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To the Point

FASB – final guidance

FASB amends guidance for identifying the accounting acquirer in acquisitions involving VIEs

The amended guidance more closely aligns the requirements for identifying the accounting acquirer in the acquisition of a VIE with those applicable to acquisitions that involve voting interest entities.

What you need to know

- The FASB amended the guidance for identifying the accounting acquirer in an acquisition achieved primarily through an exchange of equity interests in which the legal acquiree is a variable interest entity that meets the definition of a business.
- The amended guidance requires the consideration of the factors in ASC 805 that are currently applied when identifying the accounting acquirer in an acquisition involving voting interest entities.
- The guidance is effective for all entities for fiscal years beginning after 15 December 2026, and interim reporting periods within those fiscal years.
- Entities will apply the guidance prospectively to acquisitions that occur on or after the effective date. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued a final **Accounting Standards Update** (ASU)[1] amending Accounting Standards Codification (ASC) 805, *Business Combinations*, and ASC 810, *Consolidation*, to require entities to consider the existing factors in ASC 805 when identifying the accounting acquirer in a transaction achieved primarily through an exchange of equity interests in which the legal acquiree is a variable interest entity (VIE) that meets the definition of a business.

The ASU, which is based on a recommendation by the Emerging Issues Task Force (EITF), more closely aligns the requirements for identifying the accounting acquirer when evaluating the acquisition of a voting interest entity.

The amended guidance is intended to address stakeholder concerns that the current guidance for determining the accounting acquirer results in a lack of comparability of financial statements across entities engaging in economically similar acquisition transactions.

To identify the accounting acquirer, entities today first consider the VIE model in ASC 810-10, *Consolidation*. If the legal acquiree is a VIE, the primary beneficiary of the VIE is always the accounting acquirer. However, if the legal acquiree is not a VIE, and the determination of the accounting acquirer is not clear, all of the following factors in ASC 805-10-55-11 through 55-15 need to be considered to identify the accounting acquirer:

- Relative voting rights in the combined entity
- Existence and size of a single minority voting interest in the combined entity
- Composition of the governing body
- Composition of management
- Relative size of the combining entities
- Terms of the exchange of equity interests

Stakeholders have noted that prohibiting entities from considering the factors in ASC 805 to identify the accounting acquirer when the legal acquiree is a VIE affects not only the determination of which entity is the accounting acquirer, but also whether a business combination has occurred. Accordingly, the accounting and financial statement presentation can be significantly different for acquisition transactions involving VIEs than those not involving VIEs, even though the transactions may be economically similar.

Key considerations

The amended guidance requires entities to consider the factors in ASC 805 to identify the accounting acquirer when a VIE that is a business[2] is legally acquired primarily through the exchange of equity interests. In some cases, this will result in the identification of an accounting acquirer that will be different than if the primary beneficiary (the legal acquirer) were determined to be the accounting acquirer.

The accounting for the transaction as a business combination could also be affected. For example, if the legal acquiree (i.e., the VIE) is identified as the accounting acquirer under the amended guidance, the accounting for the acquisition will depend on whether the legal acquirer (i.e., accounting acquiree) is a business.

A transaction in which the legal acquiree (accounting acquirer) obtains control of the legal acquirer (accounting acquiree) that meets the definition of a business results in a reverse acquisition that will be accounted for as a business combination. However, if the legal acquirer (accounting acquiree) is not a business, the transaction will be accounted for under other applicable US GAAP (e.g., as an asset acquisition, reverse recapitalization).

Scope

Acquisitions of VIEs that meet the definition of a business

The amended guidance applies to acquisitions of VIEs that meet the definition of a business in ASC 805. The Board had considered expanding the scope to include transactions involving VIEs that are not businesses. However, the Board ultimately decided that this would have required the consideration of a wider range of practice issues. Accordingly, it decided to limit the scope to only address the practice matter raised in the EITF agenda request.[3]

Acquisitions effected primarily through the exchange of equity interests

The amended guidance requires the assessment of the factors in ASC 805 only when a VIE that meets the definition of a business is legally acquired in a transaction achieved primarily through the exchange of equity interests. The Board clarified that many of the factors in ASC 805 that are used to determine the accounting acquirer are tailored to address transactions where the consideration transferred is primarily through the exchange of equity interests. Therefore, the Board decided to limit the amendments to those circumstances.[4]

Application of the factors in ASC 805

The ASU does not change the factors in ASC 805 that entities are currently required to consider when identifying the accounting acquirer in transactions involving voting interest entities. The Board noted that the application of the factors to transactions involving VIEs better aligns the financial reporting outcomes with both the economic substance of the transactions and today's requirements for acquisitions of voting interest entities.[5]

How we see it

We generally expect that the ASU will address certain acquisition transactions in which the current accounting outcome (i.e., a forward merger accounted for as a business combination) sometimes does not align with the transaction's economic substance (i.e., a reverse acquisition or reverse recapitalization).

Effective date and transition

The ASU is effective for all entities for fiscal years beginning after 15 December 2026, and interim periods within those fiscal years. Entities are required to apply the guidance prospectively to all acquisitions that occur on or after the effective date.

Early adoption is permitted, including in an interim period. An entity that early adopts in an interim period may elect to apply the guidance to all acquisition transactions that have occurred since the beginning of (1) the annual period that includes that interim period or (2) the interim period in which the ASU is early adopted. Because the Board expects few entities to have multiple transactions affected by the amendments in the same annual period, it decided not to require retrospective application as of the beginning of the annual period of adoption.[6]

Endnotes:

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[1] ASU 2025-03, *Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*.

[2] As defined under ASC 805.

[3] See paragraph BC37 of the ASU's Background Information and Basis for Conclusions.

[4] See paragraph BC44.

[5] See paragraph BC49.

[6] See paragraphs BC68 and BC69.