Grant Thornton
An instinct for growth™

November 28, 2016

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

Via Email to director@fasb.org

Grant Thornton LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

T +1 312 856 0200
F +1 312 565 4719
grantthornton.com

Re: File Reference No. 2016-340

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* (proposed ASU). We support the Board's objective of enhancing the accounting for interest income on callable debt securities that are purchased at a premium. However, we believe that the proposed ASU creates multiple amortization methods, which will result in complexity in applying accounting standards.

Under current GAAP (ASC 310-20-35-26 and ASC 310-20-35-33), the following guidance exists for determining the amortization period of premiums and discounts on callable loans and debt securities:

- Both premiums and discounts on loans and debt securities are amortized over the contractual maturity period.

- If the entity holds a large number of similar loans or securities for which prepayment is probable and the timing and amount of prepayments can be reasonably estimated, it may estimate prepayment expectation and use a shorter amortization period.

However, the proposed ASU would change the guidance in current GAAP as follows:

- Both premiums and discounts on *loans* would be amortized over the contractual maturity period.

- If the entity holds a large number of similar *loans* for which prepayment is probable and the timing and amount of prepayments can be reasonably estimated, it may estimate prepayment expectation and use a shorter amortization period.

- For callable *debt securities* that are purchased at a premium, the premium paid would be amortized over the first call date.

- For all other *debt securities,* both premiums and discounts would be amortized over the contractual maturity period. If the entity holds a large number of such debt securities for which prepayment is probable and the timing and amount of prepayments can be reasonably estimated, it may estimate prepayment expectation and use a shorter amortization period.

We believe that instead of creating separate guidance for callable debt securities purchased at a premium, the Board should consider requiring premiums and discounts on *all loans and debt securities* to be amortized over their expected life. If an expected life cannot be estimated, an entity should use the contractual life. The Board may also consider further clarifying the guidance in ASC 310-20-35-31 on estimating prepayments. We believe that our proposal would simplify the accounting for premiums and discounts of loans and debt securities.

Our answers to questions for respondents follow.

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 believe that the premiums on purchased callable debt securities should be amortized over the estimated life, which may be the earliest call date. We believe the guidance in the proposed ASU tries to create a rule for a small subset of debt securities instead of reconsidering the current guidance on recognizing interest income on loans and debt securities. We therefore suggest that the Board consider simplifying the proposed guidance by creating one model that can be consistently applied to all loans and debt securities.

If the Board decides to finalize the proposed ASU, we suggest that the proposed guidance in ASC 310-20-35-33 should be amended to clarify how an entity should reset the yield if the debt security has multiple call options. For example, a bond with a 30-year maturity has a call option at year 10 and year 20. If the premium is amortized over the earliest call date, which in this example is year 10, should the entity ignore the next call option at year 20 and use the remaining 20-year contractual maturity to reset the yield.

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 believe that early adoption of the guidance should be permitted. We also believe that as suggested in the Private Company Decision-Making Framework, entities other than public business entities should be provided with a deferred effective date and that the final standard should therefore be effective for such entities one year after the first annual period for which public companies would be required to adopt the new guidance.

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 that the transition disclosures in ASC 310-20-65-1(c) would provide relevant information about the effect of applying the new standard on the reporting entity's financial statements. We agree with the proposed transition approach, but believe that entities should be allowed to use retrospective application to all prior periods.

****

We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner, (312) 602 8084, rahul.gupta@us.gt.com or Mark Scoles, Partner, (312) 602 8780, mark.scoles@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP