

October 6, 2022

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2022-004

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* (Exposure Draft or proposed Update).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$11 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We commend the Board's responsiveness to stakeholder requests to allow reporting entities to expand the scope of investments to which the proportional amortization method can be applied, which will result in additional consistency in accounting for these investments. While existing guidance in ASU 2014-01 applies to investments in low-income housing tax credit (LIHTC) structures, we appreciate the attentiveness with which the Board and staff have conducted outreach to better understand the nature of other economically similar investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits. In particular, we applaud the Board's responsiveness to stakeholder feedback, highlighted by the addition of a narrow-scope project to the Emerging Issues Task Force (EITF or Task Force) agenda in September 2021, to determine whether the proportional amortization method should be expanded to include investments that generate income tax credits from programs beyond LIHTC structures and to determine whether certain clarifications need to be made to the conditions in paragraph 323-740-25-1 to accommodate such an expansion. In our letter, we offer broad support for the proposed Update, which we believe better reflects the economics of investments primarily entered into for purposes of obtaining income tax credits and other benefits and that the disclosures required by the proposed Update would provide users with a better understanding of the

entity's investment returns. We believe the proposed updates are both operable and cost effective and have also provided specific recommendations for the Board's consideration.

Proposed Recognition Guidance

In our response to the FASB's Invitation to Comment (ITC), *Agenda Consultation*, we indicated our support for the expansion of the proportional amortization method within ASU 2014-01 to also be permitted for other tax credit investments. We believe the accounting for tax credit investments using the proportional amortization method results in a better reflection of the economics, more consistent reporting and (for users) greater simplicity and a better understanding of the entity's investment returns from their tax credit investments. This is an improvement to the other accounting methods being applied such as the Hypothetical Liquidation at Book Value (HLBV) method, which was set forth by the AICPA in a proposed statement of position,¹ which is a highly complex methodology that can be difficult for stakeholders to understand.

We believe the proportional amortization method is an improvement over the currently applied equity and cost method accounting as it more fairly represents the economics and provides financial statement users with a better understanding of the returns from tax equity investments. We appreciate the Board's thoughtfulness in prioritizing standards that provide users more clarity. From an investor's perspective, investments in tax credit structures are analyzed and managed based on a rate of return that is anticipated to be earned over an expected term. Under the typical equity and cost method accounting for these investments, the investment gains and losses and income tax credits and other benefits are often presented separately on the income statement in their respective line items, which creates difficult to understand results as compared to the economics of these transactions. On the contrary, we believe the proportional amortization method provides users with a better understanding of the returns from such investments than the equity or cost method. Additionally, we believe the proposed conditions in 323-740-25-1 are generally operable, but may be overly constrained, resulting in the exclusion of certain tax credit investments that are also made for the primary purpose of receiving income tax credits and other income tax benefits. As noted in the Basis for Conclusions to ASU 2014-01 and the Proposed Update, stakeholders have provided feedback that these equity investments are made "primarily" for this purpose.² However, the use of "substantially all" in the proposed recognition guidance is likely to result in the exclusion of certain investments within a program even though they are made "primarily" for the purpose of receiving income tax credits and other income tax benefits. Therefore, we believe there should be consistency between the type of investments referenced in the Basis for Conclusions and the scope of the proposed guidance. Further, the exclusion of certain investments within a program could result in audit complexities as certain programs will have a portion of investments that qualify for the proportional amortization method and a portion that does not. As a result, the similar investments will likely need to be bifurcated to allow for them to be audited to determine if they meet the "substantially all" of the projected benefits criteria, which may result in raising the data requirements needed to account for these investments.

CCR companies would not expect significant costs in adopting the proposed Update given the familiarity with the efforts currently used in applying the proportional amortization method to qualified LIHTC

¹ See the AICPA's proposed Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments*.

² See BC6 of the Exposure Draft.

investments based on existing guidance. CCR appreciates the Board's efforts in keeping criteria consistent with existing, familiar, and operable guidance. Recurring costs would be expected to be minimal for companies already investing in LIHTC programs, as most have already implemented policies, controls, and processes for these investments and could expand these processes to include other qualified investments. It may be helpful for the Board to consider including additional examples on how to determine discount rates and discounted cash flow analysis.

Policy Election

We are highly supportive of the Board's decision to allow application of the guidance in the proposed Update to be an accounting policy election and not require application to all investments that meet the conditions as amended in 323-740-25-1 by this proposal. In instances where some tax-credit-programs qualify for the proportional amortization method while others do not, we believe companies should be permitted to take the accounting policy election. Additionally, we believe a requirement to apply the proportional amortization method to all investments would add unnecessary costs of evaluating all investments to determine if the election can be applied when it is expected that most will not qualify. We note the Task Force considered, but ultimately dismissed, an alternative under which an entity's accounting policy election to apply the proportional amortization method would be required to apply to all tax equity investments, due to similar cost-benefit implications.³ We appreciate the Board's and the Task Force's efforts in listening to feedback and performing additional field work to arrive at this decision that we believe will yield a more efficient and cost-effective implementation.

Further, CCR agrees that the accounting policy election should be made on a tax-credit-program-by-tax-credit-program basis as proposed and believe the election is understandable, operable, and auditable. We would expect to leverage the same framework, while modifying as needed for any amended accounting guidance for other tax credit programs. Additionally, we recommend the Board provide more examples of tax credit program classification to facilitate operability.

We support the flexibility considered by the Task Force and Board and agree tax equity investments not accounted for under the proportional amortization method or the equity method should be permitted to apply the cost method. This is in line with existing GAAP whereby LIHTC investments that do not qualify for the proportional amortization method or equity method are accounted for using the cost method.⁴ Allowing the cost method would simplify the accounting for these types of investments, since obtaining reliable fair value information to comply with the requirements of Topic 321 may not be cost effective.

Disclosure Requirements

We support the proposed disclosure requirements, as we agree this information will provide clarity about investment amortization and tax benefits and meet user requests to show these amounts netted within the income tax expense (benefit) line item. Additionally, we believe that the proposed disclosure requirements are operable and auditable and offer a cost-effective means of providing the information requested by users. We also would not expect any significant incremental costs given the familiarity with the efforts that are currently used in applying the proportional amortization method to qualified affordable housing project investments. We appreciate the Board leveraging the existing disclosure

³ See BC10 of the Exposure Draft.

⁴ See [ASC 323-740-25-2A](#)

examples in ASC 323 and transition disclosure requirements for an accounting change in ASC 250. We applaud the Task Force for suggesting these requirements based on the information that has been consistently requested by financial statement users in order to provide clarity about investment amortization and tax benefits netted within the income tax expense (benefit) line items.

Implementation Considerations

We support the Board's decision to increase comparability by requiring the proposed Update to be adopted either using a modified prospective or retrospective approach as suggested, given the variety in an entity's tax equity investment portfolio. We believe the earliest period that an entity would be able to adopt the proposed Update, without incurring significant costs, is for annual reporting periods beginning after December 15, 2023, with early adoption permitted.

Conclusion

We appreciate this opportunity to provide feedback on the proposed Update related to accounting for investments in tax credit structures using the proportional amortization method. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International