

# Snapshot

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SNAPSHOT 2025-06

## Determining the acquirer of a variable-interest entity

The FASB recently issued [Accounting Standards Update \(ASU\) 2025-03, \*Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity \(Business Combinations \(Topic 805\) and Consolidation \(Topic 810\)\)\*](#), to amend the guidance for identifying the accounting acquirer of a variable-interest entity (VIE) in ASC 805, *Business Combinations*.

Prior to the amendments, the guidance in ASC 805 stipulated that the primary beneficiary of a VIE acquired in a business combination would *always* be the accounting acquirer. The amendments in ASU 2025-03 revise this guidance to require entities to consider the factors in ASC 805-10-55-12 through 55-15 (refer to these paragraphs in the Appendix) when determining the accounting acquirer in a business combination that meets both of the following conditions:

- The transaction is effected primarily by exchanging equity interests; and
- The legal acquiree is a VIE that meets the definition of a “business” in ASC 805.

### **Grant Thornton insight: Transactions effected primarily by exchanging equity interests**

ASC 805 does not provide guidance for determining when a transaction is *effected primarily* by exchanging equity interests. As a result, for transactions effected by both an exchange of equity interests and cash payments to the selling shareholders, entities will need to apply judgment to determine whether the transaction was *effected primarily* by the exchange of equity interests. In making this determination, an entity may consider the relative value of the equity interests and cash exchanged in addition to other relevant factors.

The amendments in ASU 2025-03 retain the existing guidance for (1) transactions that are *not* effected primarily by exchanging equity interests in which the legal acquiree is a VIE that meets the definition of a business, and (2) all transactions in which the legal acquiree is a VIE that does *not* meet the definition of a business. In such transactions, the primary beneficiary of the acquired VIE is always the accounting acquirer.

### **Grant Thornton insight: Reverse acquisition**

In certain situations under ASC 805, the legal acquiree may be identified as the accounting acquirer in a business combination, in which case, purchase accounting should be applied by the legal acquiree to the legal acquirer. These transactions are known as “reverse acquisitions.”

Upon adoption of the amendments in ASU 2025-03, transactions primarily effected by the exchange of equity interests where the legal acquiree is a VIE that meets the definition of a “business” may qualify as reverse acquisitions. Under prior GAAP, such transactions would not have qualified as reverse acquisitions.

### **Effective date**

The amendments in ASU 2025-03 are effective for all entities for annual reporting periods beginning after December 15, 2026 and for interim reporting periods within those annual reporting periods.

Early adoption is permitted in an interim or annual reporting period in which the financial statements have not yet been issued or been made available for issuance.

If the guidance is adopted in an interim reporting period, it should be applied as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period.

### **Transition and transition disclosures**

The amendments in ASU 2025-03 apply prospectively to all business combinations with an acquisition date occurring on or after the date when the guidance is initially applied.

An entity should disclose the nature of and reason for the change in accounting principle in both the interim reporting period of adoption and the annual reporting period of adoption.

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### ASC 805-10-55

#### Implementation Guidance and Illustrations > Implementation Guidance > Identifying the Acquirer

##### ASC 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 **variable interest entity** (VIE) is acquired. If a business combination has occurred but applying that guidance does not clearly indicate which of the 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.

##### ASC 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.

##### ASC 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.

**ASC 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.

**ASC 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.

**ASC 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

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