MEMO# 32846

October 19, 2020

FASB ASU Addresses Premium Amortization for Callable Debt Securities with Multiple Call Dates

[32846]

October 19, 2020 TO: ICI Members SUBJECTS: Fund Accounting & Financial Reporting RE: FASB ASU Addresses Premium Amortization for Callable Debt Securities with Multiple Call Dates

The Financial Accounting Standards Board recently released an accounting standards update that addresses premium amortization for callable debt securities with multiple call dates.[1] In 2017 the FASB issued an accounting standards update that required callable debt securities purchased at a premium to be amortized to the earliest call date, rather than ultimate maturity.[2] The 2017 accounting standards update was intended to more closely align recognition of interest income on callable debt securities purchased at a premium to market expectations and the likelihood that the security would be called by the issuer. Paragraph BC 21 of the 2017 accounting standards update indicated that if the security contained additional future call dates, an entity should consider whether the amortized cost basis exceeded the amount repayable by the issuer at the next call date. If so, the excess should be amortized to the next call date.

ASU No. 2020-08 clarifies that an entity should reevaluate whether a callable debt security purchased at a premium is in scope for each reporting period. Specifically, for each reporting period, to the extent the amortized cost basis of the individual callable debt security exceeds the amount repayable by the issuer at the next call date, the premium shall be amortized to the next call date. The next call date is the first date when a call option at a specified price becomes exercisable. Once that date has passed, the next call date is when the next call option at a specified price becomes exercisable. Whether a callable debt security purchased at a premium is subject to amortization to the next call date may change over time depending on the security’s amortized cost and the terms of the next call option.

Effective Date and Transition

For public business entities, ASU No. 2020-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Entities should apply the amendments in the ASU on a prospective basis as of the beginning of the period of adoption for existing or newly purchased debt securities.

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endnotes

[1] Accounting Standards Update No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs,* (October 15, 2020) is available on the FASB website.

[2] FASB Requires Amortization of Premium to Earliest Call Date for Callable Debt Securities, ICI Memorandum No. 30660 (March 31, 2017).
