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November 28, 2016

Via email to director@fasb.org

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities (File Reference No. 2016-340)

Dear Ms. Cospers:

We are pleased to provide comments on the Board's proposed amendments to the amortization period for callable debt securities purchased at a premium. We support the objective to reduce diversity in this area and to more closely align the recognition of such premiums with the economics of the related securities.

We agree with the proposal to shorten the amortization period for the premium to the earliest call date. However, we recommend a few refinements in the final amendments, as elaborated in the Appendix to this letter. We believe there are a number of aspects primarily related to the scope of the proposal that should be clarified.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Angela Newell at (214) 689-5669.

Very truly yours,

A handwritten signature in black ink that reads "BDO USA, LLP". The letters are written in a cursive, slightly slanted style.

BDO USA, LLP

Appendix

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.

We generally agree with the proposal to shorten the amortization period for premiums on purchased callable debt securities to the earliest call date. We believe the method proposed by the Board is appropriate and more practical than the “expected life approach” contemplated in BC7 of the basis for conclusions.

We recommend addressing the following in redeliberations:

- The scope of the ED appears to include debt securities that are callable at a premium. If so, we suggest that the final amendments clarify whether (and how) the presence of an issuer call premium, i.e., redemption above par, would need to be considered in applying the guidance. Paragraph BC6 indicates all callable debt securities will be accounted for the same way because there is no economic difference between municipal securities and other types of securities. However, the more expensive the repurchase price in a call option, the less likely it is to be exercised.
- As written, paragraph 310-20-35-33 could indicate that only those securities with true legal-form call options would fall into the scope of this paragraph. However, because the definition of a debt security used in subtopic 310-20 is broadly applied and includes asset-backed securities such as an RMBS, we believe that the scope of the amendments should be clarified to specify whether it also applies to prepayments. For example, a security may be prepaid based upon prepayments of the underlying loans, not because the issuer exercised a date specific call option. If the amendments apply to such securities, it would be helpful to address the application of the proposed guidance when there is no specific call date and prepayment is contingent upon the behavior of the underlying asset pool.
- We also note the proposal does not distinguish between debt securities that are contingently callable by the issuer (e.g., upon a change of control) vs. other types of callable securities. We suggest clarifying whether this is intentional and how the underlying contingency should be evaluated under the final amendments.
- Application of the proposed guidance by investors may result in a lack of symmetry between issuers and investors. Does the Board intend to allow issuers to apply the proposed guidance by analogy? If this is not the Board’s intent, then we recommend clarifying that such analogy is precluded.
- For amounts in accumulated other comprehensive income related to securities transferred to the held-to-maturity category from the available-for-sale category, paragraph 320-10-35-10d indicates any unrealized holding gain or loss is amortized over the remaining life of the security as a yield adjustment, consistent with the amortization of any premium or discount. We suggest consequential amendments to the above paragraph to make it consistent with the proposal as it relates to premiums.

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?

We recommend applying the same effective date as ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. That is, the standard would be effective for annual periods beginning on or after December 15, 2017 for public business entities and interim periods within those years, and for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 for all other entities.

We support early adoption for all entities. Refer to our response to Question #3 regarding transition methods.

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.

We agree with the proposed transition disclosures. We recommend that in addition to the proposed modified retrospective transition approach, the Board also permit entities to apply the amendments using a full retrospective method in order to enhance comparability.