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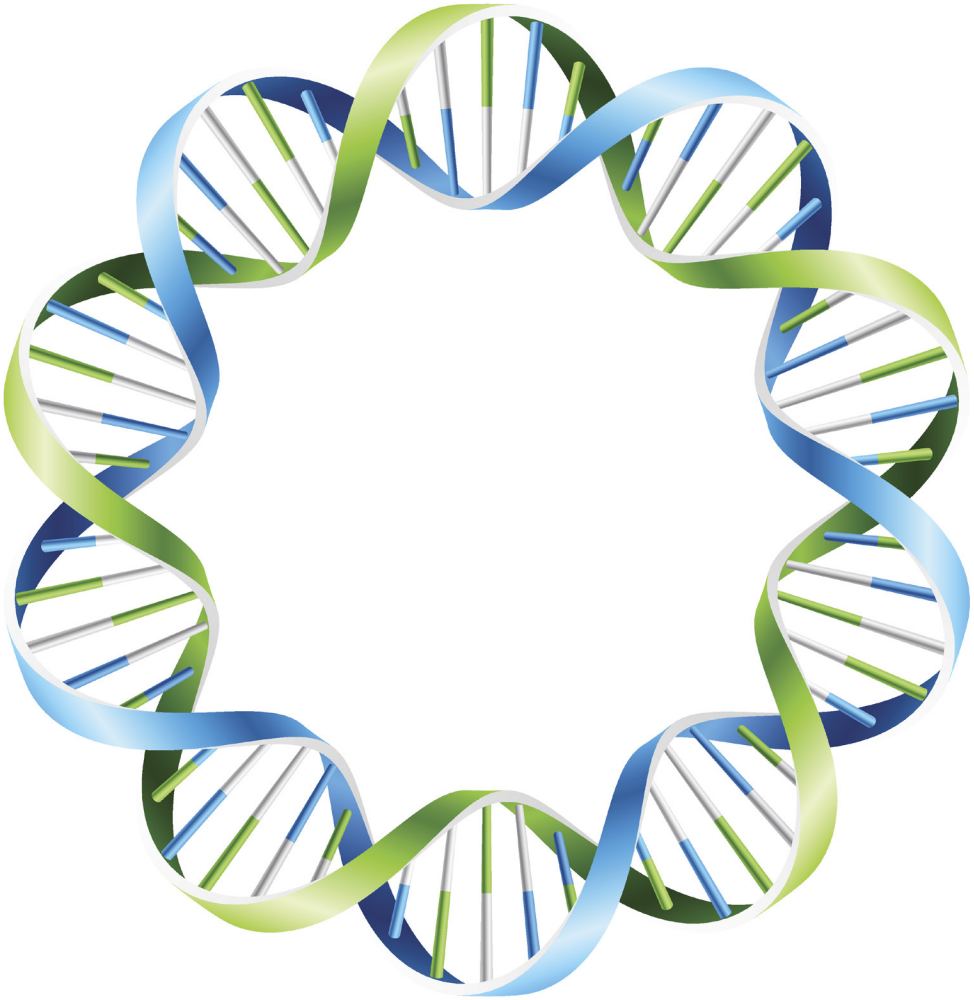

Life Sciences

Accounting and Financial Reporting Update — Interpretive Guidance on Compensation

March 2019

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Preface

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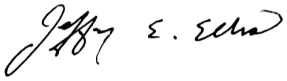
To our clients, colleagues, and other friends:

The life sciences industry represents 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 related to research and development (R&D) costs, acquisitions and divestitures, consolidation, contingencies, revenue recognition, income taxes, financial instruments, and financial statement presentation and disclosure. The full life sciences accounting and financial reporting update, our 10th edition, addresses these and other topics affecting the industry in 2019. It includes updated interpretive guidance as well as new sections that discuss initial public offerings (IPOs), accounting considerations for health technology companies, and the latest developments in standard setting. In addition, it discusses the outlook for the life sciences industry in 2019.

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

Sincerely,



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Chapter 9 — Compensation

9.1 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.

Currently, share-based payment arrangements with employees are accounted for under ASC 718, while nonemployee share-based payments issued for goods and services are accounted for under ASC 505-50. ASC 505-50, before the ASU's amendments, differs significantly from ASC 718. 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 (including measurement and classification) for share-based payments after vesting.

9.1.1 Key Provisions

9.1.1.1 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.

9.1.1.2 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.

9.1.1.3 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 that in ASC 718. Accordingly, an entity is required to recognize any cost on the basis of the probable outcome of performance conditions.

9.1.1.4 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.

9.1.1.5 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.

9.1.1.6 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 nonemployees if it is unable to reasonably estimate the fair value of such awards because it is not practicable for it to estimate the expected volatility of its stock price.
- *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 vesting period and the contractual term of the award.[1]

9.1.1.7 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).

9.1.2 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.

[1] 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.

- 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.

9.1.3 Effective Date

For PBEs,[2] 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, see Appendix E of Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards*.

9.2 Emerging Growth Companies — Common-Stock Repurchase Transactions

Various stock transactions with employees of a nonpublic emerging growth company (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.

9.2.1 Accounting Considerations

9.2.1.1 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.

[2] The FASB retained the current definitions in ASC 718 of a public entity and a nonpublic entity for use in the determination of whether a nonpublic entity practical expedient can be elected. However, an entity will determine the ASU's effective date on the basis of whether it meets the ASC master glossary's definition of a PBE.

ASC 718-20-35-7 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 (assuming 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.

9.2.1.2 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 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[3] 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]

[3] 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."

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."

9.2.1.3 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.

9.2.2 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 & 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.

9.2.3 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.

The following is an example of a disclosure that an entity may make about its repurchase of common stock from its employees when it has incurred a payroll tax liability as a result of not withholding payroll taxes:

> In connection with our Series A financing, we repurchased common shares from our employees. The transaction was undertaken to provide liquidity to our employees and allows us to offer investors additional Series A shares without further dilution of the existing shareholders. While we have viewed the transaction to be a capital transaction for tax purposes, tax authorities could challenge this characterization and consider a portion of the payment to be compensation to the employees, which would require us to remit payroll tax withholdings to the tax authorities. For the probable amount of taxes and penalties that may be payable, the Company has recorded a liability of $5.0 million, which represents the low end of the range of probable amounts of payroll tax withholdings and penalties that would be payable. The ultimate payment amount could exceed the liability recorded, and we estimate that the reasonably possible range of such payment could be up to $8.0 million.

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*.

9.3 Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans (ASU 2017-07)

In March 2017, the FASB issued ASU 2017-07, which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans.

Under current U.S. GAAP, net benefit cost (i.e., defined benefit pension cost and postretirement benefit cost) consists of several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees. These components are aggregated and reported net in the financial statements. In addition, there is currently no specific guidance on where in the income statement an entity should present net benefit cost.

9.3.1 Key Provisions

ASU 2017-07 requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. The ASU also requires entities to disclose the income statement lines that contain the other components if those components are not presented on appropriately described separate lines.

Connecting the Dots

While ASU 2017-07 does not require entities to further disaggregate the other components, they may do so if they believe that the information would be helpful to financial statement users. However, entities must disclose which financial statement lines contain the disaggregated components.

In addition, only the service-cost component of net benefit cost is eligible for capitalization (e.g., as part of inventory or PP&E). This is a change from current practice, under which entities capitalize the aggregate net benefit cost when applicable.

9.3.2 Effective Date, Early Adoption, and Transition

For PBEs, the amendments in ASU 2017-07 are effective for interim and annual periods beginning after December 15, 2017. For all other entities, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Early adoption is permitted as of the beginning of any annual period for which an entity's financial statements (interim or annual) have not been issued or made available for issuance (i.e., an entity should early adopt the amendments within the first interim period if it issues interim financial statements).

Entities must use (1) a retrospective transition method to adopt the requirement for separate presentation in the income statement of service costs and other components and (2) a prospective transition method to adopt the requirement to limit the capitalization (e.g., as part of inventory) of benefit costs to the service cost component. Further, entities must disclose the nature of and reason for the change in accounting principle in both the first interim and annual reporting periods in which they adopt the amendments.

ASU 2017-07 also establishes a practical expedient upon transition that permits entities to use their previously disclosed service cost and other costs from the prior years' pension and other postretirement benefit plan footnotes in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the income statement. Entities that apply the practical expedient need to disclose that they did so.

For more information about ASU 2017-07, see Deloitte's March 14, 2017, *Heads Up*.

9.4 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.

9.4.1 Key Provisions of ASU 2018-14

9.4.1.1 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 AOCI 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.

9.4.1.2 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.

9.4.2 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*.

Appendix A — Titles of Standards and Other Literature

The standards and other literature below were cited or linked to in this publication.

AICPA Literature

Accounting and Valuation Guide

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 Paper

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

Other

AICPA Technical Practice Aid, 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 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 325, *Investments — Other*

ASC 326, *Financial Instruments — Credit Losses*

ASC 330, *Inventory*

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 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 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 840, *Leases*

ASC 842, *Leases*

ASC 845, *Nonmonetary Transactions*

ASC 850, *Related Party Disclosures*

ASC 855, *Subsequent Events*

ASC 915, *Development Stage Entities*

ASC 958, *Not-for-Profit Entities*

ASC 985, *Software*

ASUs

2010-20, *Receivables (Topic 310): Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

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Appendix B — Abbreviations

Abbreviation	Description
ABO	accumulated benefit obligation
AFS	available for sale
AICPA	American Institute of Certified Public Accountants
AMT	alternative minimum tax
AOCI	accumulated other comprehensive income
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
BOLI	bank-owned life insurance
BPD	branded prescription drug
CAM	critical audit matter
CAQ	Center for Audit Quality
CDO	chief digital officer
CECL	current expected credit loss
CFC	controlled foreign corporation
CMO	contract manufacturing organization
CODM	chief operating decision maker
COLI	corporate-owned life insurance
CRO	contract research organization
CTA	cumulative translation adjustment

Abbreviation	Description
DTA	deferred tax asset
DTL	deferred tax liability
E&P	earnings and profits
EBITDA	earnings before interest, taxes, depreciation, and amortization
EDGAR	SEC electronic data gathering, analysis, and retrieval system
EGC	emerging growth company
EITF	Emerging Issues Task Force
ESPP	employee stock purchase plan
EU	European Union
FAQ	frequently asked question
FASB	Financial Accounting Standards Board
FAST Act	Fixing America's Surface Transportation Act
FDA	Food and Drug Administration
FDII	foreign derived intangible income
FIFO	first in, first out
FOB	free on board
FRM	SEC Division of Corporation Finance Financial Reporting Manual
GAAP	generally accepted accounting principles
GILTI	global intangible low-taxed income
GPO	group purchasing organization
IAS	International Accounting Standard
IASB	International Accounting Standards Board

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
JOBS Act	Jumpstart Our Business Startups Act
LIFO	last in, first out
LLC	limited liability company
LP	limited partnership
M&A	merger and acquisition
MD&A	Management's Discussion & Analysis
MDET	medical device excise tax
MSL	medical science liaison
NFP	not-for-profit entity
NOL	net operating loss
NQSO	non-qualified stock option
NSO	nonstatutory option
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
PBE	public business entity
PBO	projected benefit obligation

Abbreviation	Description
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council
PCD asset	purchased financial asset with credit deterioration
PP&E	property, plant, and equipment
PRV	priority review voucher
PTRS	probability of technical and regulatory success
Q&A	question and answer
R&D	research and development
R&E	research and experimentation
REMS	risk evaluation and mitigation strategy
ROI	return on investment
ROU	right of use
SAB	Staff Accounting Bulletin
SAC	subjective acceleration clause
SEC	Securities and Exchange Commission
SFC	specified foreign corporation
SIFMA	Securities Industry and Financial Markets Association
S&P 500	Standard & Poor's 500 Index
TD	Treasury Decision
TPA	AICPA Technical Practice Aid
TRG	transition resource group
UTB	unrecognized tax benefit
VIE	variable interest entity
VWAP	volume-weighted average daily market price