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December 22, 2022

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

File Reference No. 2022-ED300

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU, proposed Update or proposal), *Business Combinations—Joint Venture Formations (Topic 805-60): Recognition and Initial Measurement.*

Overall, we support the Board's proposal that would require a joint venture to apply a new basis of accounting upon formation, which would result in the joint venture entity initially measuring its identifiable assets and liabilities in accordance with the business combinations guidance. However, we believe certain areas of the proposal should be reconsidered to improve both clarity and operability. For example, we believe joint ventures should have the ability to apply the measurement period guidance in Subtopic 805-10, *Business Combinations—Overall* (as further explained in our response to Question 10). We also recommend that the Board clarify the applicability of Topic 860, *Transfers and Servicing*, to transfers of financial assets to a joint venture (as further described in our response to Question 5). We believe doing so would improve the consistency in the accounting for these types of transfers and provide more decision-useful information to the users of a joint venture's financial statements. As further described in our response to Question 8, we suggest that the Board consider existing approaches for the measurement of goodwill in a joint venture formation that we believe would be less complex for certain entities to apply and provide decision-useful information for users of the joint venture financial information.

Our responses to the questions posed in the proposed Update are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1: Do you agree with the Board's decision to require that a joint venture recognize and initially measure its assets and liabilities upon formation in accordance with the amendments in this proposed Update (at fair value with exceptions that are consistent with the business combinations guidance)? Alternatively, should the Board require or permit a joint venture to recognize and initially measure its assets and liabilities upon formation at venturers' carrying amounts? Please explain your response.

We agree with the Board's decision to require that a joint venture recognize and initially measure its identifiable assets and liabilities upon formation at fair value with exceptions that are consistent with the business combinations guidance. However, refer to our response in Question 8 for consideration of other approaches related to the recognition and measurement of goodwill in a joint venture formation.

Conceptually, we agree that there should be consistent guidance for the formation of a joint venture and a business combination because we believe that the two transactions are economically similar (i.e., there is

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a change in control upon either an acquisition or a formation). Among the alternatives the Board considered and those we have experienced in practice for recognizing and initially measuring identifiable assets and liabilities in a joint venture formation, we find the proposed amendments preferable as they will reduce diversity in practice and provide enhanced consistency for the accounting for joint ventures by the venture and the venturers. While we acknowledge that carrying over the venturer's amounts upon formation may be simpler in certain circumstances, we believe the information provided by the proposed Update would be more useful due to the reasoning provided by the Board in BC73 and BC74 of the proposed Update.

In proposing that a joint venture follow the existing guidance in Subtopic 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*, to account for its identifiable assets and liabilities upon formation, the Board focused the recognition criteria for assets and liabilities on the definitions of assets and liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements*. The Board recently issued new element definitions in Concepts Statement No. 8—Chapter 4, *Elements of Financial Statements,* to eliminate problematic terminology from the Concepts Statement 6 definitions and "reflect changes in practices and standards since Concepts Statement 6 was issued" (paragraph BC 4.4 of Concepts Statement 8). Because the proposed Update would establish a new Subtopic that relies on conceptual definitions after the issuance of Chapter 4 of Concepts Statement 8, we believe that stakeholders would benefit from a discussion of the new element definitions in the Basis for Conclusions to understand how the Board considered them, and to clarify whether the new definitions are an appropriate reference when applying the proposed guidance.

Question 2: Would the requirement that a joint venture recognize and initially measure its assets and liabilities upon formation in accordance with the proposed amendments (at fair value with exceptions that are consistent with the business combinations guidance) result in more decision-useful information for users of a joint venture's financial statements? If so, how would that information influence investment and capital allocation decisions?

We generally agree with Board's reasoning as set out in paragraph BC19 of the proposed Update that the amendments would result in more decision-useful information for users of a joint venture's financial statements by reducing diversity in practice and enhancing consistency of the information provided upon joint venture formation. However, refer to our response in Question 8 for consideration of other approaches related to the recognition and measurement of goodwill in a joint venture formation.

Under the proposal, all identifiable assets and liabilities of a joint venture would be consistently measured at fair value as of the formation date as opposed to existing diverse company policies and practices. Additionally, we have found that the existing guidance in Subtopic 805-20 on which the proposal is modeled provides decision-useful information for other change in control events.

We defer to the views of investors as to whether it would influence investment and capital allocation decisions.

Question 3: Would the proposed amendments impose significant incremental costs? Please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

We do not believe that the proposed amendments would impose significant incremental costs, though we acknowledge the costs will vary depending on an entity's prior or preferred method of accounting for joint venture formations. For those joint ventures who would have previously chosen to recognize and initially

measure their assets and liabilities upon formation at the venturers' carrying amounts, additional one-time costs will likely be incurred for a detailed valuation analysis of the contributed assets and liabilities if they are not able to be leveraged from any valuation performed for the venturer's purposes (e.g., if the joint venture is either not material to the venturer or the venturer's prior valuation analysis is not disaggregated enough). Additionally, joint ventures for which goodwill or other intangible assets would be recognized under the proposal will have to apply ongoing, annual impairment assessments, which could become more costly if the joint venture experiences any triggering events or is required to perform a quantitative analysis.

Overall, we believe that providing comprehensive guidance in an area where none previously existed will significantly limit the amount of uncertainty entities encounter when accounting for joint venture formations, which, in turn, should reduce preparation costs and offset some of the incremental costs noted above. We also agree with the Board that the benefits of the proposed Update exceed any of the incremental costs that may occur as a result of the proposed amendments.

Question 4: The Board expects that the proposed amendments would align more closely the accounting required for the joint venture and the venturers and thus eliminate or reduce differences in the basis for the joint venture's financial statements when compared with the reported investment by the venturers. Venturer accounting is not within the scope of this project, but the requirement for venturers to account for basis differences does factor into the costs and benefits of providing initial measurement guidance for joint ventures. Upon a joint venture's formation, do you expect that significant differences in the basis of the joint venture's financial statements will exist when compared with the reported investment by the venturers under the proposed amendments? If you expect that significant basis differences would remain, please describe the circumstances that would give rise to those differences.

We agree with the Board that the proposed amendments would better align the accounting required for the joint venture and the venturers, and thus eliminate or reduce differences in the basis for the joint venture's financial statements when compared with the reported investment by the venturers. While we believe the basis differences will primarily be eliminated for contributed assets and liabilities under the proposed amendments, we expect that basis differences will arise for venturers due to the proposed guidance to measure the fair value of the joint venture as a whole. The basis differences would occur in circumstances where the joint venture has synergies associated with a control premium, and thus, an amount for goodwill is recognized beyond the combined fair values of the assets and liabilities measured by each venturer in accordance with Subtopic 810-10 when determining the gain or loss to record upon the loss of control.

We note that for public companies, the negative basis difference related to goodwill recognized in accordance with the proposed Update would only result in memo entries for the venturer in certain circumstances in which the recognized goodwill is impaired. However, for private companies that elect the available private company alternatives in Subtopic 805-20, this would likely require memo entries to be recorded periodically. In our response to Question 8, we explain that there are other methods for measuring the fair value of the joint venture upon formation that would likely not create additional basis differences. However, if the Board affirms its proposal related to the measurement of the fair value of the joint venture as a whole, we believe that the basis differences related to goodwill could be prevalent and recommend that the Board acknowledge and describe these basis differences in the Basis for Conclusions to better inform practitioners and avoid the risk that the fair value of the joint venture as a whole is assumed to be the sum of the fair values of the assets and liabilities or businesses contributed by the venturers.

Question 5: Do you foresee any operability or auditing concerns in recognizing and initially measuring a joint venture's assets and liabilities upon formation in accordance with the proposed amendments (at fair value with certain exceptions that are consistent with the business combinations guidance)? Please describe the nature of any operability or auditing concerns.

We do not foresee any incremental operability or auditing concerns specific to recognizing and initially measuring a joint venture's assets and liabilities upon formation in accordance with the proposed amendments (at fair value with certain exceptions that are consistent with the business combinations guidance) since the proposal relies on existing business combination guidance. However, we believe that there is an existing practice issue related to transfers of financial assets (under Subtopic 860-10) from venturers to the joint venture that may be exacerbated by the proposed amendments because symmetry in accounting by the transferor and transferee is important under Topic 860.

The proposed amendments would require that if a venturer transfers financial assets that are within the scope of Subtopic 860-10 to a joint venture at formation, then the joint venture would determine whether the transfer results in the recognition of transferred financial assets by the joint venture by applying the guidance in Subtopic 860-10. Paragraph 860-10-40-5 sets forth the conditions that must be met for a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset to be treated as a sale (i.e., to be derecognized by the transferor and recognized by the transferee). Subparagraph (b) of 860-10-40-5, which addresses a transferee's rights to pledge or exchange the financial assets received, indicates that this criterion is met if both of the following conditions are met:

1. Each transferee (or, if the transferee is an entity whose sole purpose is to engage in securitization or asset-backed financing activities and that entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received.
2. No condition does both of the following:
    i. Constrains the transferee (or third-party holder of its beneficial interests) from taking advantage of its right to pledge or exchange
    ii. Provides more than a trivial benefit to the transferor (see paragraphs 860-10-40-15 through 40-21).

If the transferor, its consolidated affiliates included in the financial statements being presented, and its agents have no continuing involvement with the transferred financial assets, the condition under paragraph 860-10-40-5(b) is met.

There is diversity in practice as to whether a transfer to a joint venture (that does not meet the definition of a business) by a transferor that owns 50% of the venture can meet the condition in paragraph 860-10-40-5(b) for sale accounting because the joint venture (1) cannot sell or pledge the transferred financial asset without the consent of the transferor-venturer and (2) the joint venture agreement typically does not state that the venturer's consent cannot be unreasonably withheld. However, we observe that joint venture agreements generally include contractual and fiduciary stipulations for management and directors to act in the best interests of the venture that we believe would prohibit a transferor-venturer from unreasonably withholding their consent.

In the proposed Update, one of the reasons the Board decided that a joint venture should apply a new basis of accounting is because a joint venture formation is viewed as a change in control event (see paragraph BC24.b). Consistent the with Board's rationale in the proposed Update, we believe the transfers described above also result in a change in control (assuming the other conditions in paragraph 860-10-40-5 are met).

To enhance consistency in the accounting for these types of transfers and provide better information about the types of financial assets contributed to the joint venture for users of the joint venture's financial statements, we recommend that the Board amend the criterion in paragraph 860-10-40-5(b), or add related implementation guidance, to state that when evaluating a transfer of financial assets by a transferor-venturer to a joint venture (or corporate joint venture) as defined in the ASC Master Glossary, the derecognition criterion in 860-10-40-5(b) is met provided the transferor-venturer does not retain the unilateral right to pledge or exchange the asset subsequent to the transfer.

We also recommend that any final standard acknowledge the existing scope of Topic 860 that excludes "investments by owners or distributions to owners of a business entity" (paragraph 860-10-15-4(f)) because many joint ventures meet the definition of a business. Additionally, describing other applicable guidance that a venturer and joint venture would follow for those types of transactions outside the scope of Topic 860 would be helpful.

If the Board does not address the matters described above, we believe they could become more relevant to the proposed Update if the Board decides to specify that the formation date occurs when the joint venture has control of the assets necessary to begin operations in accordance with its purpose (Question 7 below).

Other Comments to Improve Operability and Understandability of Current Proposal

We recommend the following clarifications within the amendments to improve operability and understandability:

The statement in proposed paragraph 805-60-25-2, "[u]nlike the acquisition method, accounting for the formation of a joint venture does not require the identification of an **acquirer**," could be interpreted to mean that there is an acquirer in a joint venture, which we do not believe is the intent of the guidance or reflective of the transaction. As such, we suggest the following changes to clarify the proposed guidance (deleted content in ~~strikethrough~~ and added content *italicized*, **bolded** and underlined).

> Unlike the acquisition method, accounting for the formation of a joint venture does not ~~require~~ ***include*** the identification of an acquirer.

In proposed paragraph 805-60-25-4 on the determination of whether multiple transactions should be accounted for as a single transaction, we suggest the following changes (deleted content in ~~strikethrough~~, and added content *italicized*, **bolded** and underlined) to clarify the language and maintain consistency with the prior and subsequent sentences in the paragraph:

> Multiple transactions or arrangements may establish the formation of a joint venture. Circumstances sometimes indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the multiple arrangements as ~~part of~~ ***a single transaction that established*** the formation, a joint venture shall consider all of the terms and conditions of the arrangements and their economic effects. Any of the following may indicate that the joint venture should account for the multiple arrangements as a single transaction that established the formation of a joint venture…

In Subtopic 805-60-55, Implementation Guidance and Illustrations, we recommend amending the example, specifically proposed paragraph 805-60-55-5 and other related proposed guidance, so that the pre-formation vesting and post-formation vesting amounts are not both $10. We believe doing so would further distinguish the pre-formation vesting from the post-formation vesting and would help clarify how the Board intends each to be treated in the example and avoid potential misunderstanding among practitioners. For

example, in paragraphs 805-60-55-7 through 55-14, the $10 amount is utilized in explanations of entries and determining fair value, but it is not labeled as due to pre-formation or post-formation vesting.

In proposed paragraph 805-60-55-7, it is unclear why the fair value of New Venture as a whole is reduced for the share-based payment awards classified as liabilities. If the presumption is that this liability was not considered when originally determining the fair value of the joint venture as a whole, that presumption should be clarified the in the example.

Question 6: The proposed amendments describe and define the formation date as the date on which an entity initially meets the definition of a joint venture. Is the proposed guidance on a joint venture's formation date understandable and operable? Please explain your response.

We believe the proposed guidance on a joint venture's formation date is understandable and operable given how current practice has developed in this area. However, we recommend improving the proposed guidance on formation date to identify and further describe the pertinent facts and circumstances alluded to in proposed paragraph 805-60-25-3. That is, if the Board agrees with current practice, we believe it should consider whether codifying current practice for the determination of what constitutes a joint venture would be helpful for stakeholders. We also suggest adding an interpretive example to the proposed guidance that demonstrates the formation date of a joint venture in a scenario in which there are multiple transactions accounted for as a single transaction.

Question 7: The proposed definition of the formation date varies from the definition of the acquisition date in Subtopic 805-10, which is the date on which the acquirer obtains control of the acquiree. During initial deliberations, the Board considered whether the definition should similarly specify that the formation date occurs when the joint venture has control of the assets necessary to begin operating in accordance with its purpose (and initially meets the definition of a joint venture). Would this additional clarification result in a more relevant measurement date as compared with the proposed definition? Please explain your response, including any relevant considerations relating to the date that a venturer is required to initially measure its interest in the joint venture in accordance with Subtopic 610- 20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and Subtopic 810-10, Consolidation—Overall, and whether the additional clarification would result in a different conclusion than the proposed definition.

We believe that the additional clarification (specifying that the formation date occurs when the joint venture has control of the assets necessary to begin operating in accordance with its purpose) would result in a more relevant and operable measurement date as compared with the proposed definition. The clarified definition would be consistent with existing guidance, such as Subtopic 610-20 and Subtopic 805-20, that requires the use of a new basis of accounting for assets or liabilities that are transferred. Additionally, it would create alignment between the accounting by the venturer and the formation accounting by the joint venture as the date that the venturer surrenders control should also be the date at which the joint venture acquires control of the contributed assets and liabilities. We understand, however, that this date could be different if the venture did not yet meet the definition of a joint venture at the time of the venturer's transfer.

We also observe that the Board describes the formation of a joint venture in proposed paragraph 805-60-05-2 as "the transfer of the net assets to a new entity that assumes **control** over them," therefore we believe that a logical extension of this would be to include *control* in the definition of formation date. We do not

foresee there being a different conclusion on the timing of formation date if the additional clarification relating to control is added.

As explained in our response to Question 5, there is an existing practice issue related to whether a venturer surrenders control of contributed financial assets to a joint venture under certain circumstances in accordance with the derecognition conditions under Subtopic 860-10. If the Board were to focus the definition of joint venture formation date on the notion of when control of the assets transferred to the joint venture, we believe that stakeholders may interpret this definition to suggest that a venturer surrenders control of the financial assets contributed to a joint venture in all circumstances. As such, the Board's decision could affect current interpretations in practice related to Subtopic 860-10.

If the Board decides to add the term *control* to the definition of formation date and affirms its decision to refer to Subtopic 860-10 for transfers of financial assets, we suggest explaining in the guidance or the Basis for Conclusions that the definition of joint venture formation date should not be construed as changing how Subtopic 860-10 is applied to transfers of financial assets to joint ventures.

Question 8: Do you agree with the proposal 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, regardless of whether the net assets controlled by the joint venture upon formation meet the definition of a business? If not recognized as goodwill, how should the excess be accounted for? Please explain your response.

We generally agree with the proposal 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, regardless of whether the net assets controlled by the joint venture upon formation meet the definition of a business. Conceptually, we do not believe that goodwill should be recognized for asset acquisitions, however, from a practical perspective, we agree with the Board's basis in paragraph BC44 that these circumstances should be uncommon and that "goodwill recognition at joint venture formation should be consistent with goodwill recognition in a business combination rather than providing separate guidance for scenarios that may occur infrequently." We suggest, however, that the Board acknowledge in the Basis for Conclusions other inconsistencies with the accounting for asset acquisitions in circumstances in which net assets controlled by the joint venture upon formation do not meet the definition of a business, such as in-process research and development intangibles as noted below in Question 9 and the recognition of workforce as an intangible asset.

While we generally agree with the proposal for recognizing goodwill upon joint venture formation, we acknowledge that there are less costly, and more practical methods in current practice to measure the fair value of the joint venture upon formation for goodwill recognition purposes. In our response to Question 4, we explain how the current proposal for measuring the fair value of the joint venture as a whole would create additional basis differences. If the Board were to instead require measurement of the fair value of the joint venture to equal the aggregate of the amounts recorded by the venturers for their equity investments under Subtopic 810-10, there would likely be no resulting basis differences between the venturers and the joint venture related to goodwill. We believe this alternative is consistent with the principles of business combination accounting and would provide useful information for users of the joint venture financial statements. This is particularly true for private entities where the primary users are the venturers. In these circumstances, we question the usefulness of information about goodwill recognized for synergies associated with a control premium that neither venturer owns. We acknowledge that the alternative would consider the investors/venturers as individual acquirers for goodwill recognition purposes,

which is inconsistent with how the investors/venturers are considered in the current proposal; however, we believe the decrease in cost and complexity outweigh that concern. Therefore, we encourage the Board to consider providing an accounting policy election for purposes of recognizing goodwill that would allow joint ventures that are private companies to measure the fair value of the joint venture as the aggregate of the amounts recorded by the venturers for their equity investments under Subtopic 810-10.

Question 9: Do you agree with the proposed amendments 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? Please explain your response.

We agree with the proposed amendments 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. From a scoping and consistency perspective, we agree that if an entity meets the definition of a joint venture, it should follow acquisition accounting under Subtopic 805-20, and this decision is consistent with the accounting for identifiable assets under Subtopic 805-20. As noted in our response to Question 8, we suggest explaining in the Basis for Conclusions that if the joint venture does not meet the definition of a business, this would be inconsistent with the treatment of in-process research and development in the accounting for asset acquisitions.

Question 10: The proposed amendments would prohibit a joint venture from making measurement period adjustments in the same manner as the acquirer of a business. In accordance with Topic 805, the acquirer of a business can adjust provisional amounts recognized if the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs. Would it be necessary for a joint venture to be permitted to make measurement period adjustments after formation? Please explain your response.

We believe a joint venture should be permitted to make measurement period adjustments after formation. We agree with the stakeholder observation cited in BC77 that additional valuations beyond those performed for negotiation purposes may be needed to obtain information about the fair value of the joint venture's identifiable assets. In some of those situations, the information necessary to be able to perform those additional valuations at an individual asset or liability level may not be available until after the formation date depending on the arrangement. Under those circumstances in which information is not available or an adjustment is necessary, it is unclear how a joint venture should apply the proposed amendments if measurement period adjustments are not allowed. For example, would the joint venture be required to delay issuance of its financial statements? Additionally, for any adjustments after the formation date for new information that became available, would the joint venture be required to treat those adjustments as potential errors? We believe that to avoid those questions and related outcomes, a measurement period beyond the formation date should be allowed. We do not believe adding a measurement period for joint venture formations would introduce additional complexity when applying Subtopic 805-20.

Question 11: Do you foresee any operability or auditing concerns in applying the proposed amendments for determining which transactions are part of the formation of a joint venture? Please describe any operability or auditing concerns.

We do not foresee any operability or auditing concerns in applying the proposed amendments for determining which transactions are part of the formation of a joint venture.

Question 12: Is there a need for the Board to reconsider or eliminate the definition (and related scope exceptions) of a joint venture? If so, please explain your response, including how the joint venture definition (and related scope exceptions) should be changed, and the relative priority of such a consideration.

Overall, we believe that over time, interpretive guidance has been developed to address the lack of authoritative guidance for determining what meets the definition of a joint venture. As noted in our response to Question 6, codifying some of that interpretive guidance could be helpful for purposes of limiting diversity in practice related to applying the definition of a joint venture. For purposes of this proposed Update, which focuses on establishing a consistent measurement basis for contributed assets and liabilities in a joint venture formation, we would not suggest amending the existing definition.

Question 13: Do you agree with the transition guidance in this proposed Update? Please explain your response.

Overall, we agree with the transition guidance in this proposed Update. While we acknowledge the accounting for venturers is outside the scope of the proposed Update, in situations in which an entity decides to retroactively apply the proposed amendments back to a joint venture's formation date that is prior to the effective date, we believe transition disclosures (both qualitative and quantitative) about the effects of the retrospective application on a venturer's interests/investments in that joint venture should be required.

Question 14: How much time would be needed to implement the proposed amendments? Is the amount of time needed to implement the proposed amendments by entities other than public business entities different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.

In our experience, we believe that providing nonpublic business entities with additional time to learn from the transition experiences and interpretations of public business entities is helpful for those other entities. Additionally, we do not believe there is strong rationale for prohibiting entities from early adopting the proposed amendments given the existing diversity in practice.

We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Ryan Carter at 203-905-5059 or Joseph Cascio at 212-372-1139.

Sincerely,

RSM US LLP

RSM US LLP