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Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

International Accounting Standards Board 30 Cannon Street, 1st Floor London, EC4M 6XH United Kingdom

Dear FASB and IASB members:

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have made significant strides in their goal of developing a single revenue standard for US GAAP and IFRS. Overall, we are supportive of the boards' objective and acknowledge the challenges associated with developing a single revenue recognition model that may be applied to all industries and transactions. The boards have solicited feedback from preparers and users through a number of forums during this process, and we appreciate the boards' and their staffs' efforts in this regard.

While we have monitored the boards' recent redeliberations, the accounting for license transactions remains an area of significant interest within the entertainment and media industry. We agree with the boards' acknowledgement that not all licenses are alike and support the recent decision that the pattern of recognition should reflect the underlying substance of each license transaction. Within the entertainment and media industry, certain transactions involve the sale or rental of copies of a creative work embedded in media, or digital transactions that are closely analogous to them. These transactions reflect the transfer by a licensor of a limited right that is controlled by the customer. Other transactions may be more akin to a service where licensors provide access to the underlying intellectual property over a period of time.

In recent outreach efforts, the boards and staff have requested feedback on potential indicators that may be used to distinguish license transactions based upon their economic substance. We have collectively evaluated the topic and have developed certain indicators which we believe could assist with the assessment.

The nature of the counterparty to the license transaction is a key indicator in assessing the nature of the license. We believe there are fundamental differences in our industry, for example, between license transactions with end users (consumers) of the intellectual property (i.e., our entertainment content) versus counterparties ("intermediaries") who further exploit the entertainment content such as by sublicensing it for broadcast or otherwise incorporating it into a product or service they are making available to their end users or other intermediaries.

A license or sale transaction with a consumer (e.g., a purchaser of a DVD or a digital download) typically requires no further obligation from the licensor. Following the transaction, the consumer can direct the use of, and consume the benefits from, whatever limited rights have been transferred. Even if such licenses include a time limitation (e.g., a download-to-rent for a month) such restriction does not impose any explicit or implicit obligations on behalf of the licensor. Therefore, if the counterparty is the end user of the content, this may be a strong indication that the license is more akin to a right in which control passes at the start of the license period. This distinction is commonly used in our industry and these forms of licensing are generally referred to as "transactional" licenses.

Conversely, license transactions with intermediaries include substantive restrictions on both the licensor and the licensee as both the licensor and licensee have an economic interest in exploiting the licensed content to maximize its value over time. Entering into such a transaction may be a strong indicator that the licensor is providing *access* to the underlying intellectual property as opposed to a *right* to intellectual property unless such license is for substantially all of the remaining economic life of the intellectual property.

Further, the licensor may have ongoing requirements to collaborate or deliver additional products or services to the counterparty, or there may be an explicit or implied obligation that the licensor will maintain, develop or market the intellectual property during the access period. In any case, the licensor will retain an ongoing economic interest through the impact the counterparty's exploitation of the content has on further exploitation of the underlying intellectual property. As a result, we believe that time-based licenses of intellectual property to counterparty entities that are not end users (e.g., broadcasters, re-licensors, etc.) should be recognized over the access period.

We believe that this manner of treating licenses properly acknowledges that certain licenses are more akin to the transfer of a discrete right (recognized upfront) versus providing access (recognized over time). This model also is consistent with the concepts of the revenue recognition project in that it focuses on whether, as a matter of economic substance, there has been a true transfer of control prior to recording revenue. Importantly, we believe this model also represents an improvement over criteria discussed in prior redeliberations in that this model can be more easily applied by practitioners to result in consistent treatment for similar transactions.

When licensing intellectual property, we believe the following indicators may prove useful in evaluating the nature of the licensor's promise and the appropriate revenue recognition pattern to apply. The presence of some or all of the following characteristics may indicate that the nature of the licensor's promise is to provide access to intellectual property over the license period.

- The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property (i.e., the term of the license is substantially shorter than the remaining useful economic life of the intellectual property).
- Significant licensor imposed restrictions apply to the term and/or use of the intellectual property (beyond customary laws and regulations).
- Full legal and economic rights revert back to the licensor at the end of the arrangement with little or no residual rights or benefits maintained by the licensee.
- There is an ongoing direct or indirect shared economic interest between the licensor and licensee related to the intellectual property being licensed. This condition may be evidenced by one or more of the following:
 - The counterparty is an intermediary who licenses the intellectual property to broadcast, relicense or otherwise incorporate the licensed material into a product or service they are providing to their customers.

- o The license arrangement includes provisions resulting in the sharing of the economics of the licensed intellectual property (e.g., split of advertising spots, sales based royalties, etc.).
- o The licensor has ongoing requirements to collaborate or deliver additional products or services that are not distinct and / or the licensor is expected (explicitly or implied) to maintain and/or develop the underlying intellectual property throughout the license term.
- The license has express limitations on, or the potential to impact, the licensor's opportunity to enter into similar licenses of the same intellectual property (e.g. could impact demand and/or pricing for future licenses).
- o The pattern of cash flows (i.e. payments under the license arrangement) occurs over the period in which an intermediary has access to the underlying intellectual property.

Appendix I outlines several examples that illustrate how the characteristics discussed above would be applied in practice in the entertainment and media industry.

We welcome the opportunity to further discuss the above indicators and proposed accounting model for license transactions.

Sincerely,

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Appendix I

Description of License	Nature of the Promise	Key Considerations
1) License a film to a theatrical exhibitor for the period of theatrical release	Provide access to intellectual property over time	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property As of the end of the arrangement, the licensee no longer has any legal or economic rights. Note: under the exposure draft (ED), whether a license to a film in the theatrical window was considered a "right" or "access" was not particularly impactful since the ED included a limitation on revenue recognition in relation to sale-based royalties. With the recent changes in redeliberation to remove this limitation, the determination of whether a license represents a "right" or "access" becomes much more significant. If deemed a 'right", we believe it is possible that predictive experience would allow an entity to estimate revenue over the entire theatrical window and record immediately after the opening weekend. We do not believe recognizing revenue in this manner would be representative of the underlying flow of economic rights given the factors above.
2) License a film to an individual consumer (e.g., a digital download)	Provide a Right	 The counterparty is the end-user/consumer of the IP The licensor no longer has the right to additional licensing revenue from the transferred copy The perpetual license gives the customer control of substantially all of the remaining economic benefits of the underlying media
3) License a movie to a network for two years but can only be shown once per year	Provide access to intellectual property over time	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property Significant licensor imposed restrictions typically exist As of the end of the arrangement, the licensee no longer has any legal or economic rights.

4) License a movie to a network for two separate windows (total of four years) with a one year break in between	Provide access to intellectual property over time	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property Significant licensor imposed restrictions typically exist As of the end of the arrangement, the licensee no longer has any legal or economic rights. May be deemed two separate license periods / obligations
5) License all seasons of an episodic TV show to a TV network for five years	Provide access to intellectual property over time	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property Significant licensor imposed restrictions typically exist As of the end of the arrangement, the licensee no longer has any legal or economic rights.
6) License a bundle of programs to a distribution service for three years (e.g., online Media distribution company)	Provide access to intellectual property over time Provide a Right	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property Significant licensor imposed restrictions typically exist As of the end of the arrangement, the licensee no longer has any legal or economic rights.
7) License a bundle of programs to a distribution service in perpetuity (e.g., online Media distribution company).	Provide a Right	The counterparty is not the end-user/consumer of the IP. However, as the license gives the customer control of all the remaining economic benefits of the underlying media, this is deemed the transfer of a right that is controlled by the licensee

8) License merchandising rights related to a film character for three years	Provide access to intellectual property over time	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property Significant licensor imposed restrictions typically exist As of the end of the arrangement, the licensee no longer has any legal or economic rights. An expectation exists that the licensor will maintain and/or develop the intellectual property or related brand throughout the license term
9) License rights to use a brand name or trademark for five years	Provide access to intellectual property over time	 The counterparty is not the end-user/consumer of the IP The license does not give the customer control of all (or substantially all) of the remaining economic benefits of the underlying intellectual property Significant licensor imposed restrictions typically exist Full legal and economic rights revert back to the licensor at the end of the arrangement A expectation exists that the licensor will maintain and/or develop the intellectual property or related brand throughout the license term