FINANCIAL ACCOUNTING STANDARDS BOARD

MEMO

Memo No.	**Issue Summary No. 1, Supplement No 2***
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Project	**Issue No. 18-B, "Improvements to Accounting for Episodic Television Series"**
Project Stage	**Redeliberations**
Date previously discussed by EITF	**June 7, 2018; September 27, 2018**
Previously distributed Memo Numbers	**Issue Summary No. 1, dated May 24, 2018; Issue Summary No. 1, Supplement No. 1R, dated September 13, 2018**

Background and Memo Purpose

1. At the June 7 and September 27, 2018 EITF meetings, the Task Force discussed issues related to the guidance for the accounting for film costs in Subtopic 926-20, Entertainment—Films—Other Assets—Film Costs. At the September 27, 2018 EITF meeting, the Task Force reached the following consensuses-for-exposure:

    a) Converge the capitalization guidance for films and episodic content by removing the content distinction

    b) Require an entity to assess a film group for impairment when a film or license agreement is predominantly monetized with other films and license agreements

    c) Amend the presentation and disclosure requirements for films

* **The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

d) Make conforming amendments to Subtopic 920-350, Entertainment—Broadcasters—Intangibles—Goodwill and Other, to align its impairment and presentation and disclosure guidance with the Task Force's decisions

e) Require that an entity reassess estimates of the use of a film for a film in a film group and account for any changes prospectively

f) Require that an entity apply the amendments resulting from this Issue on a prospective basis and disclose the nature of and reasons for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change.

2. At the October 10, 2018 Board meeting, the Board ratified the consensuses-for-exposure reached by the Task Force on this Issue and on November 7, 2018, issued proposed Accounting Standards Update, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials*. The comment deadline was December 7, 2018.

3. At the January 17, 2019 EITF meeting, the Task Force will have the opportunity to consider the feedback received as it redeliberates the consensuses-for-exposure. The Task Force will then be asked whether it wishes to affirm the consensuses-for-exposure as a consensus. This memo summarizes the feedback received through comment letters and additional outreach on the proposed Update. It also provides the staff's analysis and recommendations on how to proceed.

High Level Summary of Comment Letters and Responses

4. Six comment letters were received in response to the proposed Update. Five of the six comment letters were from large public companies (AT&T, Netflix, Alphabet, The Walt Disney Company, and Apple) and one was from a private company (Hulu) that is jointly owned by several large public companies; including The Walt Disney Company, which will own a majority interest after it closes on the acquisition of the assets of Fox that include Fox's interest in the private company (Hulu). All six comment letters are from companies that are either in the entertainment industry or that have operations in the entertainment industry. All of those companies produce or license film content under Subtopic 926-20 or Subtopic 920-350. All six comment letter respondents had participated in outreach with the FASB staff prior to the release of the proposed Update.

5. Of the six companies, two represent "traditional" media companies (AT&T, which owns Warner Media, and The Walt Disney Company) and four represent "non-traditional" media companies (Apple, Hulu, Netflix, and Alphabet). As described in the industry background in Appendix A of Issue Summary No. 1, dated May 24, 2018, for this Issue, traditional media companies include companies with traditional

distribution channels, such as television networks or theaters. Non-traditional media companies include companies that are primarily online video distributors that exclusively distribute through their own over-the-top (OTT) platforms, without television network or theater distribution channels. Note that the traditional media companies also have OTT platforms or have plans to develop OTT platforms, but the main feature that distinguishes them from non-traditional companies is that the traditional companies retain their traditional distribution through television networks and theaters.

6. All six comment letter respondents supported the consensus-for-exposure that would align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. Most respondents generally agreed with the other consensuses-for-exposure reached on this Issue.

7. Some stakeholders had incremental observations (or requests) that are discussed and evaluated in this memo.

Issues

Issue 1 – Cost Capitalization

8. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure that would align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. In reaching this consensus-for-exposure, the Task Force acknowledged that having two different cost capitalization models was more relevant when AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films* (subsequently codified in Subtopic 926-20), was developed because at that time the level of integration between studios and distribution channels was limited. The Task Force observed that the current environment offers more distribution channels for the initial distribution of episodic content. Examples of those additional distribution channels include online video distributor streaming platforms, immediate access to international distribution channels, and direct-to-consumer streaming platforms. The availability of those other distribution channels significantly mitigates the risk that producers will not be able to recover the amount of initially capitalized production costs for episodic television series.

9. The proposed Update included the following question about the proposed alignment of the accounting for production costs of an episodic television series with the accounting for production costs of films:

> **Question 2:** Is a distinction between films and an episodic television series relevant for determining the amount of film costs that can be capitalized? Why or why not?

Feedback Related to Capitalization of Costs

10. All six respondents agreed that the distinction between films and an episodic television series was no longer relevant for determining the amount of film costs that can be capitalized. Explanations, when provided, were generally consistent with the Task Force's discussion summarized in paragraphs BC8 and BC9 of the proposed Update. That is, the capitalization of all production costs for episodic television series would provide more relevant financial reporting information to users of financial statements because it would better reflect the economics of episodic content production and take into consideration the changes to the business model in the media and entertainment industry.

Question for the Task Force
1. Does the Task Force want to affirm its consensus-for-exposure that would align the accounting for production costs of episodic television series with the accounting for production costs of films by removing the content distinction for capitalization?

Staff Analysis and Recommendation

11. Respondents unanimously supported the Task Force's consensus-for-exposure on capitalization of production costs for episodic television series. The staff did not identify any new information that was not previously considered by the Task Force in reaching its consensus-for-exposure. Based on the feedback received through comment letters and the overall outreach activities performed by the staff, the staff recommends that the Task Force affirm its consensus-for-exposure that would require an entity to capitalize eligible production costs for an episodic television series similar to a film. The staff believes that the consensus-for-exposure would address the significant changes to the entertainment industry's production and distribution models that were not contemplated when SOP 00-2 was developed, which was why this Issue was added to the EITF agenda.

Issue 2 – Amortization

12. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure to amend the amortization requirements in Subtopic 926-20 by requiring entities to review and revise estimates of the remaining use of a film that is part of a film group at each reporting date and account for any changes prospectively. The Task Force noted that this proposed amendment would align the accounting for changes in estimates of the use of a film with the guidance in Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, for changes in estimates of the remaining useful life of an intangible asset. Because there is no explicit guidance in Subtopic 926-20 on the accounting for changes in estimates of the use of a film, the Task Force observed that entities currently may not reassess estimates of the use of a film, which would result in a difference in

accounting between film costs that are amortized using estimates of ultimate revenues and film costs that are amortized using estimates of use. The proposed amendment also would limit the potential for diversity in practice caused by some entities updating their estimates of use of a film and others not updating their estimates.

13. At the September 27, 2018 EITF meeting, the Task Force also decided to retain current amortization guidance in paragraph 926-20-35-2 to allow entities to use judgment to determine the estimates of use that are most representative of the use of a film but made conforming amendments to that paragraph and paragraph 926-20-35-1 to align the amortization method selected for a film and the unit of account identified for impairment testing.

14. The proposed Update includes the following question about the amendments made to the amortization guidance:

> **Question 3:** Should an entity be required to reassess estimates of the use of a film for a film in a film group and account for any changes prospectively, as indicated in paragraph 926-20-35-3A of this proposed Update? If not, please explain why. Are any additional amendments to the amortization guidance necessary? Why or why not?

Feedback Related to Amortization

15. All four respondents who responded to Question 3 of the proposed Update supported the proposed amendment related to reassessment. Nonetheless, one respondent (CL#6) observed that a film that is predominantly monetized on its own might concurrently or subsequently be exploited in a film group. An example of this scenario is a film that is released in theaters and subsequently included in the offering of a direct-to-consumer (DTC) subscription service. Because the entity determines whether the film is predominantly monetized on its own, the entity would amortize that film using the individual-film-forecast-computation method, which requires an estimation of ultimate revenue. The respondent suggested that the amortization guidance should be clarified to explain how an entity should estimate the portion of the indirect ultimate revenue generated by a DTC subscription service that is attributable to an individual film.

16. The respondent recommended including guidance that clarifies that the use of a hypothetical licensing fair value method would represent an appropriate method for estimating the portion of indirect ultimate revenue attributable to the film. This respondent explained that the use of a hypothetical licensing fair value method would be consistent with the guidance on ultimate revenue in paragraph 926-20-35-5(d) that allows an entity to estimate the portion of ultimate revenue from the sale of peripheral items such as toys and apparel by estimating the amount that would be earned by the entity if rights for such forms of exploitation had been granted under licensing arrangements with third parties.

17. Another respondent (CL#4) suggested changing the example in paragraph 926-20-35-2, which references a cable entity that receives a subscription fee, to an example of a DTC subscription service

provider that uses viewership data for amortization. In the respondent's view, the current example is not as relevant because a cable entity would still use subscription revenue to determine the use of a film.

Question for the Task Force
2. Does the Task Force want to affirm its consensus-for-exposure to require a reassessment of estimates of the use of a film in a film group to be accounted for prospectively and to make other related conforming amendments to the amortization guidance in Subtopic 926-20?

Staff Analysis and Recommendation

18. Respondents supported the Task Force's consensus-for-exposure on the reassessment of estimates of the use of a film in a film group and other related conforming amendments. The staff did not identify any new information that was not previously considered by the Task Force in reaching its consensus-for-exposure. Based on the feedback received through comment letters, the staff recommends that the Task Force affirm its consensus-for-exposure to require a reassessment of estimates of the use of a film in a film group with any change in estimate accounted for prospectively and to make other related conforming amendments to the amortization guidance in Subtopic 926-20.

19. The staff considered the suggestion made by a respondent to explain how an entity should estimate the portion of indirect ultimate revenue generated by a DTC subscription service that are attributable to an individual film amortized under the individual-film-forecast-computation method. The staff observes that the amendments to paragraph 926-20-35-4 in the proposed Update are as follows (added text is <u>underlined</u>, and deleted text is ~~struck out~~):

> **926-20-35-4** Ultimate revenue to be included in the denominator of the individual-film-forecast-computation method fraction shall include estimates of revenue that is expected to be recognized by an entity from the exploitation, exhibition, and sale of a film in all markets and territories, subject to the limitations set forth in ~~the following~~ paragraph <u>926-20-35-5</u> ~~and paragraph 926-20-35-11~~.

20. The staff notes that paragraph 926-20-35-4 already requires entities to include estimates of ultimate revenue from all markets and territories and does not provide explicit guidance on how to make those estimates. However, the staff notes that paragraph 926-20-35-5 provides guidance about how to estimate certain aspects of ultimate revenue. The staff does not recommend providing additional guidance about how to estimate ultimate revenues when indirect revenue is generated by a DTC subscription service because that guidance could limit the flexibility of an entity to develop a reasonable estimate. Stakeholders noted that the entertainment industry continues to evolve. There may be several different ways to estimate ultimate revenues for indirect revenue generated by a DTC subscription service and different estimation methods could be developed as the industry evolves. Additionally,

explicitly referencing one method could result in stakeholders concluding that that method is the preferred method for estimating revenue from a DTC subscription service when other methods might be more suitable depending on an entity's facts and circumstances. The staff does not have concerns with using a hypothetical licensing fair value method for estimating that amount, so the staff could indicate in the basis for conclusions that a hypothetical licensing fair value method would be one acceptable method for estimating ultimate revenues from DTC subscription services to address the concern raised by the comment letter respondent.

21. The staff also considered the suggestion made by a respondent to change the example, which is in parentheses, in paragraph 926-20-35-2 about a cable entity. The staff believes that the scenario described in the example is still relevant because it refers to an entity that produces a film and monetizes it without direct revenue. Therefore, the staff believes that it is not necessary to replace the current example with one about a DTC subscription service offering. The staff notes that the other suggested editorial improvements will be considered during the drafting process.

Issues 3 and 4 – Unit of Account for Impairment and Impairment Indicators

22. At the September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure to add a film group as a unit of account to be used for impairment testing in Subtopic 926-20. In the proposed Update, the term *film group* is defined as "the unit of account used for impairment testing for a film and a license agreement for program material when the film or license agreement is expected to be predominantly monetized with other films and license agreements instead of being predominantly monetized on its own. A film group represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other films or license agreements." An entity would test for impairment at the film-group level when it has concluded that the film is predominantly monetized with other films or license agreements. If a film is expected to be predominantly monetized on its own (that is, independent of other films and license agreements), an entity would test for impairment at the individual level. An entity would be required to assess the predominant monetization strategy of each film when capitalization of film costs begin and would not be allowed to change its initial determination of the predominant monetization strategy for that film.

23. The Task Force also reached a consensus-for-exposure to add additional impairment indicators in Subtopic 926-20 related to events or changes in circumstances that could occur after a film is released and to add impairment indicators for a film group. The Task Force observed that because most of the current indicators in Subtopic 926-20 are focused on the pre-release stage of a film, including additional post-release indicators would enhance the impairment assessment by requiring entities to consider the actual performance of their films under different factors. Additionally, the Task Force decided that film group indicators would be necessary because most of the individual film indicators would not apply to a film group.

24. The proposed Update included the following questions about the unit of account for impairment and impairment indicators:

> **Question 4:** Should an entity be required to evaluate impairment at a higher level than the individual film when a film is monetized with other films and license arrangements? How would the proposed amendments affect the cost and complexity of applying the impairment guidance? Is evaluating impairment at a film group level using the proposed amendments operable? Why or why not?
>
> **Question 5**: Do you agree with the proposed definition of a film group? If not, what definition would you propose? Is the concept of predominant monetization strategy included in the proposed definition of a film group operable? If not, please explain why and how it could be made operable.

Feedback Related to Unit of Account for Impairment and Impairment Indicators

25. The five respondents who addressed Questions 4 and 5 of the proposed Update, generally agreed with the proposed impairment indicators, the proposed definition of a film group, and the use of the film group as a unit of account for impairment testing. However, two respondents (CL#3 and CL#6) suggested improvements to the proposed amendments in paragraph 926-20-35-12 to make the concept of a predominant monetization strategy more operable. Those respondents noted that because distribution models evolve over time, entities should be allowed to re-assess the initially determined predominant monetization strategy when changes in the monetization strategy occur. During additional outreach, those respondents provided examples of when it would be appropriate to change the monetization strategy. In one example, an entity may develop a film and determine that it will be distributed through a theatrical release. However, at a later date that entity may determine that it will release the film exclusively on a new DTC subscription service to increase the value of a subscription. In that case, the entity would need to make an estimate of the ultimate revenues for that film to apply the individual-film-forecast method if a reassessment is not allowed when it would be more operational to use viewership data to amortize the film costs for that film.

26. A change in predominant monetization strategy would affect both amortization and impairment. Respondents acknowledged the concern that entities could change the predominant monetization strategy of their films or license agreements and include them in a film group to avoid impairment charges. Therefore, those respondents noted that this concern could be mitigated by a requirement to test an individual film or license agreement for impairment when the entity determines that the predominant monetization strategy for that film or license agreement has changed.

27. Another respondent (CL#4) commented that it would be helpful to clarify the meaning of the term *social factors* as it is used as part of a film group impairment indicator in proposed paragraph 926-20-35-12B(a).

Questions for the Task Force
3. Does the Task Force want to affirm its consensus-for-exposure to add a film group as a unit of account used for impairment testing in Subtopic 926-20 and affirm the definition of a film group? 4. Does the Task Force want to require an entity to reassess the predominant monetization strategy of a film when a significant change in monetization strategy occurs and add "a significant change in monetization strategy" as an impairment indicator for an individual film? 5. Does the Task Force want to affirm its consensus-for-exposure to add the impairment indicators included in the proposed Update?

Staff Analysis and Recommendation

28. Considering the respondents' feedback, the staff recommends that the Task Force affirm its consensuses-for-exposure for the proposed definition of a film group, the proposed impairment indicators, and the use of a film group as a unit of account for impairment testing. All respondents were supportive of each of these consensuses-for-exposure and indicated that they would be operational. The staff also recommends requiring the reassessment of the predominant monetization strategy of a film when the monetization strategy of that film significantly changes from the strategy determined when capitalization of film costs began. In addition, the staff recommends adding a significant change in monetization strategy as an impairment indicator for an individual film.

29. The staff considered whether entities should be allowed or required to re-assess their predominant monetization strategy for a film when such strategy has significantly changed since its initial determination. The staff agrees with the comments made by respondents that the monetization strategy of a film could change after the capitalization of costs begin. In certain cases, capitalization of costs could begin several years before the film is actually monetized and an entity's monetization strategy could change during that intervening period. The reassessment of the predominant monetization strategy of a film would result in the unit of account for impairment appropriately reflecting the way the film is predominantly monetized (that is, individually or in a film group).

30. In deciding not to require or allow reassessment, the Task Force noted that the requirement to continually reassess the predominant monetization strategy of a film would be burdensome to preparers because a potential change to the predominant monetization strategy would require preparers to change the amortization method used for those films. Additionally, the Task Force noted that stakeholders previously indicated that films are amortized on an accelerated basis, so potential changes in the monetization strategy of a film that occur after the first few years of amortization would

not be material. However, during additional outreach, stakeholders indicated that the monetization strategy could change even before amortization begins, as described in paragraph 29.

31. During additional outreach, preparers also indicated that the Task Force could address the concern about the operability of a requirement to reassess the predominant monetization strategy by requiring an entity to only reassess the predominant monetization strategy of a film when the monetization strategy significantly changes from what was originally intended instead of requiring a continual reassessment. That is, an entity would not need to reassess the predominant monetization strategy of a film if the entity determined that a film would be monetized through a theatrical release and then through its DTC subscription service, but the proportion of revenues received from each monetization was different than expected (that is, the expected mix of revenue changed). However, if the entity originally determined that a film would be monetized through a theatrical release and then through licensing to third parties but later decided to monetize the film through its DTC subscription service instead of licensing it to third parties, then it would be required to reassess the predominant monetization strategy for that film.

32. The staff notes that the Task Force also was concerned that a reassessment would allow an entity to prevent an impairment by reassessing the predomination monetization strategy of that film immediately before applying the impairment indicators. For example, an entity decides to move an individual underperforming film (or a film that is expected to underperform) into a film group to avoid recording impairment charges for that individual film and justifies that change based on a change in the predominant monetization strategy for such film. Respondents indicated that this concern could be mitigated by a requirement to test an individual film or license agreement for impairment when the entity determines that the predominant monetization strategy for that film or license agreement has changed.

33. The staff believes that the concerns about the reassessment of the predominant monetization strategy could be addressed. In addition, the staff notes that the reassessment would primarily affect traditional media companies because online video distributors generally have a single monetization strategy for their content and both traditional media companies that commented on the proposed Update raised this concern. Therefore, the staff recommends requiring the reassessment of the predominant monetization strategy of a film when the monetization strategy of that film significantly changes from the strategy determined when capitalization of film costs began. The reassessment would not be triggered by a significant change in the expected results of the strategy (a change in the expected mix of revenue). In addition, the staff recommends adding the following third impairment indicator that would apply to individual films (see proposed paragraph 926-20-35-12A):

    g. A significant change in the predominant monetization strategy from the strategy determined when capitalization of film costs began.

34. The staff acknowledges that questions might arise about whether there has been a *significant* change in the monetization strategy, but the staff believes that entities can exercise judgment to make that determination.

Issue 5 – Impairment Model

35. At its September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure to align the impairment model in Subtopic 920-350 for license agreements with the fair value model in Subtopic 926-20 for produced films. Under current guidance, film costs are tested for impairment by comparing the fair value of the film to its unamortized film costs, while costs for license agreements are tested for impairment using the net realizable value (NRV) model. Because the Task Force reached a consensus-for-exposure to allow produced films and license agreements to be tested for impairment at the film-group level, the Task Force decided that a single impairment model for films and license agreements was necessary to make the film group unit of account operable. By aligning the impairment model in Subtopic 920-350 with the fair value model in Subtopic 926-20, an entity would not need to test license agreements in a film group using the fair value model in Subtopic 926-20 while testing license agreements that are not in a film group using the NRV model. The Task Force decided that the fair value model in Subtopic 926-20 is the appropriate model for both types of content because it is similar to the impairment model used for finite-lived intangible assets.

36. The proposed Update includes the following question about the impairment model:

> **Question 6:** Should an entity apply the same impairment model to films in the scope of Subtopic 926-20 and license agreements in the scope of Subtopic 920-350? Why or why not?

Feedback Related to Impairment Model

37. All four respondents who addressed Question 6 of the proposed Update supported aligning the impairment model in Subtopic 920-350 with the impairment model for films in Subtopic 926-20. Respondents indicated that because produced and licensed content are increasingly distributed and monetized together, for example through a DTC subscription service offering, they should be assessed for impairment under the same model. Respondents also commented that the use of the fair value model in Subtopic 926-20 is preferable to the use of the NRV model in Subtopic 920-350 because the fair value model is more consistent with the impairment model used for finite-lived intangible assets.

Question for the Task Force

6. Does the Task Force want to affirm its consensus-for-exposure to align the impairment model in Subtopic 920-350 with the fair value impairment model for produced films in Subtopic 926-20?

Staff Analysis and Recommendation

38. Based on the feedback received through comment letters, the staff recommends that the Task Force affirm its consensus-for-exposure to require entities to apply the impairment model for films within the scope of Subtopic 926-20 to license agreements for program material within the scope of Subtopic 920-350. Similar to respondents' comments, the staff believes that licensed content and produced content should be tested for impairment under one model, particularly when both types of content could be included in a film group. The staff also supports the use of the fair value model in Subtopic 926-20 because the application of the NRV model in Subtopic 920-350 to produced films might generate fewer impairments compared to current guidance because of the use of undiscounted future cash flows.

Issue 6 – Presentation and Disclosure

39. At its September 27, 2018 EITF meeting, the Task Force reached a consensus-for-exposure to align the presentation guidance in Subtopic 920-350 with the guidance in Subtopic 926-20 by removing the requirement to classify content assets as noncurrent under Subtopic 926-20 and current or noncurrent based on estimated time of usage under Subtopic 920-350. In doing so, the Task Force decided that an entity should apply judgment to determine the classification of its film costs and license agreements. Additionally, the Task Force decided to require entities to present licensed films separately from produced films because those assets have different characteristics and separately disclosing them would provide decision-useful information to financial statement users.

40. The Task Force noted that the disclosure requirements in Subtopic 926-20 provide useful information to investors but that those requirements could be improved. Therefore, the Task Force reached a consensus-for-exposure to require additional disclosures in Subtopic 926-20. The Task Force decided to do the following:

    a) Require an entity to disclose the amortization method used by the entity (for example, the individual-film-forecast-computation method or estimates of use), the aggregate amortization expense for each period, separately for theatrical films and direct-to-television products, and the caption in the income statement where the amortization is recorded.

    b) Retain the requirement to disclose the portion of costs of an entity's completed films that are expected to be amortized during the upcoming operating cycle with the clarification that amounts for theatrical films and direct-to-television products should be disclosed separately.

c) Require an entity to disclose the amount of film costs for released films that an entity expects to amortize within each of the following three years from the most recent balance sheet date, separately for theatrical films and direct-to-television products.

41. For impairment disclosures, the Task Force considered the disclosures required for impairments of intangible assets in Subtopic 350-30 but modified those disclosures to provide information about impairment losses in the aggregate rather than on an individual film basis. The Task Force decided to require:

    a) A description of the unit(s) of account used for impairment testing and the method(s) used for determining fair value

    b) A general description of the facts and circumstances leading to impairment, the amount of impairment losses, and where the losses are recorded

    c) The segment(s) under Topic 280 where the impairment losses are recorded.

42. Because Subtopic 920-350 does not have any specific disclosure requirements, the Task Force reached a consensus-for-exposure to require disclosures for licensed content within the scope of Subtopic 920-350 that are similar to the proposed disclosures in Subtopic 926-20, so that users can better understand an entity's entire portfolio of content.

43. The proposed Update includes the following question about presentation and disclosures:

> **Question 7:** Do you agree with the proposed amendments to the presentation and disclosure requirements in Subtopic 926-20 and Subtopic 920-350? If not, what additional presentation and disclosure requirements do you recommend, or what presentation and disclosure requirements should be removed and why?

Feedback Related to Presentation and Disclosure

44. For Question 7 of the proposed Update, three of the six respondents explicitly stated that they were supportive of aligning the presentation and disclosure requirements between Subtopic 926-20 and Subtopic 920-350. The other three respondents noted that they were generally supportive of the proposed changes. One respondent (CL#1) indicated that it is not relevant to provide separate disclosures for produced and licensed content when that content is monetized as a film group. That respondent recommended that the guidance be clarified to allow for the combination of produced and licensed content that are monetized as a film group into a single set of disclosures for film content.

45. Almost all respondents (five) were opposed to separate disclosures for theatrical films and direct-to-television products because they noted the distinction between content formats is less relevant under today's business models, and, therefore, the disclosures do not provide useful information. Each respondent suggested alternatives to the separation of theatrical films and direct-to-television products.

One respondent (CL#6) suggested that an entity could instead separately disclose costs of films in a film group and costs of films that are not in a film group. Another respondent (CL#2) suggested that requiring a description of the business model would be sufficient. Three respondents provided similar suggestions. One respondent (CL#5) stated that the disclosure requirements should allow management to use judgement to determine the appropriate categories for disclosure, which they indicated would be more consistent with the intent of the guidance to provide more information on useful lives and amortization rates. Another respondent (CL#4) suggested that an entity separately disclose costs based on the entity's respective content categorization. The other respondent (CL#3) suggested that an entity separately disclose costs based on how the entity tracks such costs for internal purposes.

46. One respondent (CL#1) recommended that Subtopic 920-350 be updated to include prepayments for licensed content. That respondent noted that entities obtain original content via license agreements that is produced specifically for that entity for exclusive use over a specified term. The respondent also noted that when such licensed content is paid for during production and in advance of when it is available for showing, the guidance in Topic 920 does not address how such payments should be accounted for.

47. Another respondent (CL#4) requested that the Task Force clarify whether the disclosure of "the method(s) used in computing amortization" in proposed paragraph 926-20-50-1A requires the disclosure of the useful life and period of use. That respondent also requested that the Task Force specify the level of detail required by proposed paragraph 926-20-50-4C(a) that requires an entity to provide a general description of the facts and circumstances leading to the impairment.

Question for the Task Force
7. Does the Task Force want to affirm its consensus-for-exposure to amend the presentation and disclosure requirements in Subtopic 926-20 and Subtopic 920-350 with the staff's recommended change to separately disclose components of film costs and amortization for films that are predominantly monetized on their own and films that are monetized with other films and license agreements?

Staff Analysis and Recommendation

48. Respondents generally supported the Task Force's consensus-for-exposure on presentation and disclosure requirements, except for the separate disclosure of theatrical films and direct-to-television products, which is discussed in paragraphs 49 through 51. The staff considered whether the guidance in Subtopic 920-350 should be updated for prepayments for licensed content, as described in paragraph 52. The remaining requested clarifications described in paragraph 47 relate to wording that is consistent with the disclosure requirements in Topic 360 on property, plant, and equipment, and

Topic 350 on intangible assets. Therefore, the staff believes that the guidance included in the proposed Update is operational as written.

Theatrical Films and Direct-to-Television Products

49. Subtopic 926-20 currently requires an entity to disclose the components of film costs (including released, completed and not released, in production, or in development or preproduction) separately for theatrical films and direct-to-television products. During outreach, users recommended that information about film costs and their related amortization be disclosed separately for licensed films, produced films, and produced television because it would provide more information about different risks, monetization, and amortization patterns. Therefore, the proposed Update included the disclosure requirements described in paragraph 40 because separate disclosure of amortization would be consistent with the existing disclosure requirements in paragraph 926-20-50-2, which requires an entity to disclose the components of film costs separately for theatrical films and direct-to-television products. Users acknowledged that distinguishing between theatrical films and television products might be less relevant for entities that monetize both types of content under one business model. However, they stated that the distinction is still important for traditional entities because they have different risk profiles. For example, a theatrical release has a different risk profile than a film that is shown on a cable channel or through a streaming service.

50. The staff acknowledges that the distinction between theatrical and direct-to-television is less relevant under the non-traditional business models. For example, an entity with a non-traditional business model may release a film through theaters to build its brand or to develop critical acclaim but the theatrical release does not affect its overall business strategy or business model. Therefore, separation of components of film costs by theatrical and direct-to-television products would not be that relevant. However, during outreach, users indicated that some distinction for different types of content is important for traditional entities that have different monetization strategies for that content because of the different risks and the extent of costs incurred for each. The staff believes that separating the components of film costs and amortization by predominant monetization strategy could provide users with information about the costs a traditional entity is incurring to compete with services of non-traditional entities and would meet the needs of users based on the outreach performed. That would align the disclosure requirements with the decisions that the Task Force made about amortization and impairment due to the changing environment in the entertainment industry. In addition, the staff believes that the costs of films that are predominantly monetized on their own have different risks than the costs of films that are predominantly monetized with other films and license agreements. This disclosure would provide users with useful information about those risks. In addition, this separation also would provide users with useful information about different amortization patterns because film costs for a film that is predominantly monetized on its own would be amortized using the individual-film-forecast-method whereas film costs for a film that is predominantly monetized with other films and license

agreements would be amortized based on the use of the film. The staff believes that this separation would fulfill the same purpose as, but be more relevant than, the current separation between theatrical and direct-to-television products.

51. The staff recommends that the Task Force affirm its consensus-for-exposure to amend the presentation and disclosure requirements in Subtopic 926-20 and Subtopic 920-350. The staff also recommends that the Task Force amend paragraph 926-25-50-2 to require disclosure of the components of film costs separately for films predominantly monetized on their own and for films predominantly monetized with other films and license agreements and make conforming amendments to the disclosure requirements in paragraph 926-20-50-4B.

Prepayments for Licensed Content

52. The staff acknowledges that when licensed content is paid for during production and in advance of when the content is available for showing, disclosure of those prepayments would be useful to financial statement users. However, the respondent also recommended that the Task Force address the accounting for prepayments of licenses (see paragraph 46). The staff believes that guidance for prepayments of licenses is beyond the scope of this Issue. The staff believes that nothing would prohibit entities that make significant prepayments for licensed content from providing disclosures about those prepayments. Therefore, the staff does not recommend amending the guidance in Topic 920 to address prepayments of license fees.

Issues 7 and 8 – Transition and Transition Disclosures

53. At its September 27, 2018 meeting, the Task Force reached a consensus-for-exposure to require an entity to apply a prospective transition method. Under a prospective transition method, an entity would apply the amendments resulting from this Issue to the evaluation of the capitalization of film costs that are incurred on or after the adoption date. The proposed amendments to the impairment, amortization, and presentation and disclosure guidance would be applied at the beginning of the first reporting period including the adoption date. Because most capitalized costs for films and license agreements are amortized over a short period using an accelerated amortization method, the Task Force decided that prospective transition would provide useful information to users of financial statements while limiting the costs of implementation.

54. In addition, the Task Force reached a consensus-for-exposure that would require an entity to disclose the nature of and reasons for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change. The transition disclosures are in lieu of those required in paragraphs 250-10-50-1 through 50-3.

55. The proposed Update included the following question about transition and transition disclosures:

> **Question 8:** Should the proposed amendments related to capitalization be applied prospectively to film costs incurred on or after the effective date or at the beginning of the

first annual period of adoption? In either case, do you agree that the proposed amendments to the impairment, amortization, and presentation and disclosure guidance should be applied prospectively to the beginning of the first reporting period including the effective date? If not, what transition approach would be more appropriate? Do you agree with the proposed transition disclosures? If not, what transition disclosures would be more appropriate?

Feedback Related to Transition and Transition Disclosures

56. The four comment letter respondents (CL#1, CL#2, CL#4, and CL#6) who answered Question 8 generally supported the proposed prospective transition requirements. However, there were different views on how the prospective transition method should be applied. For transition disclosures, all four respondents who provided feedback on Question 8 were generally supportive of the transition disclosures.

57. One respondent (CL#6) recommended that the proposed amendments related to cost capitalization be applied prospectively to episodic television series that begin production after the effective date, rather than applying the amendments prospectively to all episodic production costs incurred after the effective date. That respondent indicated that the proposed transition method would result in a mixed capitalization model. That is, under the proposed amendments an entity with an episodic television series that is already in production would expense all production costs incurred up to the effective date and then capitalize all production costs incurred after the effective date. That respondent agreed that the proposed amendments to the impairment, amortization, and presentation and disclosure guidance should be applied prospectively to the beginning of the first reporting period including the effective date.

58. Two respondents (CL#2 and CL#4) recommended that all the proposed amendments (capitalization, impairment, amortization, and presentation and disclosure) be applied prospectively at the beginning of the first reporting period including the effective date. However, one of those respondents (CL#2) indicated that certain presentation and disclosure requirements should be applied to the comparative periods (for example, the current and non-current presentation on the balance sheet).

59. One respondent (CL#1) supported prospective application for capitalization of production costs incurred after the effective date, as described in the proposed Update.

Questions for the Task Force
8. Does the Task Force want to affirm its consensus-for-exposure to require prospective transition and clarify that the amendments should be applied at the beginning of the period of adoption?

9. Does the Task Force want to affirm its consensus-for-exposure to require the transition disclosures included in the proposed Update when adopting the guidance in any amendments resulting from this Issue?

Staff Analysis and Recommendation

Transition

60. Based on the feedback received through comment letters and the overall outreach activities performed by the staff, the staff recommends that the Task Force require an entity to apply a prospective transition method when adopting the capitalization, amortization, impairment, and disclosure guidance in the amendments resulting from this Issue. The staff also recommends that the Task Force require entities to apply the amendments resulting from this Issue to the capitalization of film costs, impairment, amortization, and disclosure guidance at the beginning of the interim period that includes the adoption date.

61. The staff considered one respondent's recommendation (CL#6) that the proposed amendments to the capitalization guidance be applied only to eligible costs for an episodic series that begins production after the effective date, rather than to all production costs incurred on or after the effective date. Applying the transition requirements to all episodic production costs incurred on or after the effective date would allow an entity to capitalize more episodic production costs than applying the transition requirements only to production costs for episodic series that begin production after the effective date. The staff does not have concerns with a mixed capitalization model because it would facilitate comparability among entities for the treatment of any production costs incurred before and after the effective date. Otherwise, two entities that produce episodic series could have different accounting for the costs in the same period if one began production shortly before the effective date and one began production shortly after the effective date.

62. The staff considered whether an entity should apply the proposed amendments to the capitalization guidance to film costs incurred on or after the adoption date or on or after the beginning of the interim period of adoption. A decision on that would primarily affect entities that early adopt the proposed guidance (if the Task Force decides to allow early adoption) because the final Update likely will be issued in the middle of an interim period. For example, if the final Update were to be issued on March 15, 2019, applying the proposed amendments to the capitalization guidance to film costs incurred on or after the adoption date would result in the capitalization of film costs incurred after March 15, 2019, if an entity decides to adopt the proposed amendments upon issuance of the final Update. On the other hand, applying the proposed amendments to film costs incurred on or after the beginning of the interim period of adoption would result in the capitalization of film costs incurred on or after January 1, 2019. The staff believes that it would be preferable to apply the capitalization requirements to film costs incurred on or after the beginning of the interim period of adoption because it would result in all film

costs incurred during the period to be accounted for consistently and a calendar-year-end entity would be able to apply the guidance to all costs incurred in 2019 if it elected to early adopt the proposed amendments in the first quarter of 2019.

63. The staff also considered whether the proposed amendments should be applied to the beginning of the interim period of adoption or the beginning of the fiscal year of adoption. The staff believes that a requirement to apply the proposed amendments to the beginning of the fiscal year of adoption would be burdensome because entities would have to review a significant amount of previously expensed film costs to determine whether they are eligible for capitalization. The staff believes that application as of the beginning of the interim period of adoption would not be as burdensome as application as of the beginning of the fiscal year. That is, requiring the proposed amendments to be applied as of the beginning of the interim period of adoption would result in an entity reviewing only one quarter's film costs (at most) to determine whether any of those costs are eligible for capitalization. Therefore, the staff recommends that the Task Force require entities to apply the amendments resulting from this Issue to the capitalization of film costs, impairment, amortization, and disclosure guidance at the beginning of the interim period that includes the adoption date.

64. As indicated by one of the respondents (CL#2), the staff notes that an entity that applies the proposed amendments to the presentation guidance (that is, the guidance on current and non-current presentation) on a prospective basis could present certain license agreements as a current asset in the comparative period and as a noncurrent asset in the current period and vice versa for film costs. That is because entities are currently required to classify content assets as noncurrent under Subtopic 926-20 and current or noncurrent based on estimated time of usage under Subtopic 920-350, whereas the proposed amendments would remove those requirements. However, the staff notes that the accounting for film costs would be different in the comparative periods because certain costs of episodic television series would be expensed in the comparative period whereas similar costs would be capitalized in the current period. Comparability would be achieved only if an entity were to apply the amendments resulting from this Issue retrospectively. The staff notes that the Task Force previously considered allowing an entity to apply the amendments resulting from this Issue retrospectively but decided against it because of the costs that an entity would incur to retrospectively apply the guidance to all film and license agreement costs. Therefore, the staff recommends that entities not be allowed to apply the amendments resulting from this Issue retrospectively.

Transition Disclosures

65. All respondents who provided feedback supported the transition disclosures. Based on that feedback, the staff recommends that the Task Force affirm its consensus-for-exposure on the transition disclosures. The staff did not identify any new information that was not previously considered by the Task Force in reaching its consensus-for-exposure.

Issue 9 – Private Company Considerations

66. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should apply to private companies. The proposed Update included the following question about transition:

> **Question 10:** As it relates to private companies, is there information that the Task Force or Board should consider in applying the Private Company Decision Making Framework in determining whether a private company alternative is needed?

Feedback Related to Private Company Considerations

67. Two respondents (CL#2 and CL#4), one of which is a private company, provided feedback on Question 10. Both respondents indicated that the amendments in the proposed Update should apply to private companies.

Question for the Task Force
10. Does the Task Force want to affirm its consensus-for-exposure that the amendments resulting from this Issue should apply to private companies?

Staff Analysis and Recommendation

68. Based on the feedback received through comment letters, the staff recommends that the Task Force affirm its consensus-for-exposure to apply the amendments resulting from this Issue to private companies. The staff did not identify any new information that was not previously considered by the Task Force in reaching its consensus-for-exposure.

Issues 10 and 11 – Effective Date and Early Adoption

69. The Task Force did not propose an effective date for the proposed amendments or whether an entity should be permitted to adopt the amendments early, but the Task Force decided to obtain feedback on them. The proposed Update includes the following question about the effective date and early adoption:

> **Question 9:** How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

Feedback Related to Effective Date and Early Adoption

70. Four respondents (CL#1, CL#2, CL#4, and CL#6) addressed Question 9, and all four indicated that the proposed amendments would not take significant time to implement under a prospective transition method. One respondent (CL#1) noted that significant time would not be needed to implement the

amendments in the proposed Update because the required information to implement those amendments will be readily available on a prospective basis. Another respondent (CL#4) noted that the most time-consuming aspect of implementing the proposed amendments would be obtaining the information for disclosures each reporting period. Because the proposed amendments would improve existing guidance and would not take a significant amount of time or cost to implement, all four respondents supported early adoption of the proposed amendments.

71. One respondent (CL#4) supported giving private companies additional time to adopt the proposed amendments because private companies often have fewer resources than public companies.

Questions for the Task Force
11. What should the effective date of the amendments resulting from this Issue be?
12. Should early adoption be permitted in any interim period?

Staff Analysis and Recommendation

Effective Date

72. Respondents generally indicated that entities would not require a significant amount of time to implement the proposed amendments. If the Task Force affirms its consensuses-for-exposure as a consensus at the January 17, 2019 EITF meeting, the staff estimates that a final Update could be issued by March 31, 2019. Based on the comment letter feedback and the estimated issuance date of a final Update, the staff recommends that for public business entities the amendments be effective for fiscal years beginning on or after December 15, 2019, and interim periods within those fiscal years.

73. For other-than-public business entities, the staff considered the Private Company Decision-Making Framework. It recommends that, generally, the amendments in an Update should be effective for other-than public business entities one year after the first fiscal period for which public business entities are required to adopt, and other than public business entities should not be required to adopt amendments during an interim period within the initial fiscal year of adoption. However, because the amendments resulting from this Issue would be applied prospectively and would affect the amounts capitalized and thus amortized, the staff believes that an other-than-public business entity should apply the amendments to interim periods within the initial fiscal year of adoption. Otherwise, an entity would expense certain costs of episodic television series in interim periods in the initial fiscal year of adoption and then have to capitalize those costs to prepare the annual financial statements. Additionally, for an episodic television series released during the year an entity would have to evaluate amortization each quarter and account for changes prospectively. The staff believes that this would add unnecessary cost

and complexity; therefore, the staff recommends that for other-than-public business entities, the amendments resulting from this Issue be effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years.

Early Application

74. Respondents agreed that early adoption should be permitted for the amendments resulting from this Issue. The staff agrees with the respondents that early adoption of the amendments resulting from this Issue should be permitted because they significantly improve the existing guidance and can be implemented without significant costs.

75. As noted in paragraph 72, the staff estimates that a final Update can be issued by March 31, 2019. If that occurs, then entities would be able to early adopt the amendments resulting from this Issue in the quarter ending March 31, 2019. If the Task Force agrees with the staff recommendation to apply those amendments prospectively to the beginning of the first period including the adoption date, those amendments related to the capitalization of film costs would be applied prospectively to all film costs that are incurred on or after the beginning of the interim period including the date of adoption (the earliest date of adoption would be the date of issuance of the final Update). As described in paragraph 63, the staff considered whether an entity should be allowed to adopt the amendments resulting from this Issue in any interim period or only at the beginning of an annual period. Although respondents indicated that those amendments can be implemented without significant costs, some entities may not have the resources to make the change in the first quarter of 2019. The staff notes that those amendments improve the accounting for film costs, but an entity that adopts those amendments in an interim period that is not the first interim period would have similar costs being both expensed and capitalized in the same annual period. However, the staff notes that the transition disclosures provide a description of the effect of the change in accounting principle. Therefore, the staff recommends early adoption be allowed in any interim period.

Issue 12 – Additional Issues Considered

Application of the Amendments to Content in the Scope of Topic 928

76. The Task Force did not propose broadening the scope of this Issue to incorporate other similar content-associated mediums, such as music, within the scope of Topic 928, Entertainment—Music, but the Task Force decided to obtain feedback on the scope. The proposed Update included the following question about the potential for the amendments resulting from this Issue to be applied by analogy to other content-associated mediums:

> **Question 1:** This proposed Update addresses accounting for film costs and license agreements. Are there other similar content-associated mediums, such as music within the

scope of Topic 928, Entertainment—Music, that would analogize to the impairment guidance in the amendments in this proposed Update? If so, what are they?

77. The responses to this question varied. One respondent (CL#1) indicated that entities should not analogize to the impairment guidance in the proposed Update for other content-associated mediums because entities should analogize to the general intangible asset impairment guidance in Topic 350 in the absence of explicit guidance. That respondent indicated that the guidance in Topic 350 is sufficient for other content-associated mediums. Two other respondents (CL#4 and CL#6) indicated that entities with similar content-associated mediums would face similar issues to those being discussed by the Task Force for films and license agreements (that is, no directly attributable revenue when evaluating whether capitalized costs are impaired). One of those respondents (CL#6) indicated that it would be logical to analogize to the concept of a film group. However, that respondent recommended that the Board solicit feedback directly from entities with that type of content.

Cash Flow Classification

78. Two comment letter respondents (CL#1 and CL#2) recommended aligning the cash flow presentation for Topic 926 and Topic 920. One respondent (CL#1) noted that Topic 926 requires that cash outflows for produced content be reported within operating activities in the statement of cash flows, whereas Topic 920 does not contain a similar requirement. That respondent noted that diversity in practice may exist in how entities report cash outflows for licensed content under Topic 920 and recommended that similar guidance be provided for Topic 920.

Amortization Using the Individual-Film-Forecast Method

79. One respondent (CL#2) noted that the guidance for the reassessment of estimates of ultimate revenue used in the individual-film-forecast method in paragraph 926-20-35-3 requires entities to account for changes in estimates of ultimate revenue prospectively as of the beginning of the fiscal year of the change. That respondent noted that the guidance for reassessment using the individual-film-forecast method would be inconsistent with the proposed amendment in paragraph 926-20-35-3A, which would require an entity to reassess estimates of the use of a film in a film group prospectively (that is, not as of the beginning of the fiscal year of change). To address the inconsistency, that respondent suggested amending paragraphs 926-20-35-3 and 926-20-35-1 to replace the language about the beginning of the fiscal year of the change with “beginning of the current reporting period.”

Question for the Task Force
13. Does the Task Force want to make any changes to the proposed amendments in response to additional issues raised in comment letters?

Staff Analysis and Recommendation

Application of the Amendments to Content in the Scope of Topic 928

80. The staff notes that expanding the scope of this Issue is beyond the scope of the Issue that the Task Force was asked to address. The staff also notes that the Board decided to propose this question to respondents to receive feedback about the need for a potential similar project for similar content-associated mediums. The Board will consider the feedback received as it sets its agenda.

Cash Outflows

81. The staff believes that the request to align the cash flow requirements in Topic 920 with Topic 926 is consistent with the views expressed by both preparers and analysts that licensed and produced content are analyzed together when users are assessing an entity's portfolio of content. The staff agrees with the respondents' views that diversity in practice may exist. Therefore, the staff recommends aligning the cash flow classification requirements in Topic 920 to Topic 926. That is, Topic 920 should be amended to require that cash flows for licensed content be classified as cash flows from operating activities within the statement of cash flows.

Amortization Using the Individual-Film-Forecast Method

82. The staff observes that the Accounting Standards Executive Committee of the AICPA (AcSEC) considered the language that the respondent recommended (*prospectively as of the beginning of the current reporting period*) when it was developing SOP 00-2, and that language was included in paragraph 41 of the proposed SOP, issued on October 16, 1998:

> 41. Due to uncertainties in the estimating process, estimates may vary from actual results. All estimates of revenues and costs should be reviewed at each reporting period and revised to reflect the most current available information. When estimates of ultimate gross revenues are revised, the denominator of the fraction described in paragraph 28 of this SOP should be revised **prospectively beginning in the period of change** (the changes in estimates should not be applied to the beginning of the current fiscal year, if different from the period of change). The revised fraction should be applied to remaining unamortized production and participation costs as of the beginning of the period of change (adjusted for any change in the estimated costs). [Emphasis added.]

83. Paragraph 41 of the proposed SOP was amended by AcSEC during its redeliberations. The basis for conclusions of SOP 00-2 explains that the language prospectively beginning in the period of change was amended to prospectively as of the beginning of the fiscal year of change because respondents to the proposed SOP and AcSEC were concerned that the language in the proposed SOP would have encouraged entities to make aggressive estimates of ultimate revenue considering that the revised estimates would have been accounted for prospectively from the period of change. Additionally, paragraph 108 of the basis for conclusions of SOP 00-2 indicates that the requirement in paragraph 36 of SOP 00-2 effectively maintains the approach that was required by FASB Statement No. 53, *Financial Reporting by Producers and Distributors of Motion Picture Films*, issued in 1981 and later superseded by SOP 00-2.

84. Considering that the amendment suggested by the respondent was rejected by AcSEC, the approach in paragraph 926-20-35-3 is currently used in practice, and only one respondent made the recommendation, the staff does not recommend amending the guidance in paragraph 926-20-35-3. However, if the Task Force does not agree with the staff's recommendation and decides that this recommendation should be addressed, then the staff would need to conduct research and perform outreach activities before moving forward.