

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2017-02
January 2017

Not-for-Profit Entities—Consolidation (Subtopic 958-810)

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

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to amend the consolidation guidance in Subtopic 958-810, *Not-for-Profit Entities—Consolidation*, to clarify when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective.

Current generally accepted accounting principles (GAAP) require an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the consolidation guidance in Subtopic 810-20, *Consolidation—Control of Partnerships and Similar Entities*, unless that partnership interest is reported at fair value in accordance with certain other guidance. The amendments in Update 2015-02 superseded the guidance in Subtopic 810-20 and added new guidance for limited partnerships and similar legal entities to the general consolidation guidance in Subtopic 810-10, *Consolidation—Overall*. Therefore, once the amendments in Update 2015-02 are effective, GAAP will require an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the general consolidation guidance in Subtopic 810-10.

Since the issuance of Update 2015-02, stakeholders noted that the guidance that was added to the general consolidation guidance in Subtopic 810-10 presumes that an entity would first navigate through the variable interest entity (VIE) consolidation guidance before applying the general consolidation guidance. However, NFPs generally are not included within the scope of the VIE consolidation guidance. Therefore, stakeholders noted that when an NFP navigates directly to the general consolidation guidance in Subtopic 810-10, the guidance does not address when a general partner should consolidate a for-profit limited partnership, but rather when a limited partner should consolidate the partnership.

The amendments in this Update maintain how NFP general partners currently apply the consolidation guidance in Subtopic 810-20 by including that guidance within Subtopic 958-810. The amendments also add to Subtopic 958-810 the general guidance in Subtopic 810-10 on when NFP limited partners should consolidate a limited partnership.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to an NFP that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity. A similar legal entity is an entity such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. In those entities, a managing member is the functional equivalent of a general partner, and a nonmanaging member is the functional equivalent of a limited partner. Throughout this Update, any reference to a limited partnership includes limited partnerships and similar legal entities.

What Are the Main Provisions?

General Partners

The amendments in this Update retain the consolidation guidance that was in Subtopic 810-20 for NFPs by including it within Subtopic 958-810. Therefore, under the amendments, NFPs that are general partners continue to be presumed to control a for-profit limited partnership, regardless of the extent of their ownership interest, unless that presumption is overcome. The presumption is overcome if the limited partners have either substantive kick-out rights or substantive participating rights. To be substantive, the kick-out rights must be exercisable by a simple majority vote of the limited partners' voting interests or a lower threshold. For purposes of evaluating that threshold, the limited partners' voting interests should exclude voting interests held by the general partners, parties under common control with the general partners, and other parties acting on behalf of the general partners.

Limited Partners

The amendments in this Update also add guidance to Subtopic 958-810 on when an NFP limited partner should consolidate a for-profit limited partnership. The amendments in Update 2015-02 added new guidance to the general consolidation guidance in Subtopic 810-10 on when limited partners should consolidate limited partnerships that are not VIEs or that are not within the scope of the VIE consolidation guidance. Although the Codification tries to eliminate redundant content by excluding general guidance from the Industry Topics, the amendments in this Update add that guidance to Subtopic 958-810 for ease of reference and make conforming revisions to the application guidance.

Definitions

The definitions of the terms *kick-out rights*, *participating rights*, and *protective rights* that were included in Subtopic 810-20 for limited partnerships were amended by Update 2015-02. Those amended terms have been added to the Glossary Section

of Subtopic 958-810, and conforming revisions have been made to the application guidance. As described in the basis for conclusions in Update 2015-02, the reason the Board amended those definitions was to increase the consistency and accuracy of the terms and not to change their meanings or how they were interpreted under Subtopic 810-20.

Accounting Standards Update 2016-01

In January 2016, the Board issued Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in Update 2016-01 created a new Topic (Topic 321, Investments—Equity Securities) that includes guidance for equity securities and other ownership interests in an entity, such as investments in venture capital funds and partnerships, which were previously within the scope of Subtopic 958-325, Not-for-Profit Entities—Investments—Other. When creating Topic 321 and Subtopic 958-321, Not-for-Profit Entities—Investments—Equity Securities, the Board made consequential amendments to Subtopic 958-810 to clarify the Board's intent not to affect current applications of the fair value elections in Subtopic 958-810 for NFPs. Additional clarifications have been made to Subtopic 958-810 in this Update to improve the clarity of the Board's intent with regards to those fair value elections.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Current GAAP requires an NFP that is a general partner of a for-profit limited partnership to apply the consolidation guidance in Subtopic 810-20 unless that partnership interest is reported at fair value in conformity with certain other guidance. However, once the amendments in Update 2015-02 are effective, the guidance in Subtopic 810-20 no longer will exist, creating uncertainty about when an NFP that is a general partner should consolidate a for-profit limited partnership. The amendments in this Update retain the consolidation guidance that existed in Subtopic 810-20 by including it within Subtopic 958-810. The amendments are an improvement to GAAP because they clarify the consolidation guidance for NFPs to help avoid diversity in practice.

What Are the Transition Requirements and When Will the Amendments Be Effective?

The amendments in this Update are effective for NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim

period. If an NFP early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

NFPs that have not yet adopted the amendments in Update 2015-02 are required to adopt the amendments in this Update at the same time they adopt the amendments in Update 2015-02 and should apply the same transition method elected for the application of Update 2015-02.

NFPs that already have adopted the amendments in Update 2015-02 are required to apply the amendments in this Update retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in Update 2015-02 initially were applied.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–11. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the following Master Glossary terms to Subtopic 958-810 as follows:

Glossary

Kick-Out Rights (Voting Interest Entity Definition)

The rights underlying the limited partner's or partners' ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Limited Partnership

An association in which one or more general partners have unlimited liability and one or more partners have limited liability. A limited partnership is usually managed by the general partner or partners, subject to limitations, if any, imposed by the partnership agreement.

Ordinary Course of Business (first definition)

Decisions about matters of a type consistent with those normally expected to be addressed in directing and carrying out current business activities, regardless of whether the events or transactions that would necessitate such decisions are expected to occur in the near term. However, it must be at least reasonably possible that those events or transactions that would necessitate such decisions

will occur. The ordinary course of business does not include self-dealing transactions.

Participating Rights (Voting Interest Entity Definition)

Participating rights allow the limited partners or noncontrolling shareholders to block or participate in certain significant financial and operating decisions of the limited partnership or corporation that are made in the ordinary course of business. Participating rights do not require the holders of such rights to have the ability to initiate actions.

Protective Rights (Voting Interest Entity Definition)

Rights that are only protective in nature and that do not allow the limited partners or noncontrolling shareholders to participate in significant financial and operating decisions of the limited partnership or corporation that are made in the ordinary course of business.

With Cause

With cause generally restricts the limited partners' ability to dissolve (liquidate) the limited partnership or remove the general partners in situations that include, but that are not limited to, fraud, illegal acts, gross negligence, and bankruptcy of the general partners.

Without Cause

Without cause means that no reason need be given for the dissolution (liquidation) of the limited partnership or removal of the general partners.

Amendments to Subtopic 958-810

3. Amend paragraph 958-810-05-1, with a link to transition paragraph 958-810-65-2, as follows:

Not-for-Profit Entities—Consolidation

Overview and Background

958-810-05-1 This Subtopic provides guidance on the following:

- a. Reporting relationships between a **not-for-profit entity** (NFP) and another NFP that potentially result in **consolidation**
- b. Reporting relationships with special-purpose entity lessors (either for-profit entities or NFPs)
- c. Reporting a noncontrolling interest in an acquiree

- d. Reporting relationships between an NFP and a for-profit entity that is other than a **limited partnership** or similar **legal entity** (incremental guidance only).
- e. Reporting relationships between an NFP that is a general partner or a limited partner and a for-profit limited partnership or similar legal entity.

4. Amend paragraph 958-810-15-4, with a link to transition paragraph 958-810-65-2, as follows:

Scope and Scope Exceptions

> Other Considerations

958-810-15-4 Additional guidance for reporting relationships between NFPs and for-profit entities resides is located in the following locations in the Codification:

- a. An NFP with a controlling financial interest ~~in a for-profit entity~~ through direct or indirect ownership of a majority voting interest in a for-profit entity that is other than a **limited partnership** or similar **legal entity** ~~in that entity~~ shall apply the guidance in the General Subsections of Subtopic 810-10. However, in accordance with paragraph 810-10-15-17, NFPs are not subject to the Variable Interest Entities Subsections of that Subtopic.
- b. An NFP that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity (such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership) shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16 ~~Subtopic 810-10 unless that partnership interest is reported at fair value in conformity with the guidance described in (e). However, the guidance in those paragraphs does not apply to the following:~~
 - 1. A general partner or a limited partner that reports its partnership interest at **fair value** in accordance with (e)
 - 2. Entities in industries, such as the construction or extractive industries, in which it is appropriate for a general partner to use the pro rata method of consolidation for its investment in a limited partnership (see paragraph 810-10-45-14).
- c. An NFP that owns 50 percent or less of the voting stock in a for-profit ~~business~~ entity shall apply the guidance in Subtopic 323-10 unless that investment is reported at fair value in conformity with the guidance described in (e).
- d. An NFP with a more than a minor noncontrolling interest in a for-profit real estate partnership, limited liability company, or similar legal entity shall, ~~subject to the fair value exceptions in item (e),~~ report for its noncontrolling interests in such entities using the equity method in accordance with the

guidance in Subtopic 970-323 unless that interest is reported at fair value in conformity with the guidance described in (e). An NFP shall apply the guidance in paragraph 970-810-25-1 to determine whether its interests in a general partnership are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16 ~~970-810-25-1 through 25-3~~ to determine whether its interests in a for-profit limited partnership, limited liability company, or similar legal entity are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraph 323-30-35-3 to determine whether a limited liability company should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in a limited liability company or a similar legal entity should be accounted for in accordance with Subtopic 970-323 or Subtopic 323-10.

- e. An NFP may be required to report an investment described in (c) at fair value in conformity with paragraph 958-320-35-1, or may be permitted to make an election in accordance with paragraph 825-10-25-1. In addition, NFPs other than those within the scope of Topic 954 may be permitted to report ~~an investment~~ the investments described in (b), (c), or (d) at fair value in conformity with Section 958-325-35.

In addition, amend the following pending content for paragraph 958-810-15-4, with no additional link to transition:

Pending Content:

Transition Date: (P) December 16, 2017; (N) December 16, 2018 | **Transition Guidance:** 825-10-65-2

958-810-15-4 Additional guidance for reporting relationships between NFPs and for-profit entities resides ~~is located~~ in the following locations in the Codification:

- a. An NFP with a controlling financial interest ~~in a for-profit entity~~ through direct or indirect ownership of a majority voting interest in a for-profit entity that is other than a **limited partnership** or similar **legal entity** in that entity shall apply the guidance in the General Subsections of Subtopic 810-10. However, in accordance with paragraph 810-10-15-17, NFPs are not subject to the Variable Interest Entities Subsections of that Subtopic.
- b. An NFP that is a general partner ~~or a limited partner~~ of a for-profit limited partnership or a similar legal entity (such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership) shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16 ~~Subtopic 810-10 unless that partnership interest is reported at fair value~~ in conformity with

~~the guidance described in (e). However, the guidance in those paragraphs does not apply to the following:~~

- ~~1. A general partner or a limited partner that reports its partnership interest at **fair value** in accordance with (e)~~
 - ~~2. Entities in industries, such as the construction or extractive industries, in which it is appropriate for a general partner to use the pro rata method of consolidation for its investment in a limited partnership (see paragraph 810-10-45-14).~~
- c. An NFP that owns 50 percent or less of the voting stock in a for-profit business entity shall apply the guidance in Subtopic 323-10 unless ~~that the investment is measured at fair value in accordance with applicable GAAP, including is reported at fair value in conformity with the guidance described in (e). If the NFP is unable to exercise significant influence, the NFP shall apply the guidance for equity securities in Topic 321.~~
- d. An NFP with a more than a minor ~~noncontrolling~~ interest in a for-profit real estate partnership, limited liability company, or similar ~~legal~~ entity shall; ~~subject to the fair value exceptions in item (e), report for its noncontrolling interests in such entities using the equity method in accordance with the guidance in Subtopic 970-323 unless that interest is reported at fair value in conformity~~ accordance with applicable GAAP, including the guidance described in (e). An NFP shall apply the guidance in paragraph 970-810-25-1 to determine whether its interests in a general partnership are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I 970-810-25-1 through 25-3 to determine whether its interests in a for-profit limited partnership, limited liability company, or similar legal entity are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraph 323-30-35-3 to determine whether a limited liability company should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in a limited liability company or a similar legal entity should be accounted for in accordance with Subtopic 970-323 or Subtopic 323-10.
- e. An NFP that is not within the scope of Topic 954 on health care entities may elect to report the investments described in (b) through (d) and paragraph 958-325-15-2 at fair value, with changes in fair value reported in the statement of activities, provided that all such investments are measured at fair value. An NFP may be required to report an investment described in (c) at fair value in conformity with paragraph 958-321-35-1, or may be permitted to make an election in accordance with paragraph 825-10-25-1. In addition, NFPs other than those within the scope of Topic 954 may be permitted to report an investment described in (b), (c), or (d) at fair value in conformity with Section 958-325-35.

5. Add paragraphs 958-810-25-11 through 25-29 and their related headings, with a link to transition paragraph 958-810-65-2, as follows:

Recognition

> Control of Limited Partnerships and Similar Legal Entities

958-810-25-11 The guidance in this paragraph and paragraphs 958-810-25-12 through 25-29 and 958-810-55-16A through 55-16I addresses the potential **consolidation of limited partnerships** and similar **legal entities**. A similar legal entity is an entity (such as a limited liability company) that has governing provisions that are the functional equivalent of a limited partnership. In those entities, a managing member is the functional equivalent of a general partner, and a nonmanaging member is the functional equivalent of a limited partner. Throughout those paragraphs, any reference to a limited partnership includes limited partnerships and similar legal entities.

> > General Partners or Limited Partners That Control a Limited Partnership

958-810-25-12 The general partners in a {add glossary link}limited partnership{add glossary link} are presumed to control that limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. [Content amended as shown and moved from paragraph 810-20-25-3]

958-810-25-13 If a limited partnership has multiple general partners, the determination of which, if any, general partner within the group controls and, therefore, shall consolidate the limited partnership is based on an analysis of the relevant facts and circumstances. In situations involving multiple general partners, entities under common control are considered to be a single general partner for purposes of applying the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I this Subtopic. [Content amended as shown and moved from paragraph 810-20-25-1]

958-810-25-14 The assessment of whether the rights of the limited partners shall overcome the presumption of control by the general partners is a matter of judgment that depends on facts and circumstances. The general partners do not control the limited partnership if the limited partners have either of the following:

- a. The substantive ability to ~~dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause (as distinguished from with cause)~~ Substantive {add glossary link to voting interest entity definition}kick-out rights{add glossary link to voting interest entity definition}

- b. Substantive ~~{remove glossary link to participating rights and add glossary link to voting interest entity definition}~~participating rights~~{remove glossary link to participating rights and add glossary link to voting interest entity definition}~~. [Content amended as shown and moved from paragraph 810-20-25-5]

958-810-25-15 ~~If, based on the preceding evaluation, the limited partners possess have substantive kick-out rights or substantive participating rights, the presumption of control by the general partners would be is overcome and each of the general partners would shall account for its investment in the limited partnership using the equity method of accounting. Topic 323 provides guidance on the equity method of accounting. [Content amended as shown and moved from paragraph 810-20-25-10]~~

958-810-25-16 ~~If one limited partner directly or indirectly owns more than 50 percent of a limited partnership's kick-out rights through voting interests, then that limited partner shall be deemed to have a controlling financial interest in the limited partnership and shall consolidate the limited partnership. However, if noncontrolling limited partners have substantive participating rights, then the limited partner with a majority of kick-out rights through voting interests does not have a controlling financial interest.~~

958-810-25-17 ~~The following guidance in paragraphs 958-810-25-19 through 25-29 shall be considered in evaluating whether rights held by the limited partners overcome the presumption of control by the general partners. [Content amended as shown and moved from paragraph 810-20-25-7]~~

958-810-25-18 ~~The assessment of limited Limited partners' rights and their impact effect on whether the presumption of control of the limited partnership by the general partners is overcome and on whether one limited partner has a controlling financial interest in a limited partnership shall be made assessed when an investor (or investors) first becomes a general partner (or partners) and shall be reassessed at each reporting period thereafter for which financial statements of the general partner(s) are prepared. [Content amended as shown and moved from paragraph 810-20-25-6]~~

> > > Substantive Kick-Out Rights

958-810-25-19 ~~The determination of All relevant facts and circumstances shall be considered in determining whether the {remove glossary link}kick-out rights{remove glossary link} are substantive shall be based on a consideration of all relevant facts and circumstances. Substantive kick-out rights shall must have both of the following characteristics:~~

- a. The kick-out rights can be exercised by a single limited partner or a vote of a simple majority ~~(see Example 1 [paragraph 810-20-55-10]) (see Example 2 in paragraph 958-810-55-26)~~ or a lower percentage of the limited partners' voting interests held by parties other than the general

partners, entities under common control with the general partners or a general partner, and other parties acting on behalf of the general partners or a general partner. A kick-out right that contractually requires a vote in excess of a simple majority (such as a supermajority) of the limited partners' voting interests to remove the general partners may still be substantive if the general partners could be removed in every possible voting scenario in which a simple majority of the limited partners' voting interests vote for removal. That is, there is no combination of the limited partners' voting interests that represents at least a simple majority of the limited partners' voting interests that cannot remove the general partners (see Example 2, Case D in paragraph 958-810-55-30) ~~(see Example 1, Case D [paragraph 810-20-55-14])~~. All relevant facts and circumstances shall be considered in assessing whether other parties, including, but not limited to, those defined as related parties in Topic 850, may be acting on behalf of the general partners in exercising their voting rights as limited partners. Similarly, in assessing whether a single limited partner has the ability to remove the general partners, consideration shall be given to whether other parties, including, but not limited to, those defined as related parties in ~~that~~ Topic 850, may be acting with the limited partner in exercising their kick-out rights.

- b. The limited partners holding the kick-out rights must have the ability to exercise those rights if they choose to do so; that is, there are no significant barriers to the exercise of the rights. Barriers include, but are not limited to, the following:
1. Kick-out rights subject to conditions that make it unlikely they will be exercisable, for example, conditions that narrowly limit the timing of the exercise
 2. Financial penalties or operational barriers associated with dissolving (liquidating) the limited partnership or replacing the general partners that would act as a significant disincentive for dissolution (liquidation) or removal
 3. The absence of an adequate number of qualified replacement general partners or the lack of adequate compensation to attract a qualified replacement
 4. The absence of an explicit, reasonable mechanism in the limited partnership agreement or in the applicable laws or ~~regulations,~~ regulations by which the limited partners holding the rights can call for and conduct a vote to exercise those rights
 5. The inability of the limited partners holding the rights to obtain the information necessary to exercise them. **[Content amended as shown and moved from paragraph 810-20-25-8]**

958-810-25-20 For purposes of applying the ~~preceding paragraph~~ guidance in paragraph 958-810-25-19, the limited partners' unilateral right to withdraw from the partnership in whole or in part (withdrawal right) that does not require dissolution or liquidation of the entire limited partnership ~~would~~ shall not be deemed a kick-out

~~right overcome the presumption that the general partners control the limited partnership (that is, the withdrawal right is not deemed to be a kick-out right). The requirement to dissolve or liquidate the entire limited partnership upon the withdrawal of a limited partner or partners shall not be required to~~ does not have to be contractual for a withdrawal right to be considered as a potential kick-out right. **[Content amended as shown and moved from paragraph 810-20-25-9]**

>>> Substantive Participating Rights

958-810-25-21 Participating rights are different from ~~{remove glossary link to protective rights and add glossary link to voting interest entity definition}~~ **protective rights** ~~{remove glossary link to protective rights and add glossary link to voting interest entity definition}~~. Limited partners' ~~protective~~ rights that are only protective in nature do not overcome the presumption that the general partners control the limited partnership. Limited partners' rights, individually or in the aggregate, that provide the limited partners with the right to effectively participate in certain significant financial and operating decisions that ~~would be expected to be~~ are made in the ordinary course of the limited partnership's business ~~while, while~~ being protective of the limited partners' ~~investment investment~~, overcome the presumption that the general partners control the limited partnership. **[Content amended as shown and moved from paragraph 810-20-25-12]**

958-810-25-22 Limited partners' rights (whether granted by contract or by law) that ~~would~~ allow limited partners to effectively participate in the following actions of the limited partnership shall be considered substantive participating rights and, therefore, ~~would~~ overcome the presumption that the general partners control the limited partnership:

- a. Selecting, terminating, and setting the compensation of management responsible for implementing the limited partnership's policies and procedures
- b. Establishing operating and capital decisions of the limited partnership, including budgets, in the **ordinary course of business**.

These rights are considered illustrative of substantive participating rights but are not necessarily an all-inclusive list. **[Content amended as shown and moved from paragraph 810-20-25-13]**

958-810-25-23 The rights described in paragraph ~~810-20-25-13~~ **958-810-25-22** are participating rights because, in the aggregate, ~~the rights they~~ they allow the limited partners to effectively participate in ~~the certain significant financial and operating~~ decisions that occur as part of the ordinary course of the limited partnership's business and are significant factors in directing and carrying out the activities of the limited partnership. ~~In evaluating the limited partners' rights to determine if they are substantive, participation means the ability of the limited partners to approve or block actions proposed by the general partners. That is, the general partners~~

~~must have the limited partners' agreement to take the actions outlined above in order for the rights to be substantive participating rights. Participation does not require the ability of the limited partners to initiate actions.~~ **[Content amended as shown and moved from paragraph 810-20-25-16]**

958-810-25-24 Rights held by the limited partners to remove the general partners from the partnership shall be evaluated as kick-out rights ~~pursuant to in accordance with~~ paragraph ~~958-810-25-19~~ ~~810-20-25-8~~. Rights of the limited partners to participate in the termination of management (for example, management is outsourced to a party other than the general partner) or the individual members of management of the limited partnership may be substantive participating rights. **[Content amended as shown and moved from paragraph 810-20-25-14]**

958-810-25-25 Individual rights, such as the right to veto the termination of management responsible for implementing the limited partnership's policies and procedures (if management is outsourced—via contract with a third party—by the general partners), shall be assessed based on the facts and circumstances to determine if they are substantive participating rights in and of themselves. The likelihood that the veto right will be exercised by the limited partners shall not be considered when assessing whether a limited ~~partner~~ partner's right is a substantive participating right. **[Content amended as shown and moved from paragraph 810-20-25-17]**

958-810-25-26 ~~However, limited~~ Limited partners' rights that appear to be participating rights but that by themselves are not substantive ~~would do not~~ overcome the presumption of control by the general partners in the limited partnership. **[Content amended as shown and moved from paragraph 810-20-25-18]**

> > > >> Factors to Consider in Determining Whether Limited Partners' Participating Rights Are Substantive

958-810-25-27 The following factors shall be considered in evaluating whether limited partners' participating rights ~~that appear to be participating~~ are substantive ~~rights—that is, whether these factors such that the rights~~ provide for effective participation in certain significant decisions related to the limited partnership's ordinary course of business:

- a. The limited partnership agreement shall be considered to determine at what level decisions are made—~~by (that is, by the general partners or by the limited partnership as a whole whole).—and Also,~~ the rights at each level ~~also~~ shall be considered. In all situations, any matters that can be put to a vote of the limited partnership shall be considered to determine if ~~whether~~ the limited partners, individually or in the aggregate, have substantive participating rights by virtue of their ability to vote on matters submitted to a vote of the limited partnership. ~~Determination of~~

- Determining whether matters that can be put to a vote of the limited partners, or the vote of the limited partnership as a whole, are substantive shall be based on a consideration of all relevant facts and circumstances.
- b. Relationships between the general partners and the limited partners (other than investment in the common limited partnership) that are of a related-party nature, as defined in Topic 850, shall be considered in determining if whether the participating rights of the limited partners are substantive. For example, if the limited partner in a limited partnership is a member of the immediate family of the general partners of the limited partnership, then the rights of the limited partner likely would not overcome the presumption of control by the general partners.
 - c. Certain limited partners' rights may deal with operating or capital decisions that are not significant to the ordinary course of business of the limited partnership. Limited partners' rights related to items that are not considered significant for directing and carrying out the activities of the limited partnership's ordinary course of business are not substantive participating rights and ~~would do~~ not overcome the presumption of control by the general partners. Examples of such limited partners' rights include the following decisions:
 - 1. Location of the limited partnership's headquarters
 - 2. Name of the limited partnership
 - 3. Selection of auditors
 - 4. Selection of accounting principles for purposes of separate reporting of the limited partnership's operations.
 - d. Certain limited partners' rights may provide for the limited partners to participate in certain significant financial and operating decisions that ~~would be expected to be~~ are made in ~~certain business activities~~ in the ordinary course of business; however, the existence of such limited partners' rights shall not overcome the presumption that the general partners have control if it is remote that the event or transaction that requires the limited partners' approval will occur.
 - e. General partners who have a contractual right to buy out the interest of the limited partners in the limited partnership for fair value or less shall consider the feasibility of exercising that contractual right when determining if the participating rights of the limited partners are substantive. If such a buyout is prudent, feasible, and substantially within the control of the general partners, the general partners' contractual right to buy out the limited partners demonstrates that the participating right of the limited partners is not a substantive right. The existence of such call options, for purposes of this Subtopic, negates the participating rights of the limited partners to approve or veto an action of the general partners rather than creates an additional ownership interest for the general partners. It would not be prudent, feasible, and substantially within the control of the general partners to buy out the limited partners if, for example, either of the following conditions exists:

1. The limited partners control technology that is critical to the limited partnership.
2. The limited partners are the principal source of funding for the limited partnership. **[Content amended as shown and moved from paragraph 810-20-25-20]**

> > > >> Protective Rights

958-810-25-28 Limited partners' rights (whether granted by contract or by law) that ~~would~~ allow the limited partners to block the following limited partnership ~~partnership~~ actions ~~would be~~ are considered protective rights and ~~would do~~ not overcome the presumption of control by the general partners:

- a. Amendments to the limited partnership agreement
- b. Pricing on transactions between the general partners and the limited partnership and related self-dealing transactions
- c. Liquidation of the limited partnership in the context of Topic 852 on reorganizations initiated by the general partners or a decision to cause the limited partnership to enter bankruptcy or other receivership
- d. Acquisitions and dispositions of assets that are not expected to be undertaken in the ordinary course of business. (Limited partners' rights relating to acquisitions and dispositions that are expected to be made in the ordinary course of the limited partnership's business are participating rights. Determining whether such rights are substantive requires judgment in light of the relevant facts and circumstances.)
- e. Issuance or repurchase of limited partnership interests.

These are illustrative of some, but not all, of the protective rights that often are provided to limited partners. **[Content amended as shown and moved from paragraph 810-20-25-19]**

958-810-25-29 Paragraphs 958-810-55-16A through 55-16I ~~810-20-55-1 through 55-9~~ provide additional guidance on assessing limited ~~partner~~ partners' protective rights and substantive participating rights. **[Content amended as shown and moved from paragraph 810-20-25-21]**

6. Add paragraph 958-810-45-2 and its related heading, with a link to transition paragraph 958-810-65-2, as follows:

Other Presentation Matters

> Additional Useful Information for Limited Partnerships

958-810-45-2 An entity has financial statement and disclosure alternatives that may provide additional useful information. For example, an entity may highlight the effects of consolidating a {add glossary link}limited partnership{add glossary

link} by providing consolidating financial statements or separately classifying the assets and liabilities of the limited partnership(s) on the face of the balance sheet. **[Content amended as shown and moved from paragraph 810-20-45-1]**

7. Amend paragraph 958-810-55-4 and add paragraphs 958-810-55-16A through 55-16I and their related headings and 958-810-55-26 through 55-32 and their related headings, with a link to transition paragraph 958-810-65-2, as follows:

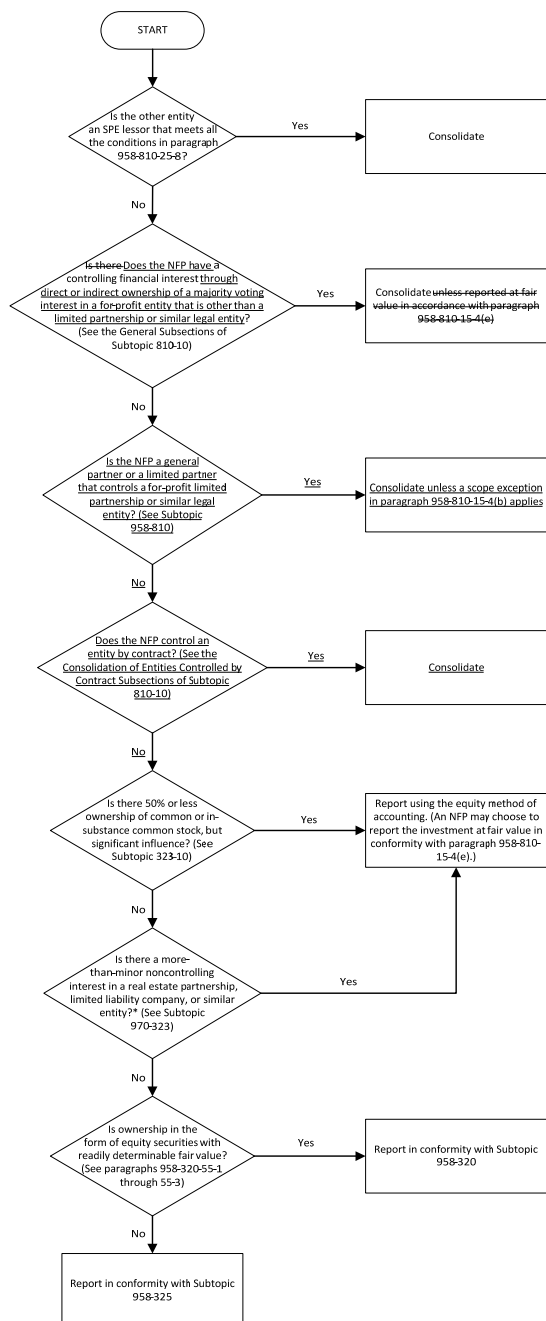
Implementation Guidance and Illustrations

> Implementation Guidance

> > Flowcharts

> > > Relationship with a For-Profit Entity

958-810-55-4 The following flowchart and related footnote indicate the order in which an NFP applies the guidance elsewhere in the Codification to determine the accounting for its relationship with a for-profit entity.



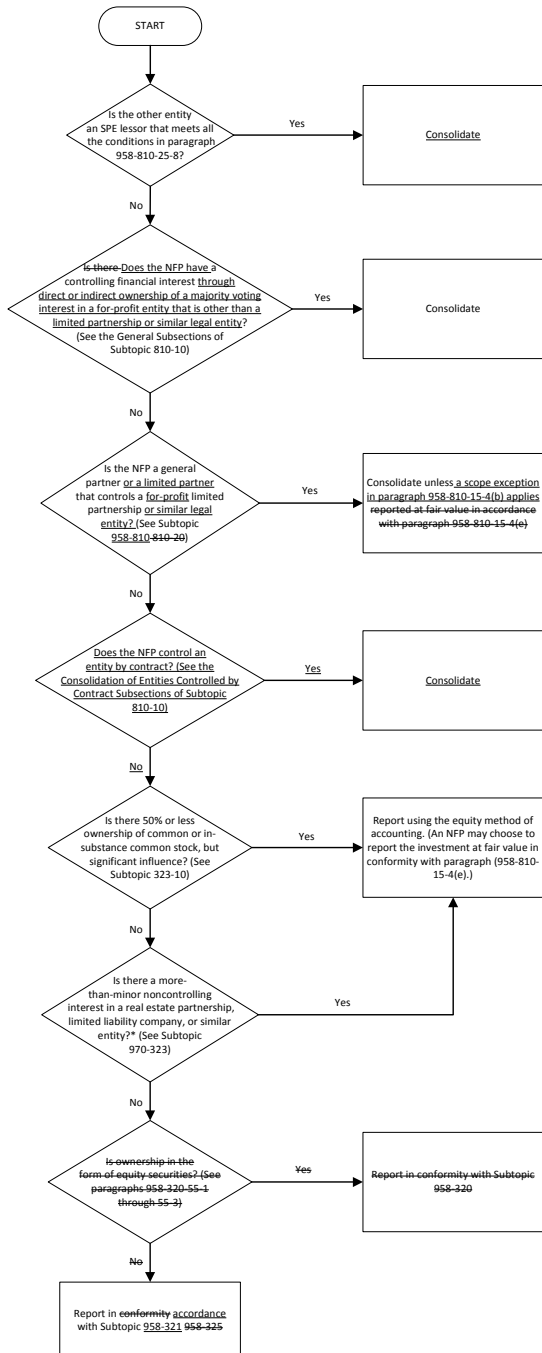
*According to paragraph 323-30-35-3, a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—should be viewed as similar to an investment in a **{add glossary link}**limited partnership**{add glossary link}** for purposes of determining whether a noncontrolling investment in a limited liability company should be accounted for using the cost method or the equity method.

In addition, amend the following pending content for paragraph 958-810-55-4, with no additional link to transition:

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

958-810-55-4 The following flowchart and related footnote indicate the order in which an NFP applies the guidance elsewhere in the Codification to determine the accounting for its relationship with a for-profit entity.



*According to paragraph 323-30-35-3, a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—should be viewed as similar to an investment in a **{add glossary link}limited partnership{add glossary link}** for purposes of determining whether a noncontrolling investment in a limited liability company should be accounted for in accordance with the guidance in Topic 321 or the equity method.

> > Assessing Limited Partner Partners' Protective Rights and Substantive Participating Rights

958-810-55-16A The following implementation guidance is intended to facilitate the understanding of how to assess whether the rights of the limited partners should be considered ~~protective~~ **{add glossary link to voting interest entity definition}protective rights{add glossary link to voting interest entity definition}** or ~~{add glossary link to voting interest entity definition}participating rights{add glossary link to voting interest entity definition}~~ **participating** and, if participating ~~rights~~, whether the rights are substantive. Although this guidance illustrates possible assessments of individual limited partners' rights, the evaluation of limited partners' rights should consider all of the factors identified in paragraph ~~958-810-25-27~~ **840-20-25-20** to determine whether the limited partners' rights, individually or in the aggregate, provide for the limited partners to effectively participate in significant decisions that would be expected to be made in the **ordinary course of business**. **[Content amended as shown and moved from paragraph 810-20-55-1]**

> > > Approval of Acquisitions and Dispositions

958-810-55-16B The rights of the limited partners relating to the approval of acquisitions and dispositions of assets that are expected to be undertaken in the ordinary course of business may be substantive ~~{remove glossary link}participating rights{remove glossary link}~~. Rights related only to acquisitions that are not expected to be undertaken in the ordinary course of business usually are ~~{remove glossary link}protective{remove glossary link}~~ and ~~would do~~ not overcome the presumption of control the general partners in the limited partnership. ~~Whether—Determining whether~~ the right to approve the acquisition or disposition of assets is in the ordinary course of business should be based on an evaluation of the relevant facts and circumstances. In addition, if approval by the limited partners is necessary to incur additional indebtedness to finance an acquisition that is not in the limited partnership's ordinary course of business, then the approval by the limited partners ~~would be~~ **is** considered a protective right. **[Content amended as shown and moved from paragraph 810-20-55-2]**

> > > Approval for Incurring Additional Indebtedness

958-810-55-16C Existing facts and circumstances should be considered in assessing whether the rights of the limited partners relating to a limited partnership incurring additional indebtedness are protective or participating rights. For example, if it is reasonably possible or probable that the limited partnership will need to incur the level of borrowing that requires limited partner approval in its ordinary course of business, the rights of the limited partners ~~would be~~ are viewed as substantive participating rights. **[Content amended as shown and moved from paragraph 810-20-55-3]**

> > > Rights Relating to Dividends and Other Distributions

958-810-55-16D The rights of the limited partners relating to dividends or other distributions may be protective or participating and should be assessed in light of the available facts and circumstances. For example, rights to block customary or expected dividends or other distributions may be substantive participating rights, while rights to block extraordinary distributions ~~would be~~ are protective rights. **[Content amended as shown and moved from paragraph 810-20-55-4]**

> > > Rights Relating to Partnership-Specific Action

958-810-55-16E The rights of the limited partners relating to a limited partnership's specific action (for example, to lease property) in an existing business may be protective or participating and should be assessed in light of the available facts and circumstances. For example, if the limited partnership had the ability to purchase, rather than lease, the property without requiring the approval of the limited partners, then the rights of the limited partners to block the limited partnership from entering into a {add glossary link}lease{add glossary link} ~~would be~~ are not be substantive participating rights. **[Content amended as shown and moved from paragraph 810-20-55-5]**

> > > Rights Relating to Negotiation of Collective-Bargaining Agreements

958-810-55-16F The rights of the limited partners relating to a limited partnership's negotiation of collective-bargaining agreements with unions may be protective or participating and should be assessed in light of the available facts and circumstances. For example, if a limited partnership does not have a collective-bargaining agreement with a union or if the union does not represent a substantial portion of the limited partnership's work force, then the rights of the limited partners to approve or veto a new or broader collective-bargaining agreement are not substantive participating rights. **[Content amended as shown and moved from paragraph 810-20-55-6]**

> > > Rights to Block Action of General Partner

958-810-55-16G Provisions that govern what will occur if the limited partners block the action of the general partners need to be considered to determine whether the rights of the limited partners to block have substance. For example, if both of the following circumstances exist, then the rights of the limited partners to block the approval of the operating and capital budgets do not allow the limited partners to effectively participate and, thus, are not substantive participating rights:

- a. The limited partnership agreement provides that if the limited partners block the approval of operating and capital budgets, then the budgets simply default to last year's budgets adjusted for inflation.
- b. The limited partnership operates in a mature business for which year-to-year operating and capital budgets would not be expected to vary significantly. **[Content amended as shown and moved from paragraph 810-20-55-7]**

> > Rights Relating to the Initiation of a Lawsuit

958-810-55-16H Limited partners' rights relating to the initiation or resolution of a lawsuit may be considered protective or participating depending on the available facts and circumstances. For example, if lawsuits are a part of, or are expected to be a part of, the limited partnership's ordinary course of business, as is the case for some insurance entities, then the limited partners' rights may be considered substantive participating rights. **[Content moved from paragraph 810-20-55-8]**

> > Right to Veto Annual Operating and Capital Budgets

958-810-55-16I The limited partners have the right to veto the annual operating and capital budgets for the first X years of the limited partnership. Based on the facts and circumstances, during the first X years of the limited partnership, this right may be a substantive participating right. However, following Year X there is a significant change in the exercisability of the limited partners' right (for example, the veto right terminates). As of the beginning of the period following Year X, ~~since that right no longer exists, the presumption that the general partners control the partnership no longer is overcome because that right no longer exists would not be overcome.~~ **[Content amended as shown and moved from paragraph 810-20-55-9]**

> Illustrations

> > **Example 4 2: Limited Partnerships and Similar Legal Entities—Simple Majority Threshold for the Application of Kick-Out Rights**

958-810-55-26 This Example illustrates the guidance in paragraphs ~~958-810-25-19 through 25-20 810-20-25-8 through 25-40~~. To illustrate the application of the simple majority threshold, consider the following Cases A, B, and C in which the

{add glossary link}limited partnership**{add glossary link}** agreement requires a simple majority of the limited partners' voting interests to remove the general partner and Case D in which a supermajority of the limited partners' voting interests is required for such removal:

- a. Three equal-interest limited partners (Case A)
- b. Two equal-interest limited partners (Case B)
- c. One hundred equal-interest limited partners (Case C)
- d. Required limited partner voting percentages greater than 50 percent (Case D). **[Content amended as shown and moved from paragraph 810-20-55-10]**

> > > Case A: Three Equal-Interest Limited Partners

958-810-55-27 Assume that a limited partnership has 3 limited partners, none of which have any relationship to the general partners, and that each holds an equal amount of the limited partners' voting interests (33.33 percent). In this Case, applying the simple majority requirement in the partnership agreement would require a vote of no more than two of the three limited partners to remove the general partners. Accordingly, a provision that entitles any individual limited partner to remove the general partner or a provision that requires a vote of two of the limited partners to remove the general partner would meet the requirements of paragraph ~~810-20-25-8(a)~~ 958-810-25-19(a) for a substantive **{add glossary link to voting interest entity definition}**kick-out right**{add glossary link to voting interest entity definition}**. However, if a vote of all three limited partners is required to remove the general partner, the right would not meet the requirements of that paragraph for a substantive kick-out right because the required vote is greater than a simple majority of the limited partners' voting interests. **[Content amended as shown and moved from paragraph 810-20-55-11]**

> > > Case B: Two Equal-Interest Limited Partners

958-810-55-28 Consider the same facts as in Case A, except that there are two limited partners that each hold an equal interest. In this Case, a simple majority of the limited partners' voting interests would require a vote of both limited partners, so a provision entitling any individual limited partner to remove the general partner or a provision that requires a vote of both limited partners to remove the general partner would meet the requirements of paragraph ~~958-810-25-19(a)~~ 810-20-25-8(a) for a substantive kick-out right. **[Content amended as shown and moved from paragraph 810-20-55-12]**

> > > Case C: One Hundred Equal-Interest Limited Partners

958-810-55-29 Consider the same facts as in Case A, except that there are 100 limited partners that each hold an equal interest. In this Case, a simple majority of

the limited partners' voting interests would require a vote of 51 limited partners; ~~therefore, so~~ a provision that requires a vote of less than 52 limited partners to remove the general partner would meet the requirements of paragraph ~~958-810-25-19(a)~~ ~~810-20-25-8(a)~~ for a substantive kick-out right. However, if a vote of 52 or more limited partners is required to remove the general partner, that provision would not meet the requirements of that paragraph for a substantive kick-out right because the required vote is greater than a simple majority of the limited partners' voting interests. **[Content amended as shown and moved from paragraph 810-20-55-13]**

> > > Case D: Required Limited Partner Voting Percentages Greater Than 50 Percent

958-810-55-30 In this Case, consider the following situations based on a limited partnership agreement that requires a vote of ~~66.6~~ 66.66 percent of the limited partners' voting interests to remove the general partner:

- a. Equal-interest limited partners (Case D1)
- b. Limited partners with unequal interests (Case D2). **[Content amended as shown and moved from paragraph 810-20-55-14]**

> > > Case D1: Equal-Interest Limited Partners

958-810-55-31 There are 3 independent limited partners that each hold an equal percentage (33.33 percent) of the limited partner voting interest. A vote of 2 of the 3 limited partners represents ~~66.7~~ 66.66 percent of the limited partners voting interests, which also represents the smallest possible combination of voting interests that is at least a simple majority of the limited partners' voting interests. Assuming there are no barriers to the exercise of the ~~{remove glossary link}~~ **kick-out rights**~~{remove glossary link}~~, the kick-out rights in this ~~situation~~ **Case** meet the simple majority requirement and ~~therefore, therefore,~~ represent substantive kick-out rights that overcome the presumption of control by the general partners. **[Content amended as shown and moved from paragraph 810-20-55-15]**

> > > Case D2: Limited Partners with Unequal Interests

958-810-55-32 There are 3 independent limited partners that hold 45 percent (Limited Partner 1), 25 percent (Limited Partner 2), and 30 percent (Limited Partner 3) of the limited partners' voting interests, respectively. To remove the general partners, a vote of Limited Partner 1 in combination with either Limited Partner 2 or Limited Partner 3 would be a simple majority of the limited ~~partners-partners'~~ voting interests and would satisfy the ~~66.6~~ 66.66 percent contractual requirement. In contrast, a vote to exercise the kick-out right by Limited Partner 2 and Limited Partner 3 also would represent a simple majority of the limited ~~partners-partners'~~ voting interests; ~~however, but~~ their 55 percent voting interests (~~55 percent~~) would

not meet the contractually required threshold of ~~66.6~~ 66.66 percent to remove the general partners. Accordingly, the kick-out right in this ~~situation~~ Case would be assessed as nonsubstantive because the smallest possible combination (Limited Partner 2 and Limited Partner 3) that represents at least a simple majority of the limited ~~partners~~ partners' voting interests cannot remove the general partners. Assuming the limited partners do not possess substantive participating rights, the presumption of control by the general partners would not be overcome. **[Content amended as shown and moved from paragraph 810-20-55-16]**

8. Add paragraph 958-810-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2017-02, Not-for-Profit Entities—Consolidation (Subtopic 958-810): 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

958-810-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2017-02, *Not-for-Profit Entities—Consolidation (Subtopic 958-810): 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*:

- a. The pending content that links to this paragraph shall be effective for not-for-profit entities for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.
- b. A not-for-profit entity that has not yet adopted the pending content that links to paragraph 810-10-65-7 shall adopt the pending content that links to this paragraph at the same time that it adopts the pending content that links to paragraph 810-10-65-7 and shall apply the same transition method elected for the pending content that links to paragraph 810-10-65-7. If a not-for-profit entity elects to apply the pending content that links to paragraph 810-10-65-7 retrospectively, it shall apply the pending content that links to this paragraph retrospectively to only the same number of periods for which it will retrospectively apply the pending content that links to paragraph 810-10-65-7.
- c. A not-for-profit entity that has adopted the pending content that links to paragraph 810-10-65-7 shall adopt the pending content that links to this paragraph retrospectively to all relevant prior periods beginning with the fiscal years in which the pending content that links to paragraph 810-10-65-7 was initially applied. The entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of net assets as of the beginning of the first year restated.
- d. Earlier adoption is permitted, including adoption in an interim period. If a not-for-profit entity adopts the pending content that links to this paragraph in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes that interim period.

- e. If a not-for-profit entity already has adopted the pending content that links to paragraph 810-10-65-7, it shall provide the disclosures in paragraphs 250-10-50-1 through 50-2 (excluding the disclosure in paragraph 250-10-50-1(b)(2)) in the period in which the entity adopts the pending content that links to this paragraph but only if adopting the pending content results in a change in accounting principle. If a not-for-profit entity adopts the pending content that links to this paragraph at the same time that it adopts the pending content that links to paragraph 810-10-65-7, no additional disclosures are required other than those already described in paragraph 810-10-65-7(l).

Amendments to Subtopic 954-810

9. Amend paragraph 954-810-15-3, with a link to transition paragraph 954-810-65-2, as follows:

Health Care Entities—Consolidation

Scope and Scope Exceptions

> Entities

954-810-15-3 If the reporting entity is a not-for-profit business-oriented health care entity, this Subtopic provides consolidation guidance for reporting relationships with other entities in addition to the guidance in the following locations:

- a. Pursuant to paragraph 810-10-15-17, not-for-profit business-oriented health care entities are not subject to the Variable Interest Entities Subsections of Subtopic 810-10 unless the not-for-profit entity is used by a business entity in a manner similar to a VIE in an effort to circumvent the provisions of those Subsections.
- b. If the not-for-profit, business-oriented health care entity has an investment in a for-profit entity, it shall use the guidance in the General Subsections of Subtopic 810-10 to determine whether that interest constitutes a controlling financial interest.
- c. If the not-for-profit, business-oriented health care entity has a contractual management relationship with another entity (for example, a physician practice), it shall use the guidance in the Consolidation of Entities Controlled by Contract Subsections of Subtopic 810-10 to determine whether the arrangement constitutes a controlling financial interest.
- d. Subparagraph superseded by Accounting Standards Update No. 2015-02.
- dd. If the not-for-profit, business-oriented health care entity is the general partner or limited partner of a for-profit limited partnership or similar legal entity (such as a limited liability company that has governing provisions

that are the functional equivalent of a limited partnership), it shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I.

- e. If the not-for-profit, business-oriented health care entity is a sponsor in a research and development arrangement, it shall apply the guidance in Subtopic 810-30.
- f. If the not-for-profit, business-oriented health care entity has a relationship with another not-for-profit entity that involves **control**, an **economic interest**, or both, it shall apply the guidance in Subtopic 958-810.
- g. If the not-for-profit, business-oriented health care entity is engaged in leasing transactions with a special-purpose-entity (SPE) lessor, it shall consider whether it should consolidate the lessor in accordance with the guidance in paragraphs 958-810-25-8 through 25-10.
- h. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity that owns 50 percent or less of the common voting stock of an investee and can exercise significant influence over operating and financial policies shall apply the guidance in Subtopic 323-10.
- i. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity shall report noncontrolling interests in for-profit real estate partnerships, limited liability entities, and similar entities over which the reporting entity has more than a minor interest under the equity method in accordance with the guidance in Subtopic 970-323. A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph 970-323-25-2 to determine whether its interest in a for-profit partnership, limited liability entity, or similar entity is a controlling interest or a noncontrolling interest. A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph 323-30-35-3 to determine whether a limited liability entity should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether a noncontrolling interest in a limited liability entity or a similar entity should be accounted for in accordance with Subtopic 970-323 or Subtopic 323-10.

Amendments to Status Sections

10. Amend paragraph 954-810-00-1, by adding the following items to the table, as follows:

954-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Legal Entity	Added	2017-02	01/12/2017
954-810-15-3	Amended	2017-02	01/12/2017

11. Amend paragraph 958-810-00-1, by adding the following items to the table, as follows:

958-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Kick-Out Rights (Voting Interest Entity Definition)	Added	2017-02	01/12/2017
Legal Entity	Added	2017-02	01/12/2017
Limited Partnership	Added	2017-02	01/12/2017
Ordinary Course of Business (1 st def.)	Added	2017-02	01/12/2017
Participating Rights (Voting Interest Entity Definition)	Added	2017-02	01/12/2017
Protective Rights (Voting Interest Entity Definition)	Added	2017-02	01/12/2017
With Cause	Added	2017-02	01/12/2017
Without Cause	Added	2017-02	01/12/2017
958-810-05-1	Amended	2017-02	01/12/2017
958-810-15-4	Amended	2017-02	01/12/2017
958-810-25-11 through 25-29	Added	2017-02	01/12/2017
958-810-45-2	Added	2017-02	01/12/2017
958-810-55-4	Amended	2017-02	01/12/2017

Paragraph	Action	Accounting Standards Update	Date
958-810-55-16A through 55-16I	Added	2017-02	01/12/2017
958-810-55-26 through 55-32	Added	2017-02	01/12/2017
958-810-65-2	Added	2017-02	01/12/2017

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Daryl E. Buck
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. In February 2015, the Board issued Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. Since then, the FASB has received feedback from stakeholders indicating that the amendments in that Update create uncertainty about when an NFP that is a general partner should consolidate a for-profit limited partnership or similar legal entity and that there are diverse views on how to interpret those amendments. The amendments in Update 2015-02 are effective for NFPs for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period.

BC3. Subtopic 958-810, Not-for-Profit Entities—Consolidation, requires an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the consolidation guidance in Subtopic 810-20, Consolidation—Control of Partnerships and Similar Entities, unless that partnership interest is reported at fair value in accordance with certain other guidance. Under Subtopic 810-20, there is a presumption that the general partners control a limited partnership, regardless of the extent of their 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 participating rights.

BC4. The amendments in Update 2015-02 eliminated the guidance in Subtopic 810-20 and added new guidance for limited partnerships and similar legal entities to the General Subsections of 810-10, Consolidation—Overall. Therefore, once the amendments in Update 2015-02 are effective, Subtopic 958-810 will require an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the consolidation guidance in the General Subsections of Subtopic 810-10.

BC5. Since the issuance of Update 2015-02, stakeholders noted that the guidance that was added to the General Subsections of Subtopic 810-10 presumes that an entity would first navigate through the variable interest entities (VIE) Subsections of Subtopic 810-10 before applying the General Subsections. However, NFPs are not included within the scope of the VIE Subsections of Subtopic 810-10 unless NFPs are being used in a manner similar to VIEs in an effort to circumvent those Subsections. Therefore, stakeholders noted that when an NFP that is a general partner navigates directly to the General Subsections of Subtopic 810-10, the guidance does not address when a general partner should consolidate a for-profit limited partnership, but rather when a limited partner should consolidate the partnership.

BC6. The Board issued proposed Accounting Standards Update, *Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, for public comment on August 3, 2016. In the proposed Update, the Board decided to maintain current practice for NFP general partners by retaining the consolidation guidance in Subtopic 810-20 that was eliminated by the amendments in Update 2015-02 and reinstating it in Subtopic 958-810. All respondents supported the Board's approach. However, some stakeholders requested that the Board clarify certain aspects of the guidance.

Scope

BC7. The Board decided to limit the scope of this project to an NFP that is a general partner or a limited partner evaluating a for-profit limited partnership or a similar entity because this project arose from the amendments in Update 2015-02 and, before those amendments, the Board was unaware of significant concerns about the application of the consolidation guidance in Subtopic 810-20 by NFPs. Also, the Board's objective is to clarify the guidance before NFPs are required to adopt the amendments in Update 2015-02, and expanding the scope of the project would hinder the Board's ability to provide timely guidance that would meet its objective.

General Partners

BC8. In accordance with the amendments in this Update, NFPs that are general partners continue to be presumed to control a limited partnership, regardless of the extent of their ownership interest, unless that presumption is overcome. The presumption is overcome if the limited partners have either substantive kick-out rights or substantive participating rights. To be substantive, the kick-out rights must be exercisable by a simple majority vote of the limited partners' voting interests or a lower threshold. For purposes of evaluating that threshold, the limited partners' voting interests should exclude voting interests held by the general partners, parties under common control with the general partners, and other parties acting on behalf of the general partners.

BC9. The Board decided to retain the consolidation guidance that existed in Subtopic 810-20 because retaining that guidance is the most cost-effective solution at the present time. As an alternative, the Board considered aligning the concept of a controlling financial interest for an NFP general partner with the concept of a controlling financial interest in the VIE consolidation guidance for a for-profit general partner. Under that alternative, an NFP that is a general partner would have a controlling financial interest and consolidate a for-profit limited partnership if it has (a) the power to direct the activities of a limited partnership that most significantly affect the limited partnership's economic performance and (b) the obligation to absorb losses of the limited partnership that could potentially be significant to the limited partnership or the right to receive benefits from the limited partnership that could potentially be significant to the limited partnership. However, the Board decided that the potential benefits of aligning those concepts at this time would not justify a delay in providing timely guidance or the costs associated with that delay.

BC10. The Board decided that if it were to align the concept of controlling financial interest for an NFP general partner with the concept of a controlling financial interest in the VIE consolidation guidance for a for-profit general partner, that alignment should wait until it completes or makes sufficient progress on its project to reorganize and clarify the consolidation guidance in Subtopic 810-10. On February 3, 2016, the Board added a research project to its agenda to potentially reorganize and clarify the consolidation guidance in Topic 810. While the intent of that project is not to change how Subtopic 810-10 is applied by for-profit entities, it is a possibility. Even if the Board does not change how Subtopic 810-10 is applied by for-profit entities, the Board decided that it would be difficult to align the guidance for NFPs with the guidance for for-profit entities when the words used in the for-profit entity guidance might change. The Board also has another project on its agenda that could change how to apply consolidation guidance to certain common control arrangements. For those reasons, the Board decided that stakeholders would be better served by retaining the guidance that existed in Subtopic 810-20 for NFPs until those projects are complete to avoid requiring NFPs to incur costs to apply a new consolidation model now that could change a short time later. Also, the Board learned that the issue to clarify when an NFP that is a general partner should consolidate a for-profit limited partnership is narrow in scope because arrangements in which an NFP serves as a general partner primarily relate to qualified affordable housing arrangements, and the terms of qualified affordable housing arrangements are such that an NFP general partner may continue to consolidate a limited partnership even if the concepts of a controlling financial interest were aligned. Therefore, retaining GAAP for NFPs, as it generally existed before the amendments in Update 2015-02, is considered to be a more cost-effective solution than to attempt to incorporate aspects of the VIE model into the consolidation analysis for NFPs.

BC11. The Board also concluded that aligning the concept of a controlling financial interest for an NFP general partner with the concept of a controlling financial interest in the VIE consolidation guidance for a for-profit general partner would have raised several questions that would have needed to have been addressed before the Board could have proceeded with that alternative. For example, those questions would include why a power and economics model would or would not apply to all NFPs and not just those with an interest in limited partnerships, how to consider related parties (particularly among religious organizations and other affiliated NFPs operating as separate entities with common missions), and which, if any, additional disclosures would be necessary. Therefore, the Board was concerned that aligning the concept of a controlling financial interest was not feasible before NFPs are required to adopt the amendments in Update 2015-02.

Limited Partners

BC12. The amendments in Update 2015-02 added new guidance to the General Subsections of Subtopic 810-10 on when limited partners should consolidate limited partnerships that are not VIEs or that are not within the scope of the VIE Subsections of Subtopic 810-10. Specifically, paragraph 810-10-15-8A states that, for limited partnerships, “the usual condition for a controlling financial interest, as a general rule, is ownership by one limited partner, directly or indirectly, of more than 50 percent of the limited partnership’s kick-out rights through voting interests.” Paragraph 810-10-25-5 further states that “for limited partnerships, control does not rest with the limited partner with the majority of kick-out rights through voting interests if the limited partner cannot cause the general partner to take an action that is significant in the ordinary course of business if it has been vetoed by other limited partners.”

BC13. Entities within the scope of an Industry Topic must follow the industry-specific guidance and all other relevant guidance contained in other Topics that does not conflict with the industry guidance. Therefore, an NFP limited partner should evaluate both the guidance in Subtopic 958-810 and the guidance in the General Subsections of Subtopic 810-10 to determine whether an NFP limited partner has a controlling financial interest in a limited partnership. Although one of the goals of the Codification is to eliminate redundant content by excluding general guidance from the Industry Topics, the general guidance in Subtopic 810-10 on when a limited partner should consolidate a limited partnership is included in paragraph 958-810-25-16 in this Update for ease of reference.

Definitions

BC14. The definitions of the terms *kick-out rights*, *participating rights*, and *protective rights* that were included in Subtopic 810-20 for limited partnerships were amended by Update 2015-02. Those amended terms were added to Subtopic 958-810, and conforming revisions were made to the application guidance. As described in the basis for conclusions in Update 2015-02, the reason the Board

amended those definitions was to increase the consistency and accuracy of the terms and not to change their meanings or how they are interpreted under Subtopic 810-20.

Special-Purpose Entity Lessors

BC15. While performing research on how to clarify when an NFP that is a general partner should consolidate a for-profit limited partnership, the Board also asked the staff to consider whether the special-purpose-entity (SPE) lessors guidance in Subtopic 958-810 would still be relevant or could be superseded. Because the Board decided to retain the consolidation guidance that previously existed in Subtopic 810-20 for NFPs, the Board decided not to supersede the guidance related to SPE lessors from Subtopic 958-810 and agreed not to perform further outreach on the SPE guidance at this time.

Accounting Standards Update No. 2016-01

BC16. In January 2016, the Board issued Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in Update 2016-01 created a new Topic (Topic 321, Investments—Equity Securities) that includes equity securities and other ownership interests in an entity, such as investments in venture capital funds and partnerships, which were previously within the scope of Subtopic 958-325, Not-for-Profit Entities—Investments—Other. When creating Topics 321 and Subtopic 958-321, Not-for-Profit Entities—Investments—Equity Securities, the Board made consequential amendments to Subtopic 958-810 to clarify its intent to not affect current applications of the fair value elections in Subtopic 958-810 for NFPs. To improve the clarity of its intent with regards to those fair value elections, the Board made additional amendments to the pending content in paragraphs 958-810-15-4 and 958-810-55-4.

Effective Date and Transition

BC17. The Board decided that the amendments in this Update should be effective for NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The Board decided that those effective dates are sufficient and should allow adequate time for NFPs to apply the amendments in this Update because the amendments generally maintain the consolidation conclusions reached before the issuance of Update 2015-02, and many NFPs have fiscal years that begin on July 1. Also, the recommended effective date aligns with the effective date of Update 2015-02 for NFPs.

BC18. The Board decided that NFPs that have not yet adopted the amendments in Update 2015-02 should adopt the amendments in this Update at the same time they adopt the amendments in Update 2015-02 and should apply the same transition method elected for the application of Update 2015-02. NFPs that elect

to apply the amendments in Update 2015-02 retrospectively should apply the amendments in this Update retrospectively to only the same number of periods for which they will retrospectively apply the amendments in Update 2015-02.

BC19. The Board decided that NFPs that already have adopted the amendments in Update 2015-02 should apply the amendments in this Update retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in Update 2015-02 initially were applied. The Board decided not to permit a modified retrospective approach by recording a cumulative-effect adjustment to net assets as of the beginning of the fiscal year of adoption because two changes in consolidation conclusions could be shown in financial statements covering a three-year period.

BC20. If an NFP already has adopted the amendments in Update 2015-02, the Board decided that upon transition an NFP should provide the disclosures in paragraphs 250-10-50-1 through 50-2 (excluding the disclosure in paragraph 250-10-50-1(b)(2)) in the period in which it adopts the amendments in this Update but only if it has a change in accounting principle. Those disclosures include, among others, the nature of and reason for the change in accounting principle, a description of the prior-period information that has been retrospectively adjusted, and the cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position. If an NFP adopts the amendments in this Update at the same time that it adopts the amendments in Update 2015-02, no additional disclosures are required other than those already described in paragraph 810-10-65-7(l).

Benefits and Costs

BC21. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, grantors, and other capital market participants in making rational investment, credit, giving, granting, and similar resource allocation decisions. However, the expected benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, grantors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors, creditors, donors, grantors, and other users of financial information. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC22. The objective of the amendments in this Update is to clarify the consolidation guidance for an NFP that is a general partner or limited partner of a for-profit limited partnership before the amendments in Update 2015-02 become effective. The amendments aim to achieve that objective by maintaining how an NFP general partner or limited partner currently applies the consolidation guidance

in Subtopic 810-20. The Board understands that if an NFP general partner has already adopted the amendments in Update 2015-02, it may incur additional costs as a result of the amendments in this Update. Those additional costs will depend on how an NFP general partner that early adopted the amendments in Update 2015-02 interpreted those amendments and whether its interpretation resulted in a change in accounting.

BC23. The Board concluded that the costs to implement the amendments in this Update will be minimal because the Board believes that few, if any, NFPs have already adopted the amendments in Update 2015-02. Also, an NFP that has not yet adopted the amendments in Update 2015-02 will not incur any additional costs as a result of the amendments in this Update. Therefore, the benefits of clarifying the consolidation guidance for NFPs will help avoid further diversity in practice and, upon the effective date of the final Update on this project, will lead to greater comparability in financial reporting that justify the costs.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through [ASU Taxonomy Changes](#) provided at www.fasb.org.