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December 10, 2024

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2024-ED500

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity* (proposed Update or proposal).

Overall, we support the Board's proposal that would require entities involved in acquisition transactions effected primarily by exchanging equity interests when the legal acquiree is a variable interest entity (VIE) that meets the definition of a business to consider the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer. However, we believe certain paragraphs of the proposal should be revised to improve operability and clarify intent, as further described in our response to Question 1.

Our responses to the questions posed in the proposed Update, other than those specifically directed solely at investors or preparers, are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1: Do you agree with the amendments in this proposed Update that would require 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 to consider the factors in paragraphs 805-10-55-12 through 55-15 to determine which entity is the accounting acquirer? Would the proposed amendments provide decision-useful information and improve comparability? Are the proposed amendments clear and operable? Please explain why or why not.

We agree with the proposed amendments that would require 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 to consider the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer. While we defer to investors on whether the proposed amendments will provide decision-useful information, we believe that they would improve comparability by providing similar accounting treatment for acquisition transactions with similar economics.

Because the proposed amendments would effectively expand the scope of existing guidance that is already being applied to other acquisition transactions with similar economics, we believe the proposed amendments are operable. We are not aware of any practice issues in applying the factors in paragraphs 805-10-55-12 through 55-15 to determine the accounting acquirer for current transactions, other than that there may be significant judgment involved. Additionally, due to the narrow scope of the proposed

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amendments, we do not anticipate new or unintended issues in applying these factors to acquisitions of VIEs that are subject to the proposed amendments.

We are aware that the scope of the proposed amendments would continue to preclude application of the factors in paragraphs 805-10-55-12 through 55-15 to certain acquisition transactions in which the legal acquiree is a VIE, such as when the VIE is not a business or the transaction is not effected primarily by exchanging equity interests. However, we believe that the scope of the proposed amendments addresses the most prevalent acquisition transactions that cause the lack of comparability between transactions involving VIEs and those that do not, and we believe that addressing the remaining transactions may have unintended consequences or require a more significant overhaul of the existing guidance. We believe that any remaining issues that are considered prevalent or pervasive could be addressed as part of the FASB's upcoming agenda consultation process.

While we believe the proposed amendments are generally operable, we suggest revising some of the proposed changes to clarify their intent. The intent of paragraph 810-10-30-2 is to describe the accounting requirements for the initial consolidation of a VIE by a primary beneficiary. Therefore, we recommend revising existing paragraph 810-10-30-2 as follows to focus more directly on how a primary beneficiary should initially consolidate a VIE under certain circumstances (our suggested amendments to the existing guidance are underlined):

810-10-30-2 The initial consolidation of a VIE that is a business is a **business combination** and shall be accounted for in accordance with the provisions in Topic 805 unless the initial consolidation is the result of an acquisition of a VIE that is effected primarily by exchanging equity interests and the VIE is determined to be the accounting acquirer. The factors in paragraphs 805-10-55-12 through 55-15 shall be considered in determining which entity is the accounting acquirer. If the VIE is determined to be the accounting acquirer and the accounting **acquiree** meets the definition of a business, the initial consolidation of the VIE is a **reverse acquisition** and shall be accounted for in accordance with the provisions in Subtopic 805-40.

We also suggest revising the proposed changes to paragraph 805-10-55-10 to more clearly link back to the guidance in paragraph 805-10-25-5 and mirror the existing guidance in paragraph 805-10-55-10. The following suggestion adds the proposed guidance as a separate paragraph in the Implementation Guidance and Illustrations subsection. Our suggested changes to the existing guidance are underlined:

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 (as discussed in paragraph 805-10-55-10A). 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.

805-10-55-10A Paragraph 805-10-25-5 provides that in a business combination in which a VIE is acquired, the primary beneficiary of that entity is the acquirer unless the business combination is effected primarily by exchanging equity interests. If the business combination 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.

Question 2: The proposed transition requirements would require entities to apply the proposed amendments on a prospective basis. Are the proposed transition requirements operable? If not, why not and what transition method would be more appropriate and why?

We believe that applying the proposed amendments on a prospective basis would be operable. We believe other transition methods, such as retrospective transition, would be difficult and complex to apply. Such a transition would require historical fair value information and accounting records as well as, depending on when the acquisition took place, adjustment of one or more subsequent accounting periods. It is also uncertain whether this information would be beneficial to users after the initial acquisition period.

Question 3: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not.

As noted in Question 1, the proposed amendments would effectively require the application of current guidance to a broader set of transactions. As such, we do not believe this would require a significant implementation period or effort; however, we ultimately defer to preparers.

In our experience, we generally believe that providing nonpublic business entities with additional time to learn from the transition experiences and interpretations of public business entities is helpful for those other entities. However, given the proposed amendments are already applied in practice to other transactions and the general distinctiveness of acquisition transactions, we do not think different effective dates are necessary.

Question 4: The proposed amendments would permit early adoption. If an entity early adopts the proposed amendments, should the entity be required to adopt those amendments as of the beginning of an annual reporting period? Please explain why or why not.

We believe that if an entity early adopts the proposed amendments, the entity should be required to adopt those amendments as of the beginning of an annual reporting period. We think that an entity should account for acquisitions consistently when they occur within the same financial reporting period and that the information required to account for past acquisitions within the same reporting period should be readily available. We note that there is recent past precedence for these types of requirements when an entity early adopts amendments related to business combinations. ASU 2021-08, *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, required entities who early adopted during an interim period to adopt those amendments as of the beginning of the annual reporting period.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Ryan Carter at 203.905.5059 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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