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November 28, 2016

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

RE: Proposed Accounting Standards Update, *Premium Amortization on Purchased Callable Debt Securities* (File Reference No. 2016-340)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed Accounting Standards Update, *Premium Amortization on Purchased Callable Debt Securities.*

We support the Board's proposal to shorten the amortization period for premiums associated with purchased callable debt securities. We appreciate the Board's efforts to more closely align the interest income recognition for these instruments with the economics of investing in these securities, and to provide more decision-useful information to financial statement users. However, we believe the Board should consider clarifying whether:

- The proposed amendments apply to debt securities that are contingently callable and, if so, how the existence of the contingency would affect the determination of the amortization period.
- The call option would affect the amortization period if the option were bifurcated as an embedded derivative under ASC Topic 815, *Derivatives and Hedging*.
- The amortization period would be from the purchase date to the earliest call date only for the premium amount arising directly from the purchase price, or for the entire net premium or discount on securities that were originally purchased at a premium (including premiums and discounts arising subsequent to acquisition, such as fair value hedge accounting adjustments under ASC Topic 815).

In addition, we believe that the proposed amendments to ASC paragraph 946-320-35-20 that would require investment companies to amortize premiums and discounts under ASC Subtopic 310-20, *Receivables – Nonrefundable Fees and Other Costs*, may result in a change in practice because investment companies are outside of the scope of that Subtopic.

If the Board proceeds with this amendment, we recommend that the Board (1) add a reference in ASC paragraph 946-320-35-20 to include ASC Subtopic 325-40, *Investments – Beneficial Interests in Securitized Financial Assets*, as relevant guidance given that investment companies are currently required to apply it for securities that are within its scope, (2) consider whether investment companies should be required to apply other guidance applicable to amortization of premiums and discounts, including ASC Subtopic 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and (3) expand the Board's rationale for the potential change in practice in the Basis for Conclusions.

KPMG's responses to the Board's specific questions are included in the Appendix to this letter.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Mark Northan at (212) 954-6927 or mnorthan@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to the Board's Questions

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.

Yes. We believe that the proposal properly reflects the economics of these transactions and provides decision-useful information to financial statement users.

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 the proposed amendments would not be difficult to implement. However, we believe preparers are best able to comment on the time that would be necessary to apply the proposed amendments. Additionally, we are not aware of a need for entities other than public business entities to have additional time to implement the proposed amendments.

We believe that entities should be permitted to early adopt the proposed amendments. If early adoption is permitted, we believe the Board should clarify whether adoption in an interim period is permitted and whether the cumulative effect adjustment should be reflected as of the beginning of the interim period.

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.

Yes. We agree with the proposed modified retrospective transition method and disclosures and believe they are appropriate.