



June 17, 2013

Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

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 Chairman Seidman:

The Equipment Leasing and Finance Association (ELFA) wishes to comment on the FASB Exposure Document Issue 13-B Exposure Draft (ED).

ELFA is the trade association representing financial services companies and manufacturers engaged in financing the utilization and investment of and in capital goods. ELFA members are the driving force behind the growth in the commercial equipment finance market and contribute to capital formation in the U.S. and abroad. Its over 580 members include independent and captive leasing and finance companies, banks, financial services corporations, broker/packageers and investment banks, as well as service providers. The equipment finance business is estimated to be a \$742 billion industry in 2013. ELFA has been equipping business for success for more than 50 years. For more information, please visit <http://www.elfaonline.org>.

We generally support the proposals set forth in the Proposed Accounting Standards Update. We support the position to permit investments in qualified affordable housing



projects that meet the conditions specified in this Proposed Accounting Standards Update to be accounted for using the effective yield method. Furthermore, we agree that the effective yield method is an appropriate method to account for investments in qualified affordable housing projects.

We believe that the scope of the exposure draft and related EITF Opinion should include investments which qualify under the Federal Energy Investment Tax Credit Program authorized under 26 USC 48. The credits amount to 30% of the project cost for solar and 10% for micro-turbines, which can currently be accounted for under the tax reduction or flow through model, or alternatively, under the deferral method. These methods are both contemplated under ASC 740-10-45/46. Similar to investments in qualified affordable housing projects through limited partnership structures, solar power plant projects have different risks and rewards than a traditional equity investment. Like the Low Income Housing Tax Credits (or “LIHTC”) investor, the alternative energy investor derives less return from the underlying operating cash flows and appreciation than an equity investor in more traditional investments. The investor in an alternative energy project is in a similar economic position to the investor in an affordable housing project. The investors commonly seek a majority of their return from tax credits and other tax benefits, and they would otherwise not make the project investment without the tax benefits.



Relevant Issues

Question 4 of this exposure document addresses what other types of investments made primarily for the purpose of receiving tax credits meet the condition of this proposed Update for an entity to elect to account for the investments using the effective yield method. The market for alternative energy investment eligible for tax credits from the Federal Government is driven principally from the economic benefit that the underlying tax credits provide. In the case of the Alternative Energy Power Plant investments, the economic returns excluding the tax credits would not yield an amount that would clear most investor's risk free rates.

In the application of the deferral method, the accounting model yields a perceived adverse pre-tax accounting impact. This will often impact the determination by entities subject to regulatory oversight or public reporting entities whether to make such an investment. This asset class is no different than that of the low income housing investment which generates a significant amount of yield from the Low Income Housing Tax Credits authorized under Section 42 of the Tax Reform Act of 1986.

Inherent in EITF 94-1 is the principle of vesting of the tax credits associated with the underlying investment. In the case of low income housing, it is the requirement that the apartment units of the low income housing units are rented to tenants in compliance with IRC Section 42



Investments in the LP/LLC must be made before the solar energy facility is placed in service. For example, the solar based LP/LLC entity earns a 30% tax credit on the eligible construction and equipment costs and has a five year compliance period governing that credit. During the five year compliance period, recapture of the tax credit can be triggered if either: 1) the property ceased to be a qualified energy facility or 2) a change in ownership interest occurs. This risk profile appears comparable to that of the LIHTC which provides a 15-year hold period and compliance with renter's median income thresholds.

Question 5 of Issue 13-B asks should the guidance in the proposed Update extend effective yield method of accounting to other types of investments for which the economic benefits are realized primarily results of tax credits and other tax benefits. ELFA is persuaded by the notion that the underlying accounting theory applied in the standard under the consideration of Issue 13-B is relevant to limited partnership investments in solar and wind power plants. As enumerated above the investor returns are primarily derived from the income tax benefits available through the Investment Tax Credit provided for under 26 USC 48. Furthermore, the risk of compromising the vesting of the tax benefits in question is at a similar level that the LIHTC investor possesses in their respective limited partnership investment. The statutory requirements of compliance and associated risks are similar if not more significant towards the alternative energy tax credit eligible investment than the LIHTC investments.



Recommendation

The recommended changes proposed in Emerging Issue 13-B achieve a more realistic and reasonable accounting model for eligible LIHTC investments. The FASB should expand the scope of this accounting standard to include not only eligible LIHTC investments but also tax credit eligible alternative energy power plant projects.

We value the relationship built over the years with the FASB. The Board and staff have always given us access and allowed us to provide our views and those of our membership on various accounting and financial reporting matters. We hope that our input here is valuable to furthering the mission of the FASB to help improve transparency in financial reporting in the United States.

We look forward to continuing to work with the Boards and staff on this matter and stand ready to assist in any way we can.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Sutton', is written over a light blue horizontal line.

William G. Sutton, CAE
President/CEO
Equipment Leasing and Finance Association