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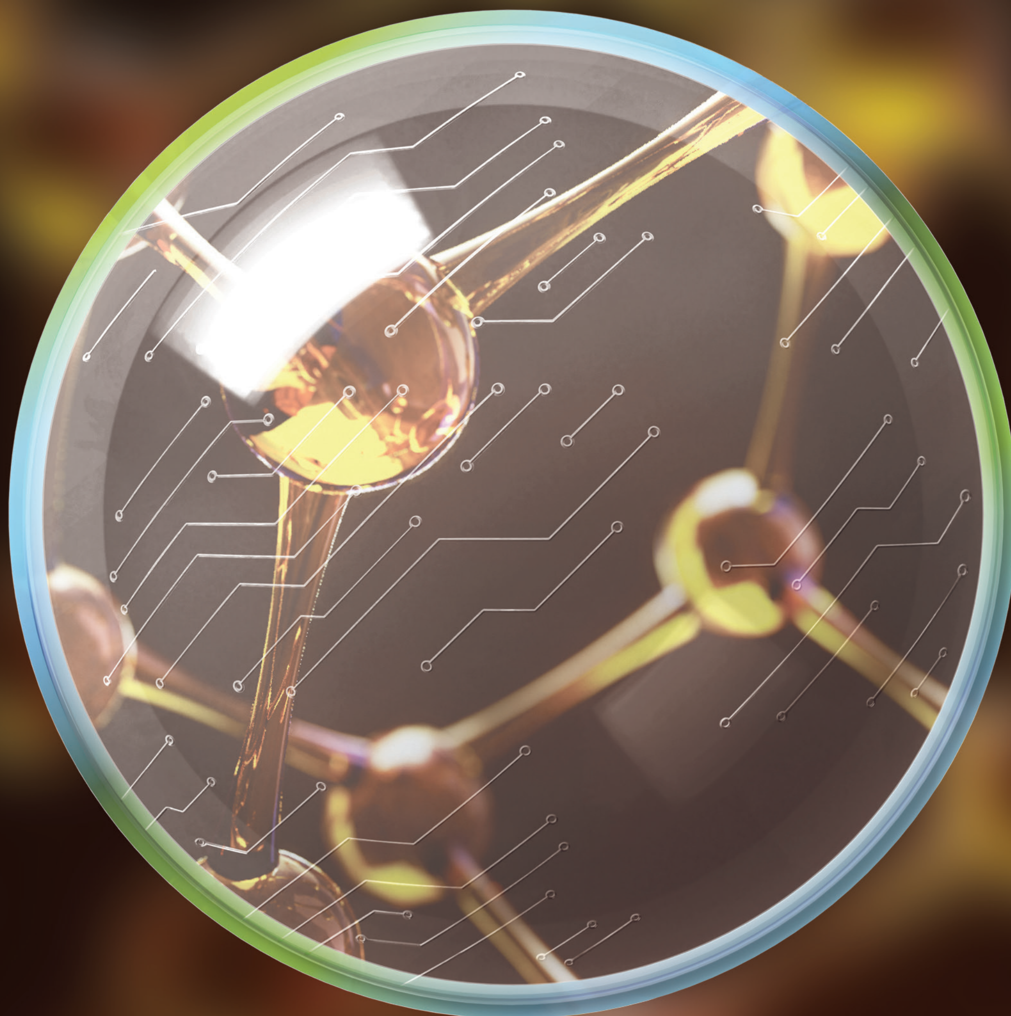

Life Sciences Industry Accounting Guide
Compensation

March 2024

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Convertible Debt (Before Adoption of ASU 2020-06)

Current Expected Credit Losses

Debt

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Earnings per Share

Environmental Obligations and Asset Retirement Obligations

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Equity Method Investments and Joint Ventures

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

Foreign Currency Matters

Goodwill

Greenhouse Gas Protocol Reporting Considerations

Guarantees and Collateralizations — SEC Reporting Considerations

Hedge Accounting

Impairments and Disposals of Long-Lived Assets and Discontinued Operations

Income Taxes

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Preface

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

Finance and accounting professionals in the life sciences industry face complex issues and must exercise significant judgment in applying existing rules to matters such as research and development (R&D) costs, acquisitions and divestitures, consolidation, contingencies, revenue recognition, income taxes, financial instruments, and financial statement presentation and disclosure. The 2024 edition of Deloitte's *Life Sciences Industry Accounting Guide* (the "Guide") addresses these and other relevant topics affecting the industry this year. It includes interpretive guidance, illustrative examples, recent standard-setting and rulemaking developments (through March 8, 2024), and key differences between U.S. GAAP and IFRS® Accounting Standards. In addition, this Guide discusses (1) accounting and financial reporting considerations associated with the macroeconomic and geopolitical environment that apply specifically to the life sciences industry, (2) environmental, social, and governance (ESG) matters that have become topics of increased focus, and (3) the impact of the Inflation Reduction Act of 2022 (IRA).

Appendix B lists the titles of standards and other literature we cited, and Appendix C defines the abbreviations we used. Key changes made to this Guide since publication of the 2023 edition are summarized in Appendix D.

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

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Chapter 9 — Compensation

9.1 Industry Issues

9.1.1 Stock Repurchase Transactions

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

9.1.1.1 Accounting Considerations

9.1.1.1.1 Transactions Directly Between a Nonpublic Entity and Its Grantees

To provide liquidity or for other reasons, entities may sometimes repurchase vested common stock from their share-based payment award grantees. In some cases, the price paid for the shares exceeds their fair value at the time of the transaction, and the excess would generally be recognized as additional compensation cost.

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 promised goods have not been delivered or the service has not been rendered has, in effect, modified the employee's requisite service period or nonemployee's vesting period to the period for which goods have already been delivered or 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 proceeds to repurchase common stock from its existing employees and thereby provide liquidity to its employees. It is not unusual for an entity to repurchase common shares by using the price established for the preferred stock in the most recent round of financing. Accordingly, a nonpublic entity would need to evaluate whether the price of the preferred stock is equal to the value of the common stock. Typically, the value of preferred shares will exceed the value of common shares (under the assumption that there is one-to-one conversion) because of preferential rights normally associated with preferred shares. As a result, the excess amount would be reflected in the nonpublic entity's financial statements as compensation cost in accordance with ASC 718-20-35-7.

[1] The term "grantees" applies to all transactions in which an entity receives goods or services to be used or consumed in the entity's own operations in exchange for share-based instruments.

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

On occasion, existing investors (such as private equity or venture capital investors) intending to increase their stake in an emerging nonpublic entity may undertake transactions with other shareholders in connection with or separately from a recent financing round. These transactions may include the purchase of common or preferred stock by investors from the founders of the nonpublic entity or other individuals who are also considered employees. Because the transactions are between grantees 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 (though it may become indirectly involved by facilitating the exchange or not exercising a right of first refusal). If the price paid for the shares exceeds their fair value at the time of the transaction, it may be difficult to demonstrate that the transaction is not compensatory and the nonpublic entity would most likely be required to recognize compensation cost for the excess, even if the nonpublic entity is not 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 718-10-15-4 because the investors are considered holders of an economic interest in the entity.

ASC 718-10-15-4 states the following:

> **Share-based payments awarded to a grantee by a related party or other holder of an economic interest in the entity[2] as compensation for goods or services provided to the reporting 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 goods or 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 the grantee in exchange for services rendered or goods received. 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 grantee that is unrelated to goods or services to be used or consumed in a grantor's own operations. [Emphasis added]

Although the presumption in such transactions is that any consideration in excess of the fair value of the shares is compensation paid to employees, 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 goods or services to the reporting entity." Even though it is difficult to demonstrate that a non–fair value transaction with employees is *clearly* for other purposes, AIN-APB 25 (codified in ASC 718) describes situations when doing so may be possible, including those in which:

- "[T]he relationship between the stockholder and the corporation's employee is one which would normally result in generosity (i.e., an immediate family relationship)."
- "[T]he stockholder has an obligation to the employee which is completely unrelated to the latter's employment (e.g., the stockholder transfers shares to the employee because of personal business relationships in the past, unrelated to the present employment situation)."

In all situations, the determination of whether a transaction should be accounted for under ASC 718 should be based on an entity's specific facts and circumstances.

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

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

There may be situations in which, as part of a financing transaction between a nonpublic entity and a new investor that is acquiring a significant ownership interest in the nonpublic entity, the new investor repurchases common shares in the nonpublic entity from employees of the nonpublic entity. For example, the investor may not have participated in a prior financing arrangement and may be purchasing convertible preferred stock from the nonpublic entity and common stock from the nonpublic entity's existing employees. In this scenario, the investor pays the same price to purchase the preferred stock from the nonpublic entity and the common stock from the employees. While it did not hold an economic interest before entering into the transaction with the nonpublic entity, the new investor is not unlike a party that already holds such an interest and may be similarly motivated 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 goods or services." If a new investor purchases common stock valued at an amount based on the value of the preferred stock, we would generally expect the analysis to be similar to that performed by a preexisting investor that purchases common stock from a nonpublic entity's employees.

9.1.1.2 Valuation Considerations

While the examples above describe situations in which it is likely that the nonpublic entity would recognize additional compensation cost, we are aware of circumstances 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 such cases, the nonpublic entity has adequate support for a conclusion that the transaction was conducted at fair value and therefore did not result in additional compensation cost. Such secondary transactions are likely to be relevant in the nonpublic entity's common stock valuation, which is typically performed by a third-party valuation firm to ensure compliance with IRC Section 409A and determine the fair-value-based measure of the nonpublic entity's share-based payment arrangements. See Section 4.12.2 of Deloitte's Roadmap ***Share-Based Payment Awards*** for further discussion of the applicability of IRC Section 409A.

When an entity does conclude that a secondary transaction includes a compensatory element that must be recognized, there may have also been indicators that the secondary transaction was conducted at fair value. In such situations (i.e., there are indicators that (1) the transaction was conducted at fair value and (2) there is a compensatory element), an entity should consider whether to give some weight to the transaction when determining the fair value of the common shares.

9.1.1.3 Tax Considerations

For tax purposes, stock repurchases are generally treated either as capital (e.g., capital gain) or as dividend-equivalent redemptions (e.g., ordinary dividend income to the extent that the entity has earnings and profits). Repurchases from current or former service providers (i.e., current or former employees or independent contractors) give rise to questions 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 (e.g., 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 as well as 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 that 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.

If the repurchase resulted in compensation for tax purposes, the nonpublic entity would include such compensation on Form W-2 (for employees) or Form 1099-MISC (for independent contractors). 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. A nonpublic entity that does not withhold payroll taxes from an employee in a transaction in which the excess purchase price is compensatory becomes responsible for the tax and should evaluate whether to accrue a liability in accordance with the guidance in ASC 450. That guidance 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. A loss contingency must be disclosed if (1) the loss is probable as of the date of the financial statements or it is reasonably possible that the liability has been incurred and (2) the amount is material to the financial statements. See Section 6.2.3 for a discussion of the measurement of a loss contingency.

With respect to a payroll tax liability, the liability recorded as a tax transaction should be the best estimate of the probable amount due to the tax authority under the applicable law, which would include interest and penalties. 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. If the best estimate of the liability is a range, and if one amount in the range represents a better estimate than any other amount in the range, that amount should be recorded in accordance with ASC 450-20-30-1. If no amount in the range is a better estimate than any other amount, the minimum amount in the range should be used to record the liability in accordance with ASC 450-20-30-1.

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, the 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 liability from the employee.

Given the complexities of this type of transaction, including the evaluation of existing tax law, entities should consult with their auditors and tax specialists when quantifying the liability under ASC 450.

Note that if a payment is considered compensation, a deduction of the same amount would also be allowed (subject to all applicable rules related to deductions for compensation expense).

For further considerations related to common-stock repurchase transactions, see Section 4.12.3 of Deloitte's Roadmap *Share-Based Payment Awards*.

9.2 Staff Accounting Bulletin on "Spring-Loaded" Awards (SAB 120)

In November 2021, the SEC staff issued SAB 120, which amends SAB Topic 14.D and provides the SEC staff's views on the measurement and disclosure of certain share-based payment awards granted when entities possess material nonpublic information (i.e., "spring-loaded" awards).

For more information about SAB 120, see Section 12.2.4.6 of this Guide and Sections 4.9.2.6 and 13.10 of Deloitte's Roadmap *Share-Based Payment Awards*.

9.3 SEC's Final Rule Related to Pay Versus Performance

The SEC issued its final rule on pay versus performance on August 25, 2022, and registrants began providing the disclosures required by the final rule in their proxy statements in 2023. Under the final rule, both prescribed and free-form disclosures regarding the relationship between executive compensation amounts actually paid by a registrant and the performance of the registrant are required for the registrant's principal executive officer as well as other named executive officers. The disclosure requirements apply to all registrants other than emerging growth companies (EGCs), registered investment companies, and foreign private issuers (FPIs). Smaller reporting companies (SRCs) are exempt from certain of the requirements.

While the final rule's requirements do not apply to EGCs, they include transition provisions for newly public companies that are not EGCs. Because the disclosures are not required in registration statements, they do not have to be provided during the IPO process. Also, the requirements apply only for years in which a registrant (i.e., a public company) was subject to reporting requirements under the Securities Exchange Act of 1934 (the "Exchange Act"). For example, if a non-EGC registrant completes its IPO in 2023, the proxy statement for fiscal year 2023 would provide disclosure for only fiscal year 2023. The registrant would add subsequent years to each annual proxy filing until it includes five years (i.e., in the proxy filing for fiscal year 2027, which would be the year that includes the fourth anniversary of its IPO).

In a manner similar to the SEC staff's review of registrants' compliance with other new disclosure rules, the staff performed targeted reviews of registrants' disclosures under the pay-versus-performance rule and issued comments asking registrants to confirm that the concerns raised in those comments will be addressed in future filings. Key observations from the staff on the implementation of pay-versus-performance disclosures included the following:

- *The relationship disclosure* — Registrants may disclose the relationship between company performance and compensation actually paid in graphical form, narrative form, or a combination of both. The staff noted that this disclosure is at the core of the rulemaking and in some instances was omitted entirely. In addition, the staff observed that registrants that provided relationship disclosures in graphical form generally described the relationship more effectively than those that provided the disclosures in narrative form.

- *Non-GAAP company-selected measures* — If a registrant's company-selected measure is a non-GAAP measure, the registrant should clearly describe how the measure is calculated from the financial statements. The staff expects this disclosure to be included either within the proxy statement or in an appendix to the proxy statement. It should not be provided as simply a cross-reference to the registrant's Form 10-K or other SEC filings.
- *Changes in assumptions* — Registrants must clearly disclose any material changes in assumptions related to the valuation for compensation actually paid from those that were disclosed on the grant date of the equity award in the financial statements. The staff noted that some disclosures were unclear about whether they represented material changes in assumptions or were supplemental to the assumptions disclosed on the grant date of the equity award. Registrants should ensure that their disclosures clearly identify whether there have been material changes in assumptions.
- *Tabular list* — The pay-versus-performance disclosure must include tabular disclosure of the three to seven most important performance measures used by a registrant to link executive compensation and company performance. While the registrant's company-selected measure must be included on the list, the registrant should also ensure that the performance measures disclosed are consistent with those described in the compensation discussion and analysis.
- *Inline eXtensible Business Reporting Language (Inline XBRL) tagging* — The staff observed that although Inline XBRL tagging of pay-versus-performance disclosures is required, many registrants did not provide it.

The SEC has released C&DIs on the final rule's requirements. Many of these C&DIs address questions about measuring the fair value of certain awards. While legal counsel often addresses proxy statement and executive compensation requirements, the SEC staff has emphasized the importance of including accountants in the preparation of the pay-versus-performance disclosures because their experience with developing assumptions, fair values, and disclosures for share-based compensation awards in the financial statements positions them well for preparing or reviewing the pay-versus-performance disclosures.

For more information about the SEC's final rule related to pay versus performance, see Deloitte's September 2, 2022, and December 10, 2023, *Heads Up* newsletters.

9.4 SEC's Final Rule on the Recovery of Erroneously Awarded Compensation ("Clawback Policies")

On October 26, 2022, the SEC issued a final rule aimed at ensuring that executive officers do not receive "excess compensation" if the financial results on which previous awards of compensation were based are subsequently restated because of material noncompliance with financial reporting requirements. Such restatements would include those correcting an error that either (1) "is material to the previously issued financial statements" (a "Big R" restatement) or (2) "would result in a material misstatement if the error were corrected in or left uncorrected in the current period" (a "little r" restatement). The final rule implements the mandate in Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") under which the SEC is required "to adopt rules directing the national securities exchanges . . . and the national securities associations . . . to prohibit the listing of any security of an issuer" that has not adopted and implemented a written policy providing for the recovery of incentive-based compensation under certain circumstances.

The final rule requires issuers to "claw back" excess compensation for the three fiscal years before the determination of a restatement regardless of whether an executive officer had any involvement in the restatement. The final rule also requires an issuer to disclose its recovery policy in an exhibit to its annual report and to include new checkboxes on the cover page of its annual report to indicate whether the financial statements "reflect correction of an error to previously issued financial statements and whether [such] corrections are restatements that required a recovery analysis." Additional disclosures are required in the proxy statement or annual report when a clawback occurs. Such disclosures include the date of the restatement, the amount of excess compensation to be clawed back, and any amounts outstanding that have not yet been clawed back.

With very limited exceptions, the final rule requires exchanges to apply the disclosure and recovery requirements to all listed issuers. Note that the final rule applies to EGCs, SRCs, FPIs, and controlled companies, since the SEC believes that the objective of recovering excess compensation is as relevant for these types of companies as it is for any other listed issuer. While some exchanges currently allow FPIs to follow the rules of their home countries in lieu of certain U.S. corporate governance requirements, the final rule does not permit the exchanges to exempt FPIs from complying with the rule's disclosure and recovery requirements.

For more information about the SEC's final rule related to clawback policies, see Section 3.9.1 of Deloitte's Roadmap *Share-Based Payment Awards* and Deloitte's November 14, 2022, and December 10, 2023, *Heads Up* newsletters.

Appendix B — Titles of Standards and Other Literature

AICPA Literature

Accounting and Valuation Guides

Assets Acquired to Be Used in Research and Development Activities

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

Clarified Statements on Auditing Standards

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

AU-C Section 620, "Using the Work of an Auditor's Specialist"

FASB Literature

ASC Topics

ASC 105, *Generally Accepted Accounting Principles*

ASC 205, *Presentation of Financial Statements*

ASC 210, *Balance Sheet*

ASC 220, *Income Statement — Reporting Comprehensive Income*

ASC 230, *Statement of Cash Flows*

ASC 235, *Notes to Financial Statements*

ASC 250, *Accounting Changes and Error Corrections*

ASC 260, *Earnings per Share*

ASC 270, *Interim Reporting*

ASC 275, *Risks and Uncertainties*

ASC 280, *Segment Reporting*

ASC 310, *Receivables*

ASC 320, *Investments — Debt Securities*

ASC 321, *Investments — Equity Securities*

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

ASC 326, *Financial Instruments — Credit Losses*

ASC 330, *Inventory*

ASC 340, *Other Assets and Deferred Costs*

ASC 350, *Intangibles — Goodwill and Other*

ASC 360, *Property, Plant, and Equipment*

ASC 405, *Liabilities*

ASC 410, *Asset Retirement and Environmental Obligations*

ASC 420, *Exit or Disposal Cost Obligations*

ASC 440, *Commitments*

ASC 450, *Contingencies*

ASC 460, *Guarantees*

ASC 470, *Debt*

ASC 480, *Distinguishing Liabilities From Equity*

ASC 505, *Equity*

ASC 605, *Revenue Recognition*

ASC 606, *Revenue From Contracts With Customers*

ASC 610, *Other Income*

ASC 705, *Cost of Sales and Services*

ASC 710, *Compensation — General*

ASC 712, *Compensation — Nonretirement Postemployment Benefits*

ASC 715, *Compensation — Retirement Benefits*

ASC 718, *Compensation — Stock Compensation*

ASC 720, *Other Expenses*

ASC 730, *Research and Development*

ASC 740, *Income Taxes*

ASC 805, *Business Combinations*

ASC 808, *Collaborative Arrangements*

ASC 810, *Consolidation*

ASC 815, *Derivatives and Hedging*

ASC 820, *Fair Value Measurement*

ASC 825, *Financial Instruments*

ASC 830, *Foreign Currency Matters*

ASC 832, *Government Assistance*

ASC 835, *Interest*

ASC 840, *Leases*

ASC 842, *Leases*

ASC 845, *Nonmonetary Transactions*

ASC 848, *Reference Rate Reform*

ASC 855, *Subsequent Events*

ASC 860, *Transfers and Servicing*

ASC 905, *Agriculture*

ASC 915, *Development Stage Entities*

ASC 930, *Extractive Activities — Mining*

ASC 944, *Financial Services — Insurance*

ASC 946, *Financial Services — Investment Companies*

ASC 948, *Financial Services — Mortgage Banking*

ASC 954, *Health Care Entities*

ASC 958, *Not-for-Profit Entities*

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

ASC 970, *Real Estate — General*

ASC 985, *Software*

ASUs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Appendix C — Abbreviations

Abbreviation	Description
AETR	annual effective tax rate
AFS	available for sale
AFSI	adjusted financial statement income
AI	artificial intelligence
AICPA	American Institute of Certified Public Accountants
AIN	AICPA Accounting Interpretation of an APB Opinion
AMT	alternative minimum tax
ANDA	abbreviated new drug application
APB	Accounting Principles Board
API	active pharmaceutical ingredient
ARO	asset retirement obligation
ASC	FASB Accounting Standards Codification
ASR	accelerated share repurchase
ASU	FASB Accounting Standards Update
AUD	Australian dollar
BCF	beneficial conversion feature
BEAT	base erosion anti-abuse tax
BEMTA	base erosion minimum tax amount
BPD	branded prescription drug
C&DIs	Compliance and Disclosure Interpretations
CAM	critical audit matter
CAQ	Center for Audit Quality
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CCF	cash conversion feature

Abbreviation	Description
CECL	current expected credit loss
CFC	controlled foreign corporation
CIMA	Chartered Institute of Management Accountants
CMO	contract manufacturing organization
CRO	contract research organization
CSRD	Corporate Sustainability Reporting Directive
DTA	deferred tax asset
DTL	deferred tax liability
EBITDA	earnings before interest, taxes, depreciation, and amortization
ED	exposure draft
EDGAR	SEC electronic data gathering, analysis, and retrieval system
EGC	emerging growth company
EITF	Emerging Issues Task Force
ELOC	equity line of credit
EPS	earnings per share
ESA	energy service agreement
ESG	environmental, social, and governance
ESPP	employee stock purchase plan
ESRS	European Sustainability Reporting Standards
EUR	euros
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FAST Act	Fixing America’s Surface Transportation Act

Abbreviation	Description
FDA	U.S. Food and Drug Administration
FDII	foreign-derived intangible income
FOB	free on board
FPI	foreign private issuer
FRM	SEC Division of Corporation Finance Financial Reporting Manual
FVO	fair value option
FVTOCI	fair value through other comprehensive income
GAAP	generally accepted accounting principles
GenAI	generative artificial intelligence
GHG	greenhouse gas
GILTI	global intangible low-taxed income
GloBE	Global anti-Base Erosion
GPO	group purchasing organization
HAFWP	how and for what purpose
HFI	held for investment
HFS	held for sale
HVAC	heating, ventilation, and air conditioning
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	incurred but not reported
ICFR	internal control over financial reporting
IFRIC	IFRS Interpretations Committee
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

Abbreviation	Description
ISSB	International Sustainability Standards Board
IT	information technology
ITC	invitation to comment
JOBS Act	Jumpstart Our Business Startups Act
LCD	liquid-crystal display
LIBOR	London Interbank Offered Rate
LIFO	last in, first out
M&A	merger and acquisition
MD&A	Management's Discussion & Analysis
MNE	multinational enterprise
MSL	medical science liaison
NDA	new drug application
NFP	not-for-profit (entity)
NIH	National Institutes of Health
NOL	net operating loss
NOPA	notice of proposed adjustment
NQSO or **NSO**	nonqualified stock option
OCA	SEC's Office of the Chief Accountant
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council
PIPE	private investment in public equity
PP&E	property, plant, and equipment
PRV	priority review voucher
PTRS	probability of technical and regulatory success
Q&A	question and answer
QIP	qualified improvement property

Abbreviation	Description
R&D	research and development
R&E	research and experimental
REC	renewable energy certificate
REMS	risk evaluation and mitigation strategy
RIM	retail inventory method
ROU	right of use
SaaS	software as a service
SAB	Staff Accounting Bulletin
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933
SEPA	standby equity purchase agreement
SOX	Sarbanes-Oxley Act of 2002
SPAC	special-purpose acquisition company

Abbreviation	Description
SPPI	solely payments of principal and interest
SRC	smaller reporting entity
S&P 500	Standard & Poor's 500 Index
TD	Treasury Decision
TDR	troubled debt restructuring
TRG	transition resource group
TRWG	IFRS Foundation Technical Readiness Working Group
TSA	transition services agreement
USD	U.S. dollars
UTB	unrecognized tax benefit
VIE	variable interest entity
VWAP	volume-weighted average daily market price
XBRL	eXtensible Business Reporting Language

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