December 20, 2022

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

By e-mail: director@fasb.org

Re: Invitation to Comment—Proposed Accounting Standards Update – Business Combinations-Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement

(File Reference No. 2022-ED300)

Dear Ms. Salo:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 21,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned invitation to comment (ITC).

The NYSSCPA's Financial Accounting Standards Committee deliberated the ITC and prepared the attached comments. If you would like additional discussion with us, please contact Sean C. Prince, Chair of the Financial Accounting Standards Committee, at (646) 231-7285, or Keith Lazarus, NYSSCPA staff, at (212) 719-8378.

Sincerely,

Lynne M. Fuentes CPA

Lynne M. Fuentes
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

INVITATION TO COMMENT—PROPOSED ACCOUNTING STANDARDS UPDATE-BUSINESS COMBINATIONS-JOINT VENTURE FORMATIONS (SUBTOPIC 805-60): RECOGNITION AND INITIAL MEASUREMENT

(File Reference No. 2022-ED300)

December 20, 2022

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New York State Society of Certified Public Accountants
Comments on
Proposed Accounting Standards Update –
Business Combinations-Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement
File Reference No. 2022-ED300

General Comments

We are pleased to respond to the FASB's invitation to comment on Proposed Accounting Standards Update–*Business Combinations-Joint Ventures (Topic 805-60), Recognition, and Initial Measurement* (the "Proposed Update"). We believe the Proposed Update is understandable and operational and will reduce diversity in practice in how Joint Ventures ("JV") account for contributed assets upon formation of the JV.

While the accounting by investors in a JV ("Venturers") is not within the scope of this proposed Update, we believe the Board should consider adding application guidance in ASC 805-60 to assist preparers with their research regarding how to account for such investments. We support issuance of this proposed Update expeditiously; therefore, should the Board decide not to include such guidance in the final Update, we suggest the Board consider adding Venturer accounting to its agenda to provide clear guidance on how Venturers should account for their contributed interests in JVs.

We also encourage the Board to include in the final ASU additional guidance on how to evaluate and identify a JV's formation date. Given the dynamic nature of certain JV formations – for example, deferred capital contributions by venturers contemplated at initial JV formation – we could foresee diversity in application without additional guidance.

Specific Comments

We have the following responses and suggestions for the FASB's consideration to questions posed in the Update:

New Basis of Accounting

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.

Response: Yes, we agree assets and liabilities contributed upon a JV's formation should be initially measured at fair value. Doing so best satisfies the project's objectives of reducing diversity in practice and will result in financial statements that are more meaningful to users of the financial statements.

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?

Response: We defer to input received by users of financial statements.

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.

Response: No. In many cases, Venturers already obtain fair value information from valuation specialists about assets and liabilities contributed when agreeing to the initial JV ownership allocation.

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.

Response: We do not anticipate significant basis differences will remain under the proposed amendments. However, due to the judgment involved in the determination of fair value by Venturers, basis differences could arise when there is disagreement between Venturers about fair value. While it is possible that, at times, these differences could be material, we believe the proposed Update will significantly reduce such basis differences.

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.

Response: We do not see significant operability issues or have any significant auditing concerns with the proposed Update.

Determining the Formation Date

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.

Response: We believe more application guidance should be included in the final Update to help evaluate and identify a JV's formation date. Of particular concern are scenarios in which initial venturer contributions occur at different times. For example, if a venturer's initial contribution is delayed due to existing contractual or other restrictions while other venturers' initial contributions are not similarly delayed, would the delayed contribution be excluded from the formation accounting even if contemplated in the initial formation documents? If this is not the Board's intended outcome, we encourage the Board to illustrate their intent through examples.

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.

Response: In many circumstances, we think the formation date is an appropriate recognition trigger and will be easily determined. However, as noted elsewhere in this letter, we foresee situations where not all Venturers that are contemplated at the time of formation will have contributed assets to the JV at or near the formation date. In such circumstances, incorporating a notion of control might result in more intuitive accounting outcomes.

Goodwill

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.

Response: We agree.

In-Process Research and Development

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.

Response: We agree with the proposed accounting for In-Process Research and Development ("IPRD") as, unlike in a business combination, we believe it is less likely that Venturers will contribute IPRD to a JV that is not expected to have a potential future benefit to the JV. Accordingly, we agree with the basis for the Board's conclusions as contained in paragraphs BC40 and BC41 of the Proposed Update.

Measurement Period

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.

Response: We agree with the proposed Update because, as discussed in paragraphs BC 60 to BC64 of the proposal, we believe the information necessary to fair value contributed assets/liabilities should be available at or near the formation date and additional time is, therefore, not necessary.

Determining What Is Part of the Joint Venture Formation

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.

Response: We do not foresee any operability or auditing issues.

Definition 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.

Response: We do not believe the Board should reconsider or eliminate the definition of a joint venture.

Transition and Effective Date

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

Response: We agree with the transition method and initial application guidance included in the Update, particularly the optionality of allowing JVs formed prior to issuance of a final Update to apply such guidance.

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.

Response: We do not believe implementation of a final Update will result in a significant amount of time; however, we believe that entities other than public business entities should have an implementation date that is delayed by one year beyond public business entities with early implementation allowed.