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Technical Director  
Financial Accounting Standards Board  
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Send by email to [director@fasb.org](mailto:director@fasb.org)

Dear Technical Director,

Royal Bank of Canada ("RBC") is Canada's largest bank as measured by assets and market capitalization and is one of North America's leading diversified financial services companies. Our subsidiary, RBC Tax Credit Equity, LLC, is a tax credit syndicator of federal low income housing tax credits (LIHTC), state tax credits, historic tax credits and new market tax credits. It has various investors in over 80 proprietary and multi-national funds that it has successfully syndicated. The equity we have raised through our funds has provided affordable housing to almost 700 housing properties across 41 states plus Washington D.C. and Puerto Rico.

We would like to thank you for the opportunity to provide our comments on the Proposed Accounting Standards Update ("ASU") for EITF Issue No. 13B, *Accounting for Investments in Qualified Affordable Housing Projects* ("EITF-13B"). We support the Board's proposed amendments to the criteria of using effective yield accounting for the LIHTC investments.

The LIHTC program, which was enacted under Section 42 of the Internal Revenue Code (IRC) in 1986 and became a permanent part of the IRC in 1993, is designed to encourage the investment of private capital from third-party corporate investors for the use of constructing affordable housing properties through the use of tax credits. This program has been an extremely successful government-sponsored housing program that has been able to merge state governmental oversight with corporate investment to form a competitive basis for awarding tax credits to developers whose projects not only provide affordable housing, but also enhance the communities where they are located. However, one of the biggest obstacles for the LIHTC program is attracting corporate investors. Currently the largest investors in the LIHTC program are banks, which have an obligation based on the Community Reinvestment Act (CRA) to invest in the communities where they collect deposits. The LIHTC program helps banks meet their CRA requirements while providing a safer and more diversified investment than other typical CRA investments, since LIHTC properties have a low rate of foreclosure.

Generally the tax credit investments use the equity method or cost method of accounting in accordance with ASC 970-323. Under the equity method, the pre-tax investment performance and tax benefits are

presented separately in the income statement. Investment performance, which is typically a loss, is reported within pre-tax income and the tax credits are reported within income tax expenses. The problem of using the equity method of accounting for the LIHTC investment is that it distorts investment performance since it often results in pre-tax losses but positive after-tax income. This accounting presentation makes it difficult for some potential investors to understand the true benefits of the LIHTC program.

Some entities use an alternative method in ASC 323-740 (formerly EITF 94-1, *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects*), known as the effective yield method, to account for these investments. Using the effective yield method, the amount of the tax benefits is recognized as a constant yield on the carrying value of the investment as the tax benefits are received. Generally, there are no pre-tax losses recognized in the financial statements. The investors would report the investment performance along with the tax benefits within an entity's tax expenses. Since the intent of the investors is not to invest in the underlying property, but rather to receive a yield on their investment through the value of the tax credits, the effective yield method would be the more appropriate accounting method and is easier to understand by the users of the financial statements as compared to the equity method.

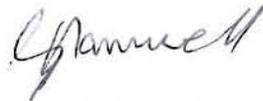
However, this method can currently only be used when an entity meets the following criteria:

- a) The availability of the tax credits is guaranteed by a creditworthy entity;
- b) The projected yield based solely on the cash flows from the guaranteed tax credits is positive; and
- c) The investor is a limited partner in the affordable housing project for legal and tax purposes, and the investor's liability is limited to its capital investment.

The first criterion above carries a high threshold in practice. It could be difficult to assert the creditworthiness of the guarantor and purchasing a credit guarantee from a third-party creditworthy entity may carry a considerable cost. In addition, the second criterion only allows investors to consider the yield obtained from the tax credits and ignores other income tax benefits (e.g. tax losses) that contribute to the overall yield. Because of these reasons, we view these existing criteria to be too restrictive and are concerned that they may serve as a disincentive for entities to invest in these projects. We therefore welcome these proposed amendments, which in our opinion, would provide users with a better understanding of the returns from these investments.

Should you have any questions regarding our comments, please do not hesitate to contact me to discuss our comments with you further.

Yours truly,



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