December 13, 2024

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RE: File Reference No. 2024-ED500

We appreciate the opportunity to provide feedback on the proposed Accounting Standards Update (ASU), *Business Combinations (Topic 805) and Consolidations (Topic 810)*, dated October 30, 2024. The purpose of the proposed ASU is to improve the requirements for identifying the accounting acquirer in Topic 805, *Business Combinations*.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below for the request for comment.

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.

Response:
The PSC is supportive of this proposed update as the amendments better reflect the economic reality of 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. As a result, the financial statements of entities engaged in such transactions will be comparable to economically similar transactions that do not involve a VIE and thus will provide more decision-useful information.

The PSC believes the proposed amendments are clear and operable. However, the PSC believes financial statement users and preparers would benefit further if the proposed ASU was modified such that it would apply to any acquisition transaction effected primarily by exchanging equity interests, whether or not the legal acquiree meets the definition of a business. The PSC recognizes that the EITF considered (and rejected) expanding the applicability of this guidance to VIEs that do not meet the definition of a business (as discussed in paragraphs BC31 – BC32 of the Basis for Conclusions); nonetheless, the PSC believes that preparers would benefit from having a single model to apply whether or not the legal acquiree is a business and financial statement users would benefit from having greater comparability for economically similar transactions.

For example, the proposed ASU, as it is currently written, cannot be applied to a transaction in which the legal acquiree is a VIE but does not meet the definition of a business, such as the following scenario:

Scenario 1

- A special purpose acquisition company (SPAC) is the legal acquirer and effects the acquisition of a legal acquiree by primarily exchanging equity interests.
- The legal acquiree is an early-stage life sciences company that is a VIE that does not meet the definition of a business (for example, because the screen test is met).
- The SPAC accounts for the initial consolidation of the VIE in accordance with ASC 810-10-30-3 through 30-4. That is, the VIE's assets and liabilities are recorded at fair value with the difference between the fair value of consideration paid and net assets acquired recorded as a gain or loss.

The PSC notes that if the legal acquiree in this example were a business, the determination of the accounting acquirer would likely be different. Therefore, in the short term, the PSC would be supportive of expanding the scope of this proposed ASU to include any acquisition transaction effected primarily by exchanging equity interests, whether or not the legal acquiree meets the definition of a business. In the long term, the PSC would be supportive of the Board developing a single consolidation model.

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?

Response:
The PSC agrees the proposed amendments should be applied on a prospective basis due to reduced costs for the implementation and limited benefits from a retroactive adoption.

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.

Response:
The PSC does not believe significant time will be needed to implement the proposed amendments as the concepts that will apply are not new. However, the PSC supports providing private companies with extra time to implement the proposed amendments, as is generally customary for other standards, as long as early adoption is allowed.

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.

Response:
The PSC is supportive of allowing companies the option to early adopt the proposed standard. The PSC also believes entities should be required to adopt those amendments as of the beginning of an annual or interim reporting period to provide greater consistency if there are multiple business combinations in the period presented.

We appreciate the opportunity to submit comments on the proposed ASU, *Business Combinations (Topic 805) and Consolidations (Topic 810).*

Sincerely,

Jeffrey Johanns, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants