

FASB Votes to Finalize ASU on Not-for-Profit Entities — Consolidation

At its meeting on November 9, 2016, the FASB redeliberated the amendments in its [proposed Accounting Standards Update](#)¹ (ASU) on clarifying when a not-for-profit entity (NFP) that is a general partner should consolidate a for-profit limited partnership or similar legal entity. The Board reaffirmed the proposed guidance and authorized its staff to draft a final ASU.

Background

Before the effective date of [ASU 2015-02](#),² ASC 958-810³ requires that an NFP that is a general partner of a for-profit limited partnership (or a similar legal entity) must apply the consolidation guidance in ASC 810-20,⁴ unless that partnership interest is reported at fair value in accordance with certain other guidance. Under ASC 810-20, there is a presumption that a general partner controls a limited partnership, regardless of the extent of its ownership interest, unless the presumption can be overcome. The presumption can be overcome if the limited partners have either substantive kick-out rights or substantive participation rights. The guidance in ASU 2015-02 supersedes the guidance in ASC 810-20, thus eliminating the presumption of control by the general partner, and adds new guidance in the General Subsection of ASC 810-10⁵ to include when limited partners should consolidate a legal entity, which presumes that a reporting entity would first navigate through the variable interest entity (VIE) subsection of ASC 810-10 before applying the guidance in the General Subsection. Since NFPs are generally excluded from the scope of the VIE subsection and the guidance in the General Subsection of ASC 810-10 (as amended by ASU 2015-02) does not address when a general partner should consolidate a limited partnership, questions have arisen regarding the application of the consolidation guidance to NFPs after the effective date of ASU 2015-02.

Accordingly, the FASB sought to clarify through the proposed ASU that an NFP that is a general partner of a for-profit limited partnership would presume to control the for-profit limited partnership, regardless of the extent of its ownership interest, unless the presumption can be overcome. Similar to the current guidance under ASC 810-20, the presumption can be overcome if the limited partners have either substantive kick-out rights or substantive participation rights. The proposed ASU also clarified when a limited partner should consolidate a for-profit limited partnership by incorporating the guidance that was added to the General Subsection of ASC 810-10 (as amended by ASU 2015-02) to ASC 958-810.

Decisions Made

The Board reaffirmed its tentative decisions in the proposed ASU, and thus reinstated the consolidation guidance that previously existed in ASC 810-20 by including it in ASC 958-810.

Transition

The Board affirmed its decisions on transition as follows:

- Entities that already have adopted the amendments in ASU 2015-02 would be required to apply the amendments retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in ASU 2015-02 were initially adopted.

¹ FASB Proposed Accounting Standards Update, *Clarifying When a Not-for-Profit Entity That Is a General Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*.

² FASB Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis*.

³ FASB Accounting Standards Codification (ASC or the "Codification") Subtopic 958-810, *Not-for-Profit Entities: Consolidation*.

⁴ FASB ASC Subtopic 810-20, *Consolidation: Control of Partnerships and Similar Entities*.

⁵ FASB ASC Subtopic 810-10, *Consolidation: Overall*.

- Entities that have not yet adopted the amendments in ASU 2015-02 would apply the same transition method elected for the application of ASU 2015-02.
- Entities would be required to provide disclosures in ASC 250-10-50-1 and 50-2⁶ (with the exception of the disclosure in ASC 250-10-50-1(b)(2)) in the period in which the entity adopts the amendments.

Effective Date

The final ASU will be effective for all NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

NFPs that have not yet adopted the amendments in ASU 2015-02 would be required to adopt the amendments in the final ASU at the same time they adopt the amendments in ASU 2015-02.

The Board also decided that early adoption would be permitted.

The final ASU is expected to be issued by the end of 2016.

⁶ FASB ASC Subtopic 250-10: *Accounting Changes and Error Corrections: Overall*.

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