FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: October 27, 2022
Comments Due: December 27, 2022

Business Combinations—Joint Venture Formations (Subtopic 805-60)

Recognition and Initial Measurement

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 805 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2022-ED300, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until December 27, 2022. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2022-ED300
- Sending a letter to "Technical Director, File Reference No. 2022-ED300, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

Business Combinations—Joint Venture Formations (Subtopic 805-60)

Recognition and Initial Measurement

October 27, 2022

Comment Deadline: December 27, 2022

CONTENTS

Page Numbers

Summary and Questions for Respondents..1–6
Amendments to the *FASB Accounting Standards Codification*® 7–50
Background Information and Basis for Conclusions......................................51–71
Amendments to the GAAP Taxonomy..72

Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The amendments in this proposed Update address the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The objectives of the proposed amendments are to (1) provide decision-useful information to investors and other allocators of capital (collectively, investors) in a joint venture's financial statements and (2) reduce diversity in practice.

Generally accepted accounting principles (GAAP) do not provide specific authoritative guidance on how a joint venture, at its formation, should recognize and initially measure assets contributed and liabilities assumed (including the assets and liabilities of businesses contributed). Rather, GAAP explicitly provides that transactions between a corporate joint venture and its owners are outside the scope of Topic 845, Nonmonetary Transactions, and that the formation of a joint venture is outside the scope of Topic 805, Business Combinations. In the absence of specific guidance, practice has been influenced by various sources, including speeches given by the U.S. Securities and Exchange Commission (SEC) staff. As a result, there is diversity in practice in how a joint venture accounts for the contributions it receives upon formation—while some joint ventures initially measure their net assets at fair value at the formation date, other joint ventures account for their net assets at the venturers' carrying amounts.

To reduce diversity in practice and provide decision-useful information to a joint venture's investors, the Board decided to require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, would recognize and initially measure its assets and liabilities at fair value (with certain exceptions that are consistent with the business combinations guidance).

The amendments in this proposed Update do not amend the definition of a joint venture (or a corporate joint venture), the accounting by an equity method investor for its investment in a joint venture, or the accounting by a joint venture for contributions received after its formation.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect the accounting for contributions received upon formation by entities that meet the definition of a joint venture or a corporate joint venture, as defined in the Master Glossary of the Codification. Additionally, existing joint ventures would have the option to apply the guidance retrospectively.

What Are the Main Provisions, How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

The Board expects that requiring a joint venture to recognize and initially measure its assets and liabilities using a new basis of accounting upon formation would reduce diversity in practice and provide decision-useful information to a joint venture's investors.

Because the Codification does not contain specific guidance for the accounting by a joint venture for net assets contributed upon formation, there is diversity in practice. Stakeholders have observed that, today, a joint venture may recognize and initially measure its net assets upon formation at the carrying amounts of the venturer that contributed those net assets, and, in certain circumstances, a joint venture may recognize and initially measure its net assets at fair value upon formation.

Feedback from practitioners indicated that (1) there is a lack of clear guidance for the accounting by a joint venture entity and (2) the factors used by the joint venture entity to determine when its net assets should be recognized and initially measured at fair value are nonauthoritative and outdated. Generally, practitioners supported requiring that a joint venture initially measure the contributions at fair value upon formation, citing that the formation of the joint venture is a change-in-control event that should trigger a new basis of accounting.

Feedback from preparers indicated that the venturers are usually, but not always, the primary users of a joint venture's financial statements. Feedback from preparers generally supported fair value measurement, observing that fair value (1) is more relevant than the venturers' carrying amounts at the formation date and (2) would reduce equity method basis differences (any difference between the venturer's cost and underlying equity in net assets of the joint venture).

In response to the feedback received, the Board decided to require that a joint venture, upon formation, apply a new basis of accounting. As a result, a newly formed joint venture would initially measure its assets and liabilities at fair value (with certain exceptions that are consistent with the business combinations guidance). That approach is consistent with other new basis of accounting models in GAAP, such as fresh-start reporting in accordance with Topic 852, Reorganizations. It is also broadly consistent with the accounting outcome that would result from treating the joint venture entity as the acquirer of a business within the scope of Subtopic 805-10, Business Combinations—Overall. The amendments in this proposed Update would require that a joint venture apply the following key adaptations from the business combinations guidance upon formation:

1. **A joint venture is the formation of a new entity without an acquirer.** The formation of a joint venture is the creation of a new reporting entity, and none of the assets and/or businesses contributed to the joint venture are viewed as having survived the combination as an independent entity—that is, an accounting acquirer would not be identified. The proposed amendments would require that a newly formed joint venture 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.
2. **A joint venture would measure its identifiable net assets and goodwill, if any, at the formation date.** The joint venture formation date is the date when an entity initially meets the definition of a joint venture.
3. **Initial measurement of the joint venture's total net assets would be equal to the fair value of 100 percent of a joint venture's outstanding equity interests.** The proposed amendments would require that a joint venture measure its total net assets upon formation as the fair value of the joint venture entity as a whole. The fair value of the joint venture entity as a whole would equal the fair value of 100 percent of a joint venture's outstanding equity interests immediately following formation (including any noncontrolling interest in the net assets recognized by the joint venture).
4. **Measurement period adjustments would be prohibited.** The proposed amendments would prohibit a joint venture from applying the measurement period guidance in Subtopic 805-10 to the amounts recognized upon formation.
5. **A joint venture would be required to provide relevant disclosures.** The purpose of the disclosures would be to help a user of a joint venture's financial statements to understand the nature and financial effect of the joint venture formation in the period in which the formation date occurs. Joint venture disclosure requirements upon formation would be different from the requirements for business combinations.

Many of the amendments in this proposed Update other than the addition of Subtopic 805-60, Business Combinations—Joint Venture Formations, are proposed conforming amendments that would exclude a newly formed joint venture from applying areas of GAAP that do not apply to business combinations.

When Would the Amendments Be Effective and What Are the Transition Requirements?

The effective date will be determined after the Board considers stakeholders' feedback on the amendments in this proposed Update. The Board decided that joint ventures formed after the effective date would apply the proposed guidance prospectively to their formation transactions. Additionally, joint ventures formed before the effective date of the guidance would have an option to elect to apply the guidance retrospectively.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

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.

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?

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

Transition and Effective Date

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

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.

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Subtopic	Description of Changes
Master Glossary	• Added the new term *formation date* to Subtopics 350-20, 350-30, 450-10, 740-10, and 805-60. • Added the term *joint venture* to Subtopics 350-10, 350-20, 350-30, 450-10, 718-10, 730-10, 740-10, 805-10, 805-20, 805-50, 810-10, 815-10, 842-10, 842-20, 842-50, 845-10, and 985-20.
Subtopic 805-60, Business Combinations—Joint Venture Formations	• Added this Subtopic, including: o Recognition and initial measurement guidance for joint venture entities upon formation. o Presentation and disclosure guidance for joint venture entities in the period in which the formation occurs.
Subtopic 350-10, Intangibles—Goodwill and Other—Overall	• Excluded intangible assets and goodwill recognized by a joint venture upon formation from its scope.
Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill	• Amended guidance to include goodwill recognized by a joint venture upon formation.

Codification Subtopic	Description of Changes
Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill	• Amended guidance to include intangible assets recognized by a joint venture upon formation after they have been recognized and initially measured.
Subtopic 450-10, Contingencies—Overall	• Amended guidance to exclude assets and liabilities arising from contingencies that are accounted for by a joint venture upon formation from its scope.
Subtopic 718-10, Compensation—Stock Compensation—Overall	• Amended guidance to exclude equity interests issued by a joint venture upon formation from its scope.
Subtopic 730-10, Research and Development—Overall	• Amended guidance to exclude research and development assets recognized by a joint venture upon formation from its scope.
Subtopic 740-10, Income Taxes—Overall	• Added guidance for the initial measurement of deferred tax assets and liabilities for a joint venture upon formation.
Subtopic 805-10, Business Combinations—Overall	• Added reference to Subtopic 805-60.
Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	• Amended guidance to include accounting for a formation of a joint venture in accordance with Subtopic 805-60 to the transactions eligible to apply the Accounting Alternatives Subsection of Subtopic 805-20.

Codification Subtopic	Description of Changes
Subtopic 805-50, Business Combinations—Related Issues	• Amended guidance to exclude joint venture formations from its scope.
Subtopic 810-10, Consolidation—Overall	• Amended guidance to exclude newly formed joint ventures from the recognition and measurement guidance applicable to the primary beneficiary of a variable interest entity that is not a business.
Subtopic 815-10, Derivatives and Hedging—Overall	• Amended guidance to exclude contracts between a venturer and joint venture upon formation from its scope.
Subtopic 842-10, Leases—Overall	• Amended guidance to include leases recognized by a joint venture upon formation in its scope.
Subtopic 842-20, Leases—Lessee	• Amended guidance to include leasehold improvements recognized by a joint venture upon formation in its scope.
Subtopic 842-50, Leases—Leveraged Lease Arrangements	• Amended guidance to include leveraged lease arrangements recognized by a joint venture upon formation in its scope.
Subtopic 845-10, Nonmonetary Transactions—Overall	• Added reference to Subtopic 805-60.
Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed	• Amended guidance to align accounting for research and development assets acquired in a joint venture formation with the guidance applicable to business combinations.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–23. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

3. Amend the Master Glossary term *Goodwill*, with a link to transition paragraph 805-60-65-1, as follows:

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a ~~**business combination** or an **acquisition by a not-for-profit entity**~~**business combination**, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

4. Add the new Master Glossary term *Formation Date*, with a link to transition paragraph 805-60-65-1, as follows:

Formation Date

The date on which an entity initially meets the definition of a **joint venture**.

5. Add the Master Glossary term *Joint Venture* to Subtopics 350-10, 350-20, 350-30, 450-10, 718-10, 730-10, 740-10, 805-10, 805-20, 805-50, 810-10, 815-10, 842-10, 842-20, 842-50, 845-10, and 985-20 as follows:

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

Addition of Subtopic 805-60

6. Add Subtopic 805-60, with a link to transition paragraph 805-60-65-1, as follows:

[For ease of readability, the new Subtopic is not underlined.]

Business Combinations—Joint Venture Formations

Overview and Background

General

805-60-05-1 This Subtopic provides guidance on the accounting and reporting for the formation of a **joint venture** or a **corporate joint venture** (collectively, joint ventures) in a joint venture's separate financial statements.

805-60-05-2 Paragraph 805-60-25-2 requires that a joint venture account for its formation by applying a new basis of accounting. In accounting for the formation of a joint venture, none of the assets and/or **businesses** contributed to the joint venture are viewed as having survived the combination as independent entities. Rather, the formation is viewed as the transfer of the net assets to a new entity that assumes **{add glossary link to 3rd definition}control{add glossary link to 3rd definition}** over them. The history of that new reporting entity begins with the joint venture formation. A joint venture establishes a new basis of accounting upon formation by applying aspects of the acquisition method for **business combinations**, with adaptations that are unique to joint ventures as described in this Subtopic. Accounting for a joint venture formation requires the following steps:

a. Determining the **formation date**
b. Recognizing and measuring the **identifiable** assets, the liabilities, and any **noncontrolling interest** in the net assets recognized by the joint venture
c. Recognizing and measuring **goodwill** using the **fair value** of the joint venture entity as a whole immediately after formation.

Scope and Scope Exceptions

General

> Overall Guidance

805-60-15-1 This Subtopic has its own discrete scope, which is separate and distinct from the pervasive scope for this Topic as outlined in Section 805-10-15.

> Entities

805-60-15-2 The guidance in this Subtopic applies to the financial statements of **joint venture** and **corporate joint venture** entities (collectively, joint ventures) as defined in Section 805-60-20.

> Transactions

805-60-15-3 The guidance in this Subtopic applies to the formation of joint ventures.

805-60-15-4 The guidance in this Subtopic does not apply to any of the following:

a. Transactions between a joint venture and its **owners** other than the formation of a joint venture
b. Formations of entities determined to be **not-for-profit entities** in accordance with Topic 958
c. Combinations between entities, businesses, or **nonprofit activities** under common control (see paragraph 805-50-15-6 for examples)
d. Entities in the construction or extractive industries that may be proportionately consolidated by their investor-venturers in accordance with paragraph 810-10-45-14
e. Collaborative arrangements within the scope of Topic 808.

Glossary

Acquiree

The **business** or **businesses** that the **acquirer** obtains control of in a **business combination**. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an **acquisition by a not-for-profit entity**.

Acquirer

The entity that obtains control of the **acquiree**. However, in a **business combination** in which a **variable interest entity** (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a **not-for-profit entity**, the term **business combination** has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Acquisition Date

The date on which the **acquirer** obtains control of the **acquiree**.

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Control (third definition)

The same as the meaning of controlling financial interest in paragraph 810-10-15-8.

Corporate Joint Venture

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

Equity Interests

Used broadly to mean ownership interests of investor-owned entities; owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.

Fair Value (second definition)

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity
b. Exchange other financial instruments on potentially favorable terms with the second entity.

Formation Date

The date on which an entity initially meets the definition of a **joint venture**.

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a **business combination**, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

Identifiable

An asset is identifiable if it meets either of the following criteria:

a. It is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.

b. It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not **related parties**, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information,

including information that might be obtained through due diligence efforts that are usual and customary
c. They are able to enter into a transaction for the asset or liability
d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a **business** or a for-profit business entity.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
b. Operating purposes other than to provide goods or services at a profit
c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities
b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Owners

Used broadly to include holders of ownership interests (**equity interests**) of investor-owned entities, mutual entities, or not-for-profit entities. Owners include shareholders, partners, proprietors, or members or participants of mutual entities. Owners also include owner and member interests in the net assets of not-for-profit entities.

Private Company

An entity other than a **public business entity**, a **not-for-profit entity**, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
d. It has issued, or is a conduit bond obligor for, **securities** that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Related Parties

Related parties include:

a. Affiliates of the entity
b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
d. Principal owners of the entity and members of their immediate families
e. Management of the entity and members of their immediate families
f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Security (second definition)

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Variable Interest Entity

A **legal entity** subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

Recognition

General

805-60-25-1 An entity shall determine whether a transaction or an event is a **joint venture** formation by applying the definition of joint venture (or **corporate joint venture**) and the guidance in paragraph 805-60-25-3 on its **formation date**. If the transaction or event is not a joint venture formation, the reporting entity shall account for the transaction or event in accordance with other generally accepted accounting principles (GAAP).

805-60-25-2 Accounting for joint venture formations as described in this Subtopic requires that a joint venture entity establish upon formation a new basis of accounting for its assets and liabilities in accordance with Subtopic 805-20 on **identifiable** assets and liabilities, and any **noncontrolling interest**. A joint venture entity shall recognize **goodwill**, if any, in accordance with paragraph 805-60-25-9. Unlike the acquisition method, accounting for the formation of a joint venture does not require the identification of an **acquirer**. This Section includes the following requirements:

a. Determining the formation date
b. Determining whether multiple transactions should be accounted for as a single transaction
c. Determining what is part of the joint venture formation
d. Accounting for the formation of a joint venture:
    1. Goodwill
    2. Measurement period
    3. Transfers of **financial assets**.

> Determining the Formation Date

805-60-25-3 A joint venture shall determine its formation date and account for its formation as of that date. The joint venture formation date is not necessarily the **legal entity** formation date, but rather the date on which an entity initially meets the definition of a joint venture. A joint venture shall consider all pertinent facts and circumstances in identifying its formation date.

> Determining Whether Multiple Transactions Should Be Accounted for as a Single Transaction

805-60-25-4 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 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:

a. The multiple arrangements are entered into at the same time or in contemplation of one another.
b. The multiple arrangements form a single transaction designed to achieve an overall commercial effect.
c. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
d. One arrangement considered on its own is not economically justified, but the multiple arrangements are economically justified when considered together.

805-60-25-5 If multiple arrangements are accounted for as a single transaction in accordance with paragraph 805-60-25-4, then the formation date shall be the measurement date for all transactions that form part of that single transaction. A joint venture shall recognize identifiable assets and liabilities that are part of that single transaction when they satisfy the recognition criteria described in paragraph 805-60-25-2.

> Determining What Is Part of the Joint Venture Formation

805-60-25-6 A joint venture and its **owners** (the venturers) may enter into an arrangement upon formation that is separate from the formation of the joint venture. For example, a joint venture may enter into an arrangement with a venturer to compensate the venturer or others (such as employees of the venturers) for future services. A joint venture shall apply the guidance in paragraphs 805-10-55-24 through 55-26 when determining whether a transaction involving payments to be made by the joint venture entity to the venturers or others is separate from or part of a joint venture formation. Separate transactions shall be accounted for in accordance with other relevant GAAP.

805-60-25-7 A joint venture shall not apply by analogy the guidance in paragraphs 805-10-55-20 through 55-23 (for a transaction that in effect settles preexisting relationships between the acquirer and the acquiree) and paragraph 805-10-25-23 (for acquisition-related costs and transactions that reimburse the acquiree or its former owners for paying the acquirer’s acquisition-related costs).

805-60-25-8 If, upon formation, a joint venture issues share-based payment awards to replace awards held by grantees of the contributed entities, then the joint venture shall apply the guidance in paragraphs 805-30-30-9 through 30-13 to allocate the fair-value-based measure of replacement share-based payment awards between pre-formation vesting and post-formation compensation cost.

805-60-25-9 For the purposes of applying the business combinations guidance on arrangements that include contingent payments to employees or selling shareholders and replacement share-based payment awards referenced in paragraphs 805-60-25-6 through 25-8:

a. The joint venture shall be viewed as analogous to the acquirer in a business combination.
b. The venturers shall be viewed as analogous to the selling shareholders.
c. The recognized businesses and/or assets shall be viewed as analogous to an acquiree.

> Accounting for the Formation of a Joint Venture

805-60-25-10 At the formation date, an entity shall account for its formation by establishing a new basis of accounting for its identifiable assets and liabilities, and any noncontrolling interest, in accordance with Subtopic 805-20.

805-60-25-11 A joint venture shall account for its formation in accordance with this Subtopic regardless of whether the assets or group of assets recognized by the joint venture constitute a **business** in accordance with Subtopic 805-10.

805-60-25-12 A joint venture that is a **private company** may elect to apply the accounting alternative for the recognition of identifiable intangible assets described in paragraphs 805-20-25-30 through 25-33. In accordance with paragraph 805-20-15-4, a joint venture that elects to apply this accounting alternative must adopt the accounting alternative for amortizing goodwill in the Accounting Alternatives Subsections of Subtopic 350-20.

. > Goodwill

805-60-25-13 In accounting for its formation, a joint venture shall recognize goodwill as of the formation date, when applicable. Paragraph 805-60-30-2 describes how a joint venture should measure goodwill upon its formation.

. > Measurement Period

805-60-25-14 A joint venture is prohibited from applying the measurement period guidance in Section 805-10-25 to its formation transaction. In applying any guidance in Subtopic 805-20 that refers to a measurement period (such as the guidance on assets and liabilities arising from contingencies), a joint venture shall apply that guidance as if the measurement period begins and ends on the formation date.

. > Transfers of Financial Assets

805-60-25-15 If a venturer transfers financial assets that are within the scope of Subtopic 860-10 to the joint venture upon formation, then the joint venture shall determine whether the transfer results in the recognition of the transferred financial assets by the joint venture by applying the guidance in Subtopic 860-10.

Initial Measurement

General

> Identifiable Assets and Liabilities, and Any Noncontrolling Interest

805-60-30-1 A **joint venture** shall measure its **identifiable** assets and liabilities, and any **noncontrolling interest**, recognized at the **formation date** in accordance with Subtopic 805-20.

> Goodwill

805-60-30-2 A joint venture shall apply the guidance in this paragraph to measure **goodwill**. A joint venture shall recognize goodwill upon formation, measured as the excess of (a) over (b):

a. The formation-date **fair value** of the joint venture as a whole. The formation-date fair value of the joint venture as a whole shall equal the fair value of 100 percent of the joint venture entity's equity immediately following formation (including any noncontrolling interest in the net assets recognized by the joint venture).
b. The net of the formation-date amounts of the identifiable assets and liabilities recognized by the joint venture and measured in accordance with Subtopic 805-20.

805-60-30-3 Upon formation, a joint venture shall recognize the amount of its net identifiable assets recognized in excess of the fair value of the joint venture as a whole, if any, as an adjustment to additional paid-in capital (or other similar equity account, such as members' equity).

> Instruments, Contracts, and Share-Based Payment Awards Classified as Equity

805-60-30-4 The amount of any separately recognized equity-classified instruments or contracts issued by a joint venture upon formation, other than equity-classified replacement share-based payment awards (see paragraph 805-60-30-5), shall be accounted for as a reallocation of additional paid-in capital (or other similar equity account, such as members' equity) and shall not affect the total amount of equity or goodwill recognized by the joint venture upon formation.

805-60-30-5 A joint venture shall initially measure equity-classified replacement share-based payment awards at the fair-value-based measurement method described in Topic 718 on stock compensation. The fair-value-based amount of any replacement share-based payments classified as equity (the amount allocated to pre-formation vesting in accordance with paragraph 805-60-25-8) shall be recognized as a reallocation of additional paid-in capital (or other similar equity account, such as members' equity) and shall not affect the total amount of equity or goodwill recognized by the joint venture upon formation.

> Liability-Classified and Asset-Classified Contingent Payments and Replacement Share-Based Payment Awards

805-60-30-6 A joint venture shall initially measure any contingent payments that are classified as liabilities (or assets), other than replacement share-based payment awards, in accordance with paragraph 805-60-30-1.

805-60-30-7 A joint venture shall initially measure liability-classified replacement share-based payment awards at the fair-value-based measurement method described in Topic 718 (consistent with the requirements in paragraph 805-60-30-1).

Subsequent Measurement

General

805-60-35-1 A **joint venture** shall subsequently measure and account for the assets and liabilities recognized upon formation in accordance with the requirements for **acquirers** of a **business** in Sections 805-10-35, 805-20-35, and 805-30-35, and other generally accepted accounting principles (GAAP), as applicable.

805-60-35-2 A joint venture that is a **private company** may elect to apply the accounting alternatives for the subsequent measurement of **goodwill** described in paragraphs 350-20-35-62 through 35-82.

Other Presentation Matters

General

> Disclosure of Formation Date Balance Sheet

805-60-45-1 To satisfy the requirements in paragraph 805-60-50-2(e), a **joint venture** may, in lieu of disclosure in the notes to financial statements, present a statement of financial position as of the **formation date** that reflects the amounts recognized by the joint venture for each major class of assets and liabilities as a result of its formation.

Disclosure

General

805-60-50-1 A **joint venture** shall disclose information that enables users of its financial statements to understand the nature and financial effect of the joint venture formation in the period in which the **formation date** occurs.

805-60-50-2 A joint venture, in the period of formation, shall disclose the following:

a. The formation date
b. A description of the purpose for which the joint venture was formed (for example, to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities)
c. The formation-date **fair value** of the joint venture as a whole
d. A description of the assets and liabilities recognized by the joint venture at the formation date
e. The amounts recognized by the joint venture for each major class of assets and liabilities as a result of accounting for its formation, either presented on the face of financial statements or disclosed in the notes to financial statements (see paragraph 805-60-45-1)
f. A qualitative description of the factors that make up any **goodwill** recognized, such as expected synergies from combining operations of the contributed assets or **businesses**, **intangible assets** that do not qualify for separate recognition, or other factors.

Implementation Guidance and Illustrations

General

805-60-55-1 This Section is an integral part of the requirements of this Subtopic. This Section provides additional guidance and illustrations that address the general application of accounting requirements for **joint venture** formations.

> Illustrations

. > Example 1: Joint Venture Replaces Share-Based Payment Employee Awards

805-60-55-2 On January 1, 20X0, a newly formed corporation with no assets or liabilities, New Venture, receives contributions of a controlling financial interest in Business A (90 percent voting interest) from Venturer 1 and Business B (100 percent voting interest) from Venturer 2 and, in exchange, issues 50 common shares to each Venturer 1 and Venturer 2. Assume that New Venture has no other classes of equity or any other equity instruments outstanding before receiving the contributions. It is determined that New Venture first met the definition of a joint venture on January 1, 20X0. New Venture determines January 1, 20X0, to be its **formation date**.

805-60-55-3 In accordance with paragraph 805-60-30-2, but before consideration of any liabilities for share-based payments, New Venture determines that the **fair value** of the joint venture as a whole is $100 including a **noncontrolling interest** (10 percent voting interest) in Business A that is owned by an outside entity. It also determines, in accordance with paragraph 805-60-30-2, that the formation-date fair value of the identifiable assets is $120, the fair value of the liabilities is $40, and the fair value of the noncontrolling interest in Business A is $5.

805-60-55-4 Upon formation, New Venture exchanges replacement awards that require one year of post-formation vesting for share-based payment awards of Business A for which employees had not yet rendered all of the required services as of the formation date. The fair-value-based measure of both awards (the original awards and the replacement awards) is $20 at the formation date. When originally granted, the awards of the contributed business had a requisite service period of four years. As of the formation date, the contributed business's employees had rendered two years' service, and they would have been required to render two additional years of service after the formation date for their awards to vest. Accordingly, only a portion of the contributed businesses' awards is attributable to pre-formation vesting.

805-60-55-5 The replacement awards require only one year of post-formation vesting. Because employees have already rendered two years of service, the total requisite service period is three years. The portion attributable to pre-formation vesting equals the fair-value-based measure of the contributed business award ($20) multiplied by the ratio of the pre-formation vesting period (2 years) to the greater of the total service period (3 years) or the original service period of contributed business's award (4 years). Thus, $10 ($20 × 2 ÷ 4 years) is attributable to pre-formation vesting and, therefore, the New Venture's additional paid-in capital upon formation. The remaining $10 is attributable to post-formation vesting and therefore recognized as compensation cost in New Venture's post-formation financial statements in accordance with Topic 718 on stock compensation. For simplicity, assume that New Venture estimates that there will be no forfeitures of the replacement share-based payment awards.

805-60-55-6 New Venture applies the guidance in Topic 718 to determine whether the share-based payments should be classified as liabilities or equity.

. . > Case A: Joint Venture Replacement Share-Based Payment Employee Awards Are Liability Classified

805-60-55-7 If New Venture determines that the replacement share-based payment awards are classified as liabilities, then total liabilities will equal $50 ($40 + $10). For simplicity, when taking the share-based payment liabilities into account, the fair value of New Venture as a whole is $90 ($100 – $10).

805-60-55-8 New Venture calculates goodwill as follows.

Fair value of New Venture as a whole (including $5 noncontrolling interests)	$	90
Less: Net fair value of identifiable assets and liabilities recognized ($120 − $50)		(70)
Goodwill recognized by New Venture at formation date	$	20

805-60-55-9 New Venture calculates additional paid-in capital as follows.

Net assets recognized by New Venture, excluding share-based payment liabilities	$	100
Less: The fair value of noncontrolling interests in business contributed to New Venture		(5)
Less: The fair value of replacement share-based payment classified as a liability ($10)		(10)
Additional paid-in capital recognized by New Venture at the formation date	$	85

805-60-55-10 New Venture records the following entry at the formation date.

Identifiable assets recognized	$ 120	
Goodwill	20	
Liabilities recognized		$ 40
Noncontrolling interest		5
Share-based payment liability		10
Additional paid-in capital		85

. . > Case B: Joint Venture Replacement Share-Based Payment Employee Awards Are Equity Classified

805-60-55-11 If New Venture determines that the replacement share-based payment awards are classified as equity, then total liabilities will equal $40 and the fair value of New Venture as a whole is $100.

805-60-55-12 New Venture calculates goodwill as follows.

Fair value of New Venture as a whole (including $5 noncontrolling interests)	$ 100
Less: Net fair value of identifiable assets and liabilities recognized ($120 – $40)	(80)
Goodwill recognized by New Venture at formation date	$ 20

805-60-55-13 New Venture calculates additional paid-in capital, excluding additional paid-in capital attributable to share-based payments, as follows.

Net assets recognized by New Venture, excluding share-based payments	$ 100
Less: The fair value of noncontrolling interests in business contributed to New Venture	(5)
Less: The fair value of replacement share-based payment classified as equity ($10)	(10)
Additional paid-in capital recognized by New Venture at the formation date (excluding additional paid-in capital attributable to share-based payments)	$ 85

805-60-55-14 New Venture records the following entry at the formation date.

Identifiable assets recognized	$ 120	
Goodwill	20	
Liabilities recognized		$ 40
Noncontrolling interest		5
Additional paid-in capital—share-based payment		10
Additional paid-in capital		85

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 20XX-XX, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*

805-60-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 20XX-XX, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement:*

Effective date

a. All **joint ventures** with a **formation date** on or after [the effective date of a final Update on joint venture formations] shall apply the pending content that links to this paragraph. A joint venture with a formation date that occurs before the effective date need not apply the pending content that links to this paragraph to its formation transaction but has the option to apply the transition method described in (c) through (e).

Transition method and initial application date

b. A joint venture with a formation date that occurs on or after the effective date in (a) shall apply the pending content that links to this paragraph prospectively to its formation transaction.
c. A joint venture with a formation date that occurs before the effective date in (a) has the option to apply the pending content that links to this paragraph retrospectively, as if the joint venture had applied the pending content that links to this paragraph to its formation transaction, with the cumulative effect of initially applying the pending content that links to this paragraph recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity in the statement of financial position) at the initial application date. A joint

venture that elects to apply the pending content that links to this paragraph retrospectively shall apply any relevant guidance other than in this Subtopic (for example, for measuring identifiable assets, liabilities, and any noncontrolling interest in accordance with Subtopic 805-20) as it existed at the formation date. See (e)(1) for guidance on the initial application date.

d. The initial application date is the date that an entity first applies the pending content that links to this paragraph.
e. The initial application date shall be determined in accordance with the following method:
   1. Full retrospective: If applying the pending content that links to this paragraph retrospectively in accordance with (c), the initial application date shall be the beginning of the earliest comparative period presented.

Transition disclosures

f. An entity applying the pending content that links to this paragraph retrospectively in accordance with (c) shall provide the transition disclosures required by paragraphs 250-10-50-1 through 50-3 in the period that includes the initial application date.

Amendments to Subtopic 350-10

7. Amend paragraphs 350-10-05-1, 350-10-05-3 through 05-3A, and 350-10-15-3, with a link to transition paragraph 805-60-65-1, as follows:

Intangibles—Goodwill and Other—Overall

Overview and Background

350-10-05-1 The Intangibles—Goodwill and Other Topic provides guidance on financial accounting and reporting related to **goodwill** and other **intangible assets**, including the subsequent measurement of goodwill and intangible assets. It does not include guidance on the accounting at acquisition for goodwill and intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity**. <u>It also does not include guidance on the accounting upon formation for goodwill and intangible assets recognized by a **joint venture**.</u>

a. Subparagraph superseded by Accounting Standards Update No. 2017-04.
b. Subparagraph superseded by Accounting Standards Update No. 2017-04.

c. Subparagraph superseded by Accounting Standards Update No. 2017-04.

350-10-05-3 This Topic includes the following Subtopics:

a. Overall.
b. Goodwill—Subtopic 350-20 provides guidance on the measurement of goodwill after acquisition, derecognition of some or all of goodwill allocated to a reporting unit, other presentation matters, and disclosures.
c. General Intangibles Other Than Goodwill—Subtopic 350-30 provides guidance on the initial recognition and measurement of intangible assets other than goodwill that are either:
   1. Acquired individually or with a group of assets in a transaction that is not a business ~~combination or~~combination, an acquisition by a not-for-profit entity, or a joint venture formation
   2. Internally generated.
d. Internal-Use Software—Subtopic 350-40 provides guidance on the accounting for the cost of computer software that is developed or obtained for internal use and **hosting arrangements** obtained for internal use.
e. Website Development Costs—Subtopic 350-50 provides guidance on whether to capitalize or expense costs incurred to develop a website.

350-10-05-3A Guidance for the financial accounting and reporting at acquisition of goodwill and other intangible assets acquired in a business ~~combination or~~ combination, acquired in an acquisition by a not-for-profit ~~entity~~entity, or recognized by a joint venture upon formation is provided in the following Subtopics:

a. Subtopic 805-20 provides acquisition guidance for intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity.
b. Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination.
c. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an acquisition by a not-for-profit ~~entity.~~entity
d. Subtopic 805-60 provides guidance for a joint venture upon formation on recognition and initial measurement of goodwill and other intangible assets.

Scope and Scope Exceptions

> Transactions

350-10-15-3 The guidance in the Intangibles—Goodwill and Other Topic does not apply to the following transactions and activities:

a. The accounting at acquisition for **goodwill** acquired in a business combination (for guidance see Subtopic 805-30)
b. Subparagraph not used.
c. The accounting at acquisition for goodwill acquired in an **acquisition by a not-for-profit entity** (for guidance see Subtopic 958-805)
d. The accounting at acquisition for **intangible assets** (other than goodwill) acquired in a business combination or in an acquisition by a not-for-profit entity (for guidance see Subtopics 805-20 and ~~958-805).~~958-805)
e. The accounting upon formation for intangible assets and goodwill recognized by a **joint venture** (for guidance see Subtopic 805-60).

Amendments to Subtopic 350-20

8. Amend paragraphs 350-20-05-2, 350-20-05-4A, 350-20-15-2, 350-20-15-4, 350-20-25-1, 350-20-35-41, 350-20-35-63, 350-20-50-4, and 350-20-50-7, with a link to transition paragraph 805-60-65-1, as follows:

Intangibles—Goodwill and Other—Goodwill

Overview and Background

350-20-05-2 Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an **acquisition by a not-for-profit entity**. Subtopic 805-60 provides guidance on the recognition and initial measurement of goodwill by a **joint venture** upon formation.

350-20-05-4A Costs of developing, maintaining, or restoring internally generated goodwill should not be capitalized. For entities that do not elect the accounting alternative for amortizing goodwill included in the guidance in the Subsections outlined in paragraph 350-20-05-5A, goodwill that is recognized under the business combination guidance in Topic 805 and Subtopic 958-805 and goodwill that is recognized under the joint venture formation guidance in Subtopic 805-60 should not be amortized. Instead, it should be tested for impairment at least annually in accordance with paragraphs 350-20-35-28 through 35-32. If the accounting alternative for a goodwill impairment triggering event evaluation is elected, a goodwill impairment triggering event shall be evaluated in accordance with paragraphs 350-20-35-83 through 35-86.

Scope and Scope Exceptions

General

> Transactions

350-20-15-2 The guidance in this Subtopic applies to the following transactions and activities:

a. **Goodwill** that an entity recognizes in accordance with Subtopic ~~805-30~~805-30, Subtopic 805-60, or Subtopic 958-805 after it has been initially recognized and measured
b. The costs of internally developing goodwill and other unidentifiable intangible assets with indeterminate lives
c. Subparagraph not used.
d. Amounts recognized as goodwill in applying the equity method of accounting and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852.
e. Subparagraph not used.

Accounting Alternatives

350-20-15-4 A **private company** or **not-for-profit entity** may make an accounting policy election to apply the accounting alternative for amortizing goodwill in this ~~Subtopic to the following transactions or activities:~~Subtopic. The guidance in the Accounting Alternatives Subsections of this Subtopic applies to the following transactions or activities:

a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic ~~805-30 or~~805-30, in an **acquisition by a not-for-profit entity** in accordance with Subtopic 958-805, or in a **joint venture** formation in accordance with Subtopic 805-60 after it has been initially recognized and measured
b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

Recognition

350-20-25-1 See Subtopic 805-30 for guidance on recognition at acquisition of **goodwill** acquired in a business combination. See Subtopic 958-805 for guidance on recognition at acquisition of goodwill acquired in an **acquisition by a not-for-**

profit entity. See Subtopic 805-60 for guidance on recognition of goodwill by a **joint venture** upon formation.

Subsequent Measurement

General

> Assigning Goodwill to Reporting Units

350-20-35-41 For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination or recognized by a **joint venture** upon formation shall be assigned to one or more reporting units as of the acquisition date or joint venture **formation date**. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to determine the amount of goodwill to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. In addition, that methodology shall be consistent with the objectives of the process of assigning goodwill to reporting units described in paragraphs 350-20-35-42 through 35-43.

Accounting Alternatives

> Accounting Alternative for Amortizing Goodwill

. > Amortization of Goodwill

350-20-35-63 Goodwill relating to each **business combination, acquisition by a not-for-profit entity**, **joint venture** formation, or reorganization event resulting in fresh-start reporting (amortizable unit of goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

Disclosure

Accounting Alternatives

> Disclosures about Additions to Goodwill

350-20-50-4 The following information shall be disclosed in the notes to financial statements for any additions to goodwill in each period for which a statement of financial position is presented:

a. The amount assigned to goodwill in total and by major business combination, by major **acquisition by a not-for-profit entity**, by **joint venture** formation, or by reorganization event resulting in fresh-start reporting
b. The weighted-average amortization period in total and the amortization period by major business combination, by major acquisition by a not-for-profit entity, by joint venture formation, or by reorganization event resulting in fresh-start reporting.

> Goodwill Impairment Loss

350-20-50-7 The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its initial recognition in a business ~~combination or~~combination, an acquisition by not-for-profit entity, or a joint venture formation.

Amendments to Subtopic 350-30

9. Amend paragraphs 350-30-05-1 through 05-2, 350-30-15-3, 350-30-25-2, 350-30-25-4 through 25-5, 350-30-35-7, 350-30-35-17A, and 350-30-50-1, with a link to transition paragraph 805-60-65-1, as follows:

Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill

Overview and Background

350-30-05-1 This Subtopic addresses financial accounting and reporting for **intangible assets** (other than **goodwill**) acquired individually or with a group of other assets and for the cost of developing, maintaining, or restoring internally generated intangible assets. However, it does not discuss the recognition and initial measurement of intangible assets acquired in a business ~~combination or~~ combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation. This Subtopic also addresses financial accounting and reporting for intangible assets after their acquisition, including intangible assets acquired in a business ~~combination or~~combination, in an acquisition by a not-for-profit entity, or by a joint venture upon formation.

350-30-05-2 Guidance on the initial recognition and measurement of intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity is provided in Subtopics 805-20 and 958-805, respectively. Guidance on the initial recognition and measurement of intangible assets by a joint venture upon formation is provided in Subtopic 805-60.

Scope and Scope Exceptions

> Transactions

350-30-15-3 The guidance in this Subtopic applies to the following:

a. Intangible assets acquired individually or with a group of other assets (but not the recognition and initial measurement of those acquired in a business ~~combination or~~combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation)
b. Intangible assets (other than goodwill) that an entity recognizes in accordance with Subtopic 805-20, 805-60,~~805-20~~ or 958-805 after they have been initially recognized and measured, except for those identified in ~~the following~~ paragraph 350-30-15-4
c. Subparagraph not used.
d. Costs of internally developing identifiable intangible assets that an entity recognizes as assets.

The disclosure requirements of paragraphs 350-30-50-1 through 50-3 also apply to capitalized software costs.

Recognition

350-30-25-2 As indicated in paragraph 805-50-30-3, the cost of a group of assets acquired in a transaction other than a business ~~combination or~~combination, an **acquisition by a not-for-profit entity**, or a **joint venture** formation shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to **goodwill**.

350-30-25-4 Intangible assets that are acquired individually or with a group of assets in a transaction other than a business ~~combination or~~combination, an acquisition by a not-for-profit entity, or a joint venture upon formation may meet asset recognition criteria in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, even though they do not meet either the contractual-legal criterion or the separability criterion (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognized as intangible assets.

> Defensive Intangible Assets

350-30-25-5 A **defensive intangible asset**, other than an intangible asset that is used in research and development activities, shall be accounted for as a separate unit of accounting. Such a defensive intangible asset shall not be included as part of the cost of an entity's existing intangible asset(s). For implementation guidance on determining whether an intangible asset is a defensive intangible asset, see paragraph 350-30-55-1. For guidance on intangible assets acquired in a business ~~combination or~~combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities (regardless of whether they have an alternative future use), see paragraph 350-30-35-17A. For guidance on intangibles that are purchased from others for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise), see Subtopic 730-10.

Subsequent Measurement

> Intangible Assets Subject to Amortization

350-30-35-7 An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period. However, paragraph 730-10-25-2(c) requires amounts assigned to intangible assets acquired in a transaction other than a business combination or an **acquisition by a not-for-profit entity** or recognized by a **joint venture** upon formation that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date or joint venture **formation date**.

> Recognition and Measurement of an Impairment Loss

. > Intangible Assets Not Subject to Amortization

350-30-35-17A Intangible assets acquired in a business ~~combination or~~ combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities (regardless of whether they have an alternative future use) shall be considered indefinite lived until the completion or abandonment of the associated research and development efforts. During the period that those assets are considered indefinite lived, they shall not be amortized but shall be tested for impairment in accordance with paragraphs 350-30-35-18 through 35-19. Once the research and development efforts are completed or abandoned, the entity shall determine the useful life of the assets based on the guidance in this Section. Consistent with the guidance in paragraph 360-10-35-49, intangible assets acquired in a business ~~combination or~~combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that have been temporarily idled shall not be accounted for as if abandoned.

Disclosure

> Disclosures in the Period of Acquisition

350-30-50-1 For **intangible assets** acquired either individually or as part of a group of assets (in ~~either~~ an asset acquisition, a business combination, ~~or~~ an acquisition by a not-for-profit entity, or a joint venture formation), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

a. For intangible assets subject to amortization, all of the following:
    1. The total amount assigned and the amount assigned to any major **intangible asset class**
    2. The amount of any significant **residual value**, in total and by major intangible asset class
    3. The weighted-average amortization period, in total and by major intangible asset class.
b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.
c. The amount of research and development assets acquired in a transaction other than a business ~~combination or~~combination, an acquisition by a not-for-profit entity, or a joint venture formation and written off in the period and the line item in the income statement in which the amounts written off are aggregated.
d. For intangible assets with renewal or extension terms, the weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.

This information also shall be disclosed separately for each material business ~~combination or~~combination, acquisition by a not-for-profit entity, or joint venture formation or in the aggregate for individually immaterial business combinations or acquisitions by a not-for-profit entity that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

Amendments to Subtopic 450-10

10. Amend paragraph 450-10-15-2A, with a link to transition paragraph 805-60-65-1, as follows:

Contingencies—Overall

Scope and Scope Exceptions

> Transactions

450-10-15-2A The guidance in the Contingencies Topic does not apply to the recognition and initial measurement of assets or liabilities arising from contingencies that are measured at fair value or assets arising from contingencies measured at an amount other than fair value on the **acquisition date** in a business combination ~~or~~ under the requirements of Subtopic 805-20, on the acquisition date in an **acquisition by a not-for-profit entity** under the requirements of Subtopic ~~805-20 or 958-805~~958-605, or on the **formation date** in a **joint venture** formation under the requirements of Subtopic 805-60. Those Subtopics provide the recognition and initial measurement requirements for assets and liabilities arising from contingencies measured at fair value and for assets arising from contingencies measured at an amount other than fair value as part of a business ~~combination or~~combination, an acquisition by a not-for-profit entity, or a joint venture formation.

Amendments to Subtopic 718-10

11. Add paragraph 718-10-15-8, with a link to transition paragraph 805-60-65-1, as follows:

Compensation—Stock Compensation—Overall

Scope and Scope Exceptions

> Transactions

718-10-15-8 The guidance in this Topic does not apply to transactions involving the issuance of equity interests to a venturer by a **joint venture** entity as part of the joint venture's formation transaction. See Subtopic 805-60 for accounting for a joint venture formation in the joint venture's separate financial statements.

Amendments to Subtopic 730-10

12. Amend paragraphs 730-10-15-4 and 730-10-25-1, with a link to transition paragraph 805-60-65-1, as follows:

Research and Development—Overall

Scope and Scope Exceptions

> Transactions

730-10-15-4 The guidance in this Topic does not apply to the following transactions and activities:

a. Accounting for the costs of research and development activities conducted for others under a contractual arrangement, which is a part of accounting for contracts in general. Indirect costs, including indirect costs that are specifically reimbursable under the terms of a contract, are also excluded from the scope of this Topic.
b. Activities that are unique to entities in the extractive industries, such as prospecting, acquisition of mineral rights, exploration, drilling, mining, and related mineral development.
c. The acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities. A process may be intended to achieve cost reductions as opposed to revenue generation. However, (e) specifically excludes market research or market testing activities from research and development activities. Those activities were excluded because they relate to the selling function of an entity. Thus, while in the broadest sense of the word, a process may be used in all of an entity's activities, the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities shall be excluded from the definition of research and development activities. To the extent, therefore, that the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs. Examples of the excluded costs of software are those incurred for development by an airline of a computerized reservation system or for development of a general management information system. See Subtopic 350-40 for guidance related to costs of computer software developed or obtained for internal use and Subtopic 985-20 for computer software intended to be sold, leased, or marketed.
d. Routine or periodic alterations to existing products, production lines, manufacturing processes, and other ongoing operations even though those alterations may represent improvements.
e. Market research or market testing activities.
f. Research and development assets acquired in a business ~~combination or~~combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation. If tangible and intangible assets acquired in that manner are used in research and development activities, they are recognized and measured at fair value in accordance with Subtopic 805-20, regardless of whether they have an alternative future use. After recognition, tangible assets acquired in a business

~~combination or~~combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities are accounted for in accordance with their nature. After recognition, intangible assets acquired in a business ~~combination or~~combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities are accounted for in accordance with Topic 350.

Recognition

> Accounting for Research and Development Costs

730-10-25-1 Research and development costs encompassed by this Subtopic shall be charged to expense when incurred. As noted in paragraph 730-10-15-4(f), this Topic does not apply to tangible and intangible assets acquired in a business ~~combination or~~combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation that are used in research and development activities.

Amendments to Subtopic 740-10

13. Amend paragraph 740-10-30-4, with a link to transition paragraph 805-60-65-1, as follows:

Income Taxes—Overall

Initial Measurement

> Basic Requirements

. > Deferred Tax Expense (or Benefit)

740-10-30-4 Deferred tax expense (or benefit) is the change during the year in an entity's deferred tax liabilities and assets. For deferred tax liabilities and assets recognized in a business combination or in an **acquisition by a not-for-profit entity** during the year, it is the change since the **acquisition date**. For deferred tax liabilities and assets recognized by a **joint venture** upon formation, during the year that includes the **formation date**, it is the change since the formation date. Paragraph 830-740-45-1 addresses the manner of reporting the transaction gain or loss that is included in the net change in a deferred foreign tax liability or asset when the reporting currency is the functional currency.

Amendments to Subtopic 805-10

14. Amend paragraphs 805-10-05-1, 805-10-15-1, and 805-10-15-4, with a link to transition paragraph 805-60-65-1, as follows:

Business Combinations—Overall

Overview and Background

805-10-05-1 The Business Combinations Topic provides guidance on the accounting and reporting for transactions that represent **business combinations** to be accounted for under the acquisition method (as described in paragraph 805-10-05-4). In addition, the Topic includes Subtopic 805-50, which provides guidance on transactions sometimes associated with business combinations but that do not meet the requirements to be accounted for as business combinations under the acquisition method, and Subtopic 805-60, which provides guidance on the formation of a **joint venture**. The Business Combinations Topic includes the following Subtopics:

a. Overall
b. Identifiable Assets and Liabilities, and Any Noncontrolling Interest
c. Goodwill or Gain from Bargain Purchase, Including Consideration Transferred
d. Reverse Acquisitions
e. Related Issues
f. Income ~~Taxes.~~Taxes
g. Joint Venture Formations.

Scope and Scope Exceptions

> Overall Guidance

805-10-15-1 The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Business Combinations Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Business Combinations Topic, with the exception of Subtopic 805-50 and Subtopic 805-60, which each has its own discrete scope guidance.

> Transactions

805-10-15-4 The guidance in the Business Combinations Topic does not apply to any of the following:

a. The formation of a **{add glossary link}**joint venture**{add glossary link}** <u>or a **corporate joint venture** (see Subtopic 805-60)</u>
b. The acquisition of an asset or a group of assets that does not constitute a **business** or a **nonprofit activity**
c. A combination between entities, businesses, or nonprofit activities under common **control** (see paragraph 805-50-15-6 for examples)
d. An acquisition by a not-for-profit entity for which the acquisition date is before December 15, 2009 or a **merger of not-for-profit entities** (NFPs)
e. A transaction or other event in which an NFP obtains **control of a not-for-profit entity** but does not consolidate that entity, as described in paragraph 958-810-25-4. The Business Combinations Topic also does not apply if an NFP that obtained control in a transaction or other event in which consolidation was permitted but not required decides in a subsequent annual reporting period to begin consolidating a controlled entity that it initially chose not to consolidate.
f. Financial assets and financial liabilities of a consolidated variable interest entity that is a **collateralized financing entity** within the scope of the guidance on collateralized financing entities in Subtopic 810-10.

Amendments to Subtopic 805-20

15. Amend paragraph 805-20-15-2, with a link to transition paragraph 805-60-65-1, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Scope and Scope Exceptions

Accounting Alternatives

805-20-15-2 A private company or not-for-profit entity may make an accounting policy election to apply the accounting alternative in this Subtopic. The guidance in the Accounting Alternative Subsections of this Subtopic applies when a private company or not-for-profit entity is required to recognize or otherwise consider the fair value of intangible assets as a result of any one of the following transactions:

a. Applying the acquisition method (as described in paragraph 805-10-05-4 for all entities and Subtopic 958-805 for additional guidance for not-for-profit entities)
b. Assessing the nature of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee when applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures

c. Adopting fresh-start reporting in accordance with Topic 852 on ~~reorganizations.~~<u>reorganizations</u>
<u>d.</u> <u>Accounting for the formation of a **joint venture** in accordance with Subtopic 805-60.</u>

Amendments to Subtopic 805-50

16. Add paragraph 805-50-15-4A, with a link to transition paragraph 805-60-65-1, as follows:

Business Combinations—Related Issues

Scope and Scope Exceptions

Acquisition of Assets Rather than a Business

> Transactions

<u>**805-50-15-4A** The guidance in the Acquisition of Assets Rather than a Business Subsections does not apply to the initial measurement and recognition of assets and liabilities by a **joint venture** upon formation. Guidance for joint venture formations is provided in Subtopic 805-60.</u>

Amendments to Subtopic 810-10

17. Add paragraph 810-10-30-5, with a link to transition paragraph 805-60-65-1, as follows:

Consolidation—Overall

Initial Measurement

Variable Interest Entities

> Valuation of Assets, Liabilities, and Noncontrolling Interests in a Newly Consolidated VIE

. > All Primary Beneficiaries

810-10-30-3 When a reporting entity becomes the primary beneficiary of a VIE that is not a business, no goodwill shall be recognized. The primary beneficiary initially shall measure and recognize the assets (except for goodwill) and liabilities of the

VIE in accordance with Sections 805-20-25 and 805-20-30. However, the primary beneficiary initially shall measure assets and liabilities that it has transferred to that VIE at, after, or shortly before the date that the reporting entity became the primary beneficiary at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. No gain or loss shall be recognized because of such transfers.

810-10-30-4 The primary beneficiary of a VIE that is not a business shall recognize a gain or loss for the difference between (a) and (b):

a. The sum of:
    1. The fair value of any consideration paid
    2. The fair value of any noncontrolling interests
    3. The reported amount of any previously held interests
b. The net amount of the VIE's identifiable assets and liabilities recognized and measured in accordance with Topic 805.
    1. Subparagraph not used.
    2. Subparagraph not used.
    3. Subparagraph not used.

810-10-30-5 ~~Paragraph not used.~~Paragraphs 810-10-30-3 through 30-4 shall not apply to a **joint venture** reporting entity that becomes the primary beneficiary of a VIE that is not a business upon a joint venture formation accounted for in accordance with Subtopic 805-60.

Amendments to Subtopic 815-10

18. Amend paragraph 815-10-15-74, with a link to transition paragraph 805-60-65-1, as follows:

Derivatives and Hedging—Overall

Scope and Scope Exceptions

> Instruments

. > Instruments Not within Scope

. . > Certain Contracts Involving an Entity's Own Equity

815-10-15-74 Notwithstanding the conditions of paragraphs 815-10-15-13 through 15-139, the reporting entity shall not consider the following contracts to be derivative instruments for purposes of this Subtopic:

a. Contracts issued or held by that reporting entity that are both:

1. Indexed to its own stock (see Section 815-40-15)
2. Classified in stockholders' equity in its statement of financial position (see Section 815-40-25).

b. Contracts issued by the entity that are subject to Topic 718. If any such contract ceases to be subject to Topic 718 in accordance with paragraphs 718-10-35-9 through 35–14, the terms of that contract shall then be analyzed to determine whether the contract is subject to this Subtopic. An award that ceases to be subject to Topic 718 in accordance with those paragraphs shall be analyzed to determine whether it is subject to this Subtopic.
c. Any of the following contracts:
   1. A contract between an acquirer and a seller to enter into a business combination
   2. A contract to enter into an **acquisition by a not-for-profit entity**
   3. A contract between one or more NFPs to enter into a ~~**merger of not-for-profit entities**.~~**merger of not-for-profit entities**
   4. In a joint venture's separate financial statements, a contract between a **joint venture** and its venturers to form a joint venture accounted for in accordance with Subtopic 805-60.
d. Forward contracts that require settlement by the reporting entity's delivery of cash in exchange for the acquisition of a fixed number of its equity shares (forward purchase contracts for the reporting entity's shares that require physical settlement) that are accounted for under paragraphs 480-10-30-3 through 30-5, 480-10-35-3, and 480-10-45-3.

Amendments to Subtopic 842-10

19. Amend paragraph 842-10-55-11, with a link to transition paragraph 805-60-65-1, as follows:

Leases—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

. > Lease Classification

. . > Lease of an Acquiree

842-10-55-11 In a **business combination** or an **acquisition by a not-for-profit entity**, the acquiring entity should retain the previous **lease** classification in accordance with this Subtopic unless there is a **lease modification** and that modification is not accounted for as a separate **contract** in accordance with paragraph 842-10-25-8. A **joint venture** formation accounted for in accordance with Subtopic 805-60 should apply the guidance in this paragraph applicable to the acquiring entity in a business combination. The joint venture should be viewed as analogous to the acquiring entity in a business combination, and any recognized businesses and/or assets should be viewed as analogous to an acquiree.

Amendments to Subtopic 842-20

20. Amend paragraph 842-20-35-13, with a link to transition paragraph 805-60-65-1, as follows:

Leases—Lessee

Subsequent Measurement

> Amortization of Leasehold Improvements

842-20-35-13 Leasehold improvements acquired in a ~~**business combination**~~ ~~or~~**business combination**, an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation shall be amortized over the shorter of the useful life of the assets and the remaining lease term at the date of acquisition.

Amendments to Subtopic 842-50

21. Amend paragraphs 842-50-25-2, 842-50-30-2, 842-50-35-1 and their related headings and 842-50-45-3, with a link to transition paragraph 805-60-65-1, as follows:

Leases—Leveraged Lease Arrangements

Recognition

> Leveraged Lease Acquired in a Business ~~Combination or~~Combination, Acquired in an Acquisition by a Not-for-Profit Entity, or Recognized by a Joint Venture upon Formation

842-50-25-2 In a business combination or an **acquisition by a not-for-profit entity**, the acquiring entity shall retain the classification of the acquired entity's investment as a **lessor** in a **leveraged lease** at the date of the combination. The net investment of the acquired leveraged lease shall be disaggregated into its component parts, namely net rentals receivable, **estimated residual value**, and unearned income including discount to adjust other components to present value. A **joint venture** formation accounted for in accordance with Subtopic 805-60 shall apply the guidance in this paragraph applicable to the acquiring entity in a business combination. The joint venture shall be viewed as analogous to the acquiring entity in a business combination, and any recognized businesses and/or assets shall be viewed as analogous to an acquired entity.

Initial Measurement

> Leveraged Lease Acquired in a Business ~~Combination or~~Combination, Acquired in an Acquisition by a Not-for-Profit Entity, or Recognized by a Joint Venture upon Formation

842-50-30-2 In a business combination or an **acquisition by a not-for-profit entity**, the acquiring entity shall assign an amount to the acquired net investment in the **leveraged lease** in accordance with the general guidance in Topic 805 on business combinations, based on the remaining future cash flows and giving appropriate recognition to the estimated future tax effects of those cash flows. A **joint venture** formation accounted for in accordance with Subtopic 805-60 shall apply the guidance in this paragraph applicable to the acquiring entity in a business combination. The joint venture shall be viewed as analogous to the acquiring entity in a business combination, and any recognized businesses and/or assets shall be viewed as analogous to an acquiree.

Subsequent Measurement

> Leveraged Lease Acquired in a Business ~~Combination or~~Combination, Acquired in an Acquisition by a Not-for-Profit Entity, or Recognized by a Joint Venture upon Formation

842-50-35-1 In a business combination or an **acquisition by a not-for-profit entity**, the acquiring entity shall subsequently account for its acquired investment as a **lessor** in a **leveraged lease** in accordance with the guidance in this Subtopic as it would for any other leveraged lease. A **joint venture** formation accounted for in accordance with Subtopic 805-60 shall apply the guidance in this paragraph applicable to the acquiring entity in a business combination. The joint venture shall be viewed as analogous to the acquiring entity in a business combination, and any recognized businesses and/or assets shall be viewed as analogous to an acquiree.

Other Presentation Matters

> Income Taxes and Leveraged Leases

842-50-45-3 This Subtopic requires that the tax effect of any difference between the assigned value and the tax basis of a leveraged lease at the date of a business ~~combination or~~combination, an **acquisition by a not-for-profit entity**, or a **joint venture** formation shall not be accounted for as a deferred tax credit. Any tax effects included in unearned and deferred income as required by this Subtopic shall not be offset by the deferred tax consequences of other temporary differences or by the tax benefit of operating loss or tax credit carryforwards. However, deferred tax credits that arise after the date of a combination shall be accounted for in the same manner as for leveraged leases that were not acquired in a combination.

Amendments to Subtopic 845-10

22. Amend paragraph 845-10-15-4, with a link to transition paragraph 805-60-65-1, as follows:

Nonmonetary Transactions—Overall

Scope and Scope Exceptions

> Transactions

845-10-15-4 The guidance in the Nonmonetary Transactions Topic does not apply to the following transactions:

a. A business combination accounted for by an entity according to the provisions of Topic 805 or a combination accounted for by a **not-for-profit entity** according to the provisions of Subtopic 958-805
b. A transfer of nonmonetary assets solely between entities or persons under common control, such as between a parent and its **subsidiaries** or between two subsidiaries of the same parent, or between a **joint venture** or a **corporate joint venture**~~**corporate joint venture**~~ and its **owners** (see Subtopic 805-60 for accounting for transfers of nonmonetary assets upon formation of a joint venture)
c. Acquisition of goods or services or consideration payable to customers involving issuance of the capital stock of an entity under Subtopic 718-10
d. Stock issued or received in stock dividends and stock splits that are accounted for in accordance with Subtopic 505-20
e. Subparagraph superseded by Accounting Standards Update No. 2017-05.

f. A pooling of assets in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties, as described in paragraph 932-360-40-7
g. The exchange of a part of an operating interest owned for a part of an operating interest owned by another party that is subject to paragraph 932-360-55-6
h. The transfer of a financial asset within the scope of Section 860-10-15
i. Involuntary conversions specified in paragraph 610-30-15-2
j. The transfer of goods or services in a **contract** with a **customer** within the scope of Topic 606 on **revenue** from contracts with customers in exchange for noncash consideration (see paragraphs 606-10-32-21 through 32-24)
k. The transfer of a nonfinancial asset within the scope of Subtopic 610-20 in exchange for noncash consideration (see paragraphs 610-20-32-2 through 32-3, which require measurement consistent with paragraphs 606-10-32-21 through 32-24).

Amendments to Subtopic 985-20

23. Amend paragraph 985-20-15-3, with a link to transition paragraph 805-60-65-1, as follows:

Software—Costs of Software to Be Sold, Leased, or Marketed

Scope and Scope Exceptions

> Transactions

985-20-15-3 The guidance in this Subtopic does not apply to the following transactions and activities:

a. Software developed or obtained for internal use (see Subtopic 350-40).
b. Research and development assets acquired in a business ~~combination or~~combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation. If tangible and intangible assets acquired in those combinations are used in research and development activities, they are recognized and measured at fair value in accordance with Subtopic 805-20.
c. Arrangements to deliver software or a software system, either alone or together with other products or services, requiring significant production, modification, or customization of software (see the guidance on costs to fulfill a contract in Subtopic 340-40).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The objectives of the amendments in this proposed Update are to (a) reduce diversity in practice in the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements and (b) provide decision-useful information to a joint venture's investors. The proposed amendments would add Subtopic 805-60, Business Combinations—Joint Venture Formations, to address the accounting by a joint venture for its net assets (including assets and businesses contributed and liabilities assumed) upon formation.

BC3. The scope of the amendments in this proposed Update is the accounting for entities that meet the definition of a joint venture (or a corporate joint venture) in the Master Glossary at the formation date of those entities. The proposed amendments do not amend guidance on the definition of a joint venture or a corporate joint venture, the accounting by an equity method investor for its investment in a joint venture, or the accounting by a joint venture for contributions received after its formation.

Background Information

BC4. A joint venture is defined in the Master Glossary as follows:

> An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity

> that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

BC5. A corporate joint venture is a type of a joint venture and, accordingly, is similarly defined in the Master Glossary, but is specifically a corporation. Therefore, the scope of this project includes both joint ventures and corporate joint ventures, which are referred to collectively as joint ventures.

BC6. While joint ventures are defined in the Master Glossary, the formation accounting by a joint venture in its separate financial statements, specifically the joint venture's recognition and initial measurement of net assets, including businesses contributed to it, is not addressed in the Codification. Furthermore, transactions between a corporate joint venture and its owners (the venturers), including upon formation, are specifically excluded from the scope of Topic 845 and the formation of a joint venture is specifically excluded from the scope of Topic 805.

BC7. In the absence of specific authoritative guidance, practice has relied on nonauthoritative sources, which has resulted in diversity in practice in how contributions to a joint venture upon formation are accounted for by a joint venture. Some joint ventures initially measure their net assets at fair value at the formation date, while other joint ventures initially measure their net assets at the venturers' carrying amounts.

BC8. At its September 18, 2019 meeting, the Board added a narrow-scope project to its agenda to address the initial recognition and measurement by a joint venture for contributions of nonmonetary assets by the venturers upon formation of the joint venture. On July 22, 2020, the Board clarified that the scope of that project should include all contributions made to a joint venture upon formation, regardless of whether they are monetary or nonmonetary.

BC9. Paragraphs BC10–BC15 provide an overview of the authoritative guidance for joint ventures and historical perspectives that have influenced how joint venture formations are accounted for in practice.

Authoritative Guidance

BC10. In 1971, APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, stated that venturers (the investors in a joint venture) should account for investments in common stock of corporate joint ventures using the equity method in consolidated financial statements. Opinion 18 defined corporate joint venture, which remains in the current Master Glossary of the Codification. Opinion 18 did not provide guidance on how a joint venture entity should account for its own formation. However, Opinion 18 did provide that, in using the equity method of accounting, equity method investors, including venturers, should account for the difference between the cost of an equity method investment (including an investment in a joint venture) and the amount of underlying equity in net assets of the investee (referred to as basis difference) as if the investee was a consolidated subsidiary (currently in paragraph 323-10-35-13).

BC11. Opinion 18 did not provide guidance on a joint venture's accounting in its separate financial statements, and the Board has not issued any guidance on the accounting for a joint venture to date. To the contrary, joint venture accounting has specifically been excluded from the scope of certain guidance, including:

a. In 1973, the Accounting Principles Board concluded in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, that general accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved, which is the same basis used in monetary transactions. However, Opinion 29 explicitly excluded transfers of nonmonetary assets between a corporate joint venture and its owners from the scope of that guidance. Transfers of nonmonetary assets between a joint venture and its owners continue to be excluded from the scope of the guidance in Topic 845 (paragraph 845-10-15-4(b)).
b. In 2001, the Board explicitly excluded joint ventures from the scope of business combinations guidance in FASB Statement No. 141, *Business Combinations*. At that time, the Board stated that it intended to consider issues on the formation of joint ventures and other new entity formations in another project and would consider whether joint venture formations and multi-party business combinations should be accounted for under the fresh-start method rather than the purchase method. Under the fresh-start method, the assets and liabilities of the combining entities would be recognized at fair value in the combined entity's financial statements.
c. In 2007, the Board confirmed, with the guidance included in FASB Statement No. 141 (revised 2007), *Business Combinations*, that joint ventures are explicitly excluded from the scope of the business combinations guidance. In paragraph B59 of Statement 141(R), the Board continued to state that issues related to joint ventures are appropriately excluded from business combinations guidance. In the basis for conclusions of Statement 141(R), the Board once again expressed interest in considering whether joint venture formations should be accounted for by the fresh-start method and that it might undertake a future project to consider that issue. The formation of a joint venture continues to be excluded from the scope of Topic 805 (paragraph 805-10-15-4).

Historical Perspectives

BC12. On July 17, 1979, the American Institute of Certified Public Accountants (AICPA) published an Issues Paper, *Joint Venture Accounting*, which made the following conclusions about accounting for joint venture entities:

a. The creation of a joint venture establishes a reporting entity separate from the owners that requires a new basis of accounting for its assets and liabilities.
b. Assets contributed to the venture should be recorded at the amount agreed on by the parties, which is assumed to be determined by reference to fair market value, but not in excess of the assets' fair market value.

BC13. In 1998, the Emerging Issues Task Force (EITF) evaluated the accounting by joint ventures for businesses received at the joint venture's formation. In EITF Issue No. 98-4, "Accounting by a Joint Venture for Businesses Received at Its Formation," the EITF acknowledged that most of the existing accounting guidance on joint ventures focused on the accounting by the venturers and not on the accounting in the separate financial statements of the joint venture. The EITF said that, in general, practice had developed to record contributed businesses at the predecessor's basis unless certain conditions were met, which were historically described by the U.S. Securities and Exchange Commission (SEC) staff. Conditions described in Issue 98-4, Issue Summary No. 1, included the following:

a. The fair value of the businesses contributed is objectively determinable and supported by an equal contribution of monetary assets by the other investors.
b. The monetary assets stay in the joint venture or are used by the joint venture in transactions with parties other than the venturers.
c. There is an equal allocation of the joint venture's equity and profits and losses among the venturers.

The EITF did not reach a consensus on Issue 98-4.

BC14. At the 2009 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff said that it may be appropriate for a joint venture to step up contributed noncash assets to fair value in more circumstances than those historically conveyed by the SEC staff.

BC15. The SEC staff acknowledged at the 2014 AICPA National Conference on Current SEC and PCAOB Developments that significant diversity in practice exists in accounting for those transactions. The SEC staff also commented that it would be appropriate for the Board to (a) consider providing clarity on the definition of a joint venture in Topic 323, Investments—Equity Method and Joint Ventures, and (b) provide guidance on a joint venture's accounting for contributed assets and businesses.

Benefits and Costs

BC16. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC17. One of the objectives of the amendments in this proposed Update is to improve and enhance the financial reporting requirements for newly formed joint ventures, which would, in turn, achieve the other objective to provide more decision-useful information to investors. These objectives are consistent with the objective of general purpose financial reporting.

BC18. Over the course of this project, the Board and staff conducted extensive outreach with investors, preparers, and practitioners to obtain information about joint venture formation accounting. Those outreach activities included more than 60 interactions with preparers, investors, practitioners, industry groups, a regulator, and others.

BC19. On the basis of extensive due process and significant stakeholder input, the Board concluded that the amendments in this proposed Update would provide investors with more decision-useful information than current GAAP. In particular, the proposed amendments would reduce diversity in practice by providing guidance on the recognition and initial measurement by a joint venture for its net assets upon formation because there is currently no specific authoritative guidance for newly formed joint ventures. The Board expects that this guidance would increase consistency in accounting for joint venture formations and align more closely with the accounting required for the venturers and, thus, reduce or eliminate differences in the basis of the joint venture's financial statements when compared with the reported investment by the venturers. Additionally, some Board members expect that requiring a new basis of accounting would improve the decision usefulness and relevancy of the information provided to a user of joint venture financial statements upon formation.

BC20. As with any new guidance, there would be costs to implement the amendments in this proposed Update. The Board notes that incremental costs would be expected to be incurred when compared with costs incurred in current practice because there is currently no specific authoritative guidance. When making its decisions, the Board considered costs together with the overall benefits as well as the benefits and costs of specific requirements. The magnitude of the following costs would vary depending on several factors, including whether a joint venture would have applied a fair value measurement approach absent the proposed amendments:

a. One-time costs to identify and measure the net assets contributed to a joint venture upon formation
b. Ongoing costs to comply with the subsequent measurement requirements for certain assets, including intangible assets and goodwill.

BC21. The Board does not, for one or more of the following reasons, anticipate that entities would incur significant incremental costs as a result of the amendments in this proposed Update.

a. An additional valuation may not be necessary in many circumstances because venturers contributing businesses or nonfinancial assets to a joint venture upon formation are required to initially measure their interest in the joint venture at fair value.
b. In some circumstances, the joint venture's accounting would more closely align with the accounting required for the venturers and, thus, reduce or eliminate differences in the basis of the joint venture's financial statements when compared with the reported investment by the venturers.
c. Uncertainty about which measurement approach is permissible for a newly formed joint venture in its financial statements would be eliminated because there would be explicit authoritative guidance that addresses how a joint venture should account for its formation.

BC22. The Board therefore concluded that the expected benefits of the proposed amendments would justify the expected costs.

Basis for Conclusions

New Basis of Accounting

BC23. To reduce diversity in practice and provide decision-useful information to a joint venture's investors, the amendments in this proposed Update would require that a joint venture apply a new basis of accounting. As a result, a newly formed joint venture would initially measure its assets and liabilities at fair value upon formation (with certain exceptions that are consistent with the business combinations guidance). That approach is consistent with other new basis of accounting models in GAAP, such as fresh-start reporting in accordance with Topic 852. It is also broadly consistent with the accounting outcome that would result from treating the joint venture entity as the acquirer of a business within the scope of Subtopic 805-10.

BC24. Stakeholders that supported fair value measurement at joint venture formation did so for one or more of the following reasons:

a. **Valuations are performed as part of the venturers' negotiation process.** Preparers explained that estimating the value of the net assets contributed to a joint venture is inherent in the process undertaken by unrelated parties to negotiate the terms of a joint venture formation. To exercise appropriate stewardship over the assets it controls, management of a venturer often will conduct due diligence using either internal or external valuation estimates to ensure that the transaction is sufficiently equitable in terms of the rights exchanged by the investors in the joint venture.
b. **Formation of a joint venture represents the creation of a new entity and should require a new basis of accounting.** Stakeholders explained that they view a joint venture formation as a change in control of the contributed net assets that should result in a new basis for initial recognition and measurement. Said differently, those stakeholders view the formation of a joint venture as a new reporting entity that is separate from the venturers that previously controlled the assets or businesses that were contributed upon formation.
c. **A new basis of accounting would reduce equity method basis differences for the venturer.** Stakeholders noted that GAAP requires that a venturer record the derecognition or deconsolidation of contributed nonfinancial assets and businesses at fair value on the basis of the guidance in Subtopic 610-20 and Subtopic 810-10. If the joint venture were required to measure contributions of such assets upon formation at a value other than fair value in its financial statements, the venturers would have to account for equity method basis differences because of the measurement differences. Preparers noted that tracking equity method basis differences often is a manual process that creates additional costs and complexity and, although not the objective of the project, any reduction of basis differences for venturers would be a significant benefit.
d. **Entities may already be applying fair value to their joint venture formations.** Many preparers said that they currently apply fair value to their joint venture formation transactions. Therefore, if the Board required a new basis of accounting, it would not cause those preparers to incur significant incremental costs.

BC25. For those reasons, the Board decided that joint ventures should apply a new basis of accounting because that requirement would achieve the project objectives of reducing the current diversity in practice while providing useful financial information to the users of joint venture financial statements. The Board acknowledges that fair value measurements, which are inherent in applying a new basis of accounting, often are viewed as more costly to determine than historical-based measures, such as those at carrying amounts. However, in this situation, the Board does not believe that requiring the joint venture to apply a new basis of accounting would necessarily introduce significant incremental costs. Additionally, Board members expressed concerns that requiring or allowing a measurement other than those based on fair values would create inconsistencies between the accounting for contributions made to the joint venture upon formation and the accounting for subsequent contributions, which generally would be recognized at fair value in accordance with other GAAP.

BC26. Furthermore, the Board decided that because venturers, in accordance with paragraph 323-10-30-2, are required to initially measure their equity method investments at fair value or cost depending on what assets or businesses are contributed, requiring a new basis of accounting for the joint venture upon formation would have the added benefit of reducing equity method basis differences for the venturers. Separately, the Board expects that joint ventures would be able to leverage the results from the venturers' measurements to reduce the overall costs of applying fair value upon formation.

BC27. Although many preparers during outreach indicated that they currently apply fair value upon formation of a joint venture, the Board acknowledges that some entities may be accounting for contributions at the venturers' carrying amounts on the basis of nonauthoritative sources and a lack of specific authoritative guidance. Therefore, the Board acknowledges that a requirement to apply a new basis of accounting could be a significant change from current practice for some companies. However, the Board believes that requiring a joint venture to apply a new basis of accounting upon formation is aligned with the negotiation process and the understanding of the parties involved regarding the value exchanged.

Scope of Subtopic 805-60

Entities That May Be Proportionately Consolidated

BC28. The amendments in this proposed Update would provide a scope exception for entities that may be proportionately consolidated by one or more of the venturers. In certain specialized industries (such as the extractive and construction industries), there may be circumstances in which one or more venturers account for their interest in a joint venture in accordance with Subtopic 610-20, while the other venturers account for their interest in the same joint venture through proportionate consolidation in accordance with Subtopic 810-10. Although the proposed amendments are expected to reduce the costs normally associated with applying a new basis of accounting, the Board acknowledged that those costs would not necessarily be the same for a joint venture that is proportionately consolidated by one or more of its venturers.

Not-for-Profit Entities

BC29. The amendments in this proposed Update would provide a scope exception for formations of entities determined to be not-for-profit entities (NFPs) in accordance with Topic 958, Not-for-Profit Entities. The Board decided to clarify that entities determined to be NFPs should not apply the proposed amendments to avoid confusion and diversity in practice. The Board acknowledged that NFPs could have unique considerations related to application of the business combinations guidance in Topic 805 and, therefore, determined that the expected costs and benefits of requiring NFPs to apply the proposed amendments could be different from that for business entities.

Application of a New Basis of Accounting in Joint Venture Formations

BC30. The Board decided that a joint venture should apply a new basis of accounting upon formation, which the Board considers to be broadly consistent with identifying the newly formed joint venture entity (rather than one of the contributed businesses) as the acquirer. The Board made this decision because identifying an acquirer is inconsistent with the accounting requirements of the venturers.

BC31. Under the current guidance for business combinations, a new entity formed to effect a business combination is not necessarily the acquirer. Furthermore, the merger of two existing businesses results in only one of the two existing businesses being remeasured in accordance with the guidance in Topic 805 because one of the two existing businesses will be identified as the acquirer. As a result, some questioned whether a joint venture that is formed through the contributions of two or more businesses would be required to measure all of the businesses at fair value or whether one of the existing businesses would be the "acquirer" that would continue to record its assets at previous carrying amounts.

BC32. Under the amendments in this proposed Update, the formation of a joint venture would be the creation of a new reporting entity, which consists of assets and liabilities (and potentially businesses), that underwent a change in control. Therefore, the proposed amendments would require that net assets be measured at fair value upon formation (with certain exceptions that are consistent with the business combinations guidance), including when a joint venture is formed through the contributions of two or more businesses.

BC33. The Board decided to refer to this method as applying a new basis of accounting, rather than to designate the joint venture entity as the acquirer, because the Board does not want to influence the current practice for identifying an acquirer in Topic 805 by unnecessarily using the term *acquirer* in the context of joint venture formations.

BC34. The remainder of this section describes the Board's considerations and decisions for how a joint venture would apply a new basis of accounting upon formation, including key similarities and differences to the business combinations guidance.

Formation Date and What Constitutes Formation

BC35. The amendments in this proposed Update would define the term *formation date* in the Master Glossary as the date on which an entity initially meets the definition of a joint venture.

BC36. For describing formation, the Board acknowledged that practice often refers to the factors in paragraph 810-10-40-6 to determine when multiple transactions should be accounted for as a single arrangement. Although the guidance in that paragraph specifically relates to a parent entity's loss of a controlling financial interest in a subsidiary, some nonauthoritative sources reference those factors in the context of business combinations to determine whether multiple transactions should be accounted for as a single transaction. Therefore, the Board decided that similar factors would help stakeholders distinguish between contributions made upon formation and subsequent contributions. The amendments in this proposed Update include those factors.

BC37. The Board acknowledged that there could be situations in practice in which multiple arrangements establish a single joint venture formation. To address those situations, the Board clarified that the measurement date for that single transaction is the formation date and that a joint venture would recognize the identifiable assets and liabilities that are part of that single transaction when the recognition criteria in Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest, are satisfied.

BC38. The Board expects that describing formation and defining formation date would serve two purposes. First, any additional guidance on formation would clarify which contributions are considered part of the formation transaction and which transactions are subsequent transactions. Second, guidance on determining the formation date would clarify on which date a joint venture would initially measure its net assets in its separate financial statements.

BC39. The Board considered an alternative definition of formation date that would have specified that the formation date occurs when an entity has control of the assets necessary to begin operating in accordance with its purpose (and initially meets the definition of a joint venture). Some Board members preferred this definition because it would better avoid outcomes in which a formation date would be established for a joint venture entity that has few or no substantive operations. Those Board members also noted that the concept of purpose exists in the current joint venture definition and should be familiar to stakeholders. However, other Board members were concerned that incorporating the concepts of control and purpose would increase the subjectivity of interpreting the definition. Therefore, the Board decided on a simplified definition of formation date to avoid diversity in practice.

In-Process Research and Development (IPR&D)

BC40. To align the requirements for IPR&D acquired through a joint venture formation and through a business combination, the amendments in this proposed Update would require that a joint venture capitalize contributed tangible and intangible research and development assets. That requirement would apply regardless of whether those assets have an alternative future use. After formation, a joint venture would be required to account for IPR&D intangible assets as indefinite lived until the completion or abandonment of the associated research and development efforts, while it would be required to account for tangible assets that are used in research and development activities in accordance with their nature.

BC41. On the basis of outreach with stakeholders, the Board understands that assets associated with IPR&D can represent a significant portion of the overall assets contributed to a research-oriented joint venture. In those instances, recognizing the cost attributable to IPR&D as an immediate expense would make a joint venture's formation accounting inconsistent with the business combinations guidance.

Goodwill

Recognition

BC42. The amendments in this proposed Update would require that a joint venture recognize as goodwill the fair value of the joint venture entity as a whole in excess of identifiable net assets upon formation. This proposed requirement would apply regardless of whether a joint venture, or the net assets contributed to a joint venture upon formation, meets the definition of a business in accordance with Topic 805.

BC43. The Board considered whether the recognition of goodwill should be limited to joint venture entities that meet the definition of a business upon formation. That is, the Board considered whether joint ventures that do not meet the definition of a business upon formation should account for the fair value of the joint venture entity as a whole in excess of the amounts recognized for its identifiable net assets in accordance with the guidance for asset acquisitions in Subtopic 805-50, Business Combinations—Related Issues.

BC44. Ultimately, the Board expects that it would be uncommon that an entity simultaneously (a) meets the definition of a joint venture, (b) has net assets with a fair value that significantly exceeds that of its identifiable net assets, and (c) is not a business. In other words, the Board does not expect that an entity meeting the definition of a joint venture would have significant goodwill if it does not already meet the definition of a business. Therefore, the Board decided 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. For purposes of testing goodwill for impairment, the Board acknowledged that in the uncommon situation in which a joint venture does not satisfy the definition of a business, a more than insignificant amount of goodwill is present, and the entity has no operating segments or reporting units, the joint venture would default to testing goodwill at the entity level, consistent with paragraph 350-20-35-37.

BC45. The amendments in this proposed Update would require that "negative goodwill" at the time of formation be recognized as an adjustment to additional paid-in capital or other similar equity account, such as members' equity. Even though the Board noted that the likelihood for negative goodwill to be present in a joint venture formation is low, the Board concluded that specific guidance would be beneficial to increase consistency of application. The Board decided that an adjustment to equity would be the least complex to apply and result in the most relevant financial information.

Measurement

BC46. The amendments in this proposed Update would require that a joint venture measure goodwill, upon formation, as the calculated difference between the joint venture's total net assets and its identifiable net assets. The proposed amendments would require that a joint venture measure its total net assets upon formation as the fair value of the joint venture entity as a whole. The fair value of the joint venture entity as a whole would equal the fair value of 100 percent of a joint venture's outstanding equity interests immediately following formation, including any noncontrolling interest in the net assets recognized by the joint venture. The Board decided that this method of recognizing and initially measuring total net assets would be most appropriate for applying a new basis of accounting because it can be applied consistently to joint venture formations, irrespective of how they are legally structured.

BC47. The Board considered an alternative measurement approach, which would have required that a joint venture identify the consideration transferred to acquire the businesses and net assets contributed to it by the venturers upon formation. The Board decided that measuring the fair value of the joint venture as a whole—100 percent of a joint venture's outstanding equity interests immediately following formation—would be more representationally faithful and a more straightforward approach for measuring the total net assets and goodwill of a joint venture upon formation.

Determining What Is Part of the Joint Venture Formation

BC48. The amendments in this proposed Update would require that a joint venture entity determine whether certain arrangements between the joint venture and the venturers are part of the joint venture formation or are separate transactions. If a transaction is part of a joint venture formation, it may affect the assets, liabilities, and equity recognized by the joint venture upon formation. By contrast, a transaction that is separate from a joint venture formation would be accounted for in accordance with applicable GAAP.

BC49. The Board considered the types of arrangements that a joint venture would have to analyze to determine whether they are separate transactions or part of the joint venture formation. Because of the relationship of a joint venture to its venturers, the Board noted that there are several scenarios in which the joint venture may be required to provide payment to its venturers contingent either upon the provision of goods or services to the joint venture or upon the outcome of a future event. For those types of arrangements, the Board decided to refer to the guidance in Topic 805 that discusses whether arrangements that include contingent payments to employees or to selling shareholders should be accounted for as part of a business combination.

BC50. To apply this guidance, the amendments in this proposed Update specify that when applying the guidance in Topic 805 for determining which transactions are separate from (or part of) the joint venture formation, the joint venture entity would be the functional equivalent of the acquirer, the venturers would be the functional equivalent of selling shareholders, and the collective contributed assets or businesses would be the functional equivalent of an acquiree.

BC51. By contrast, the Board decided that the guidance for preexisting relationships and acquisition-related costs in Topic 805 would not be relevant in the context of a joint venture formation because the joint venture would be accounted for as the formation of a new reporting entity. Therefore, the amendments in this proposed Update would prohibit a joint venture from applying the guidance in Subtopic 805-10 for settling a preexisting relationship and accounting for acquisition-related costs.

Contingent Payments

BC52. The Board acknowledged that a joint venture formation may involve an arrangement that is similar to a contingent consideration arrangement entered into as part of a business combination. For example, upon formation, a joint venture entity might promise to make payments or issue additional equity interests to a venturer contingent upon the performance of assets or businesses contributed by that venturer.

BC53. However, because the joint venture's total net assets (including goodwill) are measured on the basis of the joint venture as a whole upon formation instead of consideration transferred, the Board observed that it may be challenging to identify contingent consideration arrangements as they are defined in Subtopic 805-30, Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred, because the amendments in this proposed Update do not use the concept of consideration transferred.

BC54. Furthermore, while the Board observed that the intended accounting outcomes may be reached and consistent practice may develop for accounting for contingent payments in joint venture formations without specific guidance, stakeholder feedback indicated that it may be challenging to determine the required accounting if more specific guidance was not provided.

BC55. Therefore, for liability-classified (or asset-classified) instruments, the amendments in this proposed Update would require that any contingent arrangements deemed to be part of the joint venture formation and classified within liabilities follow the guidance in Subtopic 805-20. In reaching that decision, the Board concluded that if the contingent arrangement is generated as a result of the joint venture formation, it should not be accounted for as contingent consideration or as an assumed contingent consideration arrangement.

BC56. The Board acknowledged that the accounting for liability-classified (or asset-classified) contingent payments in a joint venture formation may result in a different outcome than the contingent consideration guidance in Subtopic 805-30, which requires initial and subsequent measurement at fair value. Applying the exceptions to the fair value principle in Subtopic 805-20 (including for contingencies) may result in some arrangements that are similar to contingent consideration that are (a) not initially measured at fair value or (b) not subsequently measured at fair value with gains or losses recognized in earnings.

BC57. For any equity-classified instruments and contracts recognized separately upon formation, the amendments in this proposed Update would clarify that amounts recognized by a joint venture upon formation would not increase total net assets, goodwill, or equity but, instead, would be accounted for as a reallocation of additional paid-in capital (or other similar equity account, such as members' equity).

Replacement Share-Based Payment Awards

BC58. The Board acknowledged that a joint venture may issue replacement share-based payment awards to the grantees of the contributed entities in connection with a joint venture formation, although stakeholders provided mixed feedback on the prevalence of those arrangements.

BC59. Therefore, because the amendments in this proposed Update do not use the concept of consideration transferred in the context of a joint venture formation, the proposed amendments refer to the guidance for replacement share-based payments in Topic 805 (consistent with existing guidance in Subtopic 805-20) and illustrate how those requirements would be applied by a newly formed joint venture. The resulting effect of equity-classified share-based payment awards on total net assets, goodwill, and equity would be consistent with the effect of any equity-classified instruments and contracts recognized separately upon formation, as described in paragraph BC57.

Measurement Period

BC60. The amendments in this proposed Update would prohibit a joint venture from applying the measurement period guidance in accordance with Subtopic 805-10 to the amounts recognized upon formation.

BC61. The measurement period in a business combination is the period after the acquisition date when the acquirer is permitted to adjust the provisional amounts recognized for a business combination if the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs. The measurement period allows the acquirer to take reasonable time to obtain the information necessary to identify and measure any of the following as of the acquisition date in accordance with the requirements of Topic 805:

a. The identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree
b. The consideration transferred for the acquiree (or the other amount used in measuring goodwill)
c. In a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer
d. The resulting goodwill recognized or the gain on a bargain purchase recognized.

BC62. Historically, as noted in the basis for conclusions in Statement 141(R), the Board decided to allow adjustments during the measurement period for business combinations to address concerns about the quality and availability of information at the acquisition date, including concerns about measuring the fair value of assets and liabilities arising from contingencies.

BC63. Feedback received from practitioners indicated that joint ventures generally would have sufficient information available to recognize and measure their net assets upon formation without the use of a measurement period and that a measurement period would be unnecessary.

BC64. Therefore, the Board did not identify significant benefits of permitting measurement period adjustments for joint venture formations beyond creating consistency with the business combinations guidance. The Board decided that introducing an additional layer of complexity and judgment would not justify the benefits of permitting measurement period adjustments.

Transfers of Financial Assets

BC65. Topic 860, Transfers and Servicing, addresses whether a transfer of financial assets represents (a) a sale (because the transferor has given up control of financial assets) or (b) a secured borrowing in which control is retained by the transferor. The amendments in this proposed Update would require that if a venturer transfers financial assets that are within the scope of Subtopic 860-10, Transfers and Servicing—Overall, 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. The Board noted that this would improve alignment between the venturers that account for transfers of financial assets in accordance with Topic 860 and a joint venture that is the recipient of a transfer of financial assets.

Disclosure

BC66. The amendments in this proposed Update would require that a joint venture disclose information that enables users of its financial statements to evaluate the accounting for the joint venture formation in the period in which the formation date occurs. To meet this disclosure objective, a joint venture would be required to provide the following disclosures about its formation transaction:

a. The formation date
b. A description of the purpose for which the joint venture was formed (for example, to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities)
c. The formation-date fair value of the joint venture as a whole
d. A description of the assets and liabilities recognized by the joint venture at the formation date
e. The amounts recognized by the joint venture for each major class of assets and liabilities as a result of accounting for its formation, either presented on the face of financial statements or disclosed in the notes to financial statements
f. A qualitative description of the factors that make up any goodwill recognized, such as expected synergies from combining operations of the contributed assets or businesses, intangible assets that do not qualify for separate recognition, or other factors.

BC67. The Board considered requiring that a joint venture provide the same disclosures as an acquirer of a business in accordance with Topic 805. However, after considering that joint ventures often are private entities and their investors may have greater access to management, the Board ultimately decided that the benefits of requiring full business combination disclosures would not justify the costs.

BC68. The Board also considered including a disclosure objective without a list of required disclosures, which would have required that a joint venture use its discretion to determine what disclosures should be provided. The Board ultimately dismissed that approach because it preferred to require the disclosure of certain information.

BC69. Therefore, the Board ultimately decided that an objective and a brief list would be the best approach. The Board anticipates that a joint venture would be able to prepare the list of required disclosures using readily available information with minimal costs and that the disclosures would provide a user with decision-useful information about the joint venture formation.

Alternative Measurement Approaches Considered

BC70. The Board considered two alternative measurement approaches—the carrying amount measurement approach and the optionality measurement approach (allowing an option to either use the carrying amount measurement approach or apply a new basis of accounting). Those alternative approaches are discussed in detail in paragraphs BC71–BC81. The Board ultimately did not support those approaches for one or both of the following reasons:

a. Aligning the accounting required for joint ventures and the venturers to reduce or eliminate differences in the basis of the joint venture's financial statements when compared with the reported investment by the venturers was preferred.
b. Requiring a new basis of accounting for joint venture formation transactions would provide more decision-useful information to users of joint venture financial statements than information produced by the other measurement alternatives.

Carrying Amount Measurement Approach

BC71. The Board considered the carrying amount measurement approach, which would have required that a joint venture account for the receipt of net assets contributed by a venturer at the carrying amounts reflected in the accounts of the venturer at the date of transfer.

BC72. Those that supported this alternative approach stated that the venturers' carrying amounts are the most relevant measurements. Specifically, the venturers' carrying amounts help the venturers—who generally are the primary users of the joint venture's financial statements—analyze historical trends by comparing the current profitability of a particular asset with its profitability in the past when it was controlled by the contributing venturer. Supporters of a carrying amount approach also stated that it would be the least costly approach for certain assets that have minimal or zero carrying amounts, such as internally developed intangible assets or depreciated buildings, because determining the fair value of these assets could be challenging and costly.

BC73. However, stakeholders and some Board members were concerned that the use of the venturers' carrying amounts would result in the joint venture not recognizing certain assets upon formation. Additionally, others expressed concerns that a carrying amount approach would result in situations in which the initial assets and equity recorded by the joint venture would be less than the fair value of the assets received and equity interests exchanged. Those situations would affect important metrics, such as return on invested capital and return on assets, in the periods following formation. Therefore, the joint venture's future economic returns would not be based on information about the fair value of the contributed assets.

BC74. Furthermore, some Board members were concerned that the use of carrying amounts and the resulting differences between the venturer and the joint venture's basis could obscure whether earnings or losses recognized by the joint venture are attributable to the contributing venturer's activities before formation or to the joint venture's activities after formation. For example, by recording assets and liabilities at the venturers' carrying amounts, a joint venture may report greater net income post-formation than it would have if a new basis of accounting had been applied. Some Board members believe that this difference in post-formation net income results from embedded gains that were generated by the venturers but not recognized by them before the joint venture's formation. The Board believes that the differences between the venturer and the joint venture's basis would not be decision useful in cases in which the venturer is required to provide the joint venture's separate financial statements in a regulatory filing (for example, because the joint venture is a significant equity method investee of the venturer).

BC75. The Board ultimately did not support this approach because it would not have significantly reduced costs for preparers, it would have required the presentation of information that some Board members believe is less decision useful, and it could have resulted in significant differences between the initial accounting by the joint venture entity and its venturers.

Optionality Measurement Approach (Carrying Amount or Fair Value)

BC76. The Board also considered an optionality measurement approach, which would have allowed a joint venture to make a policy election to account for the receipt of all contributions at either the venturers' carrying amounts or fair value.

BC77. Overall, those that supported optionality expressed that because the venturers may be the only initial users of a joint venture's financial statements, the venturers are in the best position to decide on the initial measurement of the joint venture's net assets depending on their expected costs and benefits. Furthermore, supporters of this approach cited one or more of the following:

a. **The application of pushdown accounting is optional.** Some stakeholders viewed optionality as being similar to an acquiree's option to apply pushdown accounting in its separate financial statements when an acquirer obtains control of the acquiree in accordance with Subtopic 805-50.
b. **Additional valuations of identifiable assets and liabilities may be necessitated by a fair value requirement.** Those supporting optionality noted that the valuations performed for negotiation purposes might only consider the fair value of the total contributions made to the joint venture by each venturer. They expressed concern that, to comply with a fair value requirement, an additional valuation would be needed to obtain information about the fair value of the joint venture's identifiable assets and liabilities.
c. **Equity method basis differences created by use of a carrying amount approach may not be material to the venturers.** Existing guidance for equity method investors requires that a venturer account for a difference between the cost of an equity method investment and the amount of underlying equity in net assets of an investee as if the investee were a consolidated subsidiary and a venturer allocates those basis differences to the identifiable net assets and/or goodwill. However, those supporting optionality asserted that equity method basis differences arising from a carrying amount approach may be immaterial to venturers. In those cases, a fair value requirement could be more costly than a carrying amount approach and the venturers, as financial statement users, may not agree that any benefits of the fair value information would justify those additional costs.
d. **Optionality would clarify requirements for newly formed joint ventures.** Some practitioners have pointed to nonauthoritative sources asserting that there are limitations to when a newly formed joint venture can measure its net assets at fair value upon formation. Those supporting optionality argued that explicitly allowing an option would reduce the uncertainty caused by the lack of specific authoritative guidance and would allow newly formed joint ventures to use fair value if they chose to do so.

BC78. The Board reasoned that a joint venture's separate financial statements represent general purpose financial statements and therefore also should consider the needs of users beyond the venturers. Other users would include potential investors, creditors, and others that cannot require that the joint venture entity provide information directly to them and must rely on its general purpose financial reporting. The Board was sympathetic to the extent of costs that venturers incur in connection with the preparation of joint venture financial statements but did not accept the premise that the venturers are the only users of joint venture financial statements whose needs should be considered.

BC79. The Board ultimately did not support this approach because optionality would have allowed entities to choose to present less decision-useful information in the joint venture's financial statements. Board members expressed concern that permitting a carrying amount approach (a) would result in the omission of important financial information about the formation of a joint venture and (b) would not eliminate or reduce differences in the basis of the joint venture's financial statements when compared with the reported investment by the venturers. Additionally, the Board concluded that the optionality alternative would not have reduced costs and diversity in practice sufficiently to make it preferable to a fair value requirement.

BC80. Therefore, the Board decided that allowing optionality would not achieve the project objective of reducing diversity in practice. The Board also was concerned that, compared with providing no new guidance, allowing optionality would result in preparers incurring additional costs to interpret and apply any new guidance established without reducing diversity in practice.

BC81. Under existing guidance, an acquiree has an option to apply pushdown accounting each time there is a change-in-control event in which an acquirer obtains control of the acquiree. The Board determined that because the venturers have joint control over the joint venture, rather than either of the venturers having a controlling financial interest, it would be inappropriate to consider the venturers as analogous to an acquirer in a business combination and the joint venture as analogous to an acquiree. Therefore, the Board concluded that providing an option to a newly formed joint venture that was similar to pushdown accounting would be inappropriate. Instead, the Board decided that the *joint venture entity itself* is more similar to an acquirer than to an acquiree because the joint venture entity *gains control* of the net assets contributed to it as part of the formation transaction, while no entity gains control of the joint venture entity.

Definition of a Joint Venture

BC82. Outside the definition in the Master Glossary and certain SEC staff guidance, including comments made by the SEC Observer included in EITF Issue 98-4 (see paragraph 845-10-S99-2) who stated that the SEC staff would object to a conclusion that joint control is the only defining characteristic of a joint venture, there is no guidance in the Codification that describes how to distinguish a joint venture from similar entities or arrangements. Practitioners and preparers said that they experience challenges in interpreting and applying the current joint venture definition.

BC83. Stakeholders said that, over time, interpretations in practice of what constitutes a joint venture have developed and practice is generally able to apply the definition as it exists today, albeit with questions about specific aspects of the definition. Despite questions about the definition, practitioners requested that the Board provide measurement guidance, even if the definition was not revised, to address the longstanding lack of guidance related to measurement upon joint venture formation.

BC84. The Board considered whether it should amend the definition of a joint venture as part of this proposed Update to clarify its application. However, the Board ultimately decided to retain the definition of joint venture as it currently appears in the Master Glossary at this time. The Board observed that it appears that practice generally can apply the current definition and that amending the joint venture definition is beyond the objective of the proposed amendments. Therefore, the proposed amendments retain the joint venture definition as is.

Effective Date and Transition

BC85. The Board did not propose an effective date for the amendments in this proposed Update. The Board will take into consideration the comments received on the proposed amendments before determining an effective date. At that time, the Board also will consider whether to allow for early adoption of the proposed amendments.

BC86. The amendments in this proposed Update would require prospective application for joint ventures formed on or after the effective date. In addition, the proposed amendments would make full retrospective application optional for any joint ventures that were formed before the effective date of the proposed amendments. If an entity elects to apply the proposed amendments retrospectively, for any guidance in Subtopic 805-60 that is the same as that in the business combinations guidance, a joint venture would have to apply the business combinations guidance that existed at the date of its formation. For example, a joint venture formed in 2012 would apply Subtopic 805-20 as it existed in 2012.

BC87. The Board decided to not require that existing joint ventures apply the amendments in this proposed Update retrospectively because it determined that the expected costs of retrospective application may not justify the expected benefits to investors.

BC88. The Board also considered but rejected an approach that would have only allowed joint ventures formed on or after the effective date of the amendments in this proposed Update to apply the new guidance, which would have prohibited existing joint ventures from applying the guidance retrospectively. The Board decided that comparability and decision usefulness would be enhanced for any joint venture entities that elect to apply the guidance retrospectively.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.