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October 6, 2022

Via email to director@fasb.org

Ms. Hillary H. Salo, Technical Director
File Reference No. 2022-004
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (File Reference No. 2022-004)

Dear Ms. Salo:

We are pleased to provide comments on the Financial Accounting Standard's Board ("FASB" or "Board") August 22, 2022, Exposure Draft, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.*

We support the Board's initiative to allow for reporting entities to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits consistently. We generally support the extension of the use of the proportional amortization method to account for tax equity investments that generate income tax credits through other programs. However, we believe certain clarifications would further enhance the final amendments, as elaborated in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Steve Maniaci at (616) 802-3508, Thomas Faas at (404) 942-2920, or Angela Newell at (214) 689-5669.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Do you agree that a reporting entity's tax equity investment that meets the conditions in paragraph 323-740-25-1 as amended by this proposed Update should be able to elect to use the proportional amortization method? That is, do you agree that the conditions are appropriate?

We agree the conditions in paragraph 323-740-25-1 as amended are appropriate to determine whether a reporting entity's tax equity investment should be able to elect to use the proportional amortization method.

Question 2: Should the condition in paragraph 323-740-25-1(aa) be retained? Should only an investor that does not have the ability to exercise significant influence over the operating and financial policies of the underlying project be able to elect to apply the proportional amortization method to its tax equity investment? Please explain why or why not. What would be the impact of removing that condition?

We believe the condition in paragraph 323-740-25-1(aa) should be retained. Therefore, only an investor that does not have significant influence over the operating and financial policies of the underlying project should be able to elect to apply the proportional amortization method to its tax equity investment. The proportional amortization method aligns with the type of return the investors in these projects typically seek. Conversely, investors that have significant influence over the operating and financial policies of projects typically have aspirations of returns beyond income tax credits and other income tax benefits.

Question 3: Are the conditions in paragraph 323-740-25-1 as amended by this proposed Update operable and auditable? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

We believe that the conditions in paragraph 323-740-25-1 are operable and auditable.

Question 4: Does the proportional amortization method fairly represent the economics and provide financial statement users with an appropriate understanding of the returns from tax equity investments that meet the conditions in paragraph 323-740-25-1 as amended by this proposed Update to apply the proportional amortization method? If not, please explain why.

We believe the proportional amortization method fairly represents the economics and provides financial statement users with an appropriate understanding of the returns. Paragraph 323-740-25-1(aaa) requires that substantially all of the projected benefits are from income tax credits and other income tax benefits. Thus, we believe it is appropriate to present the amortization of the cost of the investment and the income tax credits and other income tax benefits net in the income statement as a component of income tax expense (benefit).

Question 5: Do you agree that applying the proportional amortization method to investments that meet the conditions in paragraph 323-740-25-1 as amended by this proposed Update should be an accounting policy election, or should those investments be

required to be accounted for using the proportional amortization method? Please explain why or why not.

We agree that the application of the proportional amortization method should be an accounting policy election. Furthermore, making the accounting policy election on a tax-credit-program by tax-credit-program basis will provide users of the financial statements consistency by investment type.

Question 6: Do you agree that the accounting policy election should be made on a tax-credit-program-by-tax-credit-program basis? That is, should an entity be able to elect to apply the proportional amortization method to investments in certain tax credit programs and not to apply it to investments in certain other tax credit programs? If not, at which level should the accounting policy election be applied (for example, for all investments in tax credit programs that meet the conditions in paragraph 323-740-25-1 as amended by this proposed Update or at the individual investment level)?

We agree that the accounting policy election should be made on a tax-credit-program-by-tax-credit-program basis as it will provide users of the financial statements consistency by investment type. However, it would be helpful to provide additional guidance regarding the definition of a tax credit program. We believe one reasonable method would be to define a tax-credit-program by Internal Revenue Code Section.

Question 7: Is a tax-credit-program-by-tax-credit-program accounting policy election understandable, operable, and auditable? Please explain why or why not.

We agree that a tax-credit-program-by-tax-credit-program accounting policy election is understandable, operable, and auditable. However, in computing the substantially all and projected positive yield tests in proposed section 323-740-25-1(aaa) and (b) respectively, there may be uncertainty due to the fact that certain credits under the Inflation Reduction Act (IRA) may be treated as refundable credits at the election of the equity investee. In the case of such credits, the election to transfer the credits and thus treat them as refundable, is made each year over the term of the program. Thus, in certain cases, meeting the substantially all and projected positive yield tests in proposed section 323-740-25-1 may not be certain, which may make it difficult to determine whether an entity meets those tests, and to audit the entity's conclusions.

Question 8: Under existing GAAP, LIHTC investments that do not qualify for the proportional amortization method or equity method are accounted for using the cost method. The proposed amendments would expand the use of the cost method in Subtopic 323-740 to other tax equity investment programs. Should tax equity investments that are not accounted for under the proportional amortization method or the equity method be permitted to apply the cost method, or should they be required to apply Topic 321?

We note that tax equity method investments are typically structured as partnerships: therefore, it is rare to see the cost method being applied in practice. Further, 321-10-35-2 provides an alternative measurement method for investments without readily determinable fair values which we believe would result in a model that is substantially consistent with the cost method in Topic 323 as these investment are rarely transferred after inception. Therefore, we would not object to removing the cost method under Subtopic 323-740 and requiring that tax equity investments that are not accounted for under the proportional amortization method or the equity method apply Topic 321, as we believe this change would simplify the Codification by removing a separate measurement method that is only applied to tax credit structures with little practical change in the resulting accounting.

Question 9: Do you agree that the proposed disclosures would provide decision-useful information for financial statement users? Are there any other disclosures about tax equity investments that should be required?

We agree with the proposed disclosures in ASC 323-740-50. However, we recommend providing clarity that the disclosures would be required for all investments in tax credit structures. This is consistent with the proposed disclosure in ASC 323-740-50-1 (including investments in tax credit projects within that tax credit program that do not meet the conditions in paragraph 323-740-25-1). The election to apply the proportional amortization method is an accounting policy decision in ASC 323-740-25-4 on a tax-credit-program by tax-credit-program basis. Thus, paragraph ASC 323-740-50-1A should be revised to note the disclosure requirements apply to all similar tax credit investments, even if the proportional amortization method is not applied.

Question 10: Do you agree that the proposed disclosures should apply to tax equity investments that generate credits through a tax credit program for which the entity has elected to apply the proportional amortization method, including investments that do not meet the conditions in paragraph 323-740-25-1 as amended in this proposed Update? If not, please explain why.

We agree that the proposed disclosures should apply to similar tax credit investments even if they do not meet the conditions in ASC 323-740-25-1.

Question 11: Are the proposed disclosures operable to produce and auditable? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

We agree the proposed disclosures are operable to produce and auditable.

Question 12: Do you agree with the proposed transition provisions? Please explain why or why not.

We agree with the proposed transition provisions.

Question 13: What is the earliest period that an entity would be able to adopt the proposed amendments? Should early adoption be permitted? If not, please explain why.

Amendments in this proposed Update should be effective for periods beginning after December 15, 2023 (public entities) and after December 15, 2024 (private entities), with early adoption permitted. This allows reporting entities with adequate time to prepare for adoption of the accounting standard update and private companies an additional year.

Question 14: Are there any specific private company considerations that should be brought to the Board's attention?

We are not aware of any private company considerations that require the Board's attention.