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FASB Redeliberates on Premium Amortization of Purchased Callable Debt Securities

In September 2016, the FASB issued a proposed Accounting Standards Update (ASU)[1] that would make narrow-scope improvements to accounting for premium amortization associated with purchased callable debt securities. At its February 1, 2017, meeting, the FASB redeliberated the project and (1) discussed the summary of the comments received on the proposed ASU, (2) reached tentative decisions on four key issues raised in the comment letters it received, and (3) directed its staff to draft a final ASU.

The Board discussed key themes from the respondents' comments and identified the following areas for redeliberation in which further clarifications were sought by respondents:

- *Application of the "yield-to-worst" principle rather than yield-to-first call* — Some respondents believed that the Board's objective of aligning the accounting for callable debt securities with the expectations incorporated in market prices would be better achieved by applying a true yield-to-worst principle. After deliberation, the Board tentatively decided to retain the yield-to-first call requirement under the proposed ASU and asked the staff to perform additional outreach on the yield-to-worst principle and whether the differences between the two principles are quantifiable and material.
- *Consequential amendments to ASC 946-320-35-20*[2] — A few respondents noted that the consequential amendments made to ASC 946-320-35-20 may suggest "that there should be a change in practice for all debt securities held by investment companies." The Board confirmed that the consequential amendments were not intended to be a change in practice and directed the staff to update accordingly in the final ASU.
- *Scope of "callable" instruments and the interaction with ASC 310-20-35-26* — The Board tentatively decided to clarify the scope of callable instruments and amend ASC 310-20-35-33 in the final ASU because some "respondents noted that the consideration of call features in which the call date or call price is not known in advance would be too complex to be operational." In addition, the Board will clarify in the final ASU that the amendments are not intended to change current practice when entities apply the guidance in ASC 310-20-35-26.
- *Clarification of whether all premiums should be amortized to the earliest call date* — The Board clarified that "all premiums should be amortized to the earliest call date" rather than only amortizing purchase premiums to the earliest call date.

Transition and Effective Date

The FASB affirmed that the amendments "should be required to be applied through a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period in which the final amendments are adopted."

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1 FASB Proposed Accounting Standards Update, *Premium Amortization on Purchased Callable Debt Securities*.

2 For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

The Board tentatively decided that the effective date for public entities would be for fiscal years and interim periods beginning after December 15, 2018, and private entities would adopt for fiscal years and interim periods beginning after December 15, 2019. Early adoption will be permitted and effective upon the issuance of the final ASU. The Board expects to issue the final ASU during the second quarter of 2017.

For more information, refer to the meeting handout.