



FASB proposal

Business combinations involving VIEs

October 31, 2024



FASB proposes changes to determination of accounting acquirer in certain business combinations involving VIEs.

Source and applicability

- Proposed ASU, [Business Combinations \(Topic 805\) and Consolidation \(Topic 810\): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity](#)
- Business combinations involving exchanges of equity interests when the legal acquiree is a variable interest entity (VIE)

Fast facts, impacts, actions

The proposed ASU would modify the Topic 805 framework for identifying the accounting acquirer in certain business combinations when the legal acquiree is a VIE. Current guidance states the primary beneficiary is the accounting acquirer of a VIE in a business combination even if Topic 805's general factors used to identify the accounting acquirer (which apply to other business combinations) suggest that the transaction would otherwise be a reverse acquisition.

The proposed ASU would:

- limit situations in which entities must identify the primary beneficiary as the accounting acquirer in certain business combinations; and
- require entities to consider the general factors in Topic 805 when a business combination involving a VIE is primarily effected through exchanging equity interests that potentially result in a reverse acquisition.

The determination of which entity is the accounting acquirer impacts which assets and liabilities, if any, are remeasured at fair value at the acquisition date. If the transaction involves a registrant, this determination may also affect the form and content of current and prior period financial statements included in public filings.



Entities contemplating future transactions involving the acquisition of a VIE should consider whether the proposed amendments would affect the conclusion of which entity is the accounting acquirer.

The proposed ASU would be applied prospectively and early adoption would be permitted. The FASB seeks feedback from all stakeholders and comments are due December 16, 2024.

Background

In business combinations, one of the combining entities is the accounting acquirer. This determination is important because acquisition accounting is applied to the acquiree, with its assets and liabilities generally measured at fair value. In contrast, the accounting acquirer's existing assets and liabilities are not remeasured and the pre-combination periods reflect only that of the accounting acquirer. In many cases, determining which combining entity is the accounting acquirer is obvious. In other cases, significant judgment is necessary to make the determination.

Current guidance in Topic 805 states the primary beneficiary is always the accounting acquirer of a VIE in a business combination. If the legal acquiree is *not* a VIE, the guidance provides factors to consider when determining which entity is the accounting acquirer, which include (none of which are determinative):

- the relative voting rights in the combined entity after the business combination;
- the existence of a large minority voting interest in the combined entity (if no other owner or organized group of owners has a significant voting interest);
- the composition of the governing body of the combined entity;
- the composition of the senior management of the combined entity;
- the terms of the exchange of equity interests; and
- the relative sizes of the combining entities before the business combination.

The above factors sometimes indicate the accounting acquirer is different than the legal acquirer – referred to as a reverse acquisition. However, transactions involving a VIE as the legal acquiree can never be reverse acquisitions because a legal acquirer that is the primary beneficiary of a VIE is always the accounting acquirer.

In practice, the guidance specific to VIEs sometimes causes counterintuitive accounting acquirer conclusions because absent the specific guidance on acquisition of VIEs, the transactions would be considered reverse acquisitions. For example, this issue often arises in special purpose acquisition company (SPAC) transactions where the acquiree is a partnership or partnership-like entity. The partnership is typically a VIE because the SPAC is the general partner and the limited partners do not have substantive kick out or participating rights. As a result, the SPAC is deemed the accounting acquirer even if the transaction would have been a reverse acquisition (based on consideration of the above factors) if the partnership had not been a VIE.



While a SPAC transaction involving the acquisition of a partnership or partnership-like entity is a common fact pattern that gives rise to this issue, this issue also arises outside of SPAC transactions.

On June 14, 2024, the Emerging Issues Task Force (EITF) recommended the Board add a project to its technical agenda to address stakeholder concerns about the counterintuitive financial reporting results when the legal acquiree is a VIE. The Board added the project to its technical agenda on July 17, 2024 and issued a proposed ASU on October 30, 2024.

Proposed amendments

To address stakeholder concerns, the proposal would require entities to consider the general factors in Topic 805 when the acquisition of a VIE is primarily effected by issuing equity. The proposal focuses on combinations that are primarily effected by issuing equity because reverse acquisitions are more prevalent in those transactions today when VIEs are not acquired. This is because the former owners of the legal acquiree often become owners of the legal acquirer in the equity exchange and therefore several of the general factors above (e.g. relative voting rights, governance and management composition) could indicate the legal acquiree is the accounting acquirer (and thus a reverse acquisition has occurred).

The FASB also wanted to limit the situations in which entities apply the factors to acquisitions of VIEs to those transactions that are primarily effected by the exchange of equity interests because many may not be operable if applied to other transactions involving VIEs, such as when the primary beneficiary obtains control of the VIE by contract.



Judgment will be involved in determining when a transaction is primarily effected by exchanging equity interests because the 'primarily effected' threshold is not defined. However, the EITF noted that the threshold is currently used in Topic 805 when transactions do not involve VIEs and is well understood in practice.

The FASB also limited the scope of the proposed amendments to an acquisition of a VIE that is a business. In practice, an entity could acquire a legal entity that is not a business and not a VIE and determine that the transaction is a reverse acquisition using the factors in Topic 805, but if the legal acquiree is a VIE and not a business the primary beneficiary would always be the acquirer. Therefore, the same practice issues and potential inconsistencies apply to an acquisition of an entity that is not a business. The FASB considered whether to expand this project's scope but decided to limit the scope, stating it would need to consider a wider range of practice issues to address and establish consistent requirements for a broader set of fact patterns.



The proposal would provide more consistent accounting acquirer determinations regardless of whether the legal acquiree is a VIE when the legal acquiree is a business. However, because the FASB did not make similar amendments when the acquiree is a VIE but not a business, there could still be differences in determining the accounting acquirer when acquiring a VIE that is not a business.

Transition and transition disclosures

The proposal would be applied prospectively, with early adoption permitted. Entities adopting these amendments are required to disclose the nature of and reason for the change in accounting principle in the period of adoption.

Next steps

The FASB will determine the effective date and whether entities electing to early adopt would be required to adopt the guidance as of the beginning of an annual reporting period after considering stakeholder feedback.

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