

June 14, 2013

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

File Reference No. EITF 13B

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update, *Investments – Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects* (the “proposed ASU”). We support the provisions of the proposed ASU and its amendments to the existing guidance on accounting for investments in affordable housing projects that qualify for the low income housing tax credit.

Application of current U.S. accounting guidance often results in investors being required to treat their tax credit investments as equity-method investments. However, investments in qualified affordable housing projects through flow-through limited liability entities have different risks and rewards than traditional equity investments. Investors in traditional equity investments primarily seek to earn their return through receipt of cash flows generated by the profitable operations of the investee. In contrast, investors in a qualified affordable housing project seek a majority of their return through the receipt of tax credits and other tax benefits (such as tax deductions from operating losses). Accordingly, the principal risk associated with affordable housing projects is not unprofitable operations of the investee but, rather, noncompliance with the tax code and the resulting potential recapture of the tax credits.

The traditional equity-method of accounting may distort key operating performance metrics (such as “earnings before interest, taxes, depreciation and amortization”) for investors in certain qualified affordable housing projects. Some stakeholders have indicated that, under the equity-method, the presentation in the income statement of the pre-tax investment performance separately from the tax benefits distorts investment performance by reporting pre-tax losses on otherwise profitable investments and makes investment performance difficult to understand.

We believe the effective yield method of accounting may provide a more accurate reflection of economic performance of certain investments when those investments meet the conditions of the proposed ASU. The effective yield method provides a more accurate reflection of the economic performance of certain investments in affordable housing projects because the investor recognizes the benefit of the tax credits (and other tax benefits) as they are generated and amortizes the initial cost of the investment as an offset to these tax benefits and this net amount is presented as a component of income taxes.

The effective yield method currently is an election available to investors but only if certain conditions are met. We agree with many stakeholders who believe the conditions currently required to elect the effective yield method are overly restrictive and should be reconsidered.

Financial Accounting Standards Board
File Reference No. EITF 13B
Page 2

Accordingly, we support the amendments in the proposed ASU. These amendments would permit a reporting entity that invests in a qualified affordable housing project through a limited liability entity to elect to account for the investment using the effective yield method if all of the following conditions required by the proposed ASU are met:

- It is probable that the tax credits allocable to the investor will be available.
- The investor retains no operational influence over the investment other than protective rights, and substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).
- The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.
- The investor is a limited liability investor in the affordable housing project for both legal and tax purposes, and the investor's liability is limited to its capital investment.

We believe the proposed amendments would enable more entities to qualify to elect the effective yield method to account for investments in qualified affordable housing projects, which provides a presentation of the investment's performance net of taxes. In addition, the proposed amendments would help financial statement users understand the nature of qualified affordable housing project investments and their effect on the financial position and results of operations of the reporting entity.

We appreciate this opportunity to provide feedback on the proposed guidance and would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day (563.888.4017) or Michael Hoffman (612.455.9442).

Sincerely,

A handwritten signature in cursive script that reads "McGladrey LLP".

McGladrey LLP