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At a glance

The FASB clarified how not-for-profit entities will be affected by recent changes to the consolidation rules for investors in limited partnerships and similar entities.

NFP consolidation: FASB clarifies how to evaluate limited partnerships

What happened?

On January 12, 2017, the FASB issued final guidance that clarifies the model used by not-for-profit (NFP) entities to evaluate the consolidation of investments in limited partnerships (and limited liability companies that are similar to limited partnerships).

Under the new guidance, NFP investors in a limited partnership or similar entity will continue to apply a presumption that the general partner has control and should consolidate the investment unless substantive kick-out or participating rights held by any limited partners overcome that presumption.

If the general partner does not have control, the limited partners have to evaluate whether they have control. If a limited partner has control, consolidation is required unless the investment is part of a portfolio for which the NFP "portfolio-wide" fair value option has been elected. In that situation, the limited partner can instead report its interest at fair value, mirroring an exception that already exists for NFP general partners.

Why is this important?

Recent amendments to the consolidation guidance[1] created confusion as to how NFPs should evaluate the consolidation of interests in limited partnerships. The final guidance maintains the status quo for general partners and clarifies the guidance to be applied by a limited partner.

The new standard also affirms the FASB's intent to retain the NFP "portfolio-wide" fair value option under its new investment recognition and measurement rules[2] that will take effect in fiscal years beginning after December 15, 2018.

What's next?

The new guidance should be adopted at the same time an NFP adopts the FASB's other new consolidation guidance, which is required for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. NFPs that early-adopted the consolidation guidance should apply the new guidance retrospectively to the earliest period affected by that adoption.

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[1] ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis*

[2] ASU 2016-01, *Financial Instruments -- Recognition and Measurement of Financial Assets and Financial Liabilities*

Questions?

PwC clients who have questions about this *In brief* should contact their engagement team. Engagement teams who have questions should contact the National Professional Services Group.

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