

MINUTES



MEMORANDUM

**To:** Board Members

**From:** Accounting for Interest Income  
Associated with the Purchase of  
Callable Debt Securities Team  
(Jones x298)

**Subject:** Minutes of February 1, 2017  
Callable Debt Securities Board  
Meeting

**Date:** February 8, 2017

**cc:** Dawn Tosches

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

Topic: Accounting for Interest Income Associated with the Purchase of Callable Debt Securities

Basis for Discussion: FASB Memo No. 5

Length of Discussion: 11:00 a.m. to 11:45 a.m. (EST)

Attendance:

Board members present: Golden, Kroeker, Botosan, Monk, Schroeder, Siegel, L. Smith

Board members absent: None

Staff in charge of topic: Maroney

Other staff at Board table: Cospers, Esposito, De Revere, Jones

Outside participants: None

**Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss issues relating to the development of a final Accounting Standards Update addressing accounting for interest income associated with the purchase of callable debt securities.

The Board's technical plan calls for that document to be issued in the second quarter of 2017.

**Tentative Board Decisions:**

The Board discussed comments received on its September 2016 proposed Accounting Standards Update, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The Board discussed the following themes found in responses to the proposed Update and next steps:

1. Requests to require a true “yield-to-worst” amortization method
2. Requests to clarify consequential amendments to paragraph 946-320-35-20
3. Requests to clarify “callable” and the interaction with paragraph 310-20-35-26
4. Requests to clarify whether all premiums should be amortized to the earliest call date
5. Transition and effective date
6. Costs, benefits, and complexity.

*Requests to Require a True “Yield-to-Worst” Amortization Method*

The Board decided that premiums on purchased callable debt securities should be amortized to the earliest call date.

(Vote: unanimous)

*Requests to Clarify Consequential Amendments to Paragraph 946-320-35-20*

The Board decided to correct the consequential amendment to industry guidance to clarify that that the Board did not intend to broadly change practice for investment companies that hold debt securities.

(Vote: unanimous)

*Requests to Clarify “Callable” and the Interaction with Paragraph 310-20-35-26*

The Board decided to amend paragraph 310-20-35-33 to clarify that the “callable” instruments in the scope of the amendments should include only instruments that

are callable based on an explicit decision by the issuer and should not include those instruments that contain prepayment features, call options that are contingent upon the occurrence of future events, or call options in which the timing or amount to be paid is not fixed.

(Vote: unanimous)

*Requests to Clarify Whether All Premiums Should Be Amortized to the Earliest Call Date*

The Board decided to clarify that all premiums, regardless of how they were generated, should be amortized to the earliest call date.

(Vote: unanimous)

*Transition and Effective Date*

The Board affirmed that the amendments in the proposed Update should be applied through a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period in which the final amendments are adopted.

(Vote: unanimous)

The Board also affirmed the amendments in the proposed Update on transition disclosures.

(Vote: unanimous)

The Board decided that the effective dates of the final guidance should be as follows:

1. For public business entities—fiscal years and interim periods within those fiscal years, starting after December 15, 2018

(Vote: unanimous)

2. For entities other than public business entities—fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020

(Vote: 5-2)

3. For both public business entities and entities other than public business entities, early adoption is permitted.

(Vote: 6-1)

*Costs, Benefits, and Complexity*

The Board decided that the benefits justify the costs and directed the staff to draft an Accounting Standards Update for vote by written ballot.

(Vote: 6-1)

**General Announcements:**

The staff will proceed to draft a final Accounting Standards Update for vote by written ballot.