December 4, 2018

Submitted via email (director@fasb.org)

Technical Director
File Reference No. 2018-290
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2018-290, Proposed Accounting Standards Update, Improvements to Accounting for Costs of Films and License Agreements for Program Materials

Apple Inc. appreciates the opportunity to comment on the Financial Accounting Standards Board’s proposed accounting standards update issued on November 7, 2018, related to a customer’s accounting for costs of films and license agreements for program materials (the “Proposed ASU”).

We agree the entertainment industry has experienced a significant change in production and distribution models. One example of such a change is where the license fee is based upon the cost of production of the film or episodic television series in exchange for rights to distribute the content, and the funding occurs from the outset of production through its conclusion.

Another example of a change is how unique film and episodic television series are obtained (either through purchase, in-house production, or via a license), combined and then monetized as a group utilizing an online video distribution platform. As a result, the distinction between produced versus licensed and film versus episodic television series becomes less relevant as the risks regarding monetization of content apply to an entire content library.

These changes to the production and distribution models have resulted in entities applying different accounting models for what are, in substance, the same type of asset. Therefore, we believe the changes in the production and distribution of content necessitate changes to the guidance in Topics 926 and 920, aligning them where appropriate. We have prepared our response from the perspective of an entity that monetizes its produced and licensed content together as a film group. For clarity, we refer to costs capitalized under Topic 926 as produced content and costs capitalized under Topic 920 as licensed content.
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?

No. We don’t believe other content-associated mediums should analogize to the impairment guidance in the amendments. Rather, any similar content-associated medium that is outside the scope of Topics 926 and 920 is a finite-lived intangible asset and we believe that absent specific impairment guidance applicable to a given content-associated medium, the impairment guidance in Topic 350 is applicable and sufficient. Topic 928 does provide some limited guidance regarding subsequent measurement for capitalized advance royalties and minimum guarantees, requiring that amounts not recoverable from future royalties or use of license rights should be charged to expense. We believe an entity applying Topic 928 should analogize to the impairment guidance in Topic 350 and not Topics 926 and 920 for all other impairment assessments.

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?

No. Entities that produce episodic television content do not have to solely rely on syndication to support recoverability of their episodic content. The introduction of online video distributor platforms has reduced the risks related to producing episodic content by expanding the distribution channels available to content producers.

To the extent an entity is producing film and episodic television series for distribution on its own online video distribution platform, the contracted revenue constraint in Topic 926 is not relevant. Although customers are not contracted beyond the current billing cycle, the entity can reasonably and reliably predict future revenues that support asset recoverability.

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?

Yes. We believe that produced content is analogous to finite-lived intangible assets and, therefore, the amortization model should align with Subtopic 350-30-35 which prescribes that changes in a finite-lived intangible asset’s useful life should result in the carrying amount of the asset being amortized prospectively over the revised remaining useful life. Additionally, this is consistent with the guidance in Subtopic 250-10 related to how changes in accounting estimates should be accounted. Subtopic 250-10 includes “service lives and salvage values of depreciable assets“ as an example of items for which accounting estimates are necessary and may be subject to change as a result of new information.

Accordingly, any change in the remaining use of a film represents a change in an accounting estimate for an amortizable asset and, therefore, prospective application of the change is conceptually consistent with existing guidance related to accounting for changes in a finite-lived intangible asset’s useful life and more broadly, accounting for a change in estimate.
Further, with regards to the amended amortization guidance, we support the decision to not prescribe the use of viewership when determining amortization patterns for produced and licensed content. While viewership may be a viable data source to leverage when determining amortization patterns for content distributed through an online video distributor platform, viewership data may not be the only or even the most relevant data source to use for all content distribution platforms. We believe establishing overly prescriptive guidance could have the unintended consequence of requiring entities to establish an amortization pattern that doesn’t reflect their best estimate of the pattern in which the economic benefits of the content will be consumed. Further, establishing overly prescriptive guidance will likely require future revision as the industry changes and new distribution platforms are established. Finally, as privacy concerns evolve, some entities may not be comfortable tracking viewership data of their customers.

We believe allowing flexibility in the determination of amortization patterns in Topics 926 and 920 is consistent with the guidance for other depreciable assets, such as the guidance related to fixed assets in Topic 360 and finite-lived intangible assets in Topic 350, which do not prescribe specific data sources to use to determine amortization patterns. Specifically, Subtopic 350-30-35 states that “the method of amortization for an intangible asset with a finite useful life shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up,” which allows for judgment in determining the pattern that best reflects the benefit consumption for a finite-lived intangible asset.

**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?

Yes. We strongly support requiring entities that lack directly attributable revenue for their produced and licensed content to perform the impairment test at the film group level. An entity that monetizes its content through an online video distributor platform derives a benefit from its entire content library as the library works together to deliver the service. Therefore, we do not believe it is practical, nor appropriate, to assess impairment at a more granular level than the monetized film group.

As noted by the Task Force members, providing an entity the ability to group individual films together when they are monetized collectively as a group is consistent with the impairment guidance for fixed assets, which allows grouping of assets for impairment assessment. Specifically, Subtopic 360-10-35 states that “for purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.” The proposed amendments are also consistent with the impairment guidance for finite-lived intangible assets. Specifically, Subtopic 350-30-35 allows for the combination of assets into a single unit of accounting when they are operated as a single asset and includes the following as an indicator that assets cannot be combined for purposes of an impairment assessment: “Each intangible asset generates cash flows independent of any other intangible asset.” The implication of this guidance is that intangible assets that do not generate independent cash flows can be combined for impairment assessment.
We believe the proposed amendments would reduce the cost and complexity of applying the impairment guidance by allowing a single impairment assessment for produced and licensed content that are monetized together. We also believe evaluating impairment at a film group level would be operable as this amended model aligns with how an entity would already be evaluating the viability of their business model for internal management reporting purposes.

The operability is further enhanced by the Task Force’s identification of separate impairment indicators when impairment is assessed at the film group level. The impairment indicators for films that have directly attributable revenue are not relevant when assessing impairment for a film group. Commingling indicators for individual and group impairment assessments could imply that entities which assess impairment for a film group need to perform a group and individual title assessment, which we don’t believe is appropriate.

**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.**

Yes. We support the proposed definition of a film group to reflect the unit of accounting that represents the lowest level of identifiable cash flows. We believe this definition aligns with how entities strategically manage their investments in content. For entities that monetize produced and licensed content together as a film group, we believe capitalization and potential impairment should be assessed at the film group level.

We also support allowing some level of judgment in determining the film group level as that which is largely, but not entirely, independent of the cash flows for other content. This judgment will ensure entities that derive an insignificant amount of direct revenue for specific content are not excluded from applying the accounting guidance at the film group level when that is effectively the level at which the content is managed and monetized. Further, we believe the concept of predominant monetization is operable since this is largely a quantitative assessment and the amount of monetization by source is generally measured and readily available.

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

Yes. We believe the change in the way content is produced and distributed has decreased the relevance of maintaining distinct guidance for produced and licensed content. Because the customer often accesses an entire content library via an online video distributor platform that consists of film costs capitalized under Topic 926 commingled with license agreements capitalized under Topic 920, we believe aligning the impairment models for produced and licensed content is appropriate and avoids unnecessary complexity and confusion.

Specifically, we support the update to Topic 920 to prescribe the use of a fair value model when assessing licensed content for potential impairment because Topic 926 requires the use of a fair value model for produced content that are often monetized together with licensed content. Additionally, the use of a fair value model is consistent with the requirement in Topic 350 for assessing finite-lived intangible assets for potential impairment.
Question 7: Do you agree with the proposed amendments to the presentation and disclosure requirements in Subtopics 926-20 and 920-350? If not, what additional presentation and disclosure requirements do you recommend, or what presentation and disclosure requirements should be removed and why?

While we broadly support the proposed amendments and alignment of the presentation and disclosure requirements between Topics 926 and 920, we would recommend certain clarifications to further align the guidance between the two topics.

First, we do not believe it is relevant to provide distinct and duplicative disclosures for produced and licensed content when that content is monetized as a film group. In such cases, the distinction between produced and licensed content provides no decision useful information as each content asset works together as part of the overall film group, irrespective of how it was obtained. Therefore, we recommend the guidance in Topics 926 and 920 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.

Second, Topic 926 requires that cash outflows for produced content be reported within operating activities in the statement of cash flows. Topic 920 does not contain a similar requirement and, in the absence of equally prescriptive guidance for similar assets, diversity in practice may exist in how entities report cash outflows for licensed content. When content is monetized together as a film group, we do not believe it would be appropriate to classify cash outflows for licensed content differently than the cash outflows for produced content. Therefore, we recommend the guidance in Topic 920 be updated to require reporting for cash outflows for licensed content consistent with what is currently required for produced content.

Lastly, many entities that produce content under Topic 926 for online video distributor platforms also obtain original content via license agreements that is produced specifically for that entity for exclusive use over a specified term. 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. Therefore, Topic 920 would exclude any prepayments for licensed content from the licensed content asset classification and disclosure requirements. To avoid diversity in practice, we recommend Topic 920 be updated to include, within its scope, prepayments for licensed content as these prepayments are part of the licensed content asset and should be accounted for and disclosed accordingly.

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?

We believe the proposed amendments related to capitalization should be applied prospectively to film costs incurred on or after the effective date. Additionally, we agree 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. This transition methodology and timing properly balance the costs of implementation with the benefits to financial statement users. We also agree with the proposed transition disclosures. A requirement to provide quantitative disclosures during the initial year of adoption would be redundant with the myriad disclosures already required by the Proposed ASU.

**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?**

We do not believe significant time is needed to implement the proposed amendments for public or private entities because the amendments provide for prospective application and the required information to apply the revised guidance will be readily available for costs incurred on or after the date of application. Because we believe the proposed amendments significantly improve existing guidance and can be implemented without significant cost, we believe early adoption should be permitted.

Please contact me at (408) 862-4776 if you have questions regarding our response or other aspects of the Proposed ASU.

Respectfully,

Chris Kondo
Senior Director, Corporate Accounting
and Principal Accounting Officer