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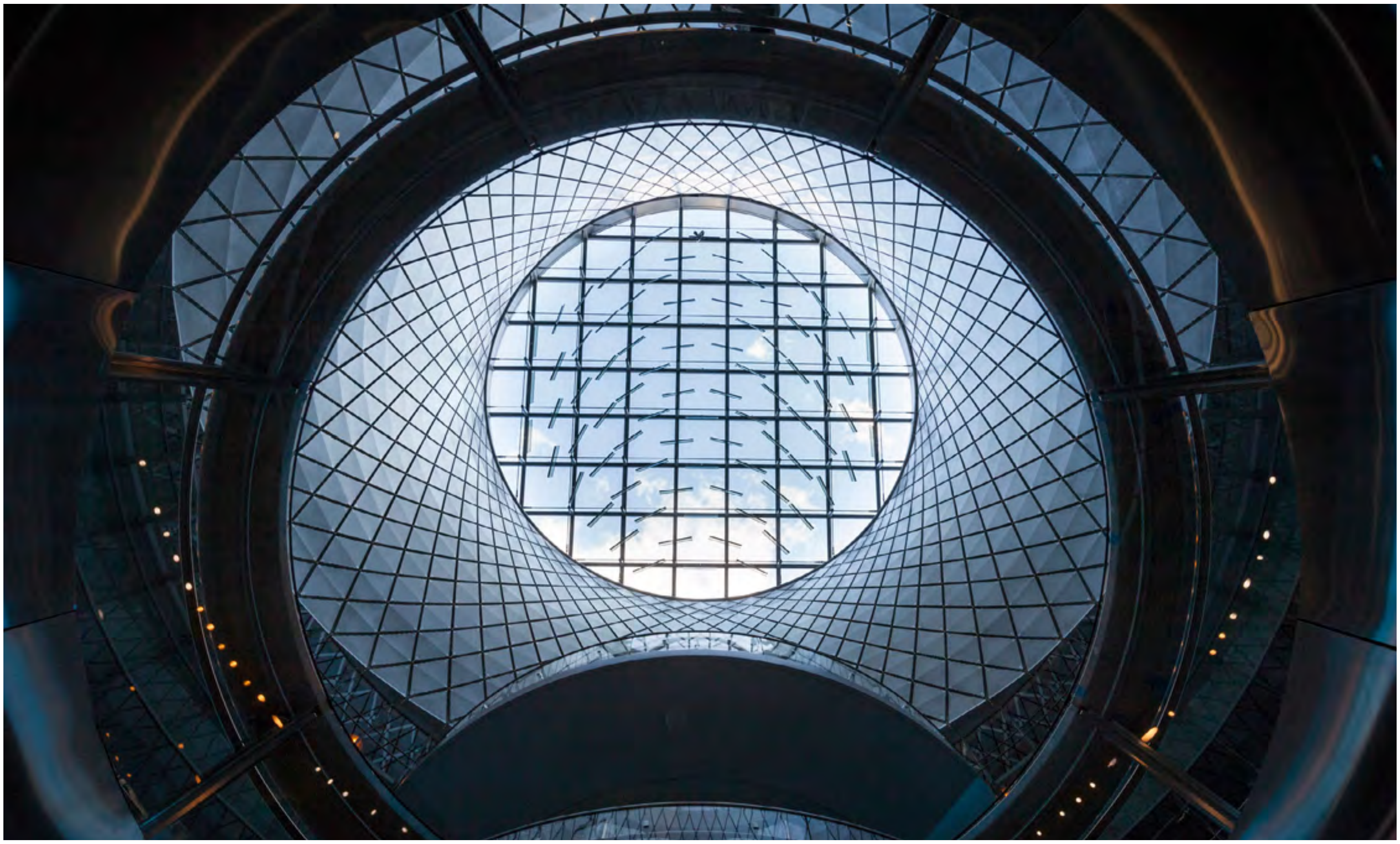

In This Issue

FASB Proposes Amendments to the Amortization Period for Callable Debt Securities Purchased at a Premium

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Introduction

On September 22, 2016, the FASB issued for public comment a proposed ASU[1] that would amend the amortization period for callable debt securities purchased at a premium. The proposal would shorten the amortization period for such securities to the earliest call date.

Comments on the proposed ASU are due by November 28, 2016. The appendix of this *Heads Up* contains the proposed ASU's questions for respondents.

Background and Key Provisions of the Proposed ASU

Under current GAAP, the premium on a callable debt security is generally amortized as an adjustment of yield over the contractual life (to maturity date) of the instrument. Accordingly, there is no consideration of early payment of principal, and any unamortized premium is

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

recorded as a loss in earnings upon the debtor's exercise of a call on a callable debt security purchased at a premium.

The amendments would require the premium to be amortized to the earliest call date but would retain the accounting for the amortization of discounts on purchased callable debt securities (i.e., the discount will continue to be amortized to maturity).

Editor's Note

Constituents have noted that under current guidance, (1) the amortization of premiums does not reflect the economics of the underlying transaction and (2) the model for pricing securities in the United States includes consideration for calls. In addition, investors generally price a security to the call date when the security is trading at a premium.

The proposed amendments would "more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities."

Effective Date and Transition

The FASB plans to determine an effective date for the final guidance after considering stakeholder feedback on the proposed ASU.

To apply the guidance, entities would use a modified retrospective approach, with the cumulative-effect adjustment recognized to retained earnings as of the beginning of the first reporting period in which the guidance is effective.

Entities would also be required to provide disclosures about a change in accounting principle in the period they adopt the final standard.

Appendix — Questions for Respondents

The proposed ASU's questions for respondents are reproduced below for reference.

Question 1: Do you agree that premiums on purchased callable debt securities should be amortized to the earliest call date? Please explain why or why not.

Question 2: How much time would be needed to implement the proposed amendments? Should entities other than public business entities be provided more time? Should early adoption be permitted?

Question 3: Do you agree with the proposed transition method and disclosures in paragraph 310-20-65-1(c)? Please explain why or why not.

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