



December 23, 2022

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue, PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2022-ED300

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, Business Combinations – Joint Venture Formations, Subtopic 805-60 (Exposure Draft or proposed Update).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$11 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We commend the Board's diligence in soliciting feedback to develop authoritative guidance on how a joint venture, at its formation, should recognize and initially measure assets contributed and liabilities assumed. We believe the guidance will reduce diversity in practice, provide decision-useful information to investors, and reduce equity method basis differences. In our letter, we offer broad support for the new basis of accounting and appreciate the alignment with existing U.S. GAAP. We provide a recommendation around the definition of a joint venture as it relates to variable interest entities and support additional clarification in defining the formation date. We also share our reasoning for allowing measurement period adjustments. Lastly, we offer implementation recommendations regarding the transition and effective date.

New Basis of Accounting

We support the Board's decision to require a joint venture to recognize and initially measure its assets and liabilities upon formation at fair value. We agree that providing specific guidance requiring a joint venture to

apply a new basis of accounting upon formation will result in increased consistency in accounting for joint venture formations and align more closely with the accounting required for the venturers.¹ Currently joint venture investors record contributions to joint venture entities at fair value,² while the investee recognizes the contribution at the lower of the investor's carryover basis or fair value. For the investor, this accounting has resulted in basis differences and complicated equity method accounting. The proposed Update would reduce or eliminate differences in the basis of the joint venture's financial statements when compared with the reported investment by the venturers. Additionally, the Exposure Draft would improve the decision usefulness and relevancy of the information provided to a user of joint venture financial statements upon formation, as well as reduce efforts in recognizing and reporting basis differences over the life of a joint venture. While we believe the proposed Update could impose some incremental costs, we do not believe the costs will be significant. Companies may incur one-time costs for determining the fair value of identifiable assets and liabilities, as well as their equity, and some recurring costs to comply with the subsequent measurement requirements for intangible assets. However, these costs would be in line with those incurred for valuations related to business combinations. Overall, we do not foresee operability or auditing concerns related to recognition and initial measurement of a joint venture's assets and liabilities upon formation in accordance with the proposed amendments.

We support the Exposure Draft's position that a joint venture, upon formation, would recognize the fair value of the joint venture as a whole in excess of the amount recognized for its identifiable net assets as goodwill. We agree with the statement in the Basis for Conclusions that it would be uncommon for an entity that is not a business to simultaneously meet the definition of a joint venture and have net assets with a fair value that significantly exceeds that of its identifiable net assets.³ Therefore, we do not believe it is necessary to provide separate guidance for likely infrequent scenarios. Furthermore, we agree with the Exposure Draft that joint ventures, upon formation, should capitalize intangible research and development assets, regardless of whether they have an alternative future use, and subsequently test those assets as indefinite lived for impairment until the completion or abandonment of the associated research and development efforts. We appreciate the Board aligning with existing guidance in ASC 805 in which goodwill is calculated as the fair value of the entity less the values assigned to the net identifiable assets as of the acquisition date.⁴

Definition of the Formation Date and Joint Venture

In general, we find the proposed guidance on formation date to be understandable and operable but believe the Board should clarify the formation date occurs when the joint venture has control of the assets necessary to begin operating in accordance with its purpose as mentioned in the Basis for Conclusions.⁵ Under the proposed definition, it is not clear whether a formation date could occur at registration, where

¹ See [BC19 of the Exposure Draft](#).

² An investor shall initially measure, at fair value, a retained investment in the common stock of a Joint Venture in accordance with 810-10-40-3A or Subtopic 610-20 for non-financial assets.

³ See [BC44 of the Exposure Draft](#).

⁴ See ASC 805-30-30-1.

⁵ See [BC39 of the Exposure Draft](#).

there could be a shell entity that exists at that time. Therefore, we support clarifying the formation date occurs when an entity has control of the assets necessary to begin operating in accordance with its purpose of formation to avoid undesired outcomes, such as the formation date being established for a joint venture entity having few or no substantive operations.

In providing further guidance around the definition of and accounting by a joint venture, we recommend the Board clarify whether fair value accounting should apply when there are subsequent changes in governance after the initial formation of an entity. We suggest the Board address situations whereby an entity that does not meet the definition of a joint venture is formed but later meets the definition of a joint venture due to changes in governance and clarify whether under the proposed guidance, fair value accounting would be triggered when the same entity meets the definition of a joint venture at a later date. We have concerns that requiring an entity that applied fair value accounting at formation to apply fair value accounting again when it meets the definition of a joint venture after the initial formation may result in additional costs and effort to the joint venture entity and could likely create confusion for users of the joint venture's financial statements. We believe this situation could occur when a variable interest entity (VIE) that otherwise meets the definition of a joint venture is not a joint venture because it is being consolidated by a primary beneficiary, but later is no longer being consolidated by any of the venturers and becomes a joint venture (i.e., as the entity is no longer a VIE or there is no longer a primary beneficiary).

We do not foresee any significant operability or auditing concerns in applying the proposed guidance for determining which transactions are part of the formation of a joint venture. Additionally, we believe the existing definition and scope exceptions of a joint venture are generally understood and thus, believe there is no need for the Board to reconsider or eliminate the definition and related scope exceptions.

Measurement Period Adjustments

Although we oftentimes believe information necessary to measure and recognize assets contributed at fair value for a joint venture on the formation date will be available, we believe it would be appropriate to allow joint ventures to make measurement period adjustments as there will be cases where more time is needed to complete the valuation. As noted in the Basis for Conclusions,⁶ the Board has historically allowed adjustments during the measurement period for business combinations to address potential concerns about the quality and availability of information. We believe the option to make adjustments during the measurement period should be available to be consistent with the existing business combination guidance.⁷

Transition and Effective Date

We support the proposed transition guidance being applied on a prospective basis with retrospective adoption being optional. Retrospective application may require significant effort to apply depending on the joint venture's specific facts and circumstances. We believe the proposed Update may require entities to establish additional documentation for processes to support recognizing and initially measuring assets and

⁶ See [BC62 of the Exposure Draft](#).

⁷ See ASC 805-10-25-15.



liabilities upon formation at fair value, and as such, we recommend a minimum of one year to implement the proposed amendments, with early adoption permitted.

Conclusion

We appreciate this opportunity to provide feedback on the proposed Update related to the recognition and initial measurement of joint venture formations. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International