

FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2020-08
October 2020

Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board has an ongoing project on its agenda for improving the Codification or correcting its unintended application. The items addressed in that project generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are similar to those items. However, the Board decided to issue a separate Update to clarify a financial instruments Topic in the Codification to increase stakeholders' awareness of the amendments and to expedite the improvement process.

An explanation of why the amendments in this Update are being made is provided in the "Amendments to the *FASB Accounting Standards Codification*®" section. Thus, there is no separate section for the Board's basis for conclusions in this Update.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all reporting entities within the scope of the affected accounting guidance.

What Are the Main Provisions?

The amendments in this Update clarify that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update represent changes to clarify the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications.

When Will the Amendments Be Effective and What Are the Transition Requirements?

The amendments affect the guidance in Accounting Standards Update No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The effective date of Update 2017-08 varies depending on the type of entity. For public business entities, the amendments in Update 2017-08 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and for all other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption was permitted, including adoption in an interim period. If an entity early adopted the amendments in Update 2017-08 in an interim period, any adjustments should have been reflected as of the beginning of the fiscal year that includes that interim period.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted.

For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for all other entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

All entities should apply the amendments in this Update on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 4 and 5. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

2. In March 2017, the Board issued Accounting Standards Update No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in that Update shortened the amortization period for certain purchased callable debt securities held at a premium by requiring that entities amortize the premium associated with those callable debt securities within the scope of paragraph 310-20-25-33 to the earliest call date. The Board noted in paragraph BC21 of Update 2017-08 that if the security contained additional future call dates, an entity should consider whether the amortized cost basis exceeded the amount repayable by the issuer at the next call date. If so, the excess should be amortized to the next call date.

3. In November 2019, the Board issued a proposed Accounting Standards Update, *Codification Improvements*, to clarify the guidance in paragraph 310-20-35-33. The Board received 10 comment letters on the proposed Update. The amendments in this Update clarify the Board's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph 310-20-35-33 for each reporting period.

Amendments to Subtopic 310-20

4. Amend paragraph 310-20-35-33, with a link to transition paragraph 310-20-65-2, and add paragraph 310-20-65-2 and its related heading, as follows:

Receivables—Nonrefundable Fees and Other Costs

Subsequent Measurement

> Estimating Principal Prepayments

310-20-35-33 ~~To~~ For each reporting period, to the extent that the amortized cost basis of an individual callable **debt security** exceeds the amount repayable by the

issuer at the next earliest call date, the excess (that is, the premium) shall be amortized to the next earliest call date, unless the guidance in paragraph 310-20-35-26 is applied to consider estimated prepayments. For purposes of this guidance, the next call date is the first date when a call option at a specified price becomes exercisable. Once that date has passed, the next call date is when the next call option at a specified price becomes exercisable, if applicable. After the earliest call date, if the call option is not exercised If there is no remaining premium or if there are no further call dates, the entity shall reset the effective yield using the payment terms of the debt security. Securities within the scope of this paragraph are those that have explicit, noncontingent call options ~~features~~ that are callable at fixed prices and on preset dates at prices less than the amortized cost basis of the security. Whether a security is subject to this paragraph may change depending on the amortized cost basis of the security and the terms of the next call option.

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2020-08, Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs

310-20-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*:

- a. For public business entities, the pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted.
- b. For all other entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of the pending content that links to this paragraph is permitted for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.
- c. An entity shall apply prospectively the pending content that links to this paragraph by resetting the effective yield to the extent that the amortized cost basis of an existing individual callable debt security exceeds the amount repayable by the issuer at the next earliest call date, unless the guidance in paragraph 310-20-35-26 is applied to consider estimated prepayments.
- d. An entity that applies the pending content that links to this paragraph shall disclose the following in each interim period of the year of adoption and in the annual period of the year of adoption:

1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle
2. The method of applying the change.

Amendments to Status Sections

5. Amend paragraph 310-20-00-1, by adding the following items to the table, as follows:

310-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
310-20-35-33	Amended	2020-08	10/15/2020
310-20-65-2	Added	2020-08	10/15/2020

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chairman*
 James L. Kroeker, *Vice Chairman*
 Christine A. Botosan
 Gary R. Buesser
 Susan M. Cospers
 Marsha L. Hunt
 R. Harold Schroeder

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2021 Taxonomy, are available through [Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.