June 14, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. EITF-13B

Re: Proposed Accounting Standards Update—Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects—a consensus of the FASB Emerging Issues Task Force

Dear Ms. Cosper:

The Affordable Housing Tax Credit Coalition (AHTCC) appreciates the opportunity to comment on the Proposed Accounting Standards Update—Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects—a consensus of the FASB Emerging Issues Task Force, issued by the FASB.

We support the overall objective of the Board in improving accounting for investments in qualified affordable housing projects. Our responses to specific questions on which the Board is seeking comment are included in the attachment to this letter.

The Affordable Housing Tax Credit Coalition ("AHTCC") is a trade association that represents syndicators, developers, lenders, institutional investors, nonprofit groups, public agencies, and other allied professionals concerned with the Housing Tax Credit program. The Coalition, a nonprofit corporation chartered under the laws of the District of Columbia, is governed by an elected Board of Directors. It has been deeply involved with the Housing Tax Credit since its original enactment and in connection with all legislative amendments since that time.
If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact AHTCC Treasurer Beth Mullen at 916-930-5750 or beth.mullen@cohnreznick.com.

Yours truly,

Jeffrey A. Whiting
President
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.

Yes, in general, we believe an entity should meet the conditions in the proposed Update in order to elect to account for investments in affordable housing projects using the effective yield method. However, we recommend that the condition that the investor be a limited liability investor in the affordable housing project for both legal and tax purposes be modified to make it clear that an investment in an intermediary entity, such as a fund, that primarily invests in affordable housing projects meets this condition.

Many investors invest in tax credit funds which in turn invest in affordable housing projects. Such funds should be considered in-substance investments in affordable housing projects for purposes of meeting the conditions. While investments in affordable housing projects through a fund marketed by a tax credit syndicator have long been treated as in-substance real estate, the proposed change will minimize the likelihood that this guidance would be misapplied and limited to only a direct investor in an affordable housing project.

Also, additional guidance is needed regarding whether the conditions would need to be met at the fund level or met in connection with each property in which the fund invests.

We also request clarification that the definition of protective rights includes rights designed to protect the expected tax benefits.

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.

We agree the effective yield method is an appropriate method; however, we believe the proportional amortization method is also appropriate and may be easier to implement.

Applying a constant yield rate under the effective yield method results in more benefits being reported in the early years when the unamortized investment balance is highest. We believe that the proportional amortization method accurately reflects the realization of net benefits of the investment as the tax credits are received. We also believe the proportional amortization method is less complex and represents a cost beneficial alternative to the effective yield method.

We believe additional clarification and explanation is needed in connection with the example in order to address issues such as when to begin the application of the effective yield. Investments in affordable housing projects may occur up to two years before the receipt of tax credits begin. The example does not address whether the effective yield method benefit calculations should begin at the inception of the investment, which could be prior to the receipt of the tax credits, or in the year in which the receipt of the tax credits begins.
We recommend that the effective yield method not begin prior to the first annual reporting period in which receipt of the tax credits begin in order to avoid accrual of benefits that would have the effect of increasing the investment to an amount in excess of the investor’s capital contribution.

Question 3: Do you believe that removal of the requirement for guaranteed tax credits should change the method used to account for such investments from an effective yield method to an approach where the cost of investment is amortized in proportion to tax credits and other tax benefits received and recognized as a component of income taxes attributable to continuing operations?

Yes. As described in our response to Question 2 above, we believe investments in affordable housing projects should be amortized in proportion to the tax credits and other tax benefits received. We believe that the effective yield method is more appropriate in situations which are similar to financings.

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.

No response is being provided in connection with this question.

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.

No response is being provided in connection with this question.

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?

We generally agree with the amendments in the proposed Update related to recurring disclosures related to investments in affordable housing projects. However, we believe the requirement to disclose whether the qualified affordable housing project is currently subject to any regulatory reviews and the status of such reviews will result in a significant volume of disclosure which will not be useful to investors.

Inspections of the property and tenant files are performed annually. Additionally, the affordable housing projects may be subject to “surprise audits” from time to time by the Internal Revenue Service. These regulatory reviews are routine at affordable housing projects and represent measures taken to ensure compliance with tenant compliance tax credit program requirements. The results of the regulatory reviews seldom result in any loss or recapture of tax credits. As a result, we believe the
proposed disclosures of regulatory reviews and their status may lead to too much information that is unnecessary, confusing and distracting to the users of the financial statements.

We recommend that the Board either eliminate this proposed disclosure requirement or modify it significantly to include only significant matters related to the investment which might result in loss or recapture of the tax credits if not resolved.

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

Yes, we agree that the amendments in the proposed update should be applied using a retrospective approach. We would also support a cumulative effect approach applied as of the beginning of year of adoption.

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

Yes, early adoption of the proposed amendments should be permitted.

Question 9: The amendments in this proposed Update would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.

No, the proposed amendments should apply equally to the tax credit investments of both public and nonpublic entities.

Question 10: For preparers, how much effort would be needed to implement the proposed amendments?

We believe that the amount of effort needed to implement the proposed amendments would be more significant if the Board decides to adopt the effective yield method. However, implementation of the proposed amendments would be significantly less if the proportional amortization method was allowed.