FASB issues ASU

Business combinations involving VIEs

May 12, 2025

FASB issues guidance on determining the accounting acquirer in certain business combinations involving VIEs.

Source and applicability

- ASU 2025-03, 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) that meets the definition of a business

Fast facts, impacts, actions

On May 12, 2025, the FASB issued ASU 2025-03 to 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. This current guidance has often led to counterintuitive results when a VIE is acquired in a business combination, prompting the EITF to address stakeholder concerns and ultimately the Board to modify the accounting acquirer guidance.

The ASU changes this guidance by:

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

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.

The ASU applies prospectively to annual and interim reporting periods beginning after December 15, 2026 for all entities, with early adoption permitted. Retrospective application is prohibited and entities will be required to disclose the nature of and reason for the change in accounting principle in the period of adoption.

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 at the acquisition date. 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. 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. In many cases, determining which combining entity is the accounting acquirer is obvious. In other cases, significant judgment is necessary to make the determination.

Currently, if the legal acquiree is *not* a VIE, Topic 805's guidance provides general factors to consider when determining which entity is the accounting acquirer, which are (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.

These general factors sometimes indicate the accounting acquirer is different than the legal acquirer – referred to as a reverse acquisition. However, under current GAAP (prior to the effective date of ASU 2025-03), when the legal acquiree is a VIE, the accounting acquirer is always the primary beneficiary even if the general factors in Topic 805 suggest the transaction would be a reverse acquisition.

In practice, the guidance specific to VIEs sometimes has caused counterintuitive accounting acquirer conclusions because, absent the specific guidance on the acquisition of VIEs, the transactions would have been 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.

Key changes made by ASU 2025-03

Under ASU 2025-03, entities are required to consider the general factors in Topic 805 when the acquisition of a VIE is primarily effected by issuing equity. The ASU focuses on combinations that are primarily effected by issuing equity because reverse acquisitions are more prevalent for those types of transactions. 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 (resulting in a reverse acquisition).

In contrast, many of Topic 805's general factors are not operable when the acquisition of a VIE is not primarily effected by the exchange of equity interests, such as when the primary beneficiary obtains control of the VIE by contract. For this reason, the FASB decided to retain current GAAP for these transactions and continue to treat the primary beneficiary as the accounting acquirer.

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 threshold is currently used in Topic 805 when transactions do not involve VIEs and is well understood in practice.

The ASU also limits the scope of the 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. However, if the legal acquiree is a VIE and not a business, the primary beneficiary would always be the accounting acquirer. Therefore, the same practice issues and potential inconsistencies apply to an acquisition of an entity that is not a business.

The ASU provides for more consistent accounting acquirer determinations regardless of whether the legal acquiree is a VIE when the legal acquiree is a business. However, there could still be differences in determining the accounting acquirer when acquiring an VIE that is not a business.

Effective dates

Effective dates	All entities
Annual periods - Reporting periods beginning after	December 15, 2026
Interim periods - In annual reporting periods beginning after	December 15, 2026
Early adoption permitted?	Yes – early adoption is permitted in interim or annual reporting periods in which financial statements have not yet been issued (or made available for issuance).

Entities adopting ASU 2025-03 in an interim reporting period must adopt the ASU as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period.

Transition

The ASU applies on a prospective basis to all business combinations with acquisition dates occurring on or after the date of initial application. Entities must disclose both the nature of and reason for the change in accounting principle in the period of adoption.

The FASB cited operational challenges and limited expected benefits to investors in deciding to prohibit retrospective application.

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