, “Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change”
Section 383, “Special Limitations on Certain Excess Credits, etc.”
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

SEC Literature
FRM
Topic 1, “Registrant’s Financial Information”
Topic 2, “Other Financial Statements Required”
Topic 3, “Pro Forma Financial Information”
Topic 5, “Smaller Reporting Companies”
Topic 7, “Related Party Matters”
Topic 9, “Management’s Discussion and Analysis of Financial Position and Results of Operations (MD&A)”
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
Proposed Rule Release
No. 33-10635, Amendments to Financial Disclosures About Acquired and Disposed Businesses

Regulation S-K
Item 101, “Description of Business”
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 3-02, “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 Real Estate Operations 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(h), “General Notes to Financial Statements: Income Tax Expense”
Rule 4-08(n), “Accounting Policies for Certain Derivative Instruments”
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, “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.1, “Certain Assumptions Used in Valuation Methods; Expected Volatility”
SAB 116, “Staff Accounting Bulletin No. 116”

**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”

**Superseded Literature**

**EITF Issues**
Issue 00-21, “Revenue Arrangements With Multiple Deliverables”
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 01-8, “Determining Whether an Arrangement Contains a Lease”
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. 47, *Accounting for Conditional Asset Retirement Obligations* — an interpretation of FASB Statement No. 143
No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109
FASB Statements

No. 5, *Accounting for Contingencies*

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

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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABO</td>
<td>accumulated benefit obligation</td>
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<tr>
<td>AFS</td>
<td>available for sale</td>
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<td>AI</td>
<td>artificial intelligence</td>
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<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>AMT</td>
<td>alternative minimum tax</td>
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<td>API</td>
<td>active pharmaceutical ingredient</td>
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<td>APIC</td>
<td>additional paid-in capital</td>
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<td>ASC</td>
<td>FASB Accounting Standards Codification</td>
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<td>ASR</td>
<td>accelerated share repurchase</td>
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<td>ASU</td>
<td>FASB Accounting Standards Update</td>
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<td>BCF</td>
<td>beneficial conversion feature</td>
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<td>BEAT</td>
<td>base erosion anti-abuse tax</td>
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<td>BEMTA</td>
<td>base erosion minimum tax amount</td>
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<td>BPD</td>
<td>branded prescription drug</td>
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<td>CAGR</td>
<td>compound annual growth rate</td>
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<td>CAM</td>
<td>critical audit matter</td>
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<td>CCF</td>
<td>cash conversion feature</td>
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<td>CECL</td>
<td>current expected credit loss</td>
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<td>CFC</td>
<td>controlled foreign corporation</td>
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<td>CFR</td>
<td>Code of Federal Regulations</td>
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<td>CMO</td>
<td>contract manufacturing organization</td>
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<tr>
<td>CODM</td>
<td>chief operating decision maker</td>
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<td>CRO</td>
<td>contract research organization</td>
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<td>CSR</td>
<td>corporate social responsibility</td>
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<tr>
<td>DTA</td>
<td>deferred tax asset</td>
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<td>DTL</td>
<td>deferred tax liability</td>
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<tr>
<td>EBITDA</td>
<td>earnings before interest, taxes, depreciation, and amortization</td>
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<tr>
<td>ED</td>
<td>exposure draft</td>
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<tr>
<td>EDGAR</td>
<td>SEC electronic data gathering, analysis, and retrieval system</td>
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<tr>
<td>EGC</td>
<td>emerging growth company</td>
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<tr>
<td>EITF</td>
<td>Emerging Issues Task Force</td>
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<tr>
<td>ESPP</td>
<td>employee stock purchase plan</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<tr>
<td>FDA</td>
<td>Food and Drug Administration</td>
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<tr>
<td>FDII</td>
<td>foreign derived intangible income</td>
</tr>
<tr>
<td>FIFO</td>
<td>first in, first out</td>
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<tr>
<td>FIN</td>
<td>FASB Interpretation</td>
</tr>
<tr>
<td>FOB</td>
<td>free on board</td>
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<tr>
<td>FRM</td>
<td>SEC Division of Corporation Finance Financial Reporting Manual</td>
</tr>
<tr>
<td>FVTOCI</td>
<td>fair value through other comprehensive income</td>
</tr>
<tr>
<td>GAAP</td>
<td>generally accepted accounting principles</td>
</tr>
<tr>
<td>GILTI</td>
<td>global intangible low-taxed income</td>
</tr>
<tr>
<td>GPO</td>
<td>group purchasing organization</td>
</tr>
<tr>
<td>HFI</td>
<td>held for investment</td>
</tr>
<tr>
<td>HFS</td>
<td>held for sale</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
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</tr>
<tr>
<td>IFRIC</td>
<td>IFRS Interpretations Committee</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
</tr>
<tr>
<td>IIR</td>
<td>investigator-initiated research</td>
</tr>
<tr>
<td>IP</td>
<td>intellectual property</td>
</tr>
<tr>
<td>IPO</td>
<td>initial public offering</td>
</tr>
<tr>
<td>IPR&amp;D</td>
<td>in-process research and development</td>
</tr>
<tr>
<td>IRC</td>
<td>Internal Revenue Code</td>
</tr>
<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
</tr>
<tr>
<td>ISO</td>
<td>incentive stock option</td>
</tr>
<tr>
<td>IT</td>
<td>information technology</td>
</tr>
<tr>
<td>LCD</td>
<td>liquid-crystal display</td>
</tr>
<tr>
<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
</tr>
<tr>
<td>LIFO</td>
<td>last in, first out</td>
</tr>
<tr>
<td>LLC</td>
<td>limited liability company</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>merger and acquisition</td>
</tr>
<tr>
<td>MD&amp;A</td>
<td>Management’s Discussion &amp; Analysis</td>
</tr>
<tr>
<td>MSL</td>
<td>medical science liaison</td>
</tr>
<tr>
<td>NFP</td>
<td>not-for-profit entity</td>
</tr>
<tr>
<td>NOL</td>
<td>net operating loss</td>
</tr>
<tr>
<td>NQSO</td>
<td>non-qualified stock option</td>
</tr>
<tr>
<td>NSO</td>
<td>nonstatutory option</td>
</tr>
<tr>
<td>OCI</td>
<td>other comprehensive income</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OEM</td>
<td>original equipment manufacturer</td>
</tr>
<tr>
<td>PBE</td>
<td>public business entity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBO</td>
<td>projected benefit obligation</td>
</tr>
<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>PCC</td>
<td>Private Company Council</td>
</tr>
<tr>
<td>PP&amp;E</td>
<td>property, plant, and equipment</td>
</tr>
<tr>
<td>PRV</td>
<td>priority review voucher</td>
</tr>
<tr>
<td>PTRS</td>
<td>probability of technical and regulatory success</td>
</tr>
<tr>
<td>Q&amp;A</td>
<td>question and answer</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>R&amp;E</td>
<td>research and experimentation</td>
</tr>
<tr>
<td>REMS</td>
<td>risk evaluation and mitigation strategy</td>
</tr>
<tr>
<td>ROC</td>
<td>return on capital</td>
</tr>
<tr>
<td>ROU</td>
<td>right of use</td>
</tr>
<tr>
<td>SaaS</td>
<td>software as a service</td>
</tr>
<tr>
<td>SAB</td>
<td>Staff Accounting Bulletin</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SME</td>
<td>small to medium-sized entity</td>
</tr>
<tr>
<td>SPPI</td>
<td>solely payments of principal and interest</td>
</tr>
<tr>
<td>SRC</td>
<td>smaller reporting entity</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>Standard &amp; Poor's 500 Index</td>
</tr>
<tr>
<td>TD</td>
<td>Treasury Decision</td>
</tr>
<tr>
<td>TRG</td>
<td>transition resource group</td>
</tr>
<tr>
<td>UTB</td>
<td>unrecognized tax benefit</td>
</tr>
<tr>
<td>VIE</td>
<td>variable interest entity</td>
</tr>
<tr>
<td>VWAP</td>
<td>volume-weighted average daily market price</td>
</tr>
</tbody>
</table>
The following is a list of short references for the Acts mentioned in this Guide:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAST Act</td>
<td>Fixing America’s Surface Transportation Act</td>
</tr>
<tr>
<td>JOBS Act</td>
<td>Jumpstart Our Business Startups Act</td>
</tr>
<tr>
<td>Securities Act</td>
<td>Securities Act of 1933</td>
</tr>
<tr>
<td>TCJA</td>
<td>Tax Cuts and Jobs Act of 2017</td>
</tr>
</tbody>
</table>