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Morgan Stanley

June 13, 2013

Ms. Susan Cosper Technical Director File Reference No. EITF-13B Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. EITF-13B; Proposed Accounting Standards Update – Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects

Dear Ms. Cosper:

Morgan Stanley appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Investments: Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects* (the "ASU").

We are broadly supportive of the proposal to allow entities that meet the revised conditions in the ASU to elect to use the effective yield method to account for investments in qualified affordable housing projects (Low-Income-Housing Tax Credit or "LIHTC"). We believe the existing guidance unnecessarily restricts the use of the effective yield method and may be a disincentive for entities to invest in LIHTC projects. The proposed amendments would enable more entities to qualify to elect the effective yield method to account for their investments in LIHTC projects. LIHTC investors generally seek a majority of their return on investment through the receipt of tax credits and other tax benefits. As such, the effective yield method, which requires that tax credits and other tax benefits be presented net of the amortization of the investment in the limited liability entity in the income statement as a component of income taxes, provides users with a better understanding of the nature and performance of the investment.

Below are our responses to certain questions posed in the ASU:

Question 1: Do you agree that an entity should meet the conditions in this proposed Update in order to elect to account for the investment in a qualified affordable housing project using the effective yield method? If not, please explain why.

Response: The current limitation on the application of the effective yield to investments guaranteed by a creditworthy entity has limited the use of this method. The risk that the tax credits will not be made available to the investor is not changed by the existence of a third-party guarantee. We believe the requirement for it to be probable that tax credits allocable to the investor will be made available meets the Board's objective to retain a high threshold for applying the effective yield method while also enabling more entities to appropriately qualify to elect the effective yield method to account for investments in LIHTC projects.

However, we believe the new condition in paragraph 323-740-25-1-aa that the investor "retains no operational influence over the investment other than protective rights" is unnecessary and may be overly restrictive. The ability for an investor to exercise limited operational influence in the investment should not be a determinative factor that precludes that investor from applying the guidance in this proposed ASU. An investor may have certain rights that technically meet the FASB's Master Glossary definition of participating rights (as found in ASC 810-10). An example of such a right includes super majority voting rights over hiring employees (or so-called "block votes"). Such block votes are not entirely protective in nature and may meet the accounting definition of participating rights, even though the investor cannot unilaterally make these decisions. We therefore suggest the Board consider (i) removing this condition or (ii) revise the condition to require that the investor "retain no significant operational influence" and remove reference to protective rights.

Question 2: Do you agree that the effective yield method is an appropriate method to account for investments in qualified affordable housing projects? If not, what method of accounting should be used? Please explain.

Response: Yes; we believe that the effective yield method is an appropriate method to account for investments in LIHTC projects primarily because users can better understand the returns from such investments and it allows for the net presentation in the income statement of tax credits and other tax benefits with the amortization of the investment. By design, investors in LIHTC seek to earn a majority of their returns through the receipt of tax credits and other tax benefits, and not through pre-tax earnings. Therefore, we believe other methods of accounting whereby the tax credits and other tax benefits are reported separately from pre-tax earnings (losses) obscure the investment performance of a LIHTC project by showing pretax losses for the investment that do not take into account the tax benefits.

However, our primary concern with LIHTC investments is the income statement presentation rather than the measurement method. Therefore, we would also be supportive of these other measurement approaches: (1) straight line, (2) amortization of the investment on a systematic basis on the basis of the realization of the tax benefits and (3) retaining the equity method of accounting, provided they are accompanied by amendments to presentation guidance that allows for operating earnings (losses), tax credits and other tax benefits to be reported in the income statement net as a component of income taxes from continuing operations.

Question 4: Do other types of investments made primarily for the purpose of receiving tax credits meet the conditions in this proposed Update for an entity to elect to account for the investments using the effective yield method? If so, please describe them.

Response: Yes; we believe other types of investments made for the purpose of yielding tax credits and other tax benefits would meet the conditions in this proposed ASU. In particular, the New Markets Tax Credit (NMTC) program is similar to the LIHTC program in that both are indirect tax subsidy programs that allow investors in flow-through limited liability entities to

claim a certain percentage of tax credits each year for a specified number of years. Most of the investment benefits are derived from the value of the tax credits and other tax benefits generated by the project.

We support the Board's objective to achieve a quick response to constituents' concerns with respect to the use of the effective yield method and income statement presentation of investments in LIHTC projects. However, given the significant similarities in the NMTC and LIHTC programs, we believe the extension of the ASU's scope to include NMTC investments can be achieved effectively and efficiently.

Question 5: Should the guidance in this proposed Update extend the effective yield method of accounting to other types of investments for which the economic benefits are realized primarily as a result of tax credits and other tax benefits? Please explain.

Response: Yes; we believe the guidance in this ASU should extend to other types of investments for which the economic benefits are realized primarily as a result of tax credits and other tax benefits. Similar to investments in LIHTC, investors in NMTC, Historic Tax Credits (HTC) and alternative energy projects (such as wind and solar) also seek a majority of their return through the receipt of tax credits and other tax benefits. The separation of the tax benefits from reported equity method losses distorts the understanding of the performance of such investments. The effective yield method in this ASU stipulates a net presentation in the income statement as a component of income taxes such that investors would not reflect pretax losses. Limiting the scope of the ASU may result in investments made under similar tax credit programs being reported differently and further discourage investments in those tax programs. Therefore, we believe that the effective yield method should be extended to such similar types of investments. However, we understand that the Board may require additional deliberation on this point and we would suggest that this should not delay the timely issuance of this ASU with respect to investments in LIHTC.

Question 6: Do you agree that the amendments in this proposed Update should prescribe recurring disclosure objectives that would enable users of financial statements to understand the nature of investments in qualified affordable housing projects and the effect of the measurement of that investment and the related tax credits on the financial position and results of operations of the reporting entity? Alternatively, should the proposed amendments include minimum required disclosures?

Response: Yes; we agree that adequate disclosures should be provided to enable financial statement users to understand the nature of LIHTC investments and its effect on an entity's financial position and results of operations. The ASU's suggested disclosures are useful examples for preparers to consider. In the spirit of the Board's objective to improve disclosure effectiveness and communicate information most important to financial statement users, we do not believe the ASU should stipulate minimum required disclosures.

Question 7: Do you agree that the amendments in this proposed Update should be applied using a retrospective approach? If not, please explain why.

Response: No; we suggest a modified retrospective approach with a cumulative-effect adjustment to an entity's opening retained earnings at the beginning of its fiscal year of adoption. While we understand the retrospective approach allows for comparability, we believe the resources required to recast prior year financial statements outweighs the benefits. A user can be made aware of the impact to the financial position through transitional disclosures.

Question 8: Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

Response:

Yes; we believe that an entity should be allowed to early adopt the proposed ASU.

Two other areas we believe the Board should consider clarifying before the ASU becomes final are as follows:

Proposed Accounting Standards Update, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

We believe the Board should clarify that investments accounted for under the effective yield method under this ASU are excluded from the scope of Proposed Accounting Standards Update, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("Financial Instruments ASU"). If this scope-out clarification is not made in the Financial Instruments ASU, our concern is an entity that would otherwise qualify to elect the effective yield method may be required to measure its LIHTC investment at fair value with changes in fair value recognized in net income if it meets the held for sale criteria under the Financial Instruments ASU. This result will be inconsistent with the Board's objective under this ASU.

Uncertainty in Income Tax Reserves

Lastly, we suggest the Board consider incorporating additional guidance in this ASU to clarify that the pre-tax component of an investment accounted for under the effective yield method and presented in the income statement as a component of income taxes should be subject to accounting for uncertainty in income tax reserves under ASC 740-10 (rather than ASC 450-20 contingent reserves). The basis for this clarification is to provide for a consistent reporting of these investments in a single component of income taxes and provide users with a better understanding of the nature and performance of the investment.

Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-7824 if you have any questions.

Sincerely,

G. David Bonnar Managing Director

Global Advisory and Policy

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