December 6, 2018

FASB Technical Director
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116


Ladies and Gentlemen,

Netflix submits this letter in response to the request to comment on the Exposure Draft - Proposed Accounting Standard Update (ASU) to improve the Accounting for Costs of Films and License Agreements for Program Materials under Subtopics 926-20 and 920-350 of the FASB Accounting Standards Codification (ASC) issued by the FASB Emerging Issues Task Force on November 7, 2018.

Netflix’s business model is to derive revenues from monthly member subscriptions. Members can watch as many TV series and films as they want, anytime, anywhere, on any internet connected screen. Members can play, pause and resume watching, all without commercials or commitments. Netflix acquires, licenses and produces content, including original programming to make it available to its members.

Under this business model, the distinction between ASC 926 (Entertainment - Films) and ASC 920 (Entertainment Broadcasters) is not meaningful to investors for amortization, impairment, presentation and disclosure. However, the current guidance is sometimes inconsistent making it more difficult for a reader of our financial statements. Consequently, we made a slide presentation available on our Investor Relations website, in addition to our SEC filings, to help navigate through the presentation and disclosures.

This proposed Update addresses and removes most of the inconsistencies in implementing ASC 926 and ASC 920 in a subscription business model like Netflix. Below is a more detailed response to the questions asked by the Board.

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?
In order to simplify accounting standards, we believe any industry specific guidance should be as consistent as possible with general guidance. The analogy to the impairment guidance under ASC 926 and ASC 920 in this proposed Update could be ASC 360 which provides guidance on the accounting of long-lived assets. Under ASC 360, the asset group to be tested for impairment represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. Also, under ASC 360, the impairment loss is based on fair value. Hence, we believe the amendments in this proposed Update to the impairment guidance of ASC 926 and ASC 920 are more consistent with ASC 360.

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?

The distinction between films and episodic television series for determining the amount that can be capitalized is not relevant in a subscription business model. A two hour film and a ten hour television season are released and made available to members of the service in a similar manner. Hence, we believe the amendments in this proposed Update to remove the content distinction for capitalization are appropriate.

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?

An entity should reassess estimates of amortization and we believe the amendments in this proposed Update to account for any changes prospectively are appropriate. For clarification, under Subtopic 926-20-35-1 and -3 (film monetized predominantly on its own), the application of the model seems to be “from beginning of the fiscal year” whereas under Subtopic 926-20-35-2 and -3A (film in a film group), the application seems to be prospective from beginning of current reporting period. The Board may consider whether changing “from beginning of fiscal year” to “beginning of current reporting period” would be appropriate to allow for a more consistent application of the ASC 926 amortization guidance between a film monetized predominantly on its own or a film in a film group. Also, in a subscription business model, we believe that regardless of whether the content asset is under ASC 926 or ASC 920, the amortization model should be consistent and prospective from the beginning of current reporting period.

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?

When a film is monetized with other films and licence agreements, the film group level represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. Hence, we believe the amendments in this proposed Update to evaluate impairment at this higher level are appropriate. Netflix currently applies a similar model. Therefore, we believe the amendments in this proposed Update would not affect our cost and complexity of applying the proposed impairment guidance.

**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.**

We believe the proposed definition of a film group in the amendments in this proposed Update is appropriate. We believe the concept of predominant monetization strategy is operable in our business model.

**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?**

In a subscription business model, there are no revenues generated at the title level, therefore the asset group to be tested for impairment has to combine content assets under both ASC 926 and ASC 920. Since the impairment cannot be tested separately, the distinction of a fair value model under ASC 926 and a net realizable value under ASC 920 is not relevant. Hence, we believe the amendments in this proposed Update to apply the same impairment model, regardless of whether the content asset is under ASC 926 or ASC 920, are appropriate. Due to the current inconsistency in the guidance, Netflix discloses that “the aggregated content assets (both under ASC 926 and ASC 920) are stated at the lower of unamortized cost, net realizable value or fair value”. We also disclose that “unamortized costs for assets that have been, or are expected to be, abandoned are written off”.

**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?**
The amendment in this proposed Update to remove the requirements to present film costs as non-current under ASC 926 as well as license agreements as current and non-current under ASC 920 in order to present content assets under ASC 926 or ASC 920 consistently on the balance sheet is appropriate. As a result, we may classify all content assets as non-current.

Also, in order to simplify the disclosures and make them more relevant to investors, we believe:

1. The separate disclosure of amortization expense between ASC 926 and ASC 920 could be removed. In a subscription business model, we believe that disclosing the aggregate amortization is appropriate. This is consistent with the impairment analysis performed in aggregate regardless of whether assets are under ASC 926 or ASC 920.

2. The separate disclosure of the components of film costs (including released, completed and not released, in production or in development or pre-production) could be removed. We believe that limiting the disclosure to two components are appropriate for ASC 926 and ASC 920: assets whose amortization has begun and assets whose amortization has not begun. This may be more consistent with the guidance under ASC 360.

3. The separate disclosure of film costs for theatrical films and direct-to-television products could be removed. We do not believe this is useful or relevant information in a growing internet entertainment model. A description of the business model could be sufficient for readers of the financial statements to understand how revenues are derived and how related costs are recognized.

Finally, many amendments in this proposed Update bring closer the two industry specific requirements of ASC 926 and ASC 920 as well as bring them closer to the general guidance of ASC 360. However, a significant difference remains: operating cash flow presentation in practice under ASC 926 and ASC 920 versus investing cash flow presentation under ASC 360. The Board may consider addressing whether changing the cash flow presentation to investing activities is relevant but we believe our investors tend to focus on free cash flow, which would remain the same.

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?

For simplification, the proposed Update could be effective prospectively for fiscal years beginning after the date set by the Board staff. Although application would be prospective,
certain presentation and disclosure of prior periods could be conformed (for instance, the current and non-current presentation on the balance sheet). We believe the transition disclosures in this proposed Update are appropriate.

**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 believe the amendments in this proposed Update are mostly consistent with our current practice and therefore we do not believe it would require much time to implement or have a material impact. We believe early adoption could be permitted.

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

We are not aware of any information that the Task Force or Board should consider to determine whether a private company alternative is needed.

For any further questions or future communications, I may be contacted directly via email at jberger@netflix.com or through my team at disclosure-committee@netflix.com.

Sincerely,

JC Berger, VP Finance & Controller
Cc: David Wells, Chief Financial Officer