



**Life Sciences Industry Accounting Guide**  
Compensation

March 2026

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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 2026 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, legislative, and rulemaking developments (through March 6, 2026); and key differences between U.S. GAAP and IFRS<sup>®</sup> Accounting Standards. [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 2025 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 8 — Compensation

## 8.1 Industry Issues

### 8.1.1 Stock Repurchase Transactions

Various stock transactions with grantees<sup>1</sup> 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.

#### 8.1.1.1 Accounting Considerations

##### 8.1.1.1.1 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.

<sup>1</sup> 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.

### 8.1.1.1.2 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<sup>2</sup> 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.

<sup>2</sup> 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."

### 8.1.1.1.3 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 purchases 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 (because it is a new investor) 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.

### 8.1.1.2 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.



#### Changing Lanes

On June 23, 2024, the AICPA's Financial Reporting Executive Committee ("FinREC") announced the release of a [working draft](#) of two revised chapters that are ultimately expected to be included in the next edition of the AICPA Accounting and Valuation Guide *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (the "Cheap Stock Guide"):

- Chapter 8, "Inferring Value From Transactions in a Private Company's Securities."
- Chapter 9, "Selected Accounting and Disclosure Matters."

FinREC established the Equity Securities Task Force (the “Task Force”) to develop the revisions, which are primarily intended to expand the interpretive guidance on the comprehensive framework for evaluating and assessing the impact of secondary transactions and to better align the Cheap Stock Guide with the accounting literature issued after the publication of the guide’s current edition in 2013.

The purpose of the proposed updated guidance in Chapter 8 of the Cheap Stock Guide is to give entities a “framework for calibrating to [primary<sup>3</sup> and secondary<sup>4</sup>] transactions in the company securities for evaluating and assessing their impact on estimating fair value of the equity securities underlying awards of stock-based compensation.” The proposed updates to the chapter would expand the interpretive guidance and the framework for applying the measurement principles in ASC 820<sup>5</sup> as well as for assessing the relevance of primary and secondary transactions associated with such estimations.

The proposed updates to Chapter 9 of the Cheap Stock Guide would provide a framework based on ASC 718 for assessing whether a secondary transaction is compensatory. In addition, the proposed updated chapter would discuss certain disclosure considerations related to share-based payment awards.

At the December 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the FinREC chair noted that feedback during the comment period on the working draft was relatively minor and that the Task Force therefore does not expect to make significant additional changes to the chapters. Accordingly, although the working draft has not yet been finalized, entities should consider it when evaluating the implications of secondary transactions for estimating the fair value of their equity securities and determining whether a compensatory element exists. The Task Force believes that companies have historically placed less weight on secondary transactions than other indications of fair value and that the working draft provides leading practices for an entity’s consideration of such transactions in estimating the fair value of equity securities underlying share-based compensation awards.

See Deloitte’s June 27, 2024, [Heads Up](#) for additional information about the working draft of the two revised chapters.

### **8.1.1.3 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.

<sup>3</sup> A primary transaction is defined in the proposed updates to Chapter 8 as “[a] transaction involving the original issuance of an equity interest in or debt instrument of a privately-held company directly by the company to an investor, other than in a public offering. Note that primary transactions may involve existing investors, new investors, or both.”

<sup>4</sup> A secondary transaction is defined in the proposed updates to Chapter 8 as “[a]ny purchase or sale, other than the original issuance, of an equity interest in or debt instrument of a privately-held company. Such transactions may be completed either in a private transaction between two or more parties, or through a secondary exchange. A secondary transaction differs from a public market transaction in that the securities transacted are not public; therefore, generally the buyers in these transactions are accredited investors, and the issuers of the securities are not subject to public company reporting requirements. For purposes of this guide, a purchase of an equity interest or debt instrument by the company (or its related parties or other economic interest holders) from employees [is] also considered to be within the scope of secondary transactions.”

<sup>5</sup> The Task Force believes that the measurement principles in ASC 820 should be applied unless they are inconsistent with the guidance in ASC 718.

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 5.2.3 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.

Sometimes, 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 a 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 tax 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*.

## 8.2 SEC 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).

SAB 120 describes a spring-loaded award as follows:

A share-based payment award granted when a company is in possession of material nonpublic information to which the market is likely to react positively when the information is announced is sometimes referred to as being "spring-loaded."

For more information about SAB 120, see [Section 11.2.4.6](#) of this Guide and [Sections 4.9.2.6](#) and [13.10](#) of Deloitte's Roadmap *Share-Based Payment Awards*.

## 8.3 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 emerging growth companies (EGCs), smaller reporting companies (SRCs), foreign private issuers (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 852, *Reorganizations*

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 954, *Health Care Entities*

ASC 958, *Not-for-Profit Entities*

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

ASC 962, *Plan Accounting — Defined Contribution Pension Plans*

ASC 965, *Plan Accounting — Health and Welfare Benefit 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 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 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*

ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*

ASU 2020-02, *Financial Instruments — Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*

ASU 2020-03, *Codification Improvements to Financial Instruments*

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

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Topic 3, "Pro Forma Financial Information"

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## Appendix C — Abbreviations

Abbreviation	Description
<b>AETR</b>	annual effective tax rate
<b>AFSI</b>	adjusted financial statement income
<b>AI</b>	artificial intelligence
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>AIN</b>	AICPA Accounting Interpretation of an APB Opinion
<b>AMT</b>	alternative minimum tax
<b>ANDA</b>	abbreviated new drug application
<b>AOCI</b>	accumulated other comprehensive income
<b>APB</b>	Accounting Principles Board
<b>API</b>	active pharmaceutical ingredient
<b>ARO</b>	asset retirement obligation
<b>ASC</b>	FASB Accounting Standards Codification
<b>ASR</b>	accelerated share repurchase
<b>ASU</b>	FASB Accounting Standards Update
<b>AUD</b>	Australian dollar(s)
<b>BC</b>	Basis for Conclusions
<b>BEAT</b>	base erosion anti-abuse tax
<b>BEMTA</b>	base erosion minimum tax amount
<b>BPD</b>	branded prescription drug
<b>C&amp;DI</b>	Compliance and Disclosure Interpretation
<b>CAM</b>	critical audit matter
<b>CAQ</b>	Center for Audit Quality
<b>CARB</b>	California Air Resources Board
<b>CARES Act</b>	Coronavirus Aid, Relief, and Economic Security Act

Abbreviation	Description
<b>CFC</b>	controlled foreign corporation
<b>CIMA</b>	Chartered Institute of Management Accountants
<b>CMO</b>	contract manufacturing organization
<b>CMS</b>	Centers for Medicare & Medicaid Services
<b>CODM</b>	chief operating decision maker
<b>CPU</b>	central processing unit
<b>CRO</b>	contract research organization
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>CYR</b>	choose-your-rate
<b>DD&amp;A</b>	depreciation, depletion, and amortization
<b>DEI</b>	deduction-eligible income
<b>DISE</b>	disaggregation of income statement expenses
<b>DTA</b>	deferred tax asset
<b>DTL</b>	deferred tax liability
<b>EBITDA</b>	earnings before interest, taxes, depreciation, and amortization
<b>EC</b>	European Commission
<b>ED</b>	exposure draft
<b>EDGAR</b>	SEC's Electronic Data Gathering, Analysis, and Retrieval system
<b>EFRAG</b>	European Financial Reporting Advisory Group
<b>EGC</b>	emerging growth company
<b>EITF</b>	Emerging Issues Task Force
<b>ELOC</b>	equity line of credit
<b>EPS</b>	earnings per share

Abbreviation	Description
<b>ESA</b>	energy service agreement
<b>ESPP</b>	employee stock purchase plan
<b>ESRS</b>	European Sustainability Reporting Standards
<b>E.U.</b>	European Union
<b>EUR</b>	euros
<b>EU Taxonomy</b>	EU Taxonomy for Sustainable Activities
<b>Exchange Act</b>	Securities Exchange Act of 1934
<b>FAQ</b>	frequently asked question
<b>FASB</b>	Financial Accounting Standards Board
<b>FAST Act</b>	Fixing America's Surface Transportation Act
<b>FDA</b>	U.S. Food and Drug Administration
<b>FDDEI</b>	foreign-derived deduction-eligible income
<b>FDII</b>	foreign-derived intangible income
<b>FinREC</b>	AICPA Financial Reporting Executive Committee
<b>FOB</b>	free on board
<b>FPI</b>	foreign private issuer
<b>FRM</b>	SEC Division of Corporation Finance Financial Reporting Manual
<b>FVO</b>	fair value option
<b>FVTOCI</b>	fair value through other comprehensive income
<b>GAAP</b>	generally accepted accounting principles
<b>GDP</b>	gross domestic product
<b>GHG</b>	greenhouse gas
<b>GILTI</b>	global intangible low-taxed income
<b>GloBE</b>	Global anti-Base Erosion
<b>GPO</b>	group purchasing organization
<b>GPU</b>	graphics processing unit
<b>GWP</b>	global warming potential
<b>HAFWP</b>	how and for what purpose
<b>HFI</b>	held for investment

Abbreviation	Description
<b>HFS</b>	held for sale
<b>HHS</b>	U.S. Department of Health and Human Services
<b>HVAC</b>	heating, ventilation, and air conditioning
<b>IAS</b>	International Accounting Standard
<b>IASB</b>	International Accounting Standards Board
<b>ICFR</b>	internal control over financial reporting
<b>IEEPA</b>	International Emergency Economic Powers Act
<b>IFRS</b>	International Financial Reporting Standard
<b>IIR</b>	investigator-initiated research
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IP</b>	intellectual property
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>IPO</b>	initial public offering
<b>IPR&amp;D</b>	in-process research and development
<b>IRA</b>	Inflation Reduction Act of 2022
<b>IRC</b>	Internal Revenue Code
<b>IRS</b>	Internal Revenue Service
<b>ISO</b>	incentive stock option
<b>ISSB</b>	International Sustainability Standards Board
<b>IT</b>	information technology
<b>ITC</b>	invitation to comment
<b>JOBS Act</b>	Jumpstart Our Business Startups Act
<b>LCD</b>	liquid-crystal display
<b>LIBOR</b>	London Interbank Offered Rate
<b>LIFO</b>	last in, first out
<b>LLM</b>	large language model
<b>M&amp;A</b>	merger and acquisition

Abbreviation	Description
<b>MD&amp;A</b>	Management's Discussion & Analysis
<b>MFN</b>	most-favored-nation
<b>MNE</b>	multinational enterprise
<b>MSL</b>	medical science liaison
<b>NCTI</b>	net CFC tested income
<b>NDA</b>	new drug application
<b>NFP</b>	not-for-profit (entity)
<b>NIH</b>	National Institutes of Health
<b>NLP</b>	natural language processing
<b>NOL</b>	net operating loss
<b>NOPA</b>	notice of proposed adjustment
<b>NQSO</b> or <b>NSO</b>	nonqualified stock option
<b>OCA</b>	SEC Office of the Chief Accountant
<b>OCI</b>	other comprehensive income
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OEM</b>	original equipment manufacturer
<b>PBE</b>	public business entity
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>PCC</b>	Private Company Council
<b>PIE</b>	public interest entity
<b>PIK</b>	paid-in-kind
<b>PIPE</b>	private investment in public equity
<b>PP&amp;E</b>	property, plant, and equipment
<b>PRV</b>	priority review voucher
<b>PTRS</b>	probability of technical and regulatory success
<b>Q&amp;A</b>	question and answer
<b>QIP</b>	qualified improvement property
<b>R&amp;D</b>	research and development
<b>R&amp;E</b>	research and experimental

Abbreviation	Description
<b>RAM</b>	random-access memory
<b>REIT</b>	real estate investment trust
<b>REMS</b>	risk evaluation and mitigation strategy
<b>ROU</b>	right-of-use
<b>S&amp;P 500</b>	Standard & Poor's 500 Index
<b>SaaS</b>	software as a service
<b>SAB</b>	SEC Staff Accounting Bulletin
<b>SAFE</b>	simple agreement for future equity
<b>SASB</b>	Sustainability Accounting Standards Board
<b>SEC</b>	U.S. Securities and Exchange Commission
<b>Securities Act</b>	Securities Act of 1933
<b>SEPA</b>	standby equity purchase agreement
<b>SG&amp;A</b>	selling, general, and administrative
<b>SOX</b>	Sarbanes-Oxley Act of 2002
<b>SPAC</b>	special-purpose acquisition company
<b>SPPI</b>	solely payments of principal and interest
<b>SRC</b>	smaller reporting company
<b>TCFD</b>	Task Force on Climate-Related Financial Disclosures
<b>TD</b>	Treasury Decision
<b>TRG</b>	transition resource group
<b>TSA</b>	transition services agreement
<b>USD</b>	U.S. dollar(s)
<b>UTB</b>	unrecognized tax benefit
<b>VCO</b>	voluntary carbon offset
<b>VIE</b>	variable interest entity
<b>VWAP</b>	volume-weighted average daily market price



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