



## In This Issue

- [Overview](#)
- [Background](#)
- [Main Provisions of the Proposed ASU](#)
- [Proposed Effective Dates and Transition](#)

# FASB Proposes New Guidance on Joint Venture Formations

by Kristi Marks and Andrew Winters, Deloitte & Touche LLP

## Overview

On October 27, 2022, the FASB issued a [proposed ASU](#)<sup>1</sup> that would establish a new basis of accounting for most entities that meet the definition of a corporate joint venture in ASC 323<sup>2</sup> or a joint venture in the ASC master glossary. Upon the formation date,<sup>3</sup> the joint venture's assets and liabilities would be initially measured at fair value. Comments on the proposed ASU are due by December 27, 2022.

## Background

Currently there is no specific guidance in U.S. GAAP on the accounting for the initial measurement of assets and liabilities contributed to a joint venture at formation. As a result, some joint ventures measure the net assets contributed at formation by using the respective carrying amounts of the venturer while others recognize such net assets at fair value. The proposed amendments would address this diversity in practice by establishing guidance on the recognition and initial measurement of a joint venture's net assets on the formation date. The FASB anticipates that such guidance would increase the level of consistency between newly formed joint ventures as well as enhance the usefulness of a joint venture's financial reporting to investors.

<sup>1</sup> FASB Proposed Accounting Standards Update (ASU), *Business Combinations — Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*.

<sup>2</sup> For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

<sup>3</sup> Under the proposed ASU, the formation date would be the "date on which an entity initially meets the definition of a joint venture." Thus, as indicated in proposed ASC 805-60-25-3, the formation date may not necessarily be the formation date of the legal entity.

## Main Provisions of the Proposed ASU

Under the proposed ASU:

- The formation of a joint venture would result in the “creation of a new reporting entity,” and no accounting acquirer would be identified under ASC 805. Accordingly, a new basis of accounting would be required upon the formation date.
- The joint venture would measure the net assets on the formation date (i.e., when it initially meets the definition of a joint venture). The excess of the fair value of the joint venture as a whole over the net assets of the joint venture would be recognized as goodwill.
- Upon the formation date, a joint venture’s measurement of its net assets would be “equal to the fair value of 100 percent of [its] outstanding equity interests.”

The new guidance would prohibit an entity from using a measurement period when identifying and measuring the net assets, which is a departure from the measurement-period guidance in ASC 805 related to business combinations.

Further, to help financial statements users understand the impact of the joint venture formation, the joint venture would be required to disclose the formation date, a qualitative description of the joint venture’s purpose, the fair value of the joint venture on the formation date, the “amounts recognized by the joint venture for each major class of assets and liabilities,” and a “description of the factors that make up any goodwill recognized.”

The FASB notes that the approach taken under the proposed guidance would be “consistent with other new basis of accounting models in GAAP,” such as that used in ASC 852, which addresses reorganizations and provides guidance on fresh-start accounting.



### Connecting the Dots

The proposed ASU would not change the definition of a corporate joint venture in ASC 323, which is as follows:

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.

Likewise, the proposal would not change the definition of a joint venture in the ASC master glossary:

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.

The proposed amendments would not apply to collaborative arrangements under ASC 808, not-for-profit entities, or entities within the “construction or extractive industries that may be proportionately consolidated by their investor-venturers.”

## **Proposed Effective Dates and Transition**

### **Effective Dates**

After considering stakeholder feedback on the proposed ASU, the FASB plans to establish an effective date for the amendments and determine whether to permit early application.

### **Transition**

New joint ventures formed as of or after the effective date would be required to apply the guidance prospectively. Joint ventures formed before the effective date would be permitted to apply the proposed guidance retrospectively.

## Dbriefs for Financial Executives

We invite you to participate in [Dbriefs](#), Deloitte's live webcasts that give you valuable insights into important developments affecting your business. Topics covered in the [Dbriefs for Financial Executives](#) series include financial reporting, tax accounting, business strategy, governance, and risk. Dbriefs also provide a convenient and flexible way to earn CPE credit — right at your desk.

## Subscriptions

To subscribe to Dbriefs, or to receive accounting publications issued by Deloitte's Accounting and Reporting Services Department, please register at [My.Deloitte.com](#).

## The Deloitte Accounting Research Tool

Put a wealth of information at your fingertips. The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search and personalization features, enable users to quickly locate information anytime, from any device and any browser. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*. DART subscribers and others can also [subscribe](#) to *Weekly Accounting Roundup*, which provides links to recent news articles, publications, and other additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit [dart.deloitte.com](#).

*Heads Up* is prepared by members of Deloitte's National Office as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see [www.deloitte.com/us/about](#) to learn more about our global network of member firms.