FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: November 7, 2018
Comments Due: December 7, 2018

Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350)

Improvements to Accounting for Costs of Films and License Agreements for Program Materials

a consensus of the FASB Emerging Issues Task Force

The Board issued this Exposure Draft to solicit public comment on proposed changes to Subtopics 926-20 and 920-350 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2018-290, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

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

The Board invites comments on all matters in this Exposure Draft until December 7, 2018. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2018-290
- Sending a letter to "Technical Director, File Reference No. 2018-290, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

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. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

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Summary and Questions for Respondents

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

Subtopic 926-20, Entertainment—Films—Other Assets—Film Costs, provides different capitalization requirements for film production in the entertainment industry based on the type of content being produced. For films, all production costs as specified in Subtopic 926-20 are capitalized. For an episodic television series, production costs specified in Subtopic 926-20 are capitalized up to the amount of revenue contracted for each episode in the initial market until persuasive evidence exists that revenue from secondary markets will occur or an entity can demonstrate a history of earning such revenue in that market. Considering recent significant changes in production and distribution models in the entertainment industry, some stakeholders have questioned whether the current capitalization guidance for episodic television series provides relevant information for investors and other users. Stakeholders also suggested aligning Subtopic 920-350, Entertainment—Broadcasters—Intangibles—Goodwill and Other, which provides guidance for license agreements for program materials, to any changes made to Subtopic 926-20.

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

The amendments in this proposed Update would apply to broadcasters and entities that produce and distribute films and episodic television series.

What Are the Main Provisions?

The amendments in this proposed Update would align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. The proposed amendments also would require that an entity reassess estimates of the use of a film for a film in a film group and account for any changes prospectively.

The amendments in this proposed Update would require that an entity test films and license agreements for program material within the scope of Subtopic 920-350 for impairment at a film group level when the film or license agreement is predominantly monetized with other films and license agreements. A film group is the lowest level at which identifiable cash flows are largely independent of the cash flows of other films and license agreements. The proposed amendments also would:

1. Add examples of events or changes in circumstances that indicate that an entity should assess a film group for impairment
2. Add examples of events or changes in circumstances that indicate that an entity should assess an individual film for impairment after its release
3. Align the impairment model in Subtopic 920-350 with the fair value model in Subtopic 926-20.

The proposed amendments would require that an entity provide new disclosures about content that is either produced or licensed.

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

GAAP provides different requirements for cost capitalization of film costs depending on the type of content being produced. Accordingly, the amendments in this proposed Update would improve GAAP by aligning the accounting for production costs of episodic television series with the accounting for production costs of films. In addition, the proposed amendments would require that an entity test films and license agreements within the scope of Subtopic 920-350 for impairment at the film group level, when the film is predominantly monetized with other films and license agreements. This improvement would address application issues with existing guidance as a result of changes in the industry and better reflect the economics of how certain entities monetize their content. The proposed presentation and disclosure requirements also would increase the transparency of information provided to users of financial statements about produced and licensed content.

When Would the Amendments Be Effective?

The effective date and the ability to early adopt will be determined after the Task Force considers stakeholder feedback on this proposed Update. The amendments in this proposed Update would be applied prospectively. Under a prospective transition, an entity would apply the proposed amendments to the capitalization of film costs that are incurred on or after the effective date of the proposed amendments. An entity would apply the proposed amendments to the impairment, amortization, and presentation and disclosure guidance in the first period including the effective date.

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: 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?

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?

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?

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?

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.

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?

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?

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?

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?

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?

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Recognition (926-20-25)	• Removed the distinction in capitalization requirements for episodic television series.
Subsequent Measurement (926-20-35)	• Added a requirement to reassess the estimates of the use of a film for a film in a film group and account for any changes prospectively. • Added film group as a unit of account for impairment testing. • Added examples of impairment indicators applicable to a film group. • Added examples of post-release impairment indicators applicable to a film.
Derecognition (926-20-40)	• Added a requirement to write off capitalized costs of individual films that are abandoned prior to release or removed from the service offering.
Other Presentation Matters (926-20-45)	• Removed the requirement to present film costs as noncurrent assets.
Disclosure (926-20-50)	• Amended disclosures pertaining to accounting methods, amortization, and impairment.

Codification Section	Description of Changes
Implementation Guidance and Illustrations (926-20-55)	• Includes consequential amendments from the changes above.
Initial Measurement (920-350-30)	• Consequential amendment
Subsequent Measurement (920-350-35)	• Added film group as a unit of account for impairment testing. • Amended the impairment model to require the use of fair value instead of net realizable value.
Other Presentation Matters (920-350-45)	• Removed the requirement to present license agreements as current and noncurrent assets.
Disclosure (920-350-50)	• Added disclosures pertaining to accounting methods, amortization, and impairment.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–14. 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 Master Glossary

3. Add the new Master Glossary term *Film Group* and supersede the Master Glossary terms *Initial Market* and *Secondary Markets*, with a link to transition paragraph 926-20-65-2, as follows: **[Note: The definitions of *Film Costs* and *Films* are shown for convenience.]**

Film Group

The unit of account used for impairment testing for a **film** and a **license agreement** for program material when the film or license agreement is expected to be predominantly monetized with other films and license agreements instead of being predominantly monetized on its own. A film group represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other films or license agreements.

~~**Initial Market**~~

~~The first market of a film's exploitation in each territory, whether that market is a broadcast or cable television network, first-run syndication, or other.~~

~~**Secondary Markets**~~

~~Any markets other than the initial markets. See **Market** and **Initial Market**.~~

Film Costs

Film costs include all direct negative costs incurred in the physical production of a film, as well as allocations of production overhead and capitalized interest in accordance with Topic 835. Examples of direct negative costs include costs of story and scenario; compensation of cast, directors, producers, extras, and miscellaneous staff; costs of set construction and operations, wardrobe, and accessories; costs of sound synchronization; rental facilities on location; and postproduction costs such as music, special effects, and editing.

Films

Feature films, television specials, television series, or similar products (including animated films and television programming) that are sold, licensed, or exhibited, whether produced on film, video tape, digital, or other video recording format.

Amendments to Subtopic 926-20

4. Supersede paragraphs 926-20-25-6 through 25-7 and their related heading, with a link to transition paragraph 926-20-65-2, as follows:

Entertainment—Films—Other Assets—Film Costs

Recognition

General

> Film Costs Capitalization

926-20-25-1 An entity shall report **film costs** as a separate asset on its balance sheet.

~~> Episodic Television Series~~

926-20-25-6 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~For an episodic television series, ultimate revenue (see discussion of ultimate revenue in paragraphs 926-20-35-4 through 35-8) can include estimates from the **initial market** and **secondary markets**. Until an entity can establish estimates of secondary **market** revenue in accordance with paragraph 926-20-35-5(b), capitalized costs for each episode produced shall not exceed an amount equal to the amount of revenue contracted for that episode. An entity shall expense as incurred film costs in excess of this limitation on an episode-by-episode basis, and an entity shall not restore such amounts as film cost assets in subsequent periods. For more information, see Example 3 (paragraph 926-20-55-9).~~

926-20-25-7 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~Once an entity can establish estimates of secondary market revenue in accordance with paragraph 926-20-35-5(b), the entity shall capitalize subsequent film costs. When an entity is in this situation, the uncertainties surrounding whether a series will be successful are sufficiently minimized and, therefore, the probability of the recoverability of any additional film costs above contracted-for-revenue is high enough such that an entity shall not immediately expense costs in excess of contracted-for-revenue.~~

5. Amend paragraphs 926-20-35-1 through 35-2 and their related heading, 926-20-35-4, and 926-20-35-12 through 35-17 and the related heading, supersede paragraphs 926-20-35-9 through 35-11 and their related heading, and add paragraphs 926-20-35-3A, 925-20-35-12A through 35-12B, and 926-20-35-19 and its related heading, with a link to transition paragraph 926-20-65-2, as follows:

Subsequent Measurement

> Film Costs Amortization—~~Individual-Film-Forecast-Computation Method~~

926-20-35-1 For a film that is predominantly monetized on its own, ~~An~~an entity shall amortize **film costs** using the individual-film-forecast-computation method, which amortizes such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year (denominator). In this way, in the absence of changes in estimates, film costs are amortized in a manner that yields a constant rate of profit over the ultimate period, as described in paragraph 926-20-35-5(a), for each film before **exploitation costs**, manufacturing costs, and other period expenses. Unamortized film costs as of the beginning of the current fiscal year are multiplied by the individual-film-forecast-computation method fraction. That is, an entity shall begin amortization of capitalized film costs when a film is released and it begins to recognize revenue from that film. For more information, see Example 1 (paragraph 926-20-55-1). For purposes of applying the individual-film-forecast-computation method to episodic television series, multiple seasons of an episodic television series are considered to be a single product. For more information, see Example 4 (paragraph 926-20-55-12).

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~~. 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.

926-20-35-3 As a result of uncertainties in the estimating process, actual results may vary from estimates. An entity shall review and revise estimates of ultimate revenue as of each reporting date to reflect the most current available information. If estimates are revised, an entity shall determine a new denominator that includes only the ultimate revenue from the beginning of the fiscal year of change (that is, ultimate revenue changes are treated prospectively as of the beginning of the fiscal year of change). The numerator (revenue for the current fiscal year) is unaffected by the change. An entity shall apply the revised fraction to the net carrying amount of unamortized film costs as of the beginning of the fiscal year, and the difference between expenses determined using the new estimates and any amounts previously expensed during that fiscal year shall be charged or credited to the income statement in the period (for example, the quarter) during which the estimates are revised. For more information, see Example 2 (paragraph 926-20-55-5).

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 to estimates of the remaining use of a film shall be accounted for prospectively.

> Ultimate Revenue

926-20-35-4 Ultimate revenue to be included in the denominator of the individual-film-forecast-computation method fraction shall include estimates of revenue that is expected to be recognized by an entity from the exploitation, exhibition, and sale of a film in all markets and territories, subject to the limitations set forth in ~~the following~~ paragraph 926-20-35-5~~ and paragraph 926-20-35-11~~.

926-20-35-5 Ultimate revenue shall be limited by the following:

a. For **films** other than episodic television series, ultimate revenue shall include estimates over a period not to exceed 10 years following the date of the film's initial release. For episodic television series, ultimate revenue shall include estimates of revenue over a period not to exceed 10 years from the date of delivery of the first episode or, if still in production, 5 years from the date of delivery of the most recent episode, if later. For previously released films acquired as part of a film library, ultimate revenue shall include estimates over a period not to exceed 20 years from the date of acquisition. For the purposes of this Topic, an entity shall categorize as part of a film library only those individual films whose initial release dates were at least three years prior to the acquisition date.
b. Ultimate revenue shall include estimates of revenue from a **market** or **territory** only if persuasive evidence exists that such revenue will occur, or if an entity can demonstrate a history of recognizing such revenue in that market or territory. Ultimate revenue shall include estimates of revenue from newly developing territories only if an existing arrangement provides persuasive evidence that an entity will realize such amounts.
c. Ultimate revenue shall include estimates of revenue from licensing arrangements with third parties to market film-related products only if persuasive evidence exists that such revenue from that arrangement will occur for that particular film (such as a signed contract to receive a **nonrefundable minimum guarantee** or a nonrefundable advance) or if an entity can demonstrate a history of recognizing such revenue from that form of arrangement.
d. Ultimate revenue shall include estimates of the portion of the wholesale or retail revenue from an entity's sale of peripheral items (such as toys and apparel) that is attributable to the exploitation of themes, characters, or other contents related to a particular film only if the entity can demonstrate a history of recognizing such revenue from that form of exploitation in similar kinds of films. For example, an entity may conclude that the portion of revenue from the sale of peripheral items that it shall include in ultimate revenue is an estimate of what would be recognized by the entity if rights for such form of exploitation had been granted under

licensing arrangements with third parties. Ultimate revenue shall not, however, include estimates of the entire amount of wholesale or retail revenue from an entity's sale of peripheral items.

e. Ultimate revenue shall not include estimates of revenue from unproven or undeveloped technologies.
f. Ultimate revenue shall not include estimates of wholesale promotion or advertising reimbursements to be received from third parties. Such amounts shall be offset against exploitation costs.
g. Ultimate revenue shall not include estimates of amounts related to the sale of film rights for periods after those identified in (a).

~~> Episodic Television Series~~

926-20-35-9 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~Multiple seasons of an episodic television series that meets the conditions of paragraph 926-20-35-11 to include estimated secondary market revenue in ultimate revenue is considered to be a single product, with multiple seasons of the series combined for purposes of applying the individual-film-forecast-computation method. For more information, see Example 4 (paragraph 926-20-55-12).~~

926-20-35-10 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~The following paragraph and paragraph 926-20-35-5 address estimates of ultimate revenues for an episodic television series.~~

926-20-35-11 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~Ultimate revenue for an episodic television series also shall include estimates of secondary market revenue (that is, revenue from markets other than the **initial market**) for produced episodes only if an entity can demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a **firm commitment** exists and the entity expects to deliver, can be licensed successfully in the secondary market.~~

> ~~Film Costs Valuation~~Impairment

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. An entity shall not reassess whether a film is part of a film group. ~~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.~~ **[Content amended and moved to paragraph 926-20-35-12A.]**

926-20-35-12A 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.~~ expectations set prior to release due to factors such as the following:
   1. A significant adverse change in technological, regulatory, legal, economic, or social factors that could affect the public's perception of a film or the availability of a film for future showings
   2. A significant decrease in the amount of ultimate revenue expected to be recognized. **[Content amended as shown and moved from paragraph 926-20-35-12]**

926-20-35-12B The following are examples of events or changes in circumstances for a film group that indicate that an entity shall assess whether the fair value of a film group is less than its unamortized film costs:

a. A significant adverse change in technological, regulatory, legal, economic, or social factors that could affect the fair value of the film group
b. A significant decrease in the number of subscribers or forecasted subscribers, or the loss of a major distributor
c. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses associated with the use or exploitation of a film group.

926-20-35-13 If an event or change in circumstances indicates that an entity shall assess whether the fair value of a film (or film group) is less than its unamortized film costs, the entity shall determine the fair value of the film (or film group) (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 (or film group'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 (subject to paragraph 926-20-35-19 for films in a film group) 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.

926-20-35-14 A discounted cash ~~flows~~ flow model ~~is often~~may be used to estimate fair value. If applicable, future cash flows based on the terms of any existing contractual arrangements, including cash flows over existing license periods without consideration of the limitations set forth in ~~paragraphs~~ paragraph 926-20-35-5 ~~and 926-20-35-11~~, shall be included.

926-20-35-15 An entity shall consider the following factors, among others, in estimating future cash inflows for a film:

a. If previously released, the film's performance in prior markets
b. The public's perception of the film's story, cast, director, or **producer**
c. Historical results of similar films
d. Historical results of the cast, director, or producer on prior films
e. Running time of the film.

In determining a film's (or film group's) fair value, it is also necessary to consider those cash outflows necessary to generate the film's (or film group's) cash inflows. Therefore, an entity shall incorporate, if applicable, its estimates of future costs to complete a film, future exploitation and **participation costs**, or other necessary cash outflows in its determination of fair value when using a discounted cash ~~flows~~flow model.

926-20-35-16 When using the traditional discounted cash flow approach to estimate the fair value of a film (or film group), the relevant future cash inflows and outflows shall represent the entity's estimate of the most likely cash flows. When determining the fair value of a film (or film group) using the expected cash ~~flows~~flow approach, all possible relevant future cash inflows and outflows shall be probability-weighted by period and the estimated mean or average by period shall be used.

926-20-35-17 When determining the fair value of a film (or film group) using a traditional discounted cash flow approach, the discount rate(s) shall not be an entity's incremental borrowing rate(s), liability settlement rate(s), or weighted average cost of capital because those rates typically do not reflect the risks associated with a particular film (or film group). The discount rate(s) shall consider the time value of money and the expectations about possible variations in the amount or timing of the most likely cash flows and an element to reflect the price market participants would seek for bearing the uncertainty inherent in such an asset, as well as other factors, sometimes unidentifiable, including illiquidity and market imperfections. When determining the fair value of a film (or film group) using the expected cash flow approach, the discount rate(s) also would consider the time value of money. Because they are reflected in the expected cash flows, there would be no adjustment for possible variations in the amounts or timing of those cash flows. If not reflected in risk-adjusted expected cash flows, an additional element to reflect the price market participants would seek for bearing the uncertainty inherent in such an asset as well as other factors, sometimes unidentifiable, including illiquidity and market imperfections, shall be added to the discount rate(s).

> > Allocating Impairment Losses to a Film Group

926-20-35-19 An impairment loss attributable to a film group shall reduce only the carrying amounts of a film or license agreement of the film group. The loss shall be allocated to the films and license agreements within the film group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual film or license agreement of the film group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort.

6. Supersede paragraph 926-20-40-4 and its related heading and add paragraph 926-20-40-5, with a link to transition paragraph 926-20-65-2, as follows:

Derecognition

~~**> Episodic Television Series**~~

926-20-40-4 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~An entity shall expense all capitalized costs (including set costs) for each episode of an episodic television series as it recognizes the related revenue for each episode.~~

926-20-40-5 An entity shall write off remaining unamortized film costs when a film is abandoned or removed from the entity's offering for the foreseeable future.

7. Supersede paragraph 926-20-45-1 and add paragraph 926-20-45-2, with a link to transition paragraph 926-20-65-2, as follows:

Other Presentation Matters

> Film Costs

926-20-45-1 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~If an entity presents a classified balance sheet, it shall classify **film costs** as noncurrent on the face of the balance sheet.~~

926-20-45-2 Film costs shall be presented separately from the rights acquired under a **license agreement** for program materials within the scope of Subtopic 920-350 on entertainment—broadcasters either on the balance sheet or in the notes to the financial statements.

8. Supersede paragraphs 926-20-50-1 and 926-20-50-3 through 50-4, add paragraphs 926-20-50-1A and 926-20-50-4A through 50-4C, and amend paragraph 926-20-50-2, with a link to transition paragraph 926-20-65-2, as follows:

Disclosure

> Film Costs

926-20-50-1 Paragraph superseded by Accounting Standards Update No. 20XX-XX. ~~Regardless of whether it presents a classified or unclassified balance sheet, an entity shall disclose in the notes to financial statements the portion of the costs of its completed **films** that are expected to be amortized during the upcoming operating cycle. An operating cycle is presumed to be 12 months. An entity shall disclose its operating cycle if it is other than 12 months.~~

926-20-50-1A An entity shall disclose its methods of accounting for **film costs**, including, but not limited to, the following:

a. The method(s) used in computing amortization
b. For impairment, a description of the unit(s) of account used for impairment testing and the method(s) used for determining fair value.

926-20-50-2 An entity shall disclose the components of **film costs** (including released, completed and not released, in production, or in development or preproduction) separately for theatrical films and direct-to-television ~~product~~products.

926-20-50-3 Paragraph superseded by Accounting Standards Update No. 20XX-XX. ~~An entity shall disclose the percentage of unamortized film costs for released films, excluding acquired film libraries, that it expects to amortize within three years from the date of the balance sheet. If that percentage is less than 80 percent, an entity shall provide additional information, including the period required to reach an amortization level of 80 percent.~~

926-20-50-4 Paragraph superseded by Accounting Standards Update No. 20XX-XX. ~~An entity shall disclose its methods of accounting for film costs.~~

926-20-50-4A The following information shall be disclosed in the financial statements or in the notes to the financial statements for each period for which a statement of financial performance is presented:

a. The aggregate amortization expense for each period, separately for theatrical films and direct-to-television products

b. The caption in the income statement where the amortization is recorded.

926-20-50-4B For the most recent annual period for which a statement of financial position is presented, an entity shall disclose the following in the notes to the financial statements:

a. For completed and not released films, the portion of the costs of completed films that an entity expects to amortize during the upcoming operating cycle, separately for theatrical films and direct-to-television products. An operating cycle is presumed to be 12 months. An entity shall disclose its operating cycle if it is other than 12 months.
b. For released films, the portion of the costs of released films recognized at the date of the most recent statement of financial position that an entity expects to amortize within each of the next three years, separately for theatrical films and direct-to-television products.

926-20-50-4C For impairment amounts recognized for films or **film groups**, the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment is recognized:

a. A general description of the facts and circumstances leading to the impairment
b. The aggregate amount of impairment losses
c, The caption in the income statement where the impairment losses are recorded
d. If applicable, the segment(s) under Topic 280 where the impairment losses are recorded.

9. Supersede paragraphs 926-20-55-9 through 55-11 and their related heading, and amend paragraphs 926-20-55-12 through 55-15, with a link to transition paragraph 926-20-65-2, as follows:

Implementation Guidance and Illustrations

> Illustrations

~~> > Example 3: Episodic Television Production Costs~~

926-20-55-9 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~This Example provides an illustration of accounting for costs of episodic television production prior to the establishment of secondary **market** revenue estimates (in accordance with paragraphs 926-20-25-6 through 25-7 and 926-20-40-4).~~

926-20-55-10 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~This Example has the following assumptions:~~

a. ~~An episodic television series is in its first year of production.~~
b. ~~Secondary market revenue estimable: none.~~
c. ~~Cost of production, per episode after the first episode: $700 (assume that most of the set costs were accounted for as part of the first episode, which is not illustrated in this example).~~
d. ~~**Exploitation costs**, per episode: $5.~~
e. ~~Estimated ultimate revenue per episode: contracted $ 400.~~

926-20-55-11 Paragraph superseded by Accounting Standards Update No. 20XX-XX.~~Secondary market revenue is not estimable per paragraph 926-20-35-11. Accordingly, capitalization of film costs is limited as follows.~~

	~~Per Episode~~	
~~Revenue contracted~~	~~$ 400~~	
~~Production costs to be capitalized~~	~~$ 400~~	
~~Exploitation costs expensed~~	~~$ 5~~	
~~Production costs to be charged directly to expense~~	~~$ 300~~	(a)

~~(a) Computed as follows: Total cost of production of $700, less costs to be capitalized of $400.~~

> > Example 4: Episodic Television Series—Individual-Film-Forecast-Computation Method

926-20-55-12 This Example provides an illustration of the individual-film-forecast method of amortization for an episodic television series with multiple seasons (in accordance with paragraph 926-20-35-1~~paragraph 926-20-35-9~~).

926-20-55-13 This Example has the following assumptions:

a. An entity produces and distributes an episodic television series. ~~Five~~Two seasons of the series are ultimately produced.
b. The entity's fiscal year end corresponds directly with the completion of each production season.
c. Subparagraph superseded by Accounting Standards Update No. 20XX-XX.~~The beginning of Season 4 is when secondary market revenue estimates are initially established.~~
d. Costs of production are the following:
   1. Subparagraph superseded by Accounting Standards Update No. 20XX-XX.~~Seasons 1 to 3: $36,000 (fully expensed prior to Season 4)~~
   2. ~~Season 4~~Season 1: $16,000
   3. ~~Season 5~~Season 2: $18,000.
e. Recognized and remaining ultimate revenues are the following.

As of ~~Season 4~~Season 1	
Recognized and reported in ~~Season 4~~Season 1	$ 8,000
Recognized and reported in ~~Season 5~~Season 2	N/A
Remaining ultimate revenue, ~~Season 1 to 4~~Season 1	$ 40,000
Remaining ultimate revenue, ~~Season 5~~Season 2	N/A
	$ 48,000
As of ~~Season 5~~Season 2	
Recognized and reported in ~~Season 4~~Season 1	N/A
Recognized and reported in ~~Season 5~~Season 2	$ 11,000
Remaining ultimate revenue, ~~Season 1 to 4~~Season 1	$ 40,000
Remaining ultimate revenue, ~~Season 5~~Season 2	$ 10,000
	$ 61,000

f. Ultimate participation costs are as follows.

~~As of Season 1 to 3~~	~~$ --------~~
As of ~~Season 4~~Season 1	$ 2,000
As of ~~Season 5~~Season 2	$ 3,000

926-20-55-14 Amortization of film costs in accordance with ~~paragraph 926-20-35-9~~paragraph 926-20-35-1 is determined as follows for ~~Seasons 4 and 5~~Seasons 1 and 2.

~~Season 4~~Season 1

$$\frac{\$\ 8{,}000^{(a)}}{\$\ 48{,}000^{(b)}} \times \$16{,}000^{(c)} = \$2{,}667$$

(a) Recognized and reported revenue during the current season.

(b) Remaining ultimate revenue at the beginning of the current season.

(c) Remaining unamortized film costs at the beginning of ~~Season 4~~ Season 1 ~~($0 from Seasons 1 to 3 plus the cost of production of Season 4)~~.

~~Season 5~~Season 2 $\dfrac{\$11{,}000^{(a)}}{\$61{,}000^{(b)}} \times \$31{,}333^{(c)} = \$5{,}650$

(a) Recognized and reported revenue during the current season.

(b) Remaining ultimate revenue at the beginning of the current season.

(c) Remaining unamortized film costs at the beginning of ~~Season5~~Season 2 ($13,333 unamortized as of the end of ~~Season 4~~ Season 1 plus the $18,000 cost of production of ~~Season 5~~Season 2).

926-20-55-15 Accrual of participation costs is determined as follows.

~~Season 4~~Season 1 $\dfrac{\$8{,}000^{(a)}}{\$48{,}000^{(b)}} \times \$2{,}000^{(c)} = \$333$

(a) Recognized and reported revenue during the current season.

(b) Remaining ultimate revenue at the beginning of the current season.

(c) Remaining unaccrued participation costs at the beginning of ~~Season 4~~ Season 1.

~~Season 5~~Season 2 $\dfrac{\$11{,}000^{(a)}}{\$61{,}000^{(b)}} \times \$2{,}667^{(c)} = \$481$

(a) Recognized and reported revenue during the current season.

(b) Remaining ultimate revenue at the beginning of the current season.

(c) Remaining unaccrued participation costs at the beginning of ~~Season 5~~ Season 2 (ultimate cost of $3,000, less prior cumulative accural of $333).

10. Add paragraph 926-20-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 20XX-XX, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials*

926-20-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 20XX-XX, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials:*

a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning after [date to be inserted after exposure].
b. An entity shall apply the pending content that links to this paragraph prospectively, except for the changes to paragraphs 926-20-25-6 through 25-7, 926-20-35-9 through 35-11, and 926-20-40-4, which should be applied prospectively to all film costs that are incurred on or after the date of adoption.
c. An entity that applies the pending content that links to this paragraph shall disclose the following in the interim and annual periods of the year of adoption:
   1. The nature of and reason for the change in accounting principle
   2. The transition method
   3. A qualitative description of the financial statement line items affected by the change.

Amendments to Subtopic 920-350

11. Amend paragraph 920-350-30-3, with a link to transition paragraph 926-20-65-2, as follows:

Entertainment—Broadcasters—Intangibles—Goodwill and Other

Initial Measurement

> License Agreements for Program Material

920-350-30-3 The capitalized costs of rights to program materials shall be reported in the balance sheet at the lower of unamortized cost or ~~estimated net realizable value~~fair value on a program-by-program, series, package, or **daypart** basis, as appropriate.

12. Add paragraph 920-350-35-2A and amend paragraphs 920-350-35-1 and 920-350-35-3, with a link to transition paragraph 926-20-65-2, as follows:

Subsequent Measurement

> License Agreements for Program Material—Amortization

920-350-35-1 The capitalized costs of **license agreements** for program material, including license agreements in a **film group**, shall be amortized based on the estimated number of future showings, except that licenses providing for unlimited showings of cartoons and programs with similar characteristics may be amortized over the period of the agreement because the estimated number of future showings may not be determinable.

> License Agreements for Program Material—Valuation

920-350-35-2A If a license agreement within the scope of this Subtopic is part of a film group, it shall be reviewed for impairment in accordance with paragraphs 926-20-35-12 and 926-20-35-12B. If the license agreement is not part of a film group, it shall be reviewed for impairment in accordance with paragraph 920-350-35-3.

920-350-35-3 If management's expectations of the programming usefulness of a program, series, package, or **daypart** are revised downward, it may be necessary to write~~-down unamortized cost to estimated net realizable value.~~ off to the income statement the amount by which the unamortized capitalized costs exceed fair value. A ~~write-down~~writeoff from unamortized cost to ~~a lower estimated net realizable value~~fair value establishes a new cost basis.

13. Amend paragraph 920-350-45-1, with a link to transition paragraph 926-20-65-2, as follows:

Other Presentation Matters

> License Agreements for Program Material

920-350-45-1 The asset recorded for the rights acquired under a **license agreement** for program material shall be ~~segregated~~presented separately from **films** that are accounted for under Subtopic 926-20 either on the balance sheet or in the notes to the financial statements ~~current and noncurrent based on estimated time of usage~~.

14. Add Section 920-350-50, with a link to transition paragraph 926-20-65-2, as follows:

Disclosure

> License Agreements for Program Material

920-350-50-1 An entity shall disclose its methods of accounting for the rights acquired under a **license agreement**, including, but not limited to, the following methods:

a. The method or method(s) used in computing amortization
b. For impairment, a description of the unit(s) of account used for impairment testing and the method(s) used for determining fair value.

920-350-50-2 The following information shall be disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial performance is presented:

a. The aggregate amortization expense for the period
b. The caption in the income statement where the amortization is recorded.

920-350-50-3 For the most recent annual period for which a statement of financial position is presented, an entity shall disclose in the notes to the financial statements the portion of the costs of license agreements recognized at the date of the most recent statement of financial position that an entity expects to amortize within each of the next three years.

920-350-50-4 For impairment amounts recognized for a license agreement that is not included in a **film group**, the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment losses are recognized:

a. A description of the facts and circumstances leading to the impairment
b. The amount of impairment losses
c. The caption in the income statement where the impairment losses are recorded
d. If applicable, the segment(s) under Topic 280 where the impairment losses are recorded.

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

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Marsha L. Hunt
R. Harold Schroeder

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.

Background Information

BC2. Subtopic 926-20 provides guidance on the accounting for film costs incurred by entities in the film production and distribution industry, which originated from AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films*, issued in 2000. That guidance allows for the full capitalization of film costs, which generally includes production costs and production overhead, but costs for episodic television series may be capitalized only up to the contracted ultimate revenue for each episode, unless persuasive evidence exists that secondary market revenues will occur or if there is a history of earning such revenue. Costs in excess of the contracted ultimate revenue are immediately expensed.

BC3. The distinction between films and episodic television series was established to address the risks inherent in producing episodic content through deficit funding arrangements, which often had a high risk of failure. In deficit funding arrangements, the licensing fee paid by the initial network exhibiting the show did not cover production costs, and most revenues were generated in the secondary market upon syndication. Therefore, Subtopic 926-20 (before any potential amendments based on this proposed Update) precluded an entity from capitalizing all production costs related to episodic television content until it could support the expectation that the series would make it to syndication to recover those production costs and potentially earn a return.

BC4. Since the issuance of SOP 00-2, the entertainment industry has experienced significant changes to its production and distribution models that were not contemplated when SOP 00-2 was developed. For example, the internet has introduced new distribution channels and new participants into the industry with different business models and indirect revenues, such as subscription-based services.

BC5. As a result, the Board decided to add a project to the EITF's agenda on March 28, 2018, to consider the cost capitalization guidance for episodic television series in Subtopic 926-20 and, specifically, whether financial reporting under the current model is outdated given the changes in the media and entertainment industry. The Board also requested that the Task Force consider whether any changes made to the cost capitalization guidance would also require changes to the amortization, impairment, and presentation and disclosure requirements in Subtopic 926-20.

Benefits and Costs

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, 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, donors, 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.

BC7. The Task Force does not anticipate that entities would incur significant costs as a result of the amendments in this proposed Update. The Task Force agreed that the proposed amendments made to the guidance on the accounting for film costs would benefit users by increasing the relevance and comparability of financial statement information provided by entities within the entertainment industry. The Task Force's specific considerations about costs and benefits of the proposed amendments have been further discussed within each of the following sections.

Basis for Conclusions

Cost Capitalization

BC8. The Task Force reached a consensus-for-exposure that would align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. In reaching this consensus-for-exposure, the Task Force acknowledged that having two different cost capitalization models was more relevant when SOP 00-2 was developed because at that time the level of integration between studios and distribution channels was limited. The Task Force observed that the current environment offers more distribution channels for the initial distribution of episodic content. Examples of these additional distribution channels include online video distributor (OVD) streaming platforms, immediate access to international distribution channels, and direct-to-consumer streaming platforms. The availability of those other distribution channels significantly mitigates the risk that producers will not be able to recover the amount of initially capitalized production costs for episodic television series.

BC9. The Task Force indicated that the capitalization of all production costs for episodic television series would provide more relevant financial reporting information to users of financial statements because it would better reflect the economics of episodic content production considering the changes to the business model in the media and entertainment industry.

Amortization

BC10. The Task Force observed that entities with films with indirect revenue do not apply the individual-forecast-computation method for the amortization of their content. Rather, many entities use viewership data for amortization because they determine that viewership is representative of the use of a film in accordance with paragraph 926-20-35-2. The Task Force considered whether to provide more prescriptive guidance on the use of viewership curves for amortization purposes. The Task Force decided to retain current amortization guidance because current practice has already addressed the challenges of applying the amortization guidance experienced by entities with indirect revenue. The Task Force decided that entities should be allowed to use judgment to determine the estimates of use that are most representative of the use of a film. Consistent with the guidance for films that are predominantly monetized on their own, films that are part of a film group are amortized on an individual basis even though they are tested for impairment as part of the film group. However, an entity would not be precluded from considering usage data for multiple films to determine the use of an individual film.

BC11. The Task Force reached a consensus-for-exposure that would amend the amortization requirements in Subtopic 926-20 to require a reassessment of estimates of the use of a film and to account for any changes prospectively. The Task Force noted that this proposed amendment would align the accounting for changes in estimates of the use of a film with the guidance in Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, for changes in estimates of the remaining useful life of an intangible asset. Because there is no explicit guidance in Subtopic 926-20 on the accounting for changes in estimates of the use of a film, the Task Force observed that entities currently may not reassess estimates of the use of a film, which would result in a difference in accounting between film costs that are amortized using estimates of ultimate revenues and film costs that are amortized using estimates of use. Additionally, the proposed amendment would reduce diversity in practice by limiting the potential for entities to use significantly different usage patterns for the same type or genre of films depending on the reporting period during which amortization commences.

BC12. Because most film costs are usually amortized on an accelerated basis and generally have short amortization lives, some Task Force members indicated that the amendments in this proposed Update are unnecessary because they might result in insignificant changes to the amount of film amortization expense. Nonetheless, the Task Force concluded that the expected benefits of the proposed guidance would justify the expected costs by limiting the diversity in practice caused by some entities updating their estimates of use of a film while others do not.

Impairment

BC13. Subtopic 926-20 requires that film costs be tested for impairment whenever events or changes in circumstances indicate that the fair value of a film may be less than its unamortized costs. The Task Force considered improving that guidance in three ways: (a) clarifying the application of the guidance for entities with limited or no direct contracted revenues and the resulting unit of account for impairment testing, (b) providing more relevant indicators of impairment, and (c) aligning the impairment models for produced content (Subtopic 926-20) and licensed content (Subtopic 920-350).

Unit of Account for Impairment

BC14. The Task Force reached a consensus-for-exposure to add a film group as a unit of account used for impairment testing in Subtopic 926-20, which would be defined as the lowest level for which identifiable cash flows are largely independent of the cash flows of other films and license arrangements within the scope of Subtopic 920-350. An entity would test for impairment at the film group level when it has concluded that the film is predominantly monetized with other films or license agreements. If a film is expected to be predominantly monetized on its own (that is, independent of other films and license agreements), an entity would test for impairment at the individual film level.

BC15. Some Task Force members expressed a concern that testing for impairment at the film group level would not result in the impairment of underperforming films that would have been impaired under current GAAP. However, the Task Force concluded that grouping assets on the basis of an entity's predominant monetization strategy for purposes of impairment testing would be consistent with how an entity expects to recover its film costs and how an entity tests long-lived assets for impairment under Subtopic 360-10, Property, Plant, and Equipment—Overall. The Task Force also noted that the amendments in this proposed Update would address the issues encountered by entities that have limited or no direct revenue. In such cases, the Task Force noted that the objective of the guidance is to provide for aggregation of films for the purposes of assessing impairments.

BC16. The Task Force decided that a film group should include license agreements within the scope of Subtopic 920-350 because separately assessing the impairment of produced films and license agreements that are monetized together would be unnecessarily complex and could result in inconsistent outcomes. The Task Force decided that including license agreements in the definition of a film group, and joint assessment of impairment, better represents the economics of an entity that monetizes films and license agreements together. In addition, the Task Force noted that including license agreements in a film group addresses the concerns raised by stakeholders about the need to arbitrarily allocate indirect revenue between films and license agreements for purposes of impairment testing.

BC17. The amendments in this proposed Update would require that an entity assess the predominant monetization strategy of each film at inception. An entity would not be required to reassess the predominant monetization strategy throughout the film's lifecycle. The Task Force noted that the definition of a film group would result in a qualitative assessment of an entity's monetization strategy rather than a quantitative assessment of direct and indirect revenues. Nevertheless, a Task Force member questioned whether this assessment can be practically applied because that Task Force member interpreted the assessment to require a comparison of estimates of direct revenues and estimates of indirect revenues when that film is included within a library. That Task Force member questioned whether a better approach would be to assess whether the cost of a film will be predominately recovered through direct revenues and, if so, the film should not be considered part of a film group. However, the majority of Task Force members expects that the assessment in the proposal would be relatively straight forward for most entities because an entity would generally have a predetermined monetization strategy for its films. However, there might be instances in which this assessment would require the use of significant judgment. The Task Force observed that the definition of a film group would be used to determine whether a film should be assessed for impairment individually or as part of a film group. The definition of film group does not affect the calculation of the fair value of the film or film group when an entity is required to determine whether there is an impairment loss.

Impairment Indicators

BC18. The Task Force reached a consensus-for-exposure to add additional impairment indicators in Subtopic 926-20 related to events or changes in circumstances that could occur after a film is released. The Task Force observed that because most of the current indicators are focused on the pre-release stage of a film, including additional post-release indicators would enhance the impairment assessment by requiring entities to consider the actual performance of their films under different factors.

BC19. The Task Force also reached a consensus-for-exposure to add impairment indicators for a film group. The Task Force decided that film group indicators would be necessary because most of the individual film indicators would not apply to a film group. The Task Force decided that the occurrence of technological, regulatory, legal, economic, or social factors or changes in business factors such as a reduction in the number of subscribers or the loss of a major distributor might negatively affect the value of a film group. In addition, the Task Force concluded that a current-period operating or cash flow loss combined with either historical or projected negative cash flows generated by a film group might indicate a decline in the fair value of a film group. Task Force members noted that entities in a high-growth or start-up business would need to use judgment in applying this indicator.

Model Used for Measuring Impairment

BC20. The impairment guidance for film costs requires that an entity compare the fair value of the film with its unamortized film costs. The impairment guidance for license agreements accounted for under Subtopic 920-350 requires that an entity compare the net realizable value of the license agreement with its unamortized costs.

BC21. Because the Task Force reached a consensus-for-exposure to allow produced films and licensed agreements to be tested for impairment at the film group level, the Task Force decided that a single impairment model for films and license agreements would be necessary to make that concept operable. Therefore, the Task Force reached a consensus-for-exposure to align the impairment model in Subtopic 920-350 with the fair value model in Subtopic 926-20. The Task Force noted that using the same impairment model regardless of whether a film is licensed or produced would simplify the impairment assessment for entities that will test for impairment at the film group level because they would only have to apply one model. The Task Force decided that the fair value model is the appropriate model because it is similar to the model used for finite-lived intangible assets. In addition, the Task Force was concerned that applying the net realizable model in Subtopic 920-350 to produced films would result in fewer impairments.

Derecognition

BC22. The Task Force reached a consensus-for-exposure that would require that an entity write off films that are abandoned either because the film project is abandoned before release or because the film is removed from the service offering. This requirement would help mitigate the risk that an entity would rarely, if ever, record an impairment loss when using a film group for impairment testing.

Presentation and Disclosures

BC23. The Task Force reached a consensus-for-exposure that would align the presentation guidance in Subtopic 920-350 with the guidance in Subtopic 926-20 by removing the requirement to classify content assets as noncurrent under Subtopic 926-20 and current or noncurrent based on estimated time of usage under Subtopic 920-350. The Task Force decided against specific classification requirements because entities may produce or license films that have a different lifecycle, so different classification conclusions would be appropriate. The Task Force decided that an entity should apply judgment to determine the classification of its film costs and license agreements. Additionally, the Task Force decided to retain the current requirement for entities to present licensed films separately from produced films because those assets have different characteristics and separately disclosing them would provide decision-useful information to users.

BC24. The Task Force noted that the disclosure requirements in Subtopic 926-20 provide useful information to investors but that those requirements could be improved. Therefore, the Task Force reached a consensus-for-exposure to require additional disclosures in Subtopic 926-20. The Task Force decided that the requirement in paragraph 926-20-50-1 to disclose the portion of the costs of an entity's completed films that are expected to be amortized during the upcoming operating cycle should be retained because this requirement would provide users with information about amortization of completed films that are expected to be released during the upcoming year. The Task Force also decided to require that an entity disclose the amount of film costs for released films that an entity expects to amortize within each of the following three years from the balance sheet date, separately for theatrical films and direct-to-television products, because this disclosure would help users determine the expected pattern of amortization for capitalized costs of released films. The Task Force determined that this proposed disclosure would improve the existing requirement in paragraph 926-20-50-3 by providing more granular information. The Task Force also decided to require that an entity disclose the amortization method used by the entity (for example, the individual-film-forecast-computation method or estimates of use).

BC25. In developing its recommendation for impairment disclosures, the Task Force considered the disclosures required for impairments of intangible assets in Subtopic 350-30 but modified those disclosures to provide information about impairment losses in the aggregate rather than on an individual film basis. While post-release impairments are generally uncommon, impairments before a film is released occur more often. Therefore, the Task Force decided that providing disclosures in the aggregate would reduce the cost of providing the disclosures. The Task Force decided that the proposed disclosures about the amount of the loss and information about where the loss was recorded would provide useful information to financial statement users about impairment.

BC26. The Task Force also decided that the disclosure requirements for licensed content should be aligned with the disclosure requirements for produced content because both entities and analysts have indicated that they analyze and compare both types of content. Subtopic 920-350 does not currently have any specific disclosure requirements. Thus, the Task Force reached a consensus-for-exposure to require disclosures for licensed content within the scope of Subtopic 920-350 that are similar to the proposed disclosures in Subtopic 926-20, so that users can better understand an entity's entire portfolio of content.

Transition and Transition Disclosures

BC27. The Task Force reached a consensus-for-exposure to require that an entity apply a prospective transition method. Under a prospective transition method, an entity would apply the amendments in this proposed Update to the capitalization guidance to all costs that are incurred on or after the effective date. The proposed amendments to the impairment, amortization, and presentation and disclosure guidance would be applied at the beginning of the first period including the effective date. Because most capitalized film and license agreement costs are amortized over a short amortization period using an accelerated amortization method, the Task Force decided that prospective transition would provide useful information to users of financial statements while limiting the costs of implementation.

BC28. The Task Force considered requiring or allowing a retrospective transition method or a modified retrospective transition method, but those approaches were rejected because of the challenges associated with applying the amendments in this proposed Update related to impairment under those transition methods.

BC29. The Task Force reached a consensus-for-exposure that would require an entity to disclose the nature of and reasons for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change. The Task Force decided that the expected benefits of requiring quantitative disclosure of the effect of the amendments in this proposed Update do not justify the expected costs. The transition disclosures are in lieu of those required in paragraphs 250-10-50-1 through 50-3.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed improvements to the Taxonomy through Proposed Taxonomy Improvements provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the Taxonomy will be finalized as part of the annual release process.