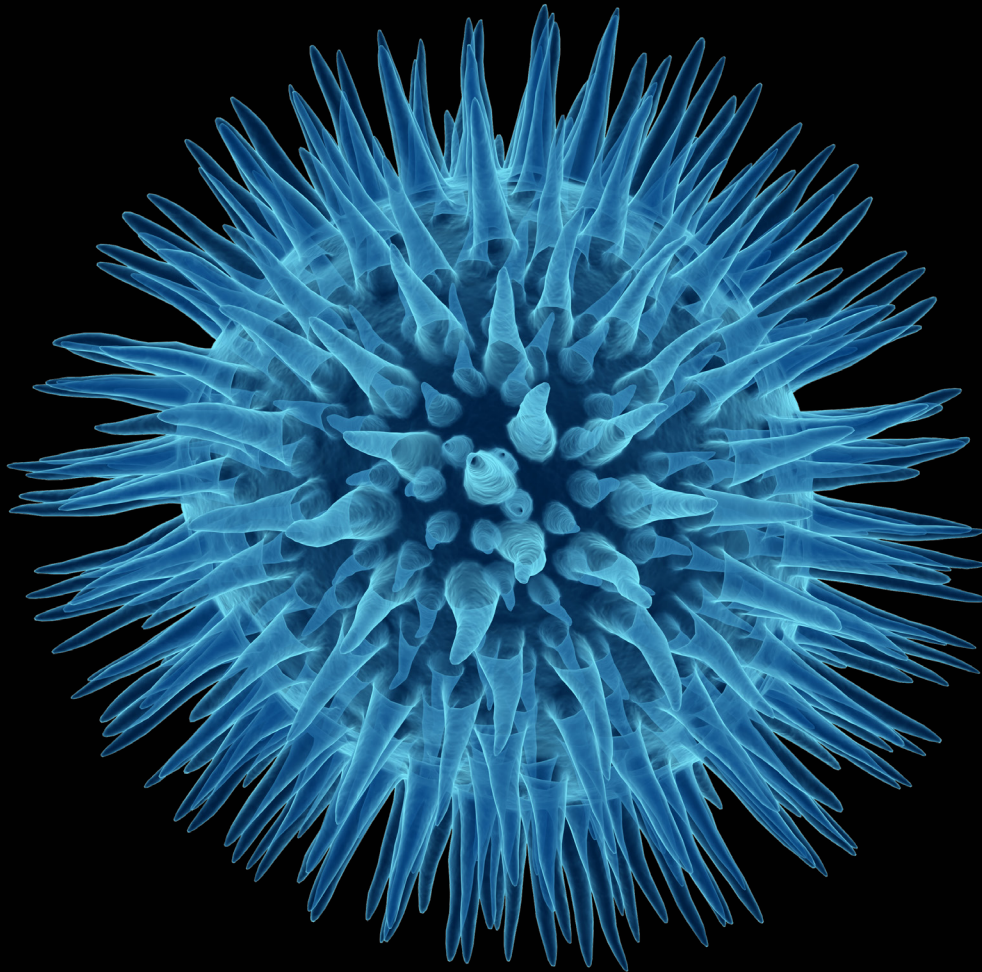


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Life Sciences

Accounting and Financial Reporting Update —
Interpretive Guidance on Government Assistance

March 2018

Government Assistance

On the Horizon

In November 2015, the FASB issued a [proposed ASU](#) on disclosures about government assistance received by entities. As explained in the proposed ASU, the proposal's objective is "to increase transparency about government assistance arrangements including (1) the types of arrangements, (2) the accounting for government assistance, and (3) their effect on an entity's financial statements." Comments were due by February 10, 2016, and the Board received approximately 40 comment letters.

Background and Key Provisions of the Proposed ASU

There is no explicit guidance under current U.S. GAAP on the recognition, measurement, or disclosure of government assistance. As a result, there is diversity in practice related to how business entities account for, and disclose information about, government assistance arrangements.

The proposed ASU would apply to all entities, other than NFPs within the scope of ASC 958, that enter into a "legally enforceable agreement with a government to receive value." However, the proposed ASU states that it would not apply to transactions in which the government is either (1) "[l]egally required to provide a nondiscretionary level of assistance to an entity simply because the entity meets the applicable eligibility requirements that are broadly available without specific agreement between the entity and the government" or (2) "[s]olely a customer" of the entity.

Under the proposal, entities would be required to disclose in their annual financial statements information about the nature of the assistance, related accounting policies, and the effect on the financial statements, including:

- A "general description of the significant categories (for example, grants, loans, or tax incentives) and the form in which the assistance has been received (for example, as a reduction of an expense, a refund of taxes paid, free resources, or a cash grant)."
- "The accounting policy used to account for government assistance (for example, whether assistance is recognized immediately into income or recognized over the life of a related asset)."
- The financial statement line items "affected by government assistance (for example, whether the assistance has been deducted from the carrying value of an asset or presented as a performance obligation liability) and the amounts applicable to each line item."
- "Unless impracticable, the amount of government assistance received but not recognized directly in the financial statements."

The proposed ASU would also require entities to disclose the significant terms and conditions of the agreement, including its duration or period, the tax rate or interest rate provided in the agreement, the commitments made by each party, the provisions (if any) for recapturing government assistance, and any other contingencies.

Redeliberations and Next Steps

After the comment period closed, the FASB began redeliberations on the basis of stakeholder feedback. The FASB staff plans to focus on scope, disclosure requirements for amounts not recognized directly in the financial statements, restrictions, transition and effective date, private-company considerations, and overall costs and benefits of the disclosures.

At the FASB's June 8, 2016, meeting, the Board reached several tentative decisions. The FASB staff indicated that several stakeholders provided feedback in which they asked the Board to consider including recognition, measurement, and presentation guidance within the scope of the project rather than limiting it to disclosures; however, the Board reaffirmed that the project would address disclosures only. In addition, the Board reaffirmed that legally enforceable agreements with a government to receive cash, nonmonetary assets, or benefits that reduce or eliminate an entity's expenditures would be included within the project's scope. The Board directed the staff to further analyze the types of nonmonetary assets that should be included within the project's scope. The Board also tentatively decided to exclude government assistance provided to an entity in the form of benefits that are available for purposes of determining taxable income or that are determined or limited on the basis of income tax liability, in accordance with ASC 740. The Board also decided not to require the proposed disclosure about the amount of government assistance received but not recognized directly in the financial statements. Lastly, the Board decided to clarify the proposed requirements to allow an entity to omit disclosures if it is legally prohibited from providing such disclosures; however, an entity would be required to disclose a general description of the information omitted as well as a reference to the specific source of legal prohibition.

The Board will continue its redeliberations at a future meeting.



Connecting the Dots

Entities in the life sciences industry have historically benefited domestically and internationally from a wide variety of government assistance programs. Although the tentative decisions the FASB reached at its June 2016 meeting limited the scope of the required disclosures, the proposed ASU, when finalized, may still require significant effort to track a vast array of arrangements and provide the appropriate level of disclosure. Life sciences entities should continue to monitor the progress of this proposed standard and consider whether systems or other changes will be needed to gather the required information.

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 2018-03, *Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income*

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

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

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

ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*

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 2015-01, *Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*

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

ASU 2014-10, *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*

Proposed ASU 2017-310, *Technical Corrections and Improvements to Recently Issued Standards: I. Accounting Standards Update No. 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and II. Accounting Standards Update No. 2016-02, Leases (Topic 842)*

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

FASB Proposed Accounting Standards Update 2017-240, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

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 2016-270, *Income Taxes (Topic 740) Disclosure Framework: Changes to the Disclosure Requirements for Income Taxes*

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

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

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

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

SEC 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"

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 11.A, "Miscellaneous Disclosure; Operating-Differential Subsidiaries"

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

| Abbreviation | Description | Abbreviation | Description |
|-----------------|---|------------------|--|
| AFS | available for sale | E&P | earnings and profits |
| AICPA | American Institute of Certified Public Accountants | EPS | earnings per share |
| AMT | alternative minimum tax | EU | European Union |
| AOCI | accumulated other comprehensive income | FAQ | frequently asked question |
| API | active pharmaceutical ingredient | FASB | Financial Accounting Standards Board |
| APIC | additional paid-in capital | FDA | Food and Drug Administration |
| ASC | FASB Accounting Standards Codification | FDII | foreign derived intangible income |
| ASU | FASB Accounting Standards Update | FIFO | first in, first out |
| BCF | beneficial conversion feature | FIN | FASB Interpretation Number (superseded) |
| BEAT | base erosion anti-abuse tax | FOB | free on board |
| BEMTA | base erosion minimum tax amount | GAAP | generally accepted accounting principles |
| BPD | branded prescription drug | GILTI | global intangible low-taxed income |
| BOLI | bank-owned life insurance | GPO | group purchasing organization |
| CAM | critical audit matter | IAS | International Accounting Standard |
| C&DI | SEC Compliance and Disclosure Interpretation | IASB | International Accounting Standards Board |
| CECL | current expected credit loss | IFRS | International Financial Reporting Standard |
| CFC | controlled foreign corporation | IIR | investigator-initiated research |
| CODM | chief operating decision maker | IP | intellectual property |
| COLI | corporate-owned life insurance | IPO | initial public offering |
| CRO | contract research organization | IPR&D | in-process research and development |
| CTA | cumulative translation adjustment | IRC | Internal Revenue Code |
| DCPs | disclosure controls and procedures | IRS | Internal Revenue Service |
| DTA | deferred tax asset | IT | information technology |
| DTL | deferred tax liability | LIFO | last in, first out |
| EBITDA | earnings before interest, taxes, depreciation, and amortization | LLC | limited liability company |
| EITF | FASB Emerging Issues Task Force | | |

| Abbreviation | Description |
|---------------------|--|
| LP | limited partnership |
| M&A | merger and acquisition |
| MD&A | Management's Discussion and Analysis |
| MDET | medical device excise tax |
| MSL | medical science liaison |
| NFP | not-for-profit entity |
| NOL | net operating loss |
| OCI | other comprehensive income |
| OEM | original equipment manufacturer |
| OECD | Organisation for Economic Co-operation and Development |
| PBE | public business entity |
| PCAOB | Public Company Accounting Oversight Board |
| PCC | Private Company Council |
| PCD asset | purchased financial asset with credit deterioration |
| PRV | priority review voucher |

| Abbreviation | Description |
|---------------------|---|
| 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 |
| ROU | right-of-use |
| SAB | SEC Staff Accounting Bulletin |
| SEC | Securities and Exchange Commission |
| SFC | specified foreign corporation |
| SIFMA | Securities Industry and Financial Markets Association |
| T.D. | Treasury Decision |
| TRG | transition resource group |
| UTB | unrecognized tax benefit |
| VIE | variable interest entity |
| WAC | wholesaler acquisition cost |

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