

MEMO# 30427

November 29, 2016

ICI Comment Letter on FASB Proposal Requiring Amortization of Premium to First Call Date for Callable Debt Securities

[30427] November 29, 2016 TO: ICI Members

Accounting/Treasurers Committee SUBJECTS: Fund Accounting & Financial Reporting RE: ICI Comment Letter on FASB Proposal Requiring Amortization of Premium to First Call Date for Callable Debt Securities

The Financial Accounting Standards Board recently released an exposure draft of a proposed accounting standards update that would shorten the amortization period for callable debt securities purchased at a premium.[\[1\]](#) Specifically, the proposed amendments would require the premium to be amortized to the earliest call date. The proposal would also require a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Institute recently filed the attached comment letter on the proposal.

The Institute comment letter supports amortizing premium on purchased callable debt securities to the earliest call date. The letter notes, however, that where the first call is at a premium to par with subsequent calls at par, amortizing premium to the first call date may not represent market expectations as to when the security will be called. For this reason, the letter recommends that the proposal be modified to require amortization of purchase premiums on callable debt securities based on yield-to-worst.

The Institute letter recommends that the proposal be effective no sooner than fiscal years beginning one year after issuance of the final accounting standards update so as to provide reporting entities with sufficient time to modify their systems and perform the cumulative effect adjustment.

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[Attachment](#)

endnotes

[1] See [ICI Memorandum No. 30314](#) (October 14, 2016)

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