FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: April 17, 2012
Comments Due: July 16, 2012

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

This Exposure Draft of a proposed Accounting Standards Update of Topic 926 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. EITF-12E

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by July 16, 2012. Interested parties may submit comments in one of two ways:

- Emailing a written letter to director@fasb.org, File Reference No. EITF-12E
- Sending written comments to "Technical Director, File Reference No. EITF-12E, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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

April 17, 2012

Comment Deadline: July 16, 2012

CONTENTS

Page Numbers

Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Topic 926, Entertainment—Films, requires that if evidence of a possible need for a write-down of unamortized film costs occurs after the date of the balance sheet but before the financial statements are issued, a rebuttable presumption exists that the conditions leading to the writeoff existed at the balance sheet date. Topic 926 therefore requires that those conditions be incorporated into the fair value measurement used in the impairment test as of the balance sheet date as if they were known with certainty at that date, unless an entity can demonstrate that those conditions did not exist at that date. Questions have arisen about the apparent conflict between the guidance in Topic 926 and the guidance in Topic 820, Fair Value Measurement. Specifically, the fair value guidance in Topic 820 requires calculation of an exit price under current market conditions at the measurement date. That exit price may be calculated under conditions of uncertainty because the cash flows used were estimates rather than known amounts. In contrast, Topic 926 requires that an entity's fair value analysis performed as of a period end date reflect those results that become known after the measurement date to the extent that an entity cannot overcome the rebuttable presumption.

The objective of this proposed Update is to align the use of fair value measurements in the impairment test of unamortized film costs with the use of fair value measurements in other instances, including in the impairment testing of similar assets. To achieve that objective, the amendments in this proposed Update would eliminate the rebuttable presumption that events leading to a writeoff that occurred after the measurement date existed as of the measurement date and, therefore, the need to incorporate the effects of those events into the impairment assessment.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that perform impairment tests of unamortized film costs in accordance with Topic 926.

What Are the Main Provisions?

The amendments in this proposed Update would eliminate certain requirements related to an impairment test of unamortized film costs, but would not add any new guidance to the *FASB Accounting Standards Codification*®. As such, the guidance in Topic 926 would be the relevant guidance for performing an impairment test of unamortized film costs. The existing guidance in Topic 820 and Topic 855, Subsequent Events, would be the relevant guidance for estimating fair value and accounting for subsequent events, respectively.

The amendments in this proposed Update would eliminate the rebuttable presumption that the conditions leading to the write-down of unamortized film costs after the balance sheet date existed as of the balance sheet date. The proposed amendments also would eliminate the requirement that an entity incorporate into fair value measurements used in the impairment tests the effects of any changes in estimates resulting from the consideration of subsequent evidence if the information would not have been considered by market participants at the measurement date.

Because *fair value*, as defined by Topic 820, is the measurement basis that is used to assess impairment of unamortized film costs, an entity should include, in a valuation model, assumptions that market participants would have made about uncertainty in timing and amount of cash flows as of the measurement date. To the extent that uncertainties are resolved or other information becomes known after the balance sheet date, but before the financial statements are issued or available to be issued, such effects should not be incorporated with certainty into the fair value measurement as of the balance sheet date unless market participants would have made such assumptions. Amending the guidance to remove the rebuttable presumption does not imply that the subsequent evidence should be ignored in estimating a fair value measurement. The amendments in this proposed Update would not change an entity's responsibility to analyze and consider any relevant subsequent events and information to assess whether the fair value measurement reflects all relevant information and assumptions that market participants would have considered under the current conditions at the measurement date.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update would revise the impairment test for unamortized film costs to remove the rebuttable presumption described above, which would align the use of fair value measurements in the impairment test of unamortized film costs with the use of fair value measurements in other instances, including in the impairment testing of similar assets.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be effective for impairment tests performed after the effective date. Early adoption would be permitted if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, if the entity's financial statements have not yet been made available for issuance. The effective date will be determined after the Task Force considers stakeholder feedback on the proposed amendments.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not contain industry-specific guidance on the impairment analysis of unamortized film costs. It does contain general asset impairment guidance in IAS 36, *Impairment of Assets*, which outlines the mechanics of impairment tests for various types of assets (for example, long-lived assets, indefinite-lived intangible assets, and goodwill). Although the specific steps of an asset impairment test can differ in IFRS depending on the type of asset (for example, whether or not qualitative indicators should first be considered), the quantitative test is based on a comparison of the assets' recoverable amounts to their carrying amounts. In IFRS, an asset's recoverable amount is generally the higher of its "value in use" or fair value less costs to sell. As in Topic 820, the definition of fair value in IFRS 13, *Fair Value Measurement*, applies to fair value less costs to sell. Although the mechanics of an impairment test may differ slightly between U.S. GAAP and IFRS, if fair value is used in the impairment test, the amendments in this proposed Update would ensure there is no conflict in the guidance with respect to how it is estimated.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree that the fair value measurement of a film used in an impairment test of unamortized film costs should be consistent with the definition of *fair value* as defined by Topic 820; that is, it should be based on assumptions that market participants would make under current conditions at the measurement date, reflecting, when appropriate, that those assumptions were made under conditions of uncertainty because the cash flows used were estimates rather than known amounts?

Question 2: If you are a user of financial statements, would the amendments in this proposed Update affect your analysis of an entity that applies the guidance in Topic 926? If so, how would the amendments affect your analysis?

Question 3: Do you believe that the proposed amendments, specifically to eliminate paragraph 926-20-35-18, necessitate further amendments to (a) the examples of events or changes in circumstances that indicate that an entity must assess whether the fair value of a film is less than its unamortized film costs (paragraph 926-20-35-12) or (b) the guidance about how those indicators are considered, specifically with respect to when a test should be performed? Please explain why or why not.

Question 4: Do you agree that the proposed amendments should be applied prospectively? If not, please explain why.

Question 5: Do you agree that an entity should be permitted to early adopt the proposed amendments? If not, please explain why.

Question 6: The proposed amendments would apply to public and nonpublic entities. Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

Question 7: How much time is needed to implement the proposed amendments?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Subtopic 855-10

2. Supersede paragraph 855-10-60-3 and its related heading, with a link to transition paragraph 926-20-65-1, as follows:

Subsequent Events—Overall

Relationships

~~**> Entertainment—Films**~~

855-10-60-3 Paragraph superseded by Accounting Standards Update 2012-XX. ~~For guidance addressing the possible need for a write-down of unamortized film costs as a result of evidence that arises after the date of the balance sheet but before an entity's financial statements are issued or are available to be issued (as discussed in Section 855-10-25), see paragraph 926-855-35-1.~~

Amendments to Subtopic 926-20

3. Supersede paragraph 926-20-35-18, with a link to transition paragraph 926-20-65-1, as follows:

Entertainment—Films—Other Assets—Film Costs

Subsequent Measurement

> Film Costs Valuation

926-20-35-12 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
b. Actual costs substantially in excess of budgeted costs
c. Substantial delays in completion or release schedules
d. Changes in release plans, such as a reduction in the initial release pattern
e. Insufficient funding or resources to complete the film and to market it effectively
f. Actual performance subsequent to release failing to meet that which had been expected prior to release.

926-20-35-13 If an event or change in circumstance indicates that an entity shall assess whether the fair value of a film is less than its unamortized film costs, the entity shall determine the fair value of the film (the determination of which is affected by estimated future exploitation costs still to be incurred) and write off to the income statement the amount by which the unamortized capitalized costs exceed the film's fair value. Exploitation costs incurred after such a write-off shall be accounted for in accordance with the provisions of paragraphs 926-720-25-2 through 25-3. An entity shall treat the reduced amount of capitalized film costs that have been written down to fair value at the close of an annual fiscal period as the cost for subsequent accounting purposes, and an entity shall not subsequently restore any amounts previously written off.

926-20-35-18 Paragraph superseded by Accounting Standards Update 2012-XX. ~~For films released before or after the date of the balance sheet for which evidence of the possible need for a write-down of unamortized film costs occurs after the date of the balance sheet but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), a rebuttable presumption exists that the conditions leading to the write-off existed at the date of the balance sheet. In such situations, an entity shall adjust its financial statements for the effect of any changes in estimates resulting from the use of the subsequent evidence. An entity can overcome the rebuttable presumption if it can demonstrate that the conditions leading to the write-down did not exist at the date of the balance sheet.~~

Amendments to Subtopic 926-855

4. Supersede Subtopic 926-855, with a link to transition paragraph 926-20-65-1.

5. Add paragraph 926-20-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2012-XX, *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*

926-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2012-XX, *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. The pending content that links to this paragraph shall be applied prospectively for impairment tests performed for fiscal years [date to be inserted after exposure]. Prior periods shall not be adjusted.
b. Earlier application is permitted, including if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for **{add glossary link to 1st definition}nonpublic entities{add glossary link to 1st definition}**, if the entity's financial statements have not yet been made available for issuance.
c. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

BC2. The purpose of this proposed Update is to align the use of fair value measurements in the impairment test of unamortized film costs with the use of fair value measurements in other instances, including in the impairment testing of similar assets.

BC3. The Task Force observed that the amendments in this proposed Update would eliminate the rebuttable presumption that the conditions leading to a writeoff after the fair value measurement date existed with certainty as of the measurement date. The amendments would therefore eliminate the need to incorporate the effects of any changes in estimates resulting from the use of the subsequent evidence into the fair value measurement of the film to the extent that market participants would not have included them in their assumptions as of the measurement date. The Task Force noted that a consideration of the likelihood of a condition should be incorporated into the fair value measurement as of the measurement date if the condition would have been considered by market participants as of that date, consistent with Topic 820. The actual subsequent evidence could be useful information for an entity to assess in determining what information and assumptions market participants may have considered under uncertain conditions at the measurement date. However, the fair value would not necessarily incorporate the certainty of the outcome if the effects of that outcome would have been uncertain to market participants at the measurement date.

BC4. As a result, and to the extent that disclosure of subsequent events is necessary to keep the financial statements from being misleading, a reporting entity would disclose the nature of the subsequent event and an estimate of its financial effect (to the extent that such an estimate could be made) consistent with paragraph 855-10-50-2. The Task Force believes that such treatment would be consistent with Topic 855, specifically paragraph 855-10-55-2(f), which provides an example of a nonrecognized subsequent event: "Changes in the fair value of assets or liabilities (financial or nonfinancial) or foreign exchange rates after the balance sheet date but before financial statements are issued or are available to be issued."

BC5. The Task Force believes that the proposed amendments would align the use of fair value in the impairment testing of unamortized film costs with the use of fair value in the impairment testing of similar nonfinancial assets, in particular, long-lived assets under Topic 360, Property, Plant, and Equipment, as well as goodwill and indefinite-lived intangible assets under Topic 350, Intangibles—Goodwill and Other. However, the proposed amendments will not necessarily align the mechanics of all impairment tests of similar assets within U.S. GAAP, nor was that the intent.

Transition and Early Adoption

BC6. The Task Force reached a consensus-for-exposure on prospective transition for the amendments in this proposed Update. Prospective transition is consistent with that provided for in other recently finalized or proposed guidance related to impairment testing of intangible assets, such as Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, and the proposed Update, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*.

BC7. The Task Force decided that early adoption of the proposed amendments should be permitted.

Benefits and Costs

BC8. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC9. The Task Force believes that the practice of incorporating subsequent information into the fair value measurement of a film used in an impairment test of unamortized film costs has little significance for users of financial statements, while it can represent a significant commitment of resources by preparers, depending on the timing of the subsequent event. The Task Force indicated that users can, and frequently do, track such information independently of the financial statements. Therefore, and in this instance, disclosing the effects of subsequent events in the footnotes to financial statements, rather than including those effects in the fair value measurement used in an impairment test at the balance sheet date, would not materially change the availability of information to users.

Proposed Amendments to the XBRL Taxonomy

The following proposed changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) would be required if the provisions of this Exposure Draft are finalized as proposed. The proposed changes to the UGT are available for public comment in the development UGT throughout the year at www.fasb.org. Changes to the UGT for final Accounting Standards Updates will be formally exposed for public comment as part of the annual release process starting in September of each year.

Element Name	Standard Label	Documentation
EITF12EMember	EITF 12-E [Member]	EITF 12-E: Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs