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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

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Send by email to 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.

In June of 2013 we provided 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 commended the Task Force's tentative decision that entities would be permitted to elect to apply a proportionate amortization method to LIHTC investments if certain conditions are met. We would now like to take the opportunity to provide additional comments on the suggested changes that the Board presented at the September 13, 2013 EITF meeting.

Background from Previous Comment Letter

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.

New Proposed Accounting Guidance
We would like to comment on one proposed change that was presented at the September 13, 2013 EITF meeting, which we feel could negatively impact investors:

The Task Force reached a tentative conclusion that LIHTC investments would be presented on the investor's balance sheet as a deferred income tax asset, instead of as an investment. The Master Glossary of the FASB Codification defines a deferred tax asset as "the deferred tax consequences attributable to deductible temporary differences and carryforwards". Temporary differences are differences between the carrying amount of an asset or liability recognized in the statements of financial position and the amount attributed to that asset or liability for tax purposes. The LIHTC investment is typically in the form of a limited partnership interest and does not represent a difference in amount between accounting and tax basis of an asset. Accordingly, the LIHTC investment does not meet the definition of the deferred tax asset. It would be more appropriate to classify the investment as an equity interest because it is by nature more like an equity investment than a deferred tax asset. As is the case with equity investments, the LIHTC investments can be sold or liquidated and may receive dividends. This is not the case with deferred tax assets.

The above tentative conclusion is of particular concern to us because the proposed accounting may have unintended adverse capital impact to LIHTC investors (e.g. financial institutions). Under Basel III rules, a deduction from capital is made for the amount by which a deferred tax asset arising from temporary differences exceeds an individual or aggregate threshold of adjusted Common Equity Tier 1 capital (10% individual threshold, or 15% when considered in aggregate with other threshold deduction items). The presentation of the LIHTC investments as a deferred tax asset could have negative implications to many LIHTC investors, particularly considering that many investors in the LIHTC industry are banks. We understand that the objective of this proposed change was to enhance symmetry between income statement and balance sheet presentation. However, given the potential adverse unintended consequences, we recommend that LIHTC investments continue to be treated as equity investments on the balance sheet.

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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