December 7, 2018

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

Re: Exposure Draft – Improvements to Accounting for Costs of Films and License Agreements for Program Materials (File Reference No. 2018-290)

Dear Technical Director:

The Walt Disney Company is pleased to have the opportunity to comment on the exposure draft, Improvements to Accounting for Costs of Films and License Agreements for Program Materials (the ED).

We appreciate the Board’s outreach and efforts to update ASC Topics 920 and 926 to reflect changes in the film and television industry since those standards were issued. Overall, we are supportive of the ED’s objectives and the underlying changes. However, we have two recommendations that we believe will ensure the operability of the standard over time.

First, we recommend the Board reconsider the prohibition on reassessing the predominant monetization strategy of each film after the initial determination at inception of production. In particular, we believe content distribution models will continue to evolve, and therefore it is reasonable to assume the predominant strategy may change over time.

We recognize that the Board may be concerned that an entity could transfer an individual film asset to a film group in order to avoid an impairment. Therefore, we suggest that the Board require an impairment test if an entity changes its monetization strategy for a film.

Second, we recommend that the Board clarify how an entity can determine revenue for use in the individual-film-forecast-method (IFFM) when a film that is predominantly monetized individually is expected to also be monetized significantly as part of a group. For example, today a film may first be released theatrically (monetized individually) and then transferred to a direct-to-consumer subscription service (monetized in a group). If an entity determines that this film is predominately monetized
individually, the entity will need to estimate the value attributable to the film’s exploitation while on the direct-to-consumer subscription service in order to apply the IFFM.

We suggest that the ASU allow for, among other reasonable methods, the use of a fair value license fee in these situations. The fair value license fee would represent an estimate of what the entity would receive if it were to license similar rights to the film to a third party during the period the film will be exploited as part of a film group. We believe that in many instances this measure may be more reliable and objective than an allocation of indirect revenue from a group to an individual film. We note that this approach is similar to the guidance in ASC 926-20-35-5(d) which requires the inclusion of deemed license revenue for merchandise product sales associated with a film.

Accordingly, we believe the ED should include the following changes to clarify these points [changes noted by double underline or double strikethrough]:

926-20-35-2 For a film that is in a film group, In the absence of revenue from third parties that is directly related to the exhibition or exploitation of a film, an entity shall make a reasonably reliable estimate of the portion of unamortized film costs that is representative of the use of the film in that exhibition or exploitation. For a film that is predominantly monetized on its own and also significantly monetized in a film group, an entity shall make a reasonably reliable estimate of the value attributable to the film’s exploitation while in the film group for inclusion in its individual-film-forecast-computation (for example, an entity could include an estimate of the amount it would receive from licensing the individual film to a third party at fair value). An entity shall expense such amounts as it exhibits or exploits the film. (For example, a cable entity that does not accept advertising on its cable channel may produce a film and only show it on that channel. In this example, the cable entity receives subscription fees from third parties that are not directly related to a particular film.) Consistent with the underlying premise of the individual-film-forecast-computation method, all revenue shall bear a representative amount of the amortization of film costs during the ultimate period.

926-20-35-3A An entity shall review and revise estimates of the remaining use of the film for film costs amortized in accordance with paragraph 926-20-35-2 as of each reporting date to reflect the most current available information. Changes in monetization strategy and to estimates of the remaining use of a film shall be accounted for prospectively.

926-20-35-12 Unamortized film costs shall be tested for impairment whenever events or changes in circumstances indicate that the fair value of the film a film predominantly monetized on its own (see paragraph 926-20-35-12A) or a film group (see paragraph 926-20-35-12B) may be less than its unamortized costs. An entity shall assess whether a film is part of a film group when capitalization of film costs begins based on its initial monetization strategy. An entity shall not
may reassess whether a film is part of a film group if there is a significant change in monetization strategy.

The following are examples of events or changes in circumstances that indicate that an entity shall assess whether the fair value of a film (whether completed or not) is less than its unamortized film costs:

a. An adverse change in the expected performance of a film prior to release

... 

g. A change in the film’s predominant monetization strategy

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We appreciate the Board’s swift response to concerns raised by our industry about the operability of film and television accounting standards in light of changes in the industry over recent years. We believe removing the prohibition on changing the predominant monetization strategy for films would minimize the potential need for further revisions of the standard as content distribution models continue to evolve.

Further, allowing the use of a fair value license fee for the purposes of applying the IFFM will alleviate the operational challenges of attributing indirect revenues to an individual film that is monetized in a group for part of its useful life.

We have included answers to the Board’s questions in the attached Appendix.

We would be pleased to respond to questions regarding our comments in this letter as well as other aspects of the ED.

Sincerely,

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**Appendix**

**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?

Yes. We believe certain entities that provide access to music libraries through subscription-based internet streaming platforms may be interested in analogizing to the proposed impairment guidance. We recommend that the Board solicit feedback from those entities directly.

Additionally, since internet streaming services can include content other than films and episodic television series such as music and games, we believe it would be logical to analogize to the concept of a film group to include a broader array of content being monetized together (e.g., a “content group”).

**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. We believe that as long as film costs are recoverable via any combination of planned distribution channels, the distinction between content formats (i.e., film vs. episodic television series) is not relevant and should not affect the amount of film costs that can be capitalized.

The existing cost capitalization model for episodic television series is outdated because the risks related to deficit funding arrangements that it was meant to address are often no longer applicable due to new distribution channels (e.g., internet streaming platforms) and other changes in media distribution. Capitalization of all production costs for episodic television series, subject to impairment testing, better reflects the current economics of episodic content production.

**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. Reassessing usage estimates for films in a film group at each reporting date would more closely align with the IFFM’s requirement to review and revise estimates of ultimate revenue at each reporting date for films not in a film group and other aspects of US GAAP such as intangible assets.

However, we note that it may be rare for updated usage estimates to cause businesses with an established subscriber base to record material adjustments, in part due to film amortization typically having an accelerated pattern.
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?

We agree that an entity should evaluate impairment at a higher level than the individual film when a film is monetized with other films and licensed content.

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 agree with the definition of a film group and believe the concept of predominant monetization strategy is operable, particularly if our proposed changes to the standard are made.

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 that licensed content should be measured consistently (i.e., at fair value) for the purposes of impairment testing regardless of how it is monetized. Accordingly, we support modifying Subtopic 920-350 to require the use of a fair value model for impairment which aligns with the existing fair value model for film impairments in Subtopic 926-20.

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?

We support aligning the presentation and disclosure requirements between Subtopics 926-20 and 920-350, particularly if the films and licensed content are monetized together in a group. However, we believe that requiring separate disclosures for theatrical films and direct-to-television products is inconsistent with the notion that the distinction between content formats (i.e., film vs. episodic television series) is less relevant in today’s business models. Accordingly, we believe it would be more useful to provide the required disclosures on the basis of individual films vs. film groups.
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 episodic television series that begin production after the effective date. The proposed transition approach will result in episodic television series that are in production being partially subject to the existing capitalization model in Subtopic 926-20 (i.e., constrained by contracted revenue in the initial market) and partially subject to the proposed capitalization model in the ED.

We 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. We agree with the proposed transition disclosures as we believe they adequately explain the changes to financial statement users but are not overly burdensome on preparers.

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 would be needed to implement the proposed amendments. However, if the Board does not accept our proposed changes, we will face the operational challenges discussed in the body of our letter.

Given that the proposed amendments are meant to update the accounting guidance for changes in the entertainment and media industry that have already occurred, we believe early adoption should be permitted.