



**Michael Monahan**  
Senior Director, Accounting Policy

June 17, 2013

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

Re: Proposed Accounting Standards Update, Investments-Equity Method and Joint Ventures (Topic 323)  
- File Reference No. EITF-13B

Dear Ms. Cospers:

The American Council of Life Insurers (ACLI)<sup>1</sup> appreciates the opportunity to comment on the “Investments-Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Affordable Housing Projects – Exposure Draft,” (“ED”) issued April 17, 2013. The following represents our general comments and answers to the ED questions for preparers of financial statements.

We support the Board’s efforts to improve the accounting for investments in qualified affordable housing projects, and agree with amendments to existing accounting guidance proposed in the ED. The removal of the requirement for tax credits to be guaranteed should result in a significant increase in the number of these investments qualifying for effective yield accounting treatment. While we agree that an investment that meets the conditions in the ED should be eligible for the effective yield method, we believe that the Board should clarify the condition that requires that “The investor retains no operational influence over the investment other than protective rights...” The current application of the equity method of accounting for these investments presumes some level of influence, irrespective of the existence of protective rights.

We believe the effective yield method, as modified by the ED, provides the accounting and financial statement presentation that appropriately represents the economics of these investments for financial statement users. However, we believe the guidance should provide investors that qualify for the effective yield method the option to apply a ratable amortization method as a practical expedient. In addition, the new disclosure requirements will ensure that financial statement users fully understand the nature of these investments and their effects on the statements of financial position and comprehensive income.

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<sup>1</sup> The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American Families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at [www.acli.com](http://www.acli.com).

In our view, the ED adequately addresses the immediate practice concerns raised with respect to the accounting and financial statement presentation for these investments.

We do not believe that the existing guidance in the ED should be extended to similar types of investments at this time, as the ED appropriately builds on existing guidance that has historically applied solely to investments in qualified affordable housing projects. Expanding the guidance to similar structures could involve significant additional research that we believe would be more efficiently and effectively addressed as part of the Board's overall research project on the accounting for government assistance in general.

We agree that the amendments in the ED should be applied using a retroactive approach. Given the long term nature of these investments, a prospective adoption approach could result in different accounting for the same entity for similar investments for a significant period of time, adding operational complexity for financial statement preparers and potential confusion for financial statement users. We do, however, recommend that preparers be given the option to retroactively apply the amended guidance through a cumulative effect adjustment as of the beginning of the period of adoption, rather than the earliest period presented.

The following Appendix provides answers to the specific ED questions for respondents.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Monahan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Monahan  
Senior Director, Accounting Policy

## APPENDIX QUESTIONS FOR RESPONDENTS

**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. We agree that an investment that meets the conditions in the ED should be eligible for the effective yield method. However, we believe that the Board should clarify the condition that requires that “The investor retains no operational influence over the investment other than protective rights...” The equity method of accounting currently applied by many investors in qualified affordable housing projects presumes a certain level of influence to even qualify for equity method accounting, irrespective of the existence of protective rights. As such, the requirement that the investor retain “no operational influence” could be interpreted to preclude qualification of the effective yield method for all such investments currently accounted for under the equity method, which is presumably not the intent of this guidance.

**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.**

Yes. We agree that the effective yield method is an appropriate method to account for investments in qualified affordable housing projects. However, we believe the guidance should provide investors that qualify for the effective yield method the option to apply a ratable amortization method as a practical expedient.

**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?**

We do not believe that the removal of the requirement for guaranteed tax credits should preclude the ability to use the effective yield method, as long as the “probable” threshold is met.

**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.**

We are aware of other similar investments, but they differ in certain respects from the investments in qualified affordable housing projects, particularly with respect to the period over which tax credits are earned, as well as other rights conferred upon the investor. We are uncertain as to whether those vehicles would meet the conditions in the ED to qualify for the effective yield method of accounting, without additional consideration of the unique aspects of each structure.

**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.**

We do not believe that the existing guidance in the ED should be extended to similar types of investments at this time. The ED appropriately builds on existing guidance that has historically applied

solely to investments in qualified affordable housing projects. In our view, the ED adequately addresses the immediate practice concerns raised with respect to the accounting and financial statement presentation for such investments by (1) amending the criteria for investments that would qualify for the effective yield method, (2) refining the effective yield calculation, and (2) improving disclosures. Expanding the guidance to similar structures could involve significant additional research that we believe would be more efficiently and effectively addressed as part of the Board's overall research project on the accounting for government assistance in general.

**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?**

In our view, the disclosure requirements as outlined in the ED appropriately achieve the Board's objectives. We do not believe that minimum disclosures should be required, in order to allow financial statement preparers the appropriate flexibility to integrate the new disclosures into current investment and tax disclosures, as appropriate.

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

We agree that the amendments in the ED should be applied using a retroactive approach. Given the long term nature of these investments, a prospective adoption approach could result in different accounting for the same entity for similar investments for a significant period of time, adding operational complexity for financial statement preparers and potential confusion for financial statement users. We do, however, recommend that preparers be given the option to retroactively apply the amended guidance through a cumulative effect adjustment as of the beginning of the period of adoption, rather than the earliest period presented, even if none of the impracticability criteria outlined in ASC 250-10-45-9 are met. This alternative approach alleviates the main concern with consistent application going forward associated with a prospective adoption approach, while allowing companies to consider their individual facts and circumstances in performing a cost-benefit analysis with regard to full retrospective adoption.

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

In our view, early adoption should be permitted, as we do not believe that comparability of accounting between companies is of primary concern to financial statement users in this circumstance.

**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.**

We believe that the guidance in the ED should apply to public and nonpublic entities, especially given the fact that the effective yield method is an option, rather than a requirement.

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

It is expected that financial statement preparers will rely on assistance from the investment sponsor in obtaining the information necessary to implement the guidance in the ED. As such, the level of effort that would be required for the preparer will, to a certain extent, depend on the level of assistance provided by the investment sponsor.