June 17, 2013

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

Via Email: director@fasb.org

Re: File Reference No. EITF 13-B: Accounting for Investments in Qualified Affordable Housing Projects

Dear Ms. Cosper:

UnionBanCal Corporation ("UNBC") appreciates the opportunity to comment on the Proposed Accounting Standards Update, Accounting for Investments in Qualified Affordable Housing Projects, issued by the FASB (the "Proposal"). UNBC is a California-based financial holding company and bank holding company whose principal subsidiary is Union Bank, N.A. UNBC provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon, Washington, Texas, New York and Illinois, as well as nationally and internationally. UNBC had consolidated assets of $97.0 billion as of March 31, 2013.

UNBC provides funding to qualified affordable housing projects in California, Washington, and Oregon through tax credit equity, construction and permanent debt financing. Since the inception of UNBC's affordable housing program, UNBC has provided approximately $3.5 billion of debt and equity financing. As of March 31, 2013, UNBC has nearly 400 outstanding interests in the form of either debt or equity in affordable housing partnerships.

Executive Summary

In general, UNBC is supportive of the Proposal as it would allow for more equity investments in qualified affordable housing partnerships to qualify for the effective yield method, primarily due to the removal of the requirement that the tax credits be guaranteed by a creditworthy entity. UNBC supports a broader scope with respect to application of the effective yield method to such investments as we believe this method best aligns the accounting treatment with the economics associated with these tax motivated transactions, as it allows presentation of the investment's performance net of tax benefits. However, UNBC would also support a simplified, proportional amortization method in which the investment is amortized in proportion to tax credits received while still presenting the investment's performance net of tax benefits.
UNBC supports implementation of the Proposal using a retrospective method, with the ability to early adopt the Proposal. Although we would also like the Board to consider allowing the use of the effective yield method for other types of tax motivated transactions in the future, we appreciate the Board’s efforts to quickly respond to this matter.

However, we do have some additional comments and requests for clarifications, as detailed below:

A.) **Other interests in the qualified affordable housing partnership held by the equity investor**

In general, UNBC is supportive of the proposed requirements which must be met in order to apply the effective yield method of accounting. However, UNBC would recommend that the requirement that the investor’s liability be limited to its capital investment under ASC 323-740-25-1(c) be clarified or reevaluated. Unchanged from previous U.S. GAAP, this requirement may preclude applying the effective yield method to any investments in qualified affordable housing partnerships in which the investor has other arrangements with the partnership, even if the investment would have otherwise qualified for the effective yield method. Consequently, in line with existing and proposed U.S. GAAP, many investments may fail to meet the requirements for the application of the effective yield method.

In addition to providing equity, many lending institutions also provide construction and/or permanent debt financing to the same partnership in which they invest equity. Further, for variable-rate debt, institutions may enter into agreements with the partnership to swap the variable rate to a fixed rate. We do not believe providing these other sorts of products to the entity should preclude application of the effective yield method for the following reasons:

- Providing comprehensive funding solutions which include both debt and equity financing has evolved in this market and is a concept that has become more prevalent since the original issuance of EITF 94-1, *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects*, and therefore the impact and frequency of such arrangements might not have been fully considered at the time of issuance.
- Construction and permanent debt financing is subject to UNBC’s underwriting guidelines and is evaluated separately from equity investments. The interest rate granted is commensurate with rates offered to other commercial obligors with similar credit quality. UNBC would consider providing such debt financing whether or not UNBC also decides to invest equity in the same entity.
- Irrespective of whether UNBC provides debt financing to the partnership, UNBC continues to consider its investment return to be primarily derived from the realization of tax credits and other tax benefits.
- In providing either construction period or permanent financing and interest rate swap arrangements to qualified affordable housing partnerships, UNBC does not receive any additional power to control the activities of the partnership and retains only protective rights through those interests.\(^1\)

\(^1\) *FASB Codification*, Master Glossary, Protective Rights
Due to the aforementioned considerations, UNBC recommends that the Proposal be modified to clearly allow qualified affordable housing partnership investors to provide both equity and debt financing and interest rate swap agreements while also retaining the ability to use the effective yield method if such debt is originated with market terms and the investments meet each of the other requirements necessary for application. Given that many lending institutions provide both debt and equity financing to the same partnership, if the above requirement is not modified, many investments may not be eligible for the effective yield method.

B.) Transition guidance

Although UNBC supports a retrospective method of adoption, UNBC also recognizes that such application will require significant time and resources. In general, equity investments in affordable housing projects are of a long-term nature, and thus retrospective application would require UNBC to analyse information from several years back in time. Rather than restate financial statements for each individual prior period presented (pursuant to ASC 250-10-45-5(c)), UNBC’s preference would be to record a cumulative effect adjustment to beginning retained earnings without restating prior periods presented.

C.) Disclosures

UNBC supports the requirement to provide additional recurring disclosures with respect to investments in qualified affordable housing projects, as we believe it will provide users of the financial statements with enhanced information on the nature of these investments and the impact of these investments on UNBC’s financial statements.

Of note is that ASC 323-740-50-2 provides certain disclosures for preparers to consider. One of these disclosures is whether the qualified affordable housing project is currently subject to any regulatory reviews and the status of such reviews (for example, investigations by the housing authority or review by the Internal Revenue Service).² Although this disclosure is only listed as a consideration, we believe that by listing this as an example, there may be an implicit requirement to provide this disclosure on a recurring basis. As regulatory reviews are common for such instruments, UNBC recommends limiting the example to those situations where such review results in a finding that would significantly impact the accounting for a specific investment or return on such investment, unless such disclosure would otherwise be addressed in accordance with ASC 740, Income Taxes.³

² ASC 323-740-50-2(e). Note that disclosure item (e) was inadvertently referred to as item (c) in the Proposal, thus the subcategory referenced should be updated to ensure accuracy.

³ ASC 740-10-50-15 requires certain disclosures for tax positions “for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.”
Also, with respect to disclosing the yield used to calculate the amount recognized as a component of income taxes attributable to continuing operations under ASC 323-740-50-2(c), UNBC recommends that the Board clarify that this disclosure be presented as a composite yield or range of yields on all qualified affordable housing investments accounted for using the effective yield in which the reporting entity invests.

We appreciate the FASB’s request for feedback on this matter and welcome any comments or questions you may have. Please contact me with any questions you have on UNBC’s comments at (415) 765-2495 (email: Rolland.Jurgens@unionbank.com)

Sincerely,

Rolland Jurgens

EVP, Controller and Chief Accounting Officer