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November 28, 2016

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

Re: Premium Amortization on Purchased Callable Debt Securities
File Reference No. 2016-340

Dear Ms. Cosper:

The Investment Company Institute[1] appreciates the opportunity to comment on the proposed accounting standards update, *Premium Amortization on Purchased Callable Debt Securities*. The proposal would require premiums on purchased callable debt securities to be amortized to the first call date. In addition, the transition guidance in the proposal would require a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (*i.e.*, a modified retrospective approach). Our responses to the questions in the proposal are set forth below.

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 support amortizing premium on purchased callable debt securities to the earliest call date. We believe the proposed change would more closely align the premium amortization period to expectations incorporated in market pricing, and would better reflect interest income earned on the underlying investment.

[1] The Investment Company Institute (ICI) is a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's US fund members manage total assets of $18.5 trillion and serve more than 90 million US shareholders.

For certain debt securities the first call may be at a premium to par, with subsequent calls at par. As a result, the first call may not represent market expectations as to when the security will be called. As the proposal acknowledges, in the US, callable debt securities are quoted, priced, and traded under a model that incorporates consideration of the terms of the different calls on a security (*i.e.*, yield-to-worst).

We recommend that the proposal be modified to require amortization of purchase premiums on callable debt securities based on a yield-to-worst methodology. In instances where the initial call is at a premium and subsequent calls are at par, we believe amortizing the purchase premium based on yield-to-worst will better reflect interest income earned on the investment.

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 that the proposal be effective for public business entities no sooner than fiscal years beginning one year after issuance of the final accounting standards update. We believe fiscal years beginning one year after issuance will provide reporting entities with sufficient time to modify their systems and perform the cumulative effect-adjustment. Early adoption should 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?

We agree with the proposed transition method and disclosures.

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We appreciate the opportunity to comment on the proposal and would be pleased to provide any additional information you may require. If you have any questions on our comments or recommendations, please contact the undersigned at 202/326-5851 or smith@ici.org.

Sincerely,

Gregory M. Smith
Senior Director