



**ALERT**

## FASB Reinstates Presumption of Control for Not-for-Profit General Partners

The FASB recently issued guidance that reestablishes the presumption of control by not-for-profit entities (NFPs) that are general partners of for-profit limited partnerships and similar legal entities.<sup>1</sup> The FASB's 2015 consolidation guidance did not specify how NFPs should evaluate whether to consolidate for-profit limited partnerships.<sup>2</sup>

### Implementation for NFPs That

#### Have Adopted ASU 2015-02

NFPs will apply the new ASU retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in ASU 2015-02 initially were adopted

#### Have NOT Adopted ASU 2015-02

NFPs will apply the new ASU using the same transition method elected for ASU 2015-02

### Effective Date

- Annual periods in fiscal years beginning after December 15, 2016
- Interim periods in fiscal years beginning after December 15, 2017
- Early adoption permitted

<sup>1</sup> [FASB Accounting Standards Update No. 2017-02](#), Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity, January 12, 2017, available at [www.fasb.org](http://www.fasb.org).

<sup>2</sup> [FASB Accounting Standards Update No. 2015-02](#), Amendments to the Consolidation Analysis; and [FASB ASC Subtopic 810-20](#), Consolidation – Control of Partnerships and Similar Entities, both available at [www.fasb.org](http://www.fasb.org).

## NFP General Partners of For-profit Limited Partnerships and Similar Entities

### What is the issue?

Under ASU 2015-02, investors in limited partnerships must first evaluate whether those partnerships are variable interest entities. If so, the variable interest entity consolidation guidance applies. If not, the voting interest entity consolidation guidance applies.

ASU 2015-02 changed how investors in partnerships that are voting interest entities evaluate those partnerships for consolidation. It eliminated the presumption that the general partner controls a limited partnership. Instead, it requires investors to evaluate partnerships that are voting interest entities in generally the same manner as corporations that are voting interest entities (i.e., based on whether the investor has a majority of the voting rights).

NFPs generally apply the voting interest entity consolidation model because the variable interest entity provisions of the consolidation guidance do not apply to them. Because ASU 2015-02 first requires investors to evaluate whether the partnership is a variable interest entity, it was unclear how NFPs should evaluate whether to consolidate for-profit limited partnerships.

### ASU 2017-02

The FASB amended its guidance for NFPs to restore the pre-ASU 2015-02 consolidation guidance related to partnerships and similar entities that are not variable interest entities.<sup>3</sup> NFPs that are general partners are, once again, presumed to control a limited partnership, regardless of the extent of their ownership interest, unless the limited partners have substantive participating or kick-out rights.

The ASU also states that the FASB did not intend to change the fair value elections currently available to NFPs. It clarifies that the consolidation guidance does not apply to an NFP that invests in a for-profit limited partnership or similar legal entity if the partnership interest is reported at fair value under other U.S. GAAP.

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<sup>3</sup> [FASB ASC Subtopic 958-810](http://www.fasb.org), Not-for-Profit Entities – Consolidation, available at [www.fasb.org](http://www.fasb.org).