

EARLY IMPRESSIONS

FASBs' Accounting Standard Update (ASU-2025-03)

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



1. FOREWORD

In a business combination accounting, the determination of the accounting acquirer can significantly affect the carrying amounts of the combined entity's assets and liabilities. The 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.

On May 12, 2025, FASB published an Accounting Standard Update (ASU) 2025-03 that improves the requirements for identifying the accounting acquirer for business combination transactions involving VIE as an acquiree entity.

The ASU will revise current guidance for determining the accounting acquirer for a transaction effected primarily by exchanging equity interests in which the legal acquiree is a variable interest entity that meets the definition of a business.

This publication summarizes the provisions of ASU towards **identification of acquirer** which may be relevant for entities undertaking business combinations by exchanging equity interest. The Board decided that the amendments will be effective for all entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2026.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

For Uniquis Consultech Inc.

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2. BACKGROUND

One of the key steps in application of acquisition method of accounting for Business Combination transaction is “Identification of the accounting acquirer”. The acquirer is defined as, “*The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer*”. In most of the cases, Identification of accounting acquirer is straightforward, however in certain circumstances it may be difficult to identify the accounting acquirer and may involve judgment, particularly when legal acquirer and accounting acquirer are different.

Generally, the entity that transfers the consideration (e.g., cash, other assets, or its equity interests) to effect the transaction are considered as the acquirer for accounting purposes. However, in some business combinations, the entity that issues its equity interests (the “legal acquirer”) is determined for accounting purposes to be the acquiree (also called the “accounting acquiree”), while the entity whose equity interests are acquired (the “legal acquiree”) is for accounting purposes the acquirer (also called the “accounting acquirer”). Such transactions are commonly called reverse acquisitions. Following summarizes the **Existing Guidance on determination of accounting acquirer-**

A. If the Legal acquiree is not a VIE

ASC 805 provides following general factors to be considered in determining which entity is the accounting acquirer;

Business Combinations- Effected Primarily by Transferring Cash or Other Assets or by Incurring Liabilities

General Rule: The acquirer usually is the entity that transfers the cash or other assets or incurs the liabilities.

Business Combinations- Effected Primarily by Exchanging Equity Interests

General Rule: : The acquirer usually is the entity that issues its equity interests, except under reverse acquisition. However other pertinent facts and circumstances (General factors) 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. • This assessment also requires an entity to 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 pre-combination fair value of the equity interests of the other combining entity or entities.

B. If the Legal acquiree is a VIE

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Under existing guidance 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

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

For example, 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 as applicable to non-VIE acquiree entity) if the partnership had not been a VIE. This may result in counterintuitive accounting acquirer conclusions in case of transactions involving VIE acquiree entities.

On May 12, 2025, the FASB issued an ASU 2025-03 to improve the requirements in ASC 805 for identifying the accounting acquirer. The amendment provides guidance on determination of accounting acquirer in the acquisition transaction effected primarily by exchanging equity interests, wherein legal acquiree is a Variable Interest Entity (VIE) that meets the definition of business.

3. KEY HIGHLIGHTS OF AMENDMENTS IN ASU

- The amendment requires entities to consider the general factors in Topic 805 when the acquisition of a VIE is primarily effected by issuing equity for determination of accounting owner, rather than restricting the conclusion to primary beneficiary as per existing guidance.
- The amendment applies to the 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)



- The scope of the amendment is limited to an acquisition of a VIE that is a business. Therefore, if the legal acquiree is a VIE and not a business, the primary beneficiary would always be the accounting acquirer.
- The amendment is expected to improve comparability across the financial statements of entities that engage in acquisition transactions.

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4. EFFECTIVE DATE AND TRANSITION

a. Effective date and transition

- The amendments in ASU are effective for annual reporting period beginning after December 15, 2026, and interim reporting periods¹ in fiscal years beginning after December 15, 2026. Early adoption is permitted in which financial statements have not yet been issued (or made available for issuance).
- The amendments will be applied prospectively to all business combinations with acquisition dates that occurs after the initial application date.

b. Applicability

- The amendment shall apply to all entities, including private companies.

For more information on the amendment in ASU, see the [press release](#) on the FASB's website.

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¹ 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.

A TEAM THAT YOU CAN TRUST TO DELIVER



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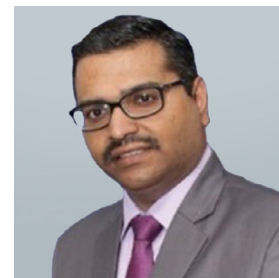
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