Compensation

Employee Share-Based Payment Accounting Improvements

Background
In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance, which is part of the Board's simplification initiative, also contains practical expedients for nonpublic entities.

Key Provisions of ASU 2016-09

Accounting for Income Taxes
Under legacy U.S. GAAP, when a share-based payment award is granted to an employee, the fair-value-based measure of the award is generally recognized over the vesting period, and a corresponding DTA is recognized to the extent that the award is tax-deductible. The tax deduction is generally based on the intrinsic value at the time of exercise (for an option) or on the fair value upon vesting of the award (for restricted stock), and it can be either greater (excess tax benefit) or less (tax deficiency) than the compensation cost recognized in the financial statements. All excess tax benefits are recognized in APIC, and tax deficiencies are recognized either in the income tax provision or in APIC to the extent that there is a sufficient “APIC pool” related to previously recognized excess tax benefits.

Under ASU 2016-09, an entity recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the notion of the APIC pool and significantly reduces the complexity and cost of accounting for excess tax benefits and tax deficiencies. In addition, excess tax benefits and tax deficiencies are considered discrete items in the reporting period in which they occur and are not included in the estimate of an entity’s annual effective tax rate.

The guidance in ASU 2016-09 on recording excess tax benefits and tax deficiencies in the income statement also has a corresponding effect on the computation of diluted EPS when an entity applies the treasury stock method. Under legacy U.S. GAAP, an entity that applies the treasury stock method estimates the excess tax benefits and tax deficiencies to be recognized in APIC in determining the assumed proceeds available to repurchase shares. Under ASU 2016-09, however, excess tax benefits and tax deficiencies are excluded from the calculation of assumed proceeds since such amounts are recognized in the income statement. In addition, ASU 2016-09 affects the accounting for tax benefits of dividends on share-based payment awards, which will be reflected under the ASU’s guidance as income tax expense or benefit in the income statement rather than as an increase to APIC.

Further, ASU 2016-09 eliminates the requirement to defer recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable.
In addition to addressing the recognition of excess tax benefits and tax deficiencies, ASU 2016-09 provides guidance on the related cash flow presentation. Under legacy U.S. GAAP, excess tax benefits are viewed as a financing transaction and are presented as financing activities in the statement of cash flows. However, there is no cash receipt but only a reduction in taxes payable. Therefore, a reclassification is made in the statement of cash flows to reflect a hypothetical inflow in the financing section and a hypothetical outflow from the operating section.

Under ASU 2016-09, excess tax benefits no longer represent financing activities since they are recognized in the income statement; therefore, excess tax benefits are not separate cash flows and should be classified as operating activities in the same manner as other cash flows related to income taxes. Accordingly, the ASU eliminates the requirement to reclassify excess tax benefits from operating activities to financing activities.

### Accounting for Forfeitures

ASU 2016-09 allows an entity to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered (as required under legacy U.S. GAAP) or to account for forfeitures when they occur. This entity-wide accounting policy election applies only to service conditions; for performance conditions, the entity continues to assess the probability that such conditions will be achieved. An entity must also disclose its policy election for forfeitures.

### Connecting the Dots

An entity that adopts a policy to account for forfeitures as they occur must still estimate forfeitures when an award is (1) modified (the estimate applies to the original award in the measurement of the effects of the modification) and (2) exchanged in a business combination (the estimate applies to the amount attributed to precombination service). However, the accounting policy for forfeitures will apply to the subsequent accounting for awards that are modified or exchanged in a business combination.

### Statutory Tax Withholding Requirements

ASU 2016-09 modifies the exception to liability classification of an award when an employer uses a net-settlement feature to withhold shares to meet the employer’s statutory tax withholding requirement. Under legacy U.S. GAAP, the exception applies only when no more than the number of shares necessary for the minimum statutory tax withholding requirement to be met is repurchased or withheld. ASU 2016-09 stipulates that the net settlement of an award for statutory tax withholding purposes would not would not by itself result in liability classification of the award provided that the amount withheld for taxes does not exceed the maximum statutory tax rate in the employees’ relevant tax jurisdictions.

Further, to eliminate diversity in practice, ASU 2016-09 requires that cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements be presented as a financing activity in the statement of cash flows because such payments represent an entity’s cash outflow to reacquire the entity’s shares.
Connecting the Dots

Under legacy U.S. GAAP, an entity is required to track the minimum statutory tax withholding requirement applicable to each specific award grantee in each applicable jurisdiction if shares are repurchased or withheld. Under ASU 2016-09, the maximum rate is determined on a jurisdiction-by-jurisdiction basis even if that rate exceeds the highest rate applicable to a specific award grantee. However, the classification exception under the new guidance would not apply to entities that do not have a statutory tax withholding obligation; for such entities, any net settlement for tax withholding would result in a liability-classified award.

In addition, an entity may change the terms of its awards related to net settlement for withholding taxes from the minimum statutory tax rate to a higher rate up to the maximum statutory tax rate. While this change may be made to existing awards, the entity would not be required to account for such a change as a modification.

Practical Expedients for Nonpublic Entities

Expected-Term Practical Expedient

ASU 2016-09 allows nonpublic entities to use a practical expedient to estimate the expected term for awards (including liability-classified awards recognized through the use of a fair-value-based measure) with service or performance conditions that meet certain requirements. Such entities would apply this practical expedient as follows:

- For awards with only a service condition, nonpublic entities can estimate the expected term as the midpoint between the requisite service period and the contractual term of the award.
- For awards with a performance condition, the estimate of the expected term would depend on whether it is probable that the performance condition will be achieved:
  - If it is probable that the performance condition will be achieved, nonpublic entities can estimate the expected term as the midpoint between the requisite service period and the contractual term.
  - If it is not probable that the performance condition will be achieved, nonpublic entities can estimate the expected term as (1) the contractual term if the award does not contain an explicit service period or (2) the midpoint between the requisite service period and the contractual term if the award does contain an explicit service period.

Intrinsic Value Practical Expedient

ASU 2016-09 allows nonpublic entities to make a one-time election to switch from fair-value-based measurement to intrinsic value measurement, without demonstrating preferability, for share-based payment awards classified as liabilities.

Nonpublic entities are not allowed to make this election on an ongoing basis after the effective date of ASU 2016-09.
Transition and Related Disclosures
The following table outlines the transition methods for an entity’s adoption of ASU 2016-09:

<table>
<thead>
<tr>
<th>Type</th>
<th>Transition Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of excess tax benefits and tax deficiencies</td>
<td>Prospective</td>
</tr>
<tr>
<td>(accounting for income taxes)</td>
<td></td>
</tr>
<tr>
<td>Unrecognized excess tax benefits (accounting for income</td>
<td>Modified retrospective</td>
</tr>
<tr>
<td>taxes)</td>
<td></td>
</tr>
<tr>
<td>Classification of excess tax benefits in the statement</td>
<td>Retrospective or prospective</td>
</tr>
<tr>
<td>of cash flows</td>
<td></td>
</tr>
<tr>
<td>Accounting for forfeitures</td>
<td>Modified retrospective</td>
</tr>
<tr>
<td>Classification and statutory tax withholding requirements</td>
<td>Modified retrospective</td>
</tr>
<tr>
<td>Classification of employee taxes paid in the statement of</td>
<td>Retrospective</td>
</tr>
<tr>
<td>cash flows when an employer withholds shares for tax</td>
<td></td>
</tr>
<tr>
<td>withholding purposes</td>
<td></td>
</tr>
<tr>
<td>Nonpublic entity practical expedient for expected term</td>
<td>Prospective</td>
</tr>
<tr>
<td>Nonpublic entity practical expedient for intrinsic value</td>
<td>Modified retrospective</td>
</tr>
</tbody>
</table>

Connecting the Dots
Upon the adoption of ASU 2016-09, an entity’s prior-year APIC pool is not affected because prior-year excess tax benefits and tax deficiencies have already been recognized in the financial statements, and the recognition of excess tax benefits and tax deficiencies in the income statement is prospective only in the fiscal year of adoption. As a result, there is no reclassification between APIC and retained earnings in the fiscal years before adoption. The modified retrospective transition guidance for taxes applies only to previously unrecognized excess tax benefits outstanding upon the adoption of ASU 2016-09 with a cumulative-effect adjustment to retained earnings.

In the period of adoption, entities are required to disclose (1) the nature of and reason for the changes in accounting principle and (2) any cumulative effects of the changes on retained earnings or other components of equity as of the date of adoption.

In addition, because the change in presentation in the statement of cash flows related to excess tax benefits can be applied either prospectively or retrospectively, entities are required to disclose (1) “that prior periods have not been adjusted” if the change is applied prospectively or (2) the “effect of the change on prior periods retrospectively adjusted” if the change is applied retrospectively. For the change in presentation in the statement of cash flows related to statutory tax withholding requirements, entities are required to disclose the “effect of the change on prior periods retrospectively adjusted.”

Effective Date
For PBEs, ASU 2016-09 became effective for annual reporting periods beginning after December 15, 2016, including interim periods therein. For all other entities, the ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018.

Early adoption of ASU 2016-09 is permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance. If early adoption is elected, all amendments in the ASU that apply must be adopted in the same period. In addition, if early adoption is elected in an interim period, any adjustments should be reflected as of the beginning of the annual period that includes that interim period.
Example 1

Entity A, an SEC registrant, adopts ASU 2016-09 in its third fiscal quarter. Entity A had $50 of excess tax benefits in each quarter in its current fiscal year to date and is not affected by adopting any of the other provisions of ASU 2016-09. In its previously issued financial statements in Form 10-Q, A recognized a total of $100 ($50 in each quarter) of excess tax benefits in APIC. In its third fiscal quarter, the period in which the ASU is adopted, A recognizes $50 of excess tax benefits in its income statement. That is, the quarter-to-date income tax provision will include only the third fiscal quarter excess tax benefits ($50). In addition, the year-to-date income tax provision will include excess tax benefits of $150 to reflect the reversal of the excess tax benefits recognized in APIC for the first two fiscal quarters ($100) and the recognition of the excess tax benefits in the income statement in those prior quarters (the $100 in excess tax benefits related to the first and second fiscal quarters are not recognized in the third quarter but are reflected on a recasted basis in the applicable prior quarters). In the quarterly information footnote of its subsequent Form 10-K filing, A will present a schedule reflecting the first and second fiscal quarters' excess tax benefits ($50 each quarter) in the income statement even though these amounts were reported in APIC in previously issued financial statements in Form 10-Q. Finally, A's financial statements in Form 10-Q issued in the year after A's adoption of the ASU will reflect the prior-year quarterly excess tax benefits (i.e., first and second fiscal quarters of the prior year) on a recasted basis in the income statement rather than in APIC.

For more information about ASU 2016-09, see Deloitte's April 21, 2016, Heads Up (originally issued on March 31, 2016).

Employee Share-Based Payment Modification Accounting

In May 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair-value-based measure, vesting conditions, and classification of the awards are the same immediately before and after the modification.

Background

The Board decided to change the scope of the modification guidance in ASC 718 given that under current guidance, ASC 718-20-20 defines a modification as a “change in any of the terms or conditions of a share-based payment award” (emphasis added). As a result of that broad definition, there may be diversity in practice regarding the types of changes to share-based payment awards to which an entity applies modification accounting. Accordingly, to provide clarity and reduce diversity, cost, and complexity, the FASB issued ASU 2017-09.
Examples 2 and 3 below illustrate the effects of an entity's application of modification accounting depending on whether the original awards are expected to vest.

**Example 2**

Entity A grants employees restricted stock units that are classified as equity and have a fair-value-based measure of $1 million on the grant date. Before the awards vest, A subsequently modifies them to provide dividend participation during the vesting period. Assume that the addition of dividend participation changes the fair-value-based measurement of the awards and that the fair-value-based measure on the modification date is $1.5 million immediately before the modification and $1.6 million immediately after it. In addition, there are no other changes to the awards (including their vesting conditions or classification). If A applies modification accounting, and the awards are expected to vest on the modification date, A would recognize incremental compensation cost of $100,000 over the remaining requisite service period (for a total of $1.1 million of compensation cost). However, if A applies modification accounting, and the awards are not expected to vest on the modification date, any compensation cost to be recognized (if the awards are subsequently expected to vest or actually do vest) will be based on the modification-date fair-value-based measure of $1.6 million.

**Example 3**

Entity B grants employees restricted stock units that are classified as equity and have a fair-value-based measure of $1 million on the grant date. Before the awards vest, B subsequently modifies them to add a contingent fair-value repurchase feature on the underlying shares. Assume that the addition of the repurchase feature does not change the fair-value-based measurement of the awards or their classification and that the fair-value-based measure on the modification date is $1.5 million (both immediately before and after the modification). In addition, there are no other changes to the awards (including their vesting conditions). If B applies modification accounting, and the awards are expected to vest on the modification date, there is no accounting consequence associated with the modification because there is no increase in the fair-value-based measurement; any compensation cost will continue to be based on the grant-date fair-value-based measure of $1 million. However, if B applies modification accounting before it adopts ASU 2017-09 and the awards are not expected to vest on the modification date, any compensation cost to be recognized (if the awards are subsequently expected to vest or actually do vest) will be based on the modification-date fair-value-based measure of $1.5 million.

After the adoption of ASU 2017-09 (see discussion below), B would not apply modification accounting because the fair-value-based measurement, vesting conditions, and classification of the awards are the same immediately before and after the modification. Accordingly, irrespective of whether the awards are expected to vest on the modification date, any compensation cost recognized will continue to be based on the grant-date fair-value-based measure of $1 million.
Key Provisions of ASU 2017-09

Scope of Modification Accounting

ASU 2017-09 limits the circumstances in which an entity applies modification accounting. When an award is modified, an entity does not apply the guidance in ASC 718-20-35-3 through 35-9 if it meets all of the following criteria:

- “The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified.”
- “The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.”
- “The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.”

Connecting the Dots

Upon an equity restructuring, it is not uncommon for an entity to make employees “whole” (in accordance with a preexisting nondiscretionary antidilution provision) on an intrinsic-value basis when the awards are stock options. In certain circumstances, the fair-value-based measurement of modified stock options could change as a result of the equity restructuring even if the intrinsic value remains the same. Under ASU 2017-09, an entity compares the intrinsic value before and after a modification in determining whether to apply modification accounting only “if such an alternative measurement method is used”; thus, if an entity uses a fair-value-based measure to calculate and recognize compensation cost for its share-based payment awards, it would still be required to apply modification accounting when the fair-value-based measurement has changed, even if the intrinsic value is the same immediately before and after the modification.

Clarification Related to the Fair Value Assessment

ASC 718-20-35-2A(a) states, “If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.”

Connecting the Dots

In paragraph BC16 of ASU 2017-09, the Board noted that it does not expect that an entity will always need to estimate the fair-value-based measurement of a modified award. An entity might instead be able to determine whether the modification affects any of the inputs used in the valuation technique performed for the award. For example, if an entity changes the net-settlement terms of its share-based payment arrangements related to statutory tax withholding requirements, that change is not likely to affect any inputs used in the method performed by the entity to value the awards. If none of the inputs are affected, the entity would not be required to estimate the fair-value-based measurement immediately before and after the modification (i.e., the entity could conclude that the fair-value-based measurement is the same).


**Examples From the Basis for Conclusions of ASU 2017-09**

The Basis for Conclusions of ASU 2017-09 provides examples (that “are educational in nature, are not all-inclusive, and should not be used to override the guidance in paragraph 718-20-35-2A”) of (1) changes to awards for which modification accounting generally would not be required and (2) those for which it generally would be required. The following table summarizes those examples:

<table>
<thead>
<tr>
<th>Examples of Changes for Which Modification Accounting Would Not Be Required</th>
<th>Examples of Changes for Which Modification Accounting Would Be Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Administrative changes, such as a change to the company name, company address, or plan name</td>
<td>• Repricings of stock options that result in a change in value</td>
</tr>
<tr>
<td>• Changes in net-settlement provisions related to tax withholdings that do not affect the classification of the award</td>
<td>• Changes in a service condition</td>
</tr>
<tr>
<td></td>
<td>• Changes in a performance condition or a market condition</td>
</tr>
<tr>
<td></td>
<td>• Changes in an award that result in a reclassification of the award (equity to liability or vice versa)</td>
</tr>
<tr>
<td></td>
<td>• Addition of an involuntary termination provision in anticipation of a sale of a business unit that accelerates vesting of an award</td>
</tr>
</tbody>
</table>

**Connecting the Dots**

Share-based payment plans commonly contain clawback provisions that allow an entity to recoup awards upon the occurrence of certain contingent events (e.g., termination for cause, violation of a noncompete provision, material financial statement restatement). Under ASC 718-10-30-24, such clawback provisions are generally not reflected in estimates of the fair-value-based measure of awards. Accordingly, we believe that the addition of a clawback provision to an award would typically not result in the application of modification accounting because such clawbacks generally do not change the fair-value-based measure, vesting conditions, or classification of an award.

**Effective Date**

For all entities, ASU 2017-09 is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period.

**Transition and Related Disclosures**

The amendments in ASU 2017-09 should be applied prospectively to awards modified on or after the ASU’s effective date. Transition disclosures are not required, because modifications typically are not recurring events for most entities.

For more information about ASU 2017-09, see Deloitte’s May 11, 2017, *Heads Up*.

**Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans**

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.
Background
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.

Key Provisions of ASU 2017-07
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.

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.
On the Horizon

Background
In March 2017, the FASB issued a proposed ASU that would simplify the accounting for share-based payments granted to nonemployees for goods and services. Under the proposal, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. Comments on the proposed ASU were due by June 5, 2017.

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 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.

Key Provisions of the Proposed ASU

Scope
The proposed ASU would supersede ASC 505-50 and expand 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 its requirements related to classification and measurement, would apply to nonemployee share-based payment arrangements.

Transition and Related Disclosures
The proposed ASU would generally require an entity to use a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings, for outstanding nonemployee awards at the time it adopts the standard. In determining the cumulative-effect adjustment to equity for awards that are currently classified as a liability but would be classified as equity under the proposed ASU, an entity would apply the guidance on modifications of an award from liability to equity classification (i.e., the liability award as measured on the adoption date would be reclassified to equity). However, if a nonpublic entity changes its measurement of certain nonemployee awards to calculated value, the proposed ASU would require a prospective approach.

In the first interim and annual period of adoption, an entity would be 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.
**Status**

At the FASB’s December 13, 2017, meeting, the Board discussed feedback received on the proposed ASU. As memorialized in the minutes of that meeting, the Board tentatively decided to:

- “Retain the requirement to measure nonemployee share-based payment transactions by estimating the fair-value-based measure of the equity instruments that an entity is obligated to issue.”
- “Include a rebuttable presumption that the contractual term would be an input to the option-pricing model for nonemployee share-based payment transactions unless an entity can support the use of an expected term. Use of an expected term would be allowed on an award-by-award basis.”
- “Require an entity, at transition, to measure unsettled nonemployee awards at [a fair-value-based measure] as of the adoption date. This requirement would not apply to vested equity-classified awards.”
- “Not permit an entity, at transition, to retrospectively adjust the basis of assets that include nonemployee share-based payment costs.”
- “Address a technical improvement to [ASC 606 related to share-based payment awards paid to customers] as part of the Codification Improvements project.”

The Board decided that the amendments in the final ASU would be effective for PBEs for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the amendments in the final ASU would be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption would be permitted, but no earlier than an entity’s date of adoption of ASC 606.

The Board completed its redeliberations and authorized the FASB staff to draft a final ASU, which is expected to be issued in the first quarter of 2018. For more information about the proposed ASU, see Deloitte’s March 10, 2017, *Heads Up*; Deloitte’s December 14, 2017, *journal entry*; and the *Project Update* page on the FASB’s Web site.
Appendix A — Glossary 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*

AICPA Issues Paper, *Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories*

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

**FASB Accounting Standards Updates (ASUs)**


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

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

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 2017-09, *Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting*

ASU 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

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

ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*
ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customers*


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

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


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

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

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

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

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

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


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

ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*


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

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

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

ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force

**FASB Accounting Standards Codification (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 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 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 915, Development Stage Entities
ASC 958, Not-for-Profit Entities
ASC 985, Software
Proposed FASB Accounting Standards Updates (Proposed ASUs)

Proposed ASU 2018-200, Leases (Topic 842): Targeted Improvements


FASB Proposed Accounting Standards Update 2017-280, Consolidation (Topic 812): Reorganization


Proposed ASU 2017-220, Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting

Proposed ASU 2017-210, Inventory (Topic 330): Disclosure Framework — Changes to the Disclosure Requirements for Inventory

Proposed ASU 2017-200, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent)


Proposed ASU 2015-340, Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance

Proposed ASU 2015-310, Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material

Other FASB Proposal


FASB Statements (Pre-Codification Literature)

Statement No. 167, Amendments to FASB Interpretation No. 46(R)

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

Statement No. 141(R), Business Combinations

FASB Interpretations (Pre-Codification Literature)

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

FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities
**FASB Concepts Statements**
No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*

No. 6, *Elements of Financial Statements*

**EITF Issues (Pre-Codification Literature)**
Issue 09-4, “Seller Accounting for Contingent Consideration”

Issue 08-1, “Revenue Arrangements With Multiple Deliverables”

Issue 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights”

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

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

Issue 00-21, “Revenue Arrangements With Multiple Deliverables”

**PCAOB Auditing Standard**

**SEC C&DI Topic**
Non-GAAP Financial Measures

**SEC 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*

**SEC Regulation G**
“Conditions for Use of Non-GAAP Financial Measures”

**SEC Regulation S-K**
Item 10(e), “General; Use of Non-GAAP Financial Measures in Commission Filings”

Item 103, “Business; Legal Proceedings.”

**SEC Regulation S-X**
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 3-14, “Special Instructions for Real Estate Operations to Be Acquired”
Appendix A — Glossary of Standards and Other Literature

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”

**SEC Staff Accounting Bulletins (SABs)**
- SAB Topic 1.M, “Financial Statements; Materiality”
- SAB Topic 5.Y, “Miscellaneous Accounting; Accounting and Disclosures Relating to Loss Contingencies”
- SAB Topic 13, “Revenue Recognition”
- SAB Topic 13.A.4, “Revenue Recognition; Selected Revenue Recognition Issues; Fixed or Determinable Sales Price”
- SAB Topic 13.B, “Revenue Recognition; Disclosures”
- SAB 116, “Staff Accounting Bulletin No. 116”
- SAB 118, codified as SEC Staff Accounting Bulletin Topic 5.EE, “Miscellaneous Accounting; Income Tax Accounting Implications of the Tax Cuts and Jobs Act”

**Internal Revenue Code (IRC)**
- IRC Section 78, “Gross Up for Deemed Paid Foreign Tax Credit”
- IRC Section 163(j), “Interest; Limitation on Business Interest”
- IRC Section 199, “Income Attributable to Domestic Production Activities”
- IRC Section 383, “Special Limitations on Certain Excess Credits, Etc.”
- IRC Section 787, “Termination of Private Foundation Status”
- IRC Section 965, “Treatment of Deferred Foreign Income Upon Transition to Participation Exemption System of Taxation”
- IRC Section 4191, “Medical Devices”

**International Standards**
- IFRS 16, *Leases*
- IFRS 15, *Revenue From Contracts With Customers*
- IFRS 11, *Joint Arrangements*
- IFRS 3, *Business Combinations*
- IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*
# Appendix B — Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFS</td>
<td>available for sale</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>AMT</td>
<td>alternative minimum tax</td>
</tr>
<tr>
<td>AOCl</td>
<td>accumulated other comprehensive income</td>
</tr>
<tr>
<td>API</td>
<td>active pharmaceutical ingredient</td>
</tr>
<tr>
<td>APIC</td>
<td>additional paid-in capital</td>
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<tr>
<td>ASC</td>
<td>FASB Accounting Standards Codification</td>
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<tr>
<td>ASU</td>
<td>FASB Accounting Standards Update</td>
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<tr>
<td>BCF</td>
<td>beneficial conversion feature</td>
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<tr>
<td>BEAT</td>
<td>base erosion anti-abuse tax</td>
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<tr>
<td>BEMTA</td>
<td>base erosion minimum tax amount</td>
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<tr>
<td>BPD</td>
<td>branded prescription drug</td>
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<tr>
<td>BOLI</td>
<td>bank-owned life insurance</td>
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<tr>
<td>CAM</td>
<td>critical audit matter</td>
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<tr>
<td>C&amp;DI</td>
<td>SEC Compliance and Disclosure Interpretation</td>
</tr>
<tr>
<td>CECL</td>
<td>current expected credit loss</td>
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<tr>
<td>CFC</td>
<td>controlled foreign corporation</td>
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<tr>
<td>CODM</td>
<td>chief operating decision maker</td>
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<td>COLI</td>
<td>corporate-owned life insurance</td>
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<tr>
<td>CRO</td>
<td>contract research organization</td>
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<tr>
<td>CTA</td>
<td>cumulative translation adjustment</td>
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<td>DCPs</td>
<td>disclosure controls and procedures</td>
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<tr>
<td>DTA</td>
<td>deferred tax asset</td>
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<tr>
<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>EITF</td>
<td>FASB Emerging Issues Task Force</td>
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<th>Abbreviation</th>
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<tr>
<td>E&amp;P</td>
<td>earnings and profits</td>
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<tr>
<td>EPS</td>
<td>earnings per share</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FAQ</td>
<td>frequently asked question</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>FDA</td>
<td>Food and Drug Administration</td>
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<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 Number (superseded)</td>
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<td>FOB</td>
<td>free on board</td>
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<tr>
<td>GAAP</td>
<td>generally accepted accounting principles</td>
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<tr>
<td>GILTl</td>
<td>global intangible low-taxed income</td>
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<tr>
<td>GPO</td>
<td>group purchasing organization</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<tr>
<td>IIR</td>
<td>investigator-initiated research</td>
</tr>
<tr>
<td>IP</td>
<td>intellectual property</td>
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<tr>
<td>IPO</td>
<td>initial public offering</td>
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<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>
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<tr>
<td>IT</td>
<td>information technology</td>
</tr>
<tr>
<td>LIFO</td>
<td>last in, first out</td>
</tr>
<tr>
<td>LLC</td>
<td>limited liability company</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>--------------</td>
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</tr>
<tr>
<td>LP</td>
<td>limited partnership</td>
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<tr>
<td>M&amp;A</td>
<td>merger and acquisition</td>
</tr>
<tr>
<td>MD&amp;A</td>
<td>Management's Discussion and Analysis</td>
</tr>
<tr>
<td>MDET</td>
<td>medical device excise tax</td>
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<tr>
<td>MSL</td>
<td>medical science liaison</td>
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<tr>
<td>NFP</td>
<td>not-for-profit entity</td>
</tr>
<tr>
<td>NOL</td>
<td>net operating loss</td>
</tr>
<tr>
<td>OCI</td>
<td>other comprehensive income</td>
</tr>
<tr>
<td>OEM</td>
<td>original equipment manufacturer</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PBE</td>
<td>public business entity</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>PCD asset</td>
<td>purchased financial asset with credit deterioration</td>
</tr>
<tr>
<td>PRV</td>
<td>priority review voucher</td>
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<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>ROU</td>
<td>right-of-use</td>
</tr>
<tr>
<td>SAB</td>
<td>SEC Staff Accounting Bulletin</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
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<tr>
<td>SFC</td>
<td>specified foreign corporation</td>
</tr>
<tr>
<td>SIFMA</td>
<td>Securities Industry and Financial Markets Association</td>
</tr>
<tr>
<td>T.D.</td>
<td>Treasury Decision</td>
</tr>
<tr>
<td>TRG</td>
<td>transition resource group</td>
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<tr>
<td>UTB</td>
<td>unrecognized tax benefit</td>
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<tr>
<td>VIE</td>
<td>variable interest entity</td>
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<tr>
<td>WAC</td>
<td>wholesaler acquisition cost</td>
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