

July 16, 2012

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

Re: File Reference No. EITF-12E: Proposed Accounting Standards Update— Entertainment—Films (Topic 926): Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (a consensus of the FASB Emerging Issues Task Force)

## Dear Technical Director:

The Business Valuation Committee (the Committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the Proposed Accounting Standards Update (ASU) on *Entertainment*. The PICPA is a professional association of more than 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes CPAs in public accounting, education, government, and industry. The Committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

The PICPA Business Valuation Committee met on June 28, 2012 (and its subcommittee on standards met by conference thereafter), to debate and discuss the proposed accounting standards update on Topic 926: Accounting for Fair Value Information that arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs ("the proposal"). During our deliberations, the following points of consensus were developed:

The Pennsylvania valuation community supports the proposed revisions set forth in EITF-12E. We find the proposed revisions to be consistent with the general body of knowledge in valuation theory, that information known or knowable as of the date of valuation should be used in measuring intangible assets. In particular we feel the proposal is consistent with recently issued guidance set forth in update 2011-08.

## Responses to Questions Included in the Proposal

Question 1- We agree that the impairment test of unamortized costs ought to be based solely on information known or knowable as of the measurement date. We find the concept of the rebuttable presumption to conflict with the generally accepted "known or knowable" valuation principal.



Question 2- We believe that the market has reliable information about film revenues to make meaningful assessments about recoverability of unamortized film costs, and do not expect the proposed amendments to adversely impact users of financial statements. In particular we point to the recent example of the film *John Carter*.

The film cost about \$250 million to make, and advertising costs added \$100 million to the initial unamortized film costs. The film opened March 9, 2012, and by March 12 the opening weekend receipts were reported at \$30.2 million. On March 19, 2012, Walt Disney Co. issued a press release announcing an impairment loss of \$200 million. After the announcement, the stock price increased, and analysts reported the market had already priced in the impairment loss. *Analysts in Business Week* reported the *John Carter* loss "a flop of galactic proportions," and "among Hollywood's biggest money losers ever." Accordingly, we conclude that the market has adequate information to make meaningful assessments about recoverability of unamortized film costs.

Question 3- We believe that existing guidance about what information should be used to make assessments about what is known or knowable is sufficient, and no further guidance is required.

Question 4- We agree that the proposal should be applied prospectively.

Question 5- We agree that early adoption should be permitted.

Ouestion 6- We think the proposal should apply to public and nonpublic companies.

Question 7- We think minimal time is needed to implement the proposed amendments.

Respectfully submitted,

Christopher M. Farah

Chairman

**Business Valuation Committee** 

Pennsylvania Institute of Certified Public Accountants

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