November 23, 2016

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

Re: File Reference No. 2016-340

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. We support the FASB's goal to more closely align interest income recognition on callable debt securities purchased at a premium with the market participant expectations inherent in the pricing of these instruments. We understand the proposed guidance is intended to address "plain vanilla" callable debt securities, and, as such, the proposed interest income model may not be aligned with market pricing for more complex instruments.

We generally agree with the proposed guidance. However, in order to avoid misapplication, we believe that certain aspects should be clarified.

Scope

As drafted, the scope of the proposed guidance would apply to all callable debt securities purchased at a premium. However, the guidance does not provide a definition for the term "callable" and as a result, there may be confusion as to the scope of the guidance. For purposes of this guidance, we believe *callable* should only include instruments that are callable based on an explicit decision by the issuer. *Callable* should not include automatic prepayments of asset-backed securities when prepayments are made on the underlying assets.

Further, we think the proposed ASU should be clearer on whether the proposed guidance is intended to apply to securities with call features, such as:

- call provisions that only become exercisable (or un-exercisable) upon the occurrence of a specific event, such as call options triggered by tax-law changes;
- call options that will ultimately become exercisable, but the timing of which is uncertain (for example, servicer clean-up calls); and
- call options when the call price is not fixed, but varies based on factors such as interest rates.

We believe the scope of the proposed guidance should only include instruments containing call options that are not contingent on future events and the timing of exercise and amount to be paid is fixed and determinable at acquisition.

In addition, there may be fact patterns when a security is purchased at a premium but the call price is higher than the purchase price. For example, an entity may purchase a debt security at 102% of par but the security is callable at 105% of par. We believe an instrument with such a call feature should be excluded from the scope of the proposed guidance because recognizing additional interest income to accrete the security to the higher call price is neither appropriate nor consistent with the intent of the proposed guidance. We recommend that the proposed ASU include guidance to make this clear.

We believe securities containing a call option that has been bifurcated from the host contract and accounted for separately pursuant to Topic 815, *Derivatives and Hedging,* should be excluded from the scope of the proposed guidance as there may be complexity associated with differentiating between the original purchased premium and any additional premium on the host contract resulting from bifurcation of the call option.

Finally, we agree that the scope of the proposed guidance should be limited to securities. We recognize the complexity associated with applying this guidance to loans, and, therefore, believe the guidance should be limited to debt securities.

Subsequent measurement

The proposed guidance is primarily focused on the period of amortization of the premium. However, we believe that the guidance should clarify that, if amortizing to a call date, the amortization should be to the call price, which may not necessarily be the par value of the instrument. While we believe this point might be inferred in the proposed guidance in paragraph 310-20-35-33, which requires the "resetting" of the effective yield if the call option is not exercised, we believe explicitly making this point would be helpful.

There are other factors outside those noted in the ASU that could lead to additional premiums being recorded on a debt security. These include, but are not limited to, hedging transactions. We believe the guidance should be clear that the premium amortized to the first call date should only include the premium that existed at the time of purchase.

Finally, we believe the proposed ASU should state that entities should establish an amortization pattern that is based on the premium (and the call option) that existed at acquisition and that it should not be reassessed, even if the market's expectation of the exercise of the call option may have changed. For example, if the security was acquired at a premium (but is callable at par) and its fair value declines below par (for example, due to rising interest rates), the market may no longer price the security based on an assumption that it will be called by the issuer.

Other amendments

The exposure draft also proposes amendments to the guidance applicable to investment companies within paragraph 946-320-35-20. As drafted, the proposal indicates that the entirety of the guidance within Subtopic 310-20 on receivables would now be applicable. We believe this would be a significant change from current guidance, which does not apply to instruments measured at fair value with changes in fair value reflected in current operations. In addition, it would create a conflict between the guidance in Topic 946 and the scope of the guidance in Topic 310-20. If this was the intention of the proposed guidance, we believe additional outreach should be performed prior to finalizing the guidance.

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If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152, Donald Doran at (973) 236-5280, or Christopher Rickli at (973) 236-4380.

Sincerely,

PricewaterhouseCoopers LLP

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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 proposed amendments. However, in order to avoid misapplication, we believe that the clarifications to the proposed guidance noted in our cover letter are necessary.

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?*

The amount of time necessary to implement the proposed standard will depend on the scope of the final standard. This question is better addressed by preparers and we encourage the FASB to seek their feedback.

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 method and disclosures. We believe a full retrospective application would create a significant incremental cost for preparers that would not be justified by the perceived incremental benefit to users.