BDO BULLETIN

FASB CHANGES GUIDANCE ON DETERMINING THE ACCOUNTING ACQUIRER OF A VARIABLE INTEREST ENTITY

MAY 2025

SUMMARY

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2025-03, *Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*, to address stakeholder concerns about unintuitive accounting outcomes in transactions involving variable interest entities (VIEs). For example, many operating companies have entered the U.S. public markets by merging with a special-purpose acquisition company (SPAC). While a SPAC merger might be economically similar to conducting an IPO, under the old guidance, it often resulted in a new basis of accounting for the operating company instead of carryover basis. Stakeholders expressed concerns to the FASB about this inconsistency, which will be less likely to occur under the new ASU.

After adopting the ASU, an entity must assess the factors in ASC 805, *Business Combinations,* to determine the accounting acquirer in an acquisition transaction primarily effected by exchanging equity interests when the legal acquiree is a VIE that meets the definition of a business.

BACKGROUND

Identifying the accounting acquirer is important because it affects the carrying amounts of the combined entities' assets and liabilities and post-combination net income. The accounting acquirer records the assets acquired and liabilities assumed in a business combination generally at their acquisition date fair values, with limited exceptions. Additionally, the accounting acquirer reflects the accounting acquiree's income beginning on the acquisition date.

Under prior U.S. generally accepted accounting principles (U.S. GAAP), if the legal acquiree was a VIE, the primary beneficiary of the VIE was always the accounting acquirer. Conversely, when the legal acquiree is not a VIE, if a business combination is effected primarily by exchanging equity interests, and the determination of the accounting acquirer is not clear after applying the guidance in ASC 810, *Consolidation*, an entity must consider the following factors from ASC 805 to identify the accounting acquirer:

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

Applying these factors can result in a determination that the legal acquiree is the accounting acquirer and, therefore, the transaction is a reverse acquisition. See our Blueprint, Business Combinations Under ASC 805, for more guidance on evaluating these factors and the accounting for a reverse acquisition.

MAIN PROVISIONS

To address stakeholders' concerns about the inconsistency in the accounting for the acquisition of a VIE that is a business as compared to the accounting for a voting interest entity that is a business, the FASB issued ASU 2025-03. The new guidance requires that an entity evaluate the factors in ASC 805-10-55-12 through 55-15 to determine the accounting acquirer when **all** the following conditions are met:

- The acquisition transaction is effected primarily by exchanging equity interests.
- The legal acquiree is a VIE.
- The legal acquiree meets the definition of a **business**.

The ASU cannot be applied to other transactions. As such, for acquisitions of VIEs that are effected primarily by exchanging cash or other assets or incurring liabilities, and for acquisitions of VIEs that do not meet the definition of a business, the primary beneficiary is **always** the accounting acquirer. See our Blueprint, Control and Consolidation Under ASC 810, for more guidance on identifying a VIE and its primary beneficiary.

ASU 2025-03 HAS A LIMITED SCOPE

ASU 2025-03 does not change the guidance for identifying the acquirer of a VIE for a transaction that is not effected primarily by exchanging equity interests or for the acquisition of a VIE that does not meet the definition of a business. An entity cannot analogize to the guidance in ASU 2025-03 if the acquired VIE is **not** a business.

Consider the following example:

- Company A (the legal acquirer) issues some of its equity in exchange for all the equity of a life sciences entity (the legal acquiree).
- The legal acquiree is a VIE but does not meet the definition of a business because substantially all the fair value of the gross assets acquired is concentrated in a single asset.
- Company A determines that it is the primary beneficiary of the VIE and, therefore, is the accounting acquirer.

Conversely, had the legal acquiree in met the definition of a business, the accounting acquirer might be different, depending on the facts and circumstances and based on the analysis of the factors in ASC 805.

BDO INSIGHTS — FEWER TRANSACTIONS MAY BE BUSINESS COMBINATIONS AFTER ADOPTING ASU 2025-03

After adopting ASU 2025-03, an entity that effects an acquisition transaction by primarily exchanging equity interests to acquire a VIE that is a **business** must consider the factors in ASC 805 to identify the acquirer. As a result, fewer transactions will be accounted for as business combinations. However, while the FASB's intention when issuing this guidance was to align the accounting for economically similar transactions involving businesses, there will still be inconsistencies in the accounting for transactions involving VIEs that are not businesses, as discussed in the alert above.

BDO INSIGHTS — LEGAL ACQUIREE'S VIE STATUS AFFECTS REQUIRED DISCLOSURES

While the legal acquiree's VIE status will be less relevant in determining the accounting acquirer in a business combination primarily effected by exchanging equity interests when the VIE meets the definition of a business, ASC 810 requires that the primary beneficiary of a VIE disclose information about the VIE's assets and liabilities unless an exemption from the disclosure requirements apply. The new ASU does not change these requirements. Therefore, the primary beneficiary may still need to determine whether the legal acquiree is a VIE for disclosure purposes.

EFFECTIVE DATES AND TRANSITION

The following table summarizes effective dates and transition for ASU 2025-03:

	ALL ENTITIES
Effective date	Annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
Early adoption	Allowed in an interim or annual reporting period in which financial statements have not yet been issued (or made available for issuance). An entity that adopts ASU 2025-03 in an interim reporting period can do so as of the beginning of the interim reporting period or the annual reporting period that includes the interim reporting period of early adoption.
Transition	Prospectively to any business combination that occurs after the initial application date.

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