



# ACCOUNTING STANDARDS UPDATE

No. 2025-03

May 2025

## Business Combinations (Topic 805) and Consolidation (Topic 810)

### Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Financial Accounting Standards Board  
801 Main Avenue • Norwalk, CT • 06851

# Accounting Standards Update 2025-03

## Business Combinations (Topic 805) and Consolidation (Topic 810)

### Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity

May 2025

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## Summary

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### Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to improve the requirements for identifying the accounting acquirer in Topic 805, Business Combinations.

In a business combination, the determination of the accounting acquirer and acquiree can significantly affect the carrying amounts of the combined entity's assets and liabilities, which, in turn, can affect postcombination net income. The accounting acquiree's assets and liabilities are generally required to be initially measured at fair value, subject to specific exceptions in Topic 805. By contrast, the accounting acquirer's existing assets and liabilities are not remeasured under the business combinations guidance.

In a business combination in which the acquired entity is not a variable interest entity (VIE), an entity may be required to consider certain factors to identify the accounting acquirer. When applying those factors, an entity may determine that a transaction is a reverse acquisition (in which the legal acquirer is identified as the acquiree for accounting purposes) or that the transaction should not be accounted for as a business combination (because the accounting acquiree is not a business). However, in a business combination in which a VIE is acquired, current guidance requires that the primary beneficiary (the entity that consolidates a VIE) always is the accounting acquirer.

Stakeholders indicated that the current guidance for determining the accounting acquirer results in a lack of comparability between transactions involving VIEs and those not involving VIEs. Specifically, stakeholders noted that if the legal acquiree is a VIE, the transaction cannot be accounted for as a reverse acquisition. Stakeholders also noted that the current guidance affects not only the determination of which entity is the accounting acquirer but also whether a business combination has occurred.

To address stakeholder concerns, the amendments in this Update revise current guidance for determining the accounting acquirer for a transaction effected primarily by exchanging equity interests in which the legal acquiree is a VIE that meets the definition of a business. The amendments require that an entity consider the same factors that are currently required for determining which entity is the accounting acquirer in other acquisition transactions.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities involved in acquisition transactions effected primarily by exchanging equity interests when the legal acquiree is a VIE that meets the definition of a business.

## What Are the Main Provisions, How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Are They an Improvement?

The amendments in this Update require an entity involved in an acquisition transaction effected primarily by exchanging equity interests when the legal acquiree is a VIE that meets the definition of a business to consider the factors in paragraphs 805-10-55-12 through 55-15 to determine which entity is the accounting acquirer.

The amendments in this Update differ from current GAAP because, for certain transactions, they replace the requirement that the primary beneficiary always is the acquirer with an assessment that requires an entity to consider the factors to determine which entity is the accounting acquirer.

The amendments in this Update enhance the comparability of financial statements across entities engaging in acquisition transactions effected primarily by exchanging equity interests when the legal acquiree meets the definition of a business. Specifically, under the amendments, acquisition transactions in which the legal acquiree is a VIE will, in more instances, result in the same accounting outcomes as economically similar transactions in which the legal acquiree is a voting interest entity.

The amendments in this Update do not change the accounting for a transaction determined to be a reverse acquisition or a transaction in which the legal acquirer is not a business and is determined to be the accounting acquiree.

## **When Will the Amendments Be Effective and What Are the Transition Requirements?**

The amendments in this Update are effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.

The amendments in this Update require that an entity apply the new guidance prospectively to any acquisition transaction that occurs after the initial application date.

Early adoption is permitted as of the beginning of an interim or annual reporting period.

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–35. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Amend the Master Glossary term *Acquirer*, with a link to transition paragraph 805-10-65-5, as follows:

### **Acquirer**

The entity that obtains control of the **acquiree**. See paragraphs 805-10-25-4 through 25-5 for guidance on determining the acquirer. ~~However, in a **business combination** in which a **variable interest entity** (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.~~

3. Add the Master Glossary term *Primary Beneficiary* to Subtopics 805-10 and 805-50 as follows:

### **Primary Beneficiary**

An entity that consolidates a variable interest entity (VIE). See paragraphs 810-10-25-38 through 25-38J for guidance on determining the primary beneficiary.

4. Add the Master Glossary term *Reverse Acquisition* to Subtopic 810-10 as follows:



## Reverse Acquisition

An acquisition in which the entity that issues securities (the legal acquirer) is identified as the **acquiree** for accounting purposes based on the guidance in paragraphs 805-10-55-11 through 55-15. The entity whose equity interests are acquired (the legal acquiree) must be the **acquirer** for accounting purposes for the transaction to be considered a reverse acquisition.

## Amendments to Subtopic 805-10

5. Amend paragraphs 805-10-25-5 and 805-10-55-10, with a link to transition paragraph 805-10-65-5, as follows:

### Business Combinations—Overall

#### Recognition

**805-10-25-1** An entity shall determine whether a transaction or other event is a business combination by applying the definition in this Subtopic, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. An entity shall account for each business combination by applying the acquisition method.

#### > Identifying the Acquirer

**805-10-25-4** For each business combination, one of the combining entities shall be identified as the acquirer.

**805-10-25-5** The guidance in the General Subsections of Subtopic 810-10 related to determining the existence of a controlling financial interest shall be used to identify the acquirer—the entity that obtains **control** of the **acquiree**. If a business combination has occurred but applying that guidance does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 805-10-55-11 through 55-15 shall be considered in making that determination. However, in a business combination in which a **{add glossary link}**variable interest entity**{add glossary link}** (VIE) is acquired, the **{add glossary link}**primary beneficiary**{add glossary link}** of that entity—always is

the acquirer unless the business combination is effected primarily by exchanging equity interests. The determination of which party, if any, is the primary beneficiary of a VIE shall be made in accordance with the guidance in the Variable Interest Entities Subsections of Subtopic 810-10, not by applying either the guidance in the General Subsections of that Subtopic, relating to a controlling financial interest, or the guidance in paragraphs 805-10-55-11 through 55-15. For a business combination that is effected primarily by exchanging equity interests in which a VIE is acquired, the factors in paragraphs 805-10-55-12 through 55-15 shall be considered in determining which entity is the accounting acquirer.

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### • > Identifying the Acquirer

**805-10-55-10** Paragraph 805-10-25-5 provides that the guidance in the General Subsections of Subtopic 810-10 related to determining the existence of a controlling financial interest should be used to identify the acquirer in a business combination, except when a {add glossary link}variable interest entity{add glossary link} (VIE) is acquired. If a business combination has occurred but applying that guidance does not clearly indicate which of the combining entities is the acquirer, paragraph 805-10-25-5 requires the factors in paragraphs 805-10-55-11 through 55-15 to be considered in making that determination. For a business combination that is effected primarily by exchanging equity interests in which a VIE is acquired, the factors in paragraphs 805-10-55-12 through 55-15 shall be considered in determining which entity is the accounting acquirer. For a business combination that is not effected primarily by exchanging equity interests in which a VIE is acquired, the **primary beneficiary** of that entity is the accounting acquirer.

**805-10-55-11** In a business combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer usually is the entity that transfers the cash or other assets or incurs the liabilities.

**805-10-55-12** In a business combination effected primarily by exchanging equity interests, the acquirer usually is the entity that issues its equity interests. However, in some business combinations, commonly called **reverse acquisitions**, the issuing entity is the acquiree. Subtopic 805-40 provides

guidance on accounting for reverse acquisitions. Other pertinent facts and circumstances also shall be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including the following:

- a. The relative voting rights in the combined entity after the business combination. The acquirer usually is the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In determining which group of owners retains or receives the largest portion of the voting rights, an entity shall consider the existence of any unusual or special voting arrangements and options, warrants, or convertible securities.
- b. 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 acquirer usually is the combining entity whose single owner or organized group of owners holds the largest minority voting interest in the combined entity.
- c. The composition of the governing body of the combined entity. The acquirer usually is the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.
- d. The composition of the senior management of the combined entity. The acquirer usually is the combining entity whose former management dominates the management of the combined entity.
- e. The terms of the exchange of equity interests. The acquirer usually is the combining entity that pays a premium over the precombination **fair value** of the equity interests of the other combining entity or entities.

**805-10-55-13** The acquirer usually is the combining entity whose relative size (measured in, for example, assets, revenues, or earnings) is significantly larger than that of the other combining entity or entities.

**805-10-55-14** In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities, as discussed in paragraph 805-10-55-13.

**805-10-55-15** A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the

guidance in paragraphs 805-10-55-10 through 55-14. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

6. Add paragraph 805-10-65-5 and its related heading as follows:

## **Transition and Open Effective Date Information**

### **> Transition Related to Accounting Standards Update No. 2025-03, Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity**

**805-10-65-5** The following represents the transition and effective date information related to Accounting Standards Update No. 2025-03, *Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*:

#### **Effective date and early adoption**

- a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
- b. Early adoption of the pending content that links to this paragraph is permitted in an interim or annual reporting period in which financial statements have not yet been issued (or made available for issuance). If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall adopt the pending content as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period.

#### **Transition method**

- c. An entity shall apply the pending content that links to this paragraph on a prospective basis to all **business combinations** that have an **acquisition date** that occurs on or after the date of initial application of the pending content.

## **Transition disclosures**

- d. An entity applying the pending content that links to this paragraph shall disclose in both the interim reporting period (if applicable) and the annual reporting period of the change the nature of and reason for the change in accounting principle.

## **Amendments to Subtopic 805-50**

7. Amend paragraph 805-50-25-5, with a link to transition paragraph 805-10-65-5, as follows:

### **Business Combinations—Related Issues**

#### **Recognition**

#### **Pushdown Accounting**

**805-50-25-5** The guidance in the General Subsections of Subtopic 810-10 on consolidation, related to determining the existence of a controlling financial interest shall be used to identify the acquirer. If a {add glossary link}business combination{add glossary link} has occurred but applying that guidance does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 805-10-55-11 through 55-15 shall be considered in identifying the acquirer. However, if the acquiree is a **variable interest entity** (VIE), the {add glossary link}primary beneficiary{add glossary link} of the acquiree ~~always~~ is the acquirer unless the business combination is effected primarily by exchanging equity interests. The determination of which party, if any, is the primary beneficiary of a VIE shall be made in accordance with the guidance in the Variable Interest Entities Subsections of Subtopic 810-10, not by applying the guidance in the General Subsections of that Subtopic relating to a controlling financial interest or the guidance in paragraphs 805-10-55-11 through 55-15. For a business combination that is effected primarily by exchanging equity interests in which a VIE is acquired, the factors in paragraphs 805-10-55-12 through 55-15 shall be considered in determining which entity is the accounting acquirer.

## Amendments to Subtopic 810-10

8. Amend paragraph 810-10-30-2, with a link to transition paragraph 805-10-65-5, as follows:

### **Consolidation—Overall**

#### **Initial Measurement**

#### **Variable Interest Entities**

##### **> Valuation of Assets, Liabilities, and Noncontrolling Interests in a Newly Consolidated VIE**

##### **• > Entities Not under Common Control**

**810-10-30-2** The initial consolidation of a VIE that is a **business** in which the primary beneficiary is the accounting acquirer is a **business combination** and shall be accounted for in accordance with the provisions in Topic 805. If a business combination in which a VIE is acquired is effected primarily by exchanging equity interests, the factors in paragraphs 805-10-55-12 through 55-15 shall be considered in determining which entity is the accounting acquirer. If an acquisition transaction is a reverse acquisition and the accounting acquiree meets the definition of a business, the provisions of Subtopic 805-40 shall be applied. For a business combination that is not effected primarily by exchanging equity interests in which a VIE is acquired, the primary beneficiary of that entity is the accounting acquirer.

## Amendments to Status Sections

9. Amend paragraph 220-40-00-1, by adding the following item to the table, as follows:

**220-40-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025

10. Amend paragraph 270-10-00-1, by adding the following items to the table, as follows:

**270-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

11. Amend paragraph 350-10-00-1, by adding the following items to the table, as follows:

**350-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

12. Amend paragraph 350-20-00-1, by adding the following items to the table, as follows:

**350-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

13. Amend paragraph 350-30-00-1, by adding the following items to the table, as follows:

**350-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

14. Amend paragraph 420-10-00-1, by adding the following items to the table, as follows:

**420-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

15. Amend paragraph 450-10-00-1, by adding the following items to the table, as follows:

**450-10-00-1** The following table identifies the changes made to this Subtopic.



<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

16. Amend paragraph 460-10-00-1, by adding the following items to the table, as follows:

**460-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

17. Amend paragraph 730-10-00-1, by adding the following items to the table, as follows:

**730-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

18. Amend paragraph 730-20-00-1, by adding the following items to the table, as follows:

**730-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

19. Amend paragraph 740-10-00-1, by adding the following items to the table, as follows:

**740-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

20. Amend paragraph 805-10-00-1, by adding the following items to the table, as follows:

**805-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Primary Beneficiary</b>	Added	2025-03	05/12/2025
805-10-25-5	Amended	2025-03	05/12/2025
805-10-55-10	Amended	2025-03	05/12/2025
805-10-65-5	Added	2025-03	05/12/2025

21. Amend paragraph 805-20-00-1, by adding the following items to the table, as follows:

**805-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

22. Amend paragraph 805-30-00-1, by adding the following items to the table, as follows:

**805-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

23. Amend paragraph 805-40-00-1, by adding the following items to the table, as follows:

**805-40-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

24. Amend paragraph 805-50-00-1, by adding the following items to the table, as follows:

**805-50-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Primary Beneficiary</b>	Added	2025-03	05/12/2025
805-50-25-5	Amended	2025-03	05/12/2025

25. Amend paragraph 805-60-00-1, by adding the following items to the table, as follows:

**805-60-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

26. Amend paragraph 805-740-00-1, by adding the following items to the table, as follows:

**805-740-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

27. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

**810-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Reverse Acquisition</b>	Added	2025-03	05/12/2025
810-10-30-2	Amended	2025-03	05/12/2025

28. Amend paragraph 815-10-00-1, by adding the following items to the table, as follows:

**815-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

29. Amend paragraph 820-10-00-1, by adding the following items to the table, as follows:

**820-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025

30. Amend paragraph 842-10-00-1, by adding the following items to the table, as follows:

**842-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

31. Amend paragraph 842-20-00-1, by adding the following items to the table, as follows:

**842-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

32. Amend paragraph 842-50-00-1, by adding the following items to the table, as follows:

**842-50-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

33. Amend paragraph 954-805-00-1, by adding the following items to the table, as follows:

**954-805-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

34. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

**958-805-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

35. Amend paragraph 985-20-00-1, by adding the following items to the table, as follows:

**985-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Acquirer</b>	Amended	2025-03	05/12/2025
<b>Variable Interest Entity</b>	Superseded	2025-03	05/12/2025

*The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Richard R. Jones, *Chair*  
Hillary H. Salo, *Vice Chair*  
Christine A. Botosan  
Frederick L. Cannon  
Susan M. Cospers  
Marsha L. Hunt  
Dr. Joyce T. Joseph



# Background Information and Basis for Conclusions

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## Introduction

BC1. The Emerging Issues Task Force (EITF) Agenda Committee added a project to the EITF's agenda on determining the accounting acquirer when the legal acquiree is a VIE in response to an issue identified in an agenda request sent to the Board in November 2023. The EITF discussed the issue, developed a proposed solution, and recommended that the Board add a project to its technical agenda to amend the guidance in Topic 805 and Topic 810, Consolidation. Specifically, the EITF recommended changing how the accounting acquirer in a business combination effected primarily by exchanging equity interests is determined when the legal acquiree is a VIE.

BC2. The following summarizes the EITF's considerations in reaching its recommendation and includes the Board's basis for supporting the amendments in this Update. It also includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC3. Under current guidance, in a business combination in which a VIE is acquired, the primary beneficiary of that entity always is the accounting acquirer. Stakeholders indicated that the current guidance for determining the accounting acquirer results in a lack of comparability between transactions involving VIEs and those not involving VIEs. Specifically, stakeholders noted that if the legal acquiree is a VIE, the transaction cannot be accounted for as a reverse acquisition. Stakeholders also noted that this affects not only the determination of which party is the accounting acquirer but also whether a business combination has occurred.

BC4. The Board added a narrow-scope project to its agenda on July 17, 2024, to address whether the primary beneficiary should always be the accounting acquirer of a VIE that meets the definition of a business.

BC5. The Board issued the proposed Accounting Standards Update, *Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest*

*Entity*, for public comment on October 30, 2024, with the comment period ending on December 16, 2024.

BC6. The Board received 15 comment letters in response to the proposed Update. Overall, comment letter respondents expressed support for the amendments in the proposed Update, noting that the proposed amendments (a) would enhance the comparability of financial statements across entities engaging in acquisition transactions effected primarily by exchanging equity interests when the legal acquiree meets the definition of a business, (b) would provide decision-useful information to investors and other allocators of capital, and (c) were clear and operable.

BC7. The Board considered stakeholder feedback during redeliberations, including feedback on potential clarifications and improvements in reaching the conclusions in this Update, as discussed below.

BC8. To address stakeholder concerns, the amendments in this Update require an entity involved in an acquisition transaction that meets all of the following conditions to consider the factors in paragraphs 805-10-55-12 through 55-15 to determine which entity is the accounting acquirer:

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

## Background Information

### Identifying the Accounting Acquirer

BC9. Topic 805 requires that an entity apply the acquisition method for all business combinations. The acquisition method establishes a new accounting basis for the accounting acquiree's (but not the accounting acquirer's) assets and liabilities in the consolidated financial statements of the acquirer. When a new accounting basis is established, an entity's assets and liabilities are recognized and initially measured under the guidance in Topic 805. Accordingly, a new accounting basis can result in the recognition of goodwill and previously unrecognized intangible assets and generally requires a one-time remeasurement of an entity's assets and liabilities at fair value (subject to the exceptions in Topic 805).

BC10. Under the acquisition method, one of the combining entities is required to be identified as the accounting acquirer, while one or more entities may be identified as an acquiree. Because a new accounting basis is established only for the accounting acquiree in the consolidated financial statements of the acquirer, determining the accounting acquirer and acquiree can significantly affect the carrying amounts of the combined entity's assets and liabilities, which, in turn, can affect postcombination net income. Additionally, the accounting acquiree must be a business or the transaction would not be accounted for as a business combination.

BC11. Topic 805 provides guidance for identifying the accounting acquirer. This guidance was originally developed as part of FASB Statement No. 141, *Business Combinations*, in 2001, before the development of the VIE model. That guidance was later amended by FASB Statement No. 141 (revised 2007), *Business Combinations*.

BC12. The current guidance for identifying the acquirer in Topic 805 is consistent with the guidance that was issued in Statement 141(R). Under the current guidance, a reporting entity is required to consider the factors in paragraphs 805-10-55-11 through 55-15 to determine which entity is the accounting acquirer in a business combination if (a) the legal acquiree is not a VIE and (b) the application of the General Subsections of Subtopic 810-10, Consolidation—Overall, does not clearly indicate which of the combining entities is the acquirer.

BC13. Applying the factors in paragraphs 805-10-55-11 through 55-15 can result in a business combination being accounted for as a reverse acquisition in which the legal acquirer is identified as the acquiree for accounting purposes. In a reverse acquisition, the legal acquirer obtains ownership of the legal acquiree, but the legal acquirer issues enough of its own voting interests as consideration that the factors in paragraphs 805-10-55-11 through 55-15 indicate that control of the combined entity passes to the owners of the legal acquiree.

BC14. The acquirer determination also can affect whether a transaction is accounted for as a business combination; that is, if the accounting acquiree does not meet the definition of a business, the transaction is not within the scope of the business combinations guidance in Topic 805. This can occur, for example, when the legal acquirer does not meet the definition of a business

and application of the factors in paragraphs 805-10-55-11 through 55-15 indicates that the legal acquiree's owners control the combined entity.

BC15. However, under current guidance, in a business combination in which a VIE is acquired, the primary beneficiary of that entity always is the accounting acquirer. Therefore, if the legal acquiree is a VIE, a reporting entity is prohibited from considering the factors in paragraphs 805-10-55-11 through 55-15 to determine which entity is the accounting acquirer. The amendments in this Update address stakeholder concerns about this guidance and its effect on financial reporting outcomes.

## Identifying the Accounting Acquirer in Transactions Involving VIEs

BC16. The VIE model, including the recognition and initial measurement requirements for the primary beneficiary, was first established by FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, which the Board issued in January 2003. Later that year, the Board issued FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to address certain implementation issues in Interpretation 46.

BC17. Although Interpretation 46(R) based some of the recognition and initial measurement requirements for the primary beneficiary of a VIE that is a business on the business combinations guidance in Statement 141, it did not consider whether there could be circumstances in which the accounting acquiree could be different from the legal acquiree.

BC18. In Statement 141(R), the Board amended Interpretation 46(R) to clarify that the initial consolidation of a VIE that is a business is a business combination. This further aligned the requirements for acquisitions of VIEs and voting interest entities that met the definition of a business. Additionally, Statement 141(R) established guidance stating that in a business combination in which a VIE is acquired, the primary beneficiary of that entity always is the acquirer. That guidance was codified in paragraph 805-10-25-5 as well as in the Master Glossary definition of the term *acquirer*.

## Revisions to the Requirements for VIEs

BC19. Since Statement 141(R) was issued, there have been several significant revisions to the guidance for determining whether a legal entity is a VIE and, if the entity is a VIE, which entity, if any, should be the primary beneficiary.

BC20. One major revision to the guidance for VIEs was the change to the primary beneficiary determination in FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, which was issued in 2009. Statement 167 eliminated the quantitative approach previously required for determining the primary beneficiary of a VIE. In its place, Statement 167 established that the primary beneficiary is the entity that has both (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

BC21. In 2015, the Board also made significant changes to the guidance for determining whether an entity is a VIE and which entity, if any, is the primary beneficiary. Among other revisions, the amendments in Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, changed the guidance for determining whether a limited partnership or similar entity is a VIE. Under the amendments in Update 2015-02, a limited partnership (or similar entity, such as a limited liability company [LLC] with governing provisions that are the functional equivalent of a limited partnership) is a VIE if the general partner cannot be removed (via kick-out rights) by a simple majority or lower threshold of the limited partners or blocked by the limited partners with equity at risk (via substantive participating rights).

BC22. Together, these changes increased the likelihood that certain limited partnerships and LLCs would be VIEs and affected which entity would be the primary beneficiary in certain transactions.

## Benefits and Costs

BC23. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource

allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC24. On the basis of the EITF's discussions and comment letter feedback received on the proposed Update, the Board concluded that the amendments in this Update will enhance the comparability of financial statements across entities engaging in acquisition transactions effected primarily by exchanging equity interests when the legal acquiree meets the definition of a business. Specifically, under the amendments, acquisition transactions in which the legal acquiree is a VIE will, in more instances, result in the same accounting outcomes as economically similar transactions in which the legal acquiree is a voting interest entity. This aligns with the discussion of comparability in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, Chapter 3, *Qualitative Characteristics of Useful Financial Information*, which states that "for information to be comparable, like things must look alike and different things must look different" (paragraph QC23). In addition, the Board notes that by improving comparability, investors will receive more decision-useful information.

BC25. Comment letter respondents did not express concerns about the costs to implement the amendments in the proposed Update, and several respondents indicated that the implementation costs were not expected to be significant. Accordingly, the Board does not anticipate that entities will incur significant costs to implement the amendments in this Update. While the Board acknowledges that there could be additional costs for entities to identify the accounting acquirer in certain acquisition transactions, it concluded that the additional costs associated with applying the factors in paragraphs 805-10-55-12 through 55-15 may not be significant because those factors are already applied to similar transactions under current guidance. In certain instances, the Board expects that the amendments will result in cost reductions (relative to current guidance) because fewer transactions may be identified as business combinations. Therefore, in those instances, a one-time

remeasurement of most of the legal acquiree's assets and liabilities at fair value is not required. Furthermore, application of a new accounting basis can result in ongoing costs to comply with the subsequent measurement requirements for certain assets, including intangible assets and goodwill. In addition, the amendments are narrow, and for a transaction that is determined to be a reverse acquisition, the required accounting is unchanged. The accounting required for a transaction in which the legal acquirer is not a business and is determined to be the accounting acquiree also is unchanged.

BC26. Therefore, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The Board's specific considerations about the benefits and costs of these amendments are further discussed in subsequent sections below.

## Basis for Conclusions

BC27. The amendments in this Update require an entity involved in an acquisition transaction effected primarily by exchanging equity interests when the legal acquiree is a VIE that meets the definition of a business to consider the factors in paragraphs 805-10-55-12 through 55-15 to determine which entity is the accounting acquirer.

BC28. The current guidance creates significant inconsistencies in financial reporting outcomes among economically similar transactions. Therefore, the EITF and Board expect that the amendments in this Update, which require that an entity consider the factors to determine the accounting acquirer in these types of transactions, will improve comparability across the financial statements of entities that engage in acquisition transactions. Comment letter respondents concurred, indicating that the amendments in this Update will improve comparability.

## Transactions Affected by This Issue

BC29. The amendments in this Update affect acquisition transactions effected primarily by exchanging equity interests in which the legal acquiree is a VIE that meets the definition of a business.

BC30. EITF members noted that since the issuance of Update 2015-02, there has been an increase in the proportion of LLCs and limited partnerships that

are VIEs. EITF members also observed increases in the proportion of transactions involving legal acquirees (“target companies”) organized as LLCs relative to those organized as C corporations or other types of target companies. Therefore, EITF members indicated that the current guidance that requires that the primary beneficiary always be the accounting acquirer frequently affects financial reporting outcomes.

BC31. EITF members also noted that, in certain common structures, target entities that are organized as LLCs are typically VIEs. For example, in an umbrella partnership C corporation or “Up-C” structure, the legal acquiree is a partnership entity and would typically be a VIE because the general partner (or managing member) cannot be removed or blocked by the other equity interest holders. In recent years, certain transactions effected primarily by the exchange of equity interests have utilized an Up-C structure, including when a partnership entity merges with an existing public entity such as an existing operating business or a special-purpose acquisition company (SPAC). Because the partnership entity in an Up-C structure is a VIE, under current guidance, the primary beneficiary always is the accounting acquirer.

BC32. Additionally, EITF members noted that entities affected by this issue are not necessarily limited to those organized as limited partnerships or LLCs. For example, entities (including C corporations) have been determined to be VIEs because the total equity investment at risk is not sufficient to permit those entities to finance their activities without additional subordinated financial support. Therefore, the determination of whether an entity has insufficient equity at risk also has affected the identification of the accounting acquirer in practice.

BC33. EITF members also observed that this results in noncomparability among economically similar transactions. For example, in de-SPAC transactions (mergers between a SPAC and a target entity), the target entity may be a C corporation that has sufficient equity at risk. Often, in those transactions, the legal acquiree is not a VIE and, through application of the factors, may be identified as the accounting acquirer (with the SPAC being identified as the accounting acquiree). When the SPAC is identified as the accounting acquiree, a de-SPAC transaction may not be accounted for as a business combination if the SPAC does not meet the definition of a business, and a new basis of accounting is not established for the target entity.



BC34. However, if the target entity is a VIE (for example, because the transaction uses an Up-C structure), current guidance results in the SPAC being identified as the accounting acquirer and the target entity being identified as the accounting acquiree. In those scenarios, a new basis of accounting is established for the target entity's assets and liabilities. As a result, the financial reporting results of economically similar transactions can be significantly different.

## Scope

### *Acquisitions of VIEs That Meet the Definition of a Business*

BC35. The amendments in this Update affect acquisitions of VIEs that meet the definition of a business in Topic 805. Therefore, the amendments require that an entity consider the factors in many current common transactions, including those in which an existing public entity merges with (a) a target entity that meets the definition of a business using an Up-C structure or (b) a target entity that meets the definition of a business but whose equity at risk is insufficient. The amendments do not affect the accounting for an acquired VIE that does not meet the definition of a business or for transactions in which the legal acquiree is a voting interest entity.

BC36. EITF members acknowledged that there are fact patterns similar to those raised in the agenda request in which the acquired VIE does not meet the definition of a business in Topic 805. The EITF indicated that if a VIE does not meet the definition of a business, its primary beneficiary is the acquirer because it is required to recognize and initially measure the VIE's identifiable assets and liabilities (generally at fair value) in accordance with Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest. The EITF acknowledged that its recommended solution could result in requirements that differ depending on whether an acquired VIE meets the definition of a business.

BC37. The EITF considered whether its recommended solution should be broader and include transactions in which the entity acquired is a VIE that does not meet the definition of a business or is a voting interest entity. However, EITF members noted that they would need to consider a wider range of practice issues to address and establish consistent requirements for a broader set of

fact patterns. In addition, EITF members noted that they were unaware of operability or financial reporting outcome concerns related to business combinations in which the legal acquiree is a voting interest entity. Therefore, to expeditiously address the most pressing issues, the EITF recommended that its solution be limited to acquired VIEs that meet the definition of a business.

BC38. Comment letter respondents broadly supported requiring that an entity consider the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer in the acquisition of a VIE that meets the definition of a business in Topic 805. Their reasons for supporting the amendments in the proposed Update aligned with those articulated by the EITF.

BC39. A few comment letter respondents indicated that there are acquisitions similar to those addressed by the amendments in the proposed Update in which the VIE does not meet the definition of a business. Those respondents suggested that the Board consider broadening the applicability of the proposed amendments to address those acquisitions. By contrast, other stakeholders expressed concerns that expanding the applicability of the proposed amendments could result in unintended consequences or could require that the Board more comprehensively revisit the existing guidance for determining the accounting acquirer.

BC40. The Board considered this feedback and concluded that the accounting for acquisitions of VIEs that do not meet the definition of a business will not be affected by the amendments in this Update. Some Board members also noted that more broadly resolving differences between the accounting for asset acquisitions and business combinations would require a significant expansion of the scope of the amendments in the proposed Update. Therefore, by focusing specifically on acquisitions of VIEs that meet the definition of a business, the amendments in this Update address a pervasive issue while minimizing the risks of unintended consequences.

BC41. The Board also determined that other issues arising from transactions outside the scope of the amendments in this Update could be considered in future standard-setting projects if the Board's agenda decision criteria are met. The Board will consider any relevant feedback that is received, including in connection with the Invitation to Comment, *Agenda Consultation*, which was issued in January 2025.

## *Acquisitions Effected Primarily by Exchanging Equity Interests*

BC42. The amendments in this Update require that an entity consider the factors in paragraphs 805-10-55-12 through 55-15 when a VIE that meets the definition of a business is acquired in a transaction *effected primarily by exchanging equity interests*. Therefore, under the amendments, the current guidance in paragraph 805-10-25-5 stating that the primary beneficiary of a VIE that is a business is the accounting acquirer is retained for transactions that are not effected primarily by exchanging equity interests.

BC43. EITF members supported leveraging the phrase *effected primarily by exchanging equity interests* because it is already used in Topic 805, it is well understood, and it is currently applied in practice. In addition, some EITF members explained that including the word *primarily* is helpful when evaluating transactions involving more than one form of consideration transferred.

BC44. The EITF determined that many of the factors used to identify the accounting acquirer are tailored to transactions effected primarily by exchanging equity interests (such as “relative voting rights” in paragraph 805-10-55-12(a)). Those factors may not be operable if applied to transactions not effected primarily by exchanging equity interests. Therefore, the EITF recommended narrow amendments to limit the potential for unintended consequences.

BC45. EITF members also stated that they were not aware of concerns about the financial reporting outcomes for acquisitions of VIEs that meet the definition of a business that are not effected primarily through the exchange of equity interests. For example, the EITF’s research did not identify a sufficiently pervasive need to address transactions in which a primary beneficiary obtains a controlling financial interest in a VIE that is a business through a contractual arrangement that is determined to be a variable interest.

BC46. Comment letter respondents generally did not provide feedback on the proposed Update’s focus on acquisition transactions effected primarily by exchanging equity interests. However, some respondents noted that addressing other transactions could result in unintended consequences. Others noted that the primary beneficiary should continue to be the accounting acquirer if a transaction is not effected primarily by exchanging equity interests.

BC47. A few comment letter respondents suggested that the Board consider more comprehensively aligning the guidance for identifying the accounting acquirer for VIEs and voting interest entities, including for transactions not effected primarily by exchanging equity interests. Those respondents indicated that this could be achieved by requiring that an entity consider the factors in paragraphs 805-10-55-11 through 55-15 for any acquisition in which the accounting acquirer is not clear, regardless of whether the legal acquiree is a VIE.

BC48. The Board determined that there is not currently a pervasive need to address acquisitions of VIEs that are not effected primarily by exchanging equity interests. The Board also observed that it is unclear (a) whether applying the factors in paragraphs 805-10-55-11 through 55-15 to acquisitions of VIEs that are *not* primarily effected by exchanging equity interests would be operable and (b) how applying those factors would affect outcomes.

## Application of the Factors

BC49. The amendments in this Update require that an entity consider the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer in more acquisition transactions than is required under current guidance. This better aligns the financial reporting outcomes with both the economic substance of the transactions and the current requirements for acquisitions of voting interest entities.

BC50. Certain EITF members acknowledged that in comparison with current guidance (which requires that the primary beneficiary always be the accounting acquirer), requiring that an entity consider the factors to determine the accounting acquirer will necessitate applying greater judgment. However, since the factors are currently applied in other transactions, the EITF does not expect that entities will encounter unique challenges when applying them.

BC51. Because expanding the required use of the factors when determining the accounting acquirer may result in fewer acquisitions being accounted for as business combinations, the EITF also considered how investors would be affected if a new basis of accounting were required less frequently. EITF members discussed whether applying a new basis of accounting provides investors and other allocators of capital with decision-useful information about an entity's assets and liabilities, but they ultimately agreed with the EITF's

recommended solution for a variety of reasons, including the narrow scope of the project.

BC52. For example, some EITF members highlighted that applying a new basis of accounting can significantly affect an entity's financial statements and, therefore, reducing inconsistent application of a new basis of accounting across similar transactions was an important consideration. Therefore, investors may not benefit from a new basis of accounting being applied inconsistently by entities that engage in similar transactions or being applied only because the legal acquiree is a VIE. The EITF discussed a transaction in which the former owners of a legal acquiree collectively own a significant majority of the voting rights in the combined entity (which is one of the factors required to be considered in paragraph 805-10-55-12(a)). EITF members indicated that transactions structured in this manner may be economically similar to initial public offerings (which generally do not result in a new basis of accounting) but are accounted for as business combinations under current guidance.

BC53. Comment letter respondents generally supported expanding the required assessment of the factors in paragraphs 805-10-55-12 through 55-15 when determining the accounting acquirer. Some respondents specifically noted that the current factors are understood in practice and would be operable when applied to transactions within the scope of the amendments in this Update. On the basis of the feedback received, the Board affirmed the proposed amendments to require that an entity consider the factors in paragraphs 805-10-55-12 through 55-15 in acquisition transactions effected primarily by exchanging equity interests when the legal acquiree is a VIE that meets the definition of a business.

## Other Alternatives Considered

BC54. The EITF also considered other potential solutions that were identified but not recommended to the Board.

BC55. Under one alternative, an entity would consider the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer only if the consolidation guidance "does not clearly indicate which of the combining entities is the acquirer." This alternative would have clarified that a transaction effected primarily through the exchange of equity interests is an example of a transaction in which the consolidation guidance does not clearly indicate which of the combining entities is the acquirer. However, some EITF

members were concerned that this alternative could result in uncertainty about when the factors should be applied.

BC56. Another alternative considered was to eliminate the requirement that the primary beneficiary always is the acquirer from Topic 805 and Topic 810 without making other revisions to the guidance in those Topics. However, EITF members expressed concerns about the operability and potential unintended consequences of this alternative. For example, under this alternative, an entity with a variable interest in a VIE could be required to identify the accounting acquirer by applying the guidance in the General Subsections of Subtopic 810-10 (which includes the voting interest entity model), rather than by applying the guidance in the Variable Interest Entities Subsections. Because a controlling financial interest in a VIE is often not conveyed through a majority voting interest, EITF members expressed concerns that applying the guidance in that way would not be operable for many transactions in which an entity acquires a VIE.

BC57. Comment letter respondents generally agreed with the amendments in the proposed Update, including the guidance specifying when an entity should consider the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer. Although some respondents suggested alternative approaches that were similar to those considered by the EITF, the Board concluded that the amendments in this Update appropriately balance improving GAAP and mitigating the risk of unintended consequences.

## Other Feedback Received

BC58. Some comment letter respondents asked that the Board clarify whether the determination of the accounting acquirer affects the applicability of the disclosure requirements for the primary beneficiary of a VIE in Section 810-10-50.

BC59. The amendments in this Update do not change the disclosure requirements for the primary beneficiary of a VIE, and those disclosure requirements do not depend on whether the assets and liabilities of a VIE are subject to a new basis of accounting when the VIE is initially consolidated. However, the Board highlighted that there are exemptions from certain disclosures in paragraphs 810-10-50-3 and 810-10-50-5B that could apply to a transaction effected primarily by exchanging equity interests. Those exemptions apply when the primary beneficiary holds a majority voting interest

in the VIE, the VIE meets the definition of a business, and the VIE's assets can be used for purposes other than the settlement of the VIE's obligations. The Board determined that no further clarifications to the amendments to address this feedback were needed.

## Comparison with International Financial Reporting Standards (IFRS Accounting Standards)

BC60. IFRS 3, *Business Combinations*, requires application of factors that are the same as those in paragraphs 805-10-55-11 through 55-15 when the guidance in IFRS 10, *Consolidated Financial Statements*, does not clearly indicate which of the combining entities is the acquirer. However, IFRS 10 does not contain separate VIE and voting interest entity models, and IFRS 3 does not contain guidance that results in any specific entity "always" being the accounting acquirer. Therefore, the amendments in this Update, which broaden the application of the factors to determine the accounting acquirer, are expected to improve comparability among entities reporting under GAAP and those reporting under IFRS Accounting Standards.

## Effective Date, Transition, and Early Adoption

### *Effective Date*

BC61. The amendments in this Update are effective for all entities for annual reporting periods beginning after December 15, 2026, including interim reporting periods within those annual reporting periods. Comment letter respondents generally indicated that the amendments in the proposed Update would not require significant time to implement or result in entities incurring significant costs.

BC62. Comment letter respondents' feedback was mixed on whether the effective date of the amendments in this Update should be the same for public business entities and entities other than public business entities. Some indicated that because the amendments are not expected to be costly to implement, the same effective date should be required for all entities. Others indicated that entities other than public business entities should receive additional time to adopt the amendments due to resource constraints.

BC63. Some comment letter respondents also indicated that since transactions that may be affected by the amendments in this Update might involve both a public business entity and a private company, the Board should provide the same effective date for all entities. The Board also noted that because of the expected timing of the issuance of this Update (and because many private companies do not issue GAAP financial statements for interim reporting periods), many private companies would have almost two years before they are required to adopt the amendments. Therefore, the Board decided to require the same effective date of the amendments for all entities.

### *Transition*

BC64. The amendments in this Update are required to be applied prospectively. The EITF noted that amendments to the business combinations guidance generally require prospective application given the costs and limited expected benefits of recasting business combinations that occurred in prior periods.

BC65. Comment letter respondents broadly supported requiring prospective application of the amendments in the proposed Update, with some noting that retrospective application would be difficult and may not provide significant benefits to investors. Therefore, consistent with the proposed amendments, the amendments in this Update are required to be applied prospectively.

### *Early Adoption*

BC66. The amendments in this Update permit early adoption for all entities in an interim or annual reporting period in which financial statements have not yet been issued (or made available for issuance). The EITF, the Board, and comment letter respondents all supported early adoption of the amendments.

BC67. The Board also considered whether it should require an entity that early adopts the guidance in an interim reporting period to apply the amendments in this Update as of the beginning of the associated annual reporting period. Under this approach, an entity that early adopts in an interim reporting period would apply the amendments retrospectively to any acquisition transactions occurring between the beginning of the annual reporting period and the date of initial adoption. Many comment letter respondents and some Board members supported this approach for early adoption because it would be consistent with (a) the current requirements in Topic 250, Accounting Changes and Error



Corrections, and Topic 270, Interim Reporting, for accounting changes in interim periods and (b) the requirements in other recent Accounting Standards Updates. Some stakeholders and Board members also highlighted that, under this approach, all entities that early adopt the amendments would be required to apply the guidance as of the beginning of an annual reporting period regardless of whether those entities issue GAAP financial statements for interim reporting periods. They also were concerned that allowing adoption as of the beginning of an interim reporting period other than the beginning of the annual reporting period could result in different accounting for entities that issue interim and annual financial statements and notes in accordance with GAAP and entities that only issue annual financial statements and notes in accordance with GAAP.

BC68. By contrast, other stakeholders noted that requiring an entity to retrospectively recast a past business combination to reflect a different conclusion about which entity is the accounting acquirer could be costly. Those respondents indicated that the anticipation of those costs could cause an entity to forgo early adoption.

BC69. In addition to those considerations, the Board deliberated whether the early adoption approaches would add unnecessary complexity and would be consistent with requiring prospective application. The Board emphasized that few entities are expected to have multiple transactions affected by the amendments in this Update in the same annual reporting period and concluded that an entity should be permitted to apply the amendments as of the beginning of an interim or annual reporting period.

## Amendments to the GAAP Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). Those improvements, which will be incorporated into the proposed 2026 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.