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No. 2012-07
October 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

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Why Is the FASB Issuing This 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 Update is to align the guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances within U.S. generally accepted accounting principles (GAAP).

Who Is Affected by the Amendments in This Update?

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

What Are the Main Provisions?

The amendments in this Update eliminate certain requirements related to an impairment assessment of unamortized film costs and clarify when unamortized film costs should be assessed for impairment. This Update does not add any new guidance to the *FASB Accounting Standards Codification®.* The guidance in Topic 926 is the relevant guidance for performing an impairment assessment of unamortized film costs. The existing guidance in Topic 820 and Topic 855, Subsequent Events, is the relevant guidance for estimating fair value and accounting for subsequent events, respectively.

The amendments in this Update eliminate the rebuttable presumption that the conditions leading to the writeoff of unamortized film costs after the balance sheet date existed as of the balance sheet date. The amendments also 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 Update do 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 Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update revise the impairment assessment for unamortized film costs to remove the rebuttable presumption described above, which aligns the guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances, including in the impairment testing of other assets.

When Will the Amendments Be Effective?

For SEC filers, the amendments are effective for impairment assessments performed on or after December 15, 2012. For all other entities, the amendments are effective for impairment assessments performed on or after December 15, 2013. The amendments resulting from this Issue should be applied prospectively.

In addition, earlier application is permitted, including for impairment assessments performed as of a date before October 24, 2012, if, for SEC filers, the entity's financial statements for the most recent annual or interim period have not yet been issued or, for all other entities, have not yet been made available for issuance.

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

IFRS does not contain industry-specific guidance on the impairment assessment 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, the amendments in this Update ensure there is no conflict between U.S. GAAP and IFRS with respect to how it is estimated.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. 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 <u>underlined</u>, 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 <u>Paragraph superseded by Accounting Standards Update No. 2012-07.</u> ~~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. Amend paragraph 926-20-35-12 and 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 Unamortized film costs shall be tested for impairment whenever events or changes in circumstances indicate that the fair value of the film may be less than its unamortized costs. 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 writeoff to the income statement the amount by which the unamortized capitalized costs exceed the film's fair value. Exploitation costs incurred after such a writeoff 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 No. 2012-07. ~~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. 2012-07, *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. 2012-07, *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 assessments performed on or after December 15, 2012, for a **Securities and Exchange Commission (SEC) filer**, and on or after December 15, 2013, for all other entities. Prior periods shall not be adjusted.
b. Earlier application is permitted, including for impairment assessments performed as of a date before October 24, 2012, if an SEC filer's financial statements for the most recent annual or interim period have not yet been issued or, for all other entities, 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.

6. Amend paragraph 855-10-00-1, by adding the following item to the table, as follows:

855-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
855-10-60-3	Superseded	2012-07	10/24/2012

7. Add paragraph 926-20-00-1 as follows:

926-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
926-20-35-12	Amended	2012-07	10/24/2012
926-20-35-18	Superseded	2012-07	10/24/2012
926-20-65-1	Added	2012-07	10/24/2012

8. Add paragraph 926-855-00-1 as follows:

926-855-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Film costs	Superseded	2012-07	10/24/2012
Films	Superseded	2012-07	10/24/2012
926-855-05-1	Superseded	2012-07	10/24/2012
926-855-15-1	Superseded	2012-07	10/24/2012
926-855-35-1	Superseded	2012-07	10/24/2012

The amendments in this Update were adopted 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 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 Update is to align the guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances, including in the impairment testing of other assets.

BC3. At the March 15, 2012 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 12-E, "Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs." A proposed Accounting Standards Update was issued on April 17, 2012, with a comment period that ended on July 16, 2012. Six comment letters were received on the proposed Update.

BC4. At the September 11, 2012 EITF meeting, the Task Force considered the comments received on the proposed Update and affirmed its consensus-for-exposure as a consensus. The Task Force observed that the amendments in this Update 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 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. The Task Force acknowledged that removal of the rebuttable presumption could result in difficulties in discerning whether the subsequent information should have been considered in the fair value estimate at the balance sheet date. The Task Force acknowledges that preparers should evaluate any relevant subsequent events to assess whether the information used in the fair value measurement was reflective of relevant information and assumptions that market participants would have considered at the measurement date. As such, the Task Force also acknowledges that the information and assumptions used in the fair value measurement could be challenged if they are inconsistent with subsequent information. However, the fair value would not necessarily incorporate the certainty of the outcome based on subsequent information if the effects of that outcome would have been uncertain to market participants at the measurement date.

BC5. If disclosure of subsequent events is necessary to keep the financial statements from being misleading, a reporting entity should 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 concluded that such treatment is 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."

BC6. The Task Force concluded that the amendments align the measurement of fair value in the impairment testing of unamortized film costs with the measurement of fair value in the impairment testing of other assets.

Transition and Early Adoption

BC7. The Task Force reached a consensus on prospective transition for the amendments in this Update. Prospective transition is consistent with that provided for in other recently finalized guidance related to impairment testing of intangible assets, such as Accounting Standards Updates No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, and No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*.

BC8. The Task Force decided to permit early adoption of the amendments.

BC9. For entities, other than SEC filers, based on their learning cycles and resource limitations, the Task Force decided that the amendments in this Update should be effective one year after the first annual period for which SEC filers are required to adopt them.

Benefits and Costs

BC10. 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 Task Force'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.

BC11. The Task Force concluded that the amendments in this Update will reduce existing inconsistencies in the impairment testing guidance for unamortized film costs and fair value measurement guidance, by aligning the guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances within U.S. GAAP. Because the guidance will be applied prospectively and no additional disclosures are required, the Task Force does not anticipate that entities will incur significant costs as a result of applying the amendments.

Amendments to the XBRL Taxonomy

The following changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) will be required as a result of the amendments to the *FASB Accounting Standards Codification*®. The changes to the UGT are available for public comment throughout the year at www.fasb.org. Changes to the UGT for final Accounting Standards Updates are finalized as part of the annual release process starting in September of each year.

Element Name	**Standard Label**	**Documentation**
AccountingStandardsUpdate201207Member	Accounting Standards Update 2012-07 [Member]	Accounting Standards Update 2012-07 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