FINANCIAL ACCOUNTING STANDARDS BOARD

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October 29, 2018

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the September 27, 2018 meeting of the FASB Emerging Issues Task Force (EITF).

On October 10, 2018, the Board ratified the Task Force consensuses-for-exposure on Issue 18-A (on Topic 805) and on Issue 18-B (on episodic television series). The draft Accounting Standards Update for Issue 18-B is expected to be posted to the FASB website in early November. The draft Accounting Standards Update for Issue 18-A is expected to be posted to the FASB website late in the fourth quarter of 2018.

The next regular EITF meeting, which is scheduled for November 15, 2018, will not be utilized. The extra EITF meeting date reserved for October 18, 2018, was not utilized.

Please call or email me if you have any questions.

Sincerely,

Jason Bond

FASB Practice Fellow

FINANCIAL ACCOUNTING STANDARDS BOARD.

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September 27, 2018 EITF Meeting Minutes

Emerging Issues Task Force
Meeting Minutes
September 27, 2018

MINUTES OF THE SEPTEMBER 27, 2018 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, September 27, 2018
Starting Time: 8:30 a.m.
Concluding Time: 11:50 a.m.

Task Force Members Present:
Susan M. Cosper (Chairman)
Kimber K. Bascom
Paul Beswick
Terri Z. Campbell
Alexander M. Corl
Lawrence N. Dodyk
Bret Dooley
Mark LaMonte (by telephone)
Ashwinpaul C. (Tony) Sondhi (by telephone)
Robert Uhl
Eric West
Jonathan Wiggins (SEC Observer)
James A. Dolinar (FinREC Observer)
Yan Zhang (PCC Observer) (by telephone)

Task Force Members Absent:
James G. Campbell

Others at Meeting Table:
Russell G. Golden, FASB Chairman
James L. Kroeker, FASB Vice Chairman
Gary R. Buesser, FASB Board Member
Marsha L. Hunt, FASB Board Member
R. Harold Schroeder, FASB Board Member
Jason C. Bond, FASB Practice Fellow
Ryan J. Carter, FASB Project Manager
Chiara Gilioli, FASB Assistant Project Manager
Adriana Yepes, FASB Supervising Project Manager
Jane Lazzara, FASB Postgraduate Technical Assistant
John P. Stansel, FASB Postgraduate Technical Assistant

ADMINISTRATIVE MATTERS

- The EITF Coordinator noted that there are now two active Issues on the EITF agenda.

- The EITF Coordinator announced that any consensus-for-exposure reached at this meeting would be considered by the Board for ratification at the October 10, 2018 Board meeting.

- The EITF Coordinator announced that a future communication would be made about whether to retain the next regular EITF meeting scheduled for November 15, 2018, and announced that the October 18, 2018 "Extra" EITF meeting date would not be utilized.

- The EITF Coordinator announced that the 2019 EITF meeting dates have been confirmed and posted to the FASB website. Those dates are:

  2019 REGULAR MEETING DATES
  March 21, 2019
  June 13, 2019
  September 19, 2019
  November 7, 2019

  2019 EXTRA MEETING DATES
  January 17, 2019
  May 16, 2019
  July 11, 2019
  October 3, 2019

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 18-A

Title: Recognition Under Topic 805 for an Assumed Liability in a Revenue Contract

Dates Discussed: June 7, 2018; September 27, 2018

Background

1. Topic 805 provides guidance on the accounting for business combinations. In applying the acquisition method in Topic 805, an acquirer recognizes identifiable assets acquired and liabilities assumed in a business combination and generally measures those assets and liabilities at fair value. Paragraph 805-20-25-2 provides further guidance on the recognition criteria. It states that for an identifiable asset or liability assumed to be recognized in a business combination, it must meet the definition of an asset or liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Concepts Statement 6 defines liabilities as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." The definition in Concepts Statement 6 also clarifies that a present obligation is broader than a legal obligation.

2. EITF Issue No. 01-3, "Accounting in a Business Combination for Deferred Revenue of an Acquiree," provided specific guidance on the accounting for deferred revenue in a business combination. Issue 01-3 required an acquiring entity to recognize a liability related to the deferred revenue of an acquired entity only if that deferred revenue represented a legal obligation assumed by the acquiring entity (a legal performance obligation as described in Issue 01-3) and the amount assigned to that liability was its acquisition date fair value. Issue 01-3 was superseded by FASB Statement No. 141 (revised 2007), *Business Combinations*, which did not include specific guidance on the recognition of deferred revenue as a liability assumed in a business combination. Rather, Statement 141(R) referenced the definition of a liability in Concepts Statement 6 (that guidance is now codified in paragraph 805-20-25-2).

3. Although Statement 141(R) superseded the guidance in Issue 01-3, stakeholders indicated that practice generally continued to apply the concepts in Issue 01-3, including use of the legal obligation concept, to determine whether an entity should recognize a liability assumed related to deferred revenue of an acquired entity accounted for under Topic 605, Revenue Recognition.

4. In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a single comprehensive accounting model on revenue recognition for contracts with customers. Among other things, Topic 606 defined a performance obligation as "a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer." Distinct goods or services may not be explicitly stated in the contract and can include goods or services that are implied by an entity's customary business practices, which do not need to be legally enforceable.

5. Stakeholders have indicated that after Topic 606 is adopted, there is diversity in views on how an acquirer would evaluate revenue contracts with customers in a business combination. Some stakeholders believe that an entity should use the Topic 606 performance obligation definition to determine whether a liability in a revenue contract is a liability assumed that is recognized in the business combination, and other stakeholders believe that an entity should continue to use the legal obligation concept when applying the guidance in Topic 805.

6. On March 28, 2018, the Board added a narrow scope Issue to the EITF agenda to reduce the diversity that might arise when evaluating whether to recognize a liability from a revenue contract with a customer that is acquired in a business combination after an entity has adopted Topic 606. In addition, stakeholders have indicated that questions may arise under Topic 606 about measurement of revenue contracts with customers in a business combination. The Board asked the EITF to also consider those measurement issues.

Issues

7. The following issues were included in Issue Summary No. 1, dated May 24, 2018, and were discussed at the June 7, 2018 EITF meeting:

Issue 1: Recognition for an Assumed Liability in a Revenue Contract
Issue 2: Measurement for an Assumed Liability in a Revenue Contract in a Business Combination.

8. The following issues were included in Issue Summary No. 1, Supplement No. 1, dated September 13, 2018:

Issue 1A: Payment Terms and Their Effect on Subsequent Revenue Recognition
Issue 3: Costs to Fulfill a Performance Obligation in Measuring the Fair Value of a Contract Liability for a Revenue Contract under Topic 805

9. Issues 1A and 3 were discussed at the September 27, 2018 meeting. The Task Force also discussed the previous consensuses-for-exposure on Issues 1 and 2 reached at the June 2018 meeting.

Prior EITF Discussion

Issue 1: Recognition for an Assumed Liability in a Revenue Contract

10. The Task Force reached a consensus-for-exposure that would require an entity to use the Topic 606 performance obligation definition to determine whether an assumed contract liability from a revenue contract with a customer represents a liability assumed that is recognized in a business combination at the acquisition date. An entity would evaluate whether it has a liability for a revenue contract that is assumed in a business combination because the acquiree has a contract liability (that is, it has been paid for goods or services that have not been transferred to the customer). The acquirer would not recognize a liability for goods or services that have not been transferred to the customer and for which no payment has been received, except in cases in which the acquiree has recognized a receivable.

11. In reaching this consensus-for-exposure, the Task Force considered both the Topic 606 performance obligation concept and the superseded legal obligation concept as potential alternatives. The Task Force discussed the use of the legal obligation concept alternative in current practice before the adoption of Topic 606 and observed that Topic 606 did not consequentially amend Topic 805, which requires that a liability recognized in a business combination meet the definition of a liability in Concepts Statement 6. The Task Force rejected that alternative because it believes that the use of the definition of performance obligation better aligns with current guidance already included in the Codification and would be consistent between both Topic 606 and Topic 805 (that is, for the identification of an obligation for a revenue contract). In addition, the Task Force also observed that the Topic 606 performance obligation concept may be less complex to apply and is more consistent with the definition of a liability in Concepts Statement 6.

12. The Task Force indicated that in most situations the recognition conclusion under either a Topic 606 performance obligation alternative or a legal obligation alternative would be the same, but the Task Force acknowledged that there may be circumstances in which the recognition conclusion could be different, such as for symbolic licenses or goods or services that are provided as a customary business practice because the entity is not legally obligated to perform in those situations. For situations in which the Topic 606 performance obligation does not represent a legal obligation, the Task Force noted that in many cases the fair value measurement of the performance obligation may be minimal or zero because of the nature of the activity or activities that the acquirer would be performing. See the discussion on measurement considerations in Issue 2.

13. The Task Force also considered whether the timing of the payment of consideration or payment terms should affect the amount of revenue recognized by the acquirer related to the acquired revenue contract.

Issue 2: Measurement for an Assumed Liability in a Revenue Contract in a Business Combination

14. In addition to the recognition issue, stakeholders indicated that questions may arise after the adoption of Topic 606 about how to determine the fair value of a contract liability when applying the acquisition method. As a result, at its March 28, 2018 meeting, the Board directed the Task Force to consider the following measurement issues to provide educational information to stakeholders:

a. May the acquirer determine the fair value of a contract liability recognized in the business combination using the amount as determined by the acquiree in its revenue accounting (that is, a carryover basis)?
b. Should the acquirer consider the other assets and liabilities in the acquired set when determining the value of a contract liability acquired in a business combination?

15. The Task Force reached a consensus-for-exposure on the first measurement question that it would be inappropriate for an acquirer to default to using a carryover basis (that is, recording the liability on the acquirer's balance sheet equal to the amount of deferred revenue on the acquiree's balance sheet immediately preceding the business combination date) when measuring an assumed liability in a revenue contract because that would be inconsistent with the measurement guidance in Topic 805. The measurement principle in paragraph 805-20-30-1 states that an acquirer must

measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values. That principle exists for all assets and liabilities acquired in a business combination under Topic 805, with some exceptions that are specified in that Topic. The Task Force noted that an exception to the fair value measurement principle in Topic 805 is not necessary for an assumed liability in a revenue contract acquired in a business combination.

16. In determining the fair value of a contract liability acquired in a business combination, the Task Force noted that the acquirer would measure the fair value of the remaining or unfulfilled performance obligation, as defined under Topic 606, that it has assumed from the acquiree. In determining the fair value of the unfulfilled performance obligation, the acquirer would consider only activities the acquirer will perform after the business combination that directly relate to the acquired contract. That is, it would not consider the overall activities the acquirer would undertake irrespective of the acquired contract or activities already performed by the acquiree that the acquirer would not perform.

17. The second measurement question focuses on what should be included in the fair value measurement and not how an entity would determine fair value. The Task Force noted that how to measure those costs is covered in the guidance in Topic 820, Fair Value Measurement, and is outside the scope of this Issue.

18. The Task Force considered two potential alternatives to determine the fair value of an assumed contract liability:

a. *Consider the assets and liabilities in the acquired set*. This alternative would consider assets included in the acquired set when measuring the fair value of a contract liability recognized in a business combination. For example, if a contract liability is recognized in a business combination for an in-process license arrangement, the measurement of that contract liability would not assume that the acquirer would have to obtain the related intellectual property in order to perform under the acquired contract because that intellectual property was included in the acquired set. This would result in a "net" valuation of the liability as opposed to including an amount for the value of the intellectual property in both the asset and liability.
b. *Do not consider the other assets and liabilities in the acquired set.* This alternative would consider the contract liability in isolation from any related asset needed to satisfy the performance obligation in the acquired contract even if the asset was included in the acquired set. For example, if a contract liability is recognized in a business combination for an in-process license arrangement, the measurement of that contract liability would assume that the acquirer would have to obtain the underlying intellectual property in order to perform under the acquired contract. This would result in gross measurements of the asset and the liability on the balance sheet.

19. The Task Force reached a consensus-for-exposure that an acquirer would consider the assets and liabilities in the acquired set when determining the fair value of an assumed contract liability because ignoring an asset in the acquired set that is necessary to fulfill the liability would not be appropriate when the asset and liability have been acquired and assumed, respectively, together. The Task Force indicated that a buyer generally would not assume an obligation in a business

combination to perform under a contract without also purchasing the asset needed to fulfill that contract. Therefore, the Task Force noted that it would be appropriate to value that obligation after considering the related asset. In reaching this consensus-for-exposure, the Task Force indicated that it would not want to allow an acquirer to recognize higher revenue after a business combination because of a valuation technique used to measure a contract liability.

Transition

20. The Task Force did not propose an effective date for any proposed amendments resulting from this Issue. Consequently, the Task Force will take into consideration the comments received on any proposed amendments before determining when those amendments would be effective.

21. The Task Force reached a consensus-for-exposure that would require that an entity apply the proposed amendments prospectively to all business combinations that occur after the proposed amendments are effective. The Task Force indicated that allowing a choice between prospective transition or modified retrospective transition would result in unnecessary costs and added complexity for preparers particularly because the Task Force noted that the financial reporting outcome resulting from the proposed amendments should not be materially different from current practice. In reaching this consensus-for-exposure, the Task Force also considered previous amendments to Topic 805, which generally followed a prospective transition method.

Transition Disclosures

22. The Task Force also reached a consensus-for-exposure not to require any transition disclosures in the period of adoption because the Task Force believes that the disclosures would not provide incremental information that would be useful to users of financial statements and therefore would result in unnecessary costs for preparers.

Board Ratification

23. At its June 27, 2018 Board meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and directed the FASB staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot. However, Task Force members subsequently identified potential unintended consequences of the decisions reached at the June 7, 2018 meeting when reviewing a draft of the proposed Update. Therefore, individual Task Force members recommended that the Issue be further discussed by the Task Force prior to the issuance of the proposed Update.

Current EITF Discussion

Issue 1: Recognition for an Assumed Liability in a Revenue Contract

24. The Task Force reached a consensus-for-exposure that would require an entity to use the Topic 606 performance obligation definition to determine whether to recognize a contract liability from a revenue contract with a customer that is acquired in a business combination at the acquisition date. An entity would evaluate whether it has a contract liability from a revenue contract that is assumed in a business combination because the acquiree has been paid (or

consideration is due) for goods or services for which control has not been transferred to the customer. The acquirer would not need to perform this evaluation if the acquiree has not received payment or there is no consideration due (that is, a contract liability would not have been recognized under Topic 606).

25. In reaching this consensus-for-exposure, the Task Force considered both the Topic 606 performance obligation concept and the superseded legal obligation concept as potential alternatives. The Task Force discussed the use of the legal obligation concept alternative in current practice before the adoption of Topic 606 and observed that Topic 606 did not consequentially amend Topic 805, which requires that a liability recognized in a business combination meet the definition of a liability in Concepts Statement 6. The Task Force rejected that alternative because it believes that the use of the definition of performance obligation better aligns with current guidance already included in the Codification and by using that definition, the guidance under Topic 606 and the guidance under Topic 805 would be consistent (that is, for the identification of an obligation for a revenue contract). In addition, the Task Force also observed that the Topic 606 performance obligation concept may be less complex to apply and is more consistent with the definition of a liability in Concepts Statement 6.

26. The Task Force indicated that in most situations the recognition conclusion under either a Topic 606 performance obligation alternative or a legal obligation alternative would be the same. However, the Task Force acknowledged that there may be circumstances in which the recognition conclusion could be different, such as for licenses of symbolic intellectual property or goods or services that are provided as a customary business practice because the entity is not legally obligated to perform in those situations.

Invitation to Comment—Measurement and Other Considerations Related to Revenue Contracts with Customers under Topic 805

27. In discussing whether to recognize an assumed contract liability from an acquired revenue contract with a customer, the Task Force also considered the measurement of the assumed contract liability (Issues 2 and 3) and the effects of payment terms on the subsequent revenue recognition of the acquired revenue contract (Issue 1A). The Task Force decided not to address those issues at this time. A separate Invitation to Comment will be issued concurrently with the proposed Update resulting from this Issue to solicit input on those issues.

Effective Date and Transition

28. The Task Force did not propose an effective date for the amendments resulting from this Issue. Consequently, the Task Force will take into consideration the comments received on the proposed amendments before determining when those amendments would be effective.

29. The Task Force reached a consensus-for-exposure that would require that an entity apply the amendments resulting from this Issue prospectively to all business combinations that occur after those amendments are effective. In reaching this consensus-for-exposure, the Task Force considered previous amendments to Topic 805, which generally followed a prospective transition method. The Task Force also indicated that allowing a choice between prospective transition or

modified retrospective transition could result in unnecessary costs and complexity for preparers (for example, restating the subsequent accounting for the assets and liabilities recognized in the business combination), particularly because the Task Force noted that the financial reporting outcome resulting from the amendments resulting from this Issue may not be materially different from current practice.

30. The Task Force also reached a consensus-for-exposure not to require any disclosures in the period of adoption because the Task Force believes that the disclosures would not provide incremental information that would be useful to users of financial statements and therefore would result in unnecessary costs for preparers.

Board Ratification

31. At its October 10, 2018 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and directed the FASB staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot. In addition to the consensus-for-exposure being ratified by the Board, the FASB chairman authorized the staff to prepare a Discussion Paper in the form of an Invitation to Comment (separate from the proposed Update) to solicit input about measurement and other topics related to the Task Force's consensus-for exposure.

Status

32. The proposed Update for Issue No. 18-A will not be issued until the related Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, is issued. Once issued, the proposed Update and the Invitation to Comment will be exposed for public comment concurrently for a period ending on April 30, 2019. Further discussion is expected at a future EITF meeting.

Issue No. 18-B

Title: Improvements to Accounting for Episodic Television Series

Dates Discussed: June 7, 2018; September 27, 2018

Background

1. Subtopic 926-20, Entertainment—Films—Other Assets—Film Costs, includes guidance that originated from AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films,* issued in 2000. Subtopic 926-20 provides two capitalization models, one for films and one for episodic content. Production costs for films are fully capitalized but production costs for episodic television series are subject to a constraint. That constraint specifies that capitalized costs cannot exceed the amount of revenue contracted for each episode until an entity can establish estimates of secondary market revenue. This distinction was established to address the risks inherent in producing episodic content through deficit funding arrangements, which often had a high risk of failure. In those 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, the current accounting guidance precludes an entity from capitalizing all production costs related to episodic television content until it can support the expectation that the series will make it to syndication to recover those production costs and potentially earn a return.

2. Since the issuance of the guidance in SOP 00-2, the entertainment industry has experienced significant changes to its production and distribution models that were not contemplated when that guidance 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.

3. As a result, the Board added an Issue to the EITF agenda to consider the cost capitalization guidance for episodic television series in Subtopic 926-20 and, specifically, whether financial reporting under the current model is still relevant 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 as a result of this Issue would require changes to the amortization, impairment, and disclosure requirements in Subtopic 926-20.

4. Given the industry-specific nature of this Issue, a working group was formed to assist the Task Force in understanding the industry, the relevant issues, and potential solutions. The working group had one meeting prior to the June 7, 2018 EITF meeting and contributed to the issues and solutions that were included in Issue Summary No. 1. The working group also had one meeting prior to the September 27, 2018 EITF meeting and contributed to the issues and alternatives that were included in Issue Summary No. 1, Supplement No. 1.

Issues

5. The following issues were included in Issue Summary No. 1, dated June 7, 2018:

Issue 1: Cost Capitalization
Issue 2: Amortization

Issue 3: Unit of Account for Impairment
Issue 4: Impairment Indicators
Issue 5: Model Used for Measuring Impairment under Subtopic 926-20 and Subtopic 920-350, Entertainment—Broadcasters—Intangibles—Goodwill and Other
Issue 6: Presentation and Disclosures
Issue 7: Transition
Issue 8: Transition Disclosures
Issue 9: Private Company Considerations.

6. At the June 7, 2018 EITF meeting, the Task Force discussed Issues 1 through 6. Issues 7 through 9 were not discussed and will be discussed at a future meeting.

7. The following issues were included in Issue Summary No. 1, Supplement No. 1, dated September 13, 2018:

Issue 2: Amortization
Issue 3: Unit of Account for Impairment
Issue 4: Impairment Indicators
Issue 5: Impairment Model
Issue 6: Presentation and Disclosures
Issue 7: Transition
Issue 8: Transition Disclosures
Issue 9: Private Company Considerations.

8. Issues 2 through 9 were discussed at the September 27, 2018 meeting.

Prior EITF Discussion

<u>Issue 1 – Cost Capitalization</u>

9. Issue 1 is whether the capitalization model in Subtopic 926-20 for episodic television series is still relevant considering changes in the production and distribution models within the media and entertainment industry since the guidance was originally issued. Currently, the guidance in Subtopic 926-20 provides a capitalization model for episodic content that is different from the model for film; that is, production costs for episodic content are capitalized subject to a constraint based on contracted revenues in the initial and secondary markets, while film production costs are fully capitalized. At the June 7, 2018 meeting, the Task Force considered the following two alternatives for Issue 1:

> **Alternative 1A**—Align the cost capitalization guidance for episodic content with the guidance for films by removing the content distinction
>
> **Alternative 1B**—Maintain the current cost capitalization guidance for episodic content but provide an exception when the entity does not produce episodic content via a deficit-funding arrangement.

10. The Task Force reached a tentative conclusion to align the cost capitalization guidance for episodic content with the guidance for films by removing the content distinction (Alternative 1A). In reaching its tentative conclusion, the Task Force noted that over time, the current business models, monetization strategies, and risks associated with producing episodic content have become similar in nature to those for film content. The Task Force acknowledged that having two different cost capitalization models was more reflective of the business environment that existed when SOP 00-2 was developed because at that time the level of integration between studios and distribution channels was limited. The Task Force noted that today's environment offers more distribution channels for the initial distribution of episodic content compared with the environment that existed 20 years ago because it now offers online video distribution (OVD) streaming platforms, immediate access to international distribution channels, and direct-to-consumer (DTC) streaming platforms. The availability of these additional distribution channels significantly reduces a producer's risk of not being able to eventually recover all the initial production costs for episodic content. The Task Force observed that the current guidance no longer accurately reflects the economics of episodic content production considering those changes and therefore supports a single capitalization model for both types of content.

11. The Task Force noted that a single capitalization model would eliminate complexities in the application of current guidance for capitalization, including the challenges experienced by stakeholders in identifying initial and secondary markets and allocating indirect subscription-based revenues to individual series. The Task Force also noted that Alternative 1A was recommended by the working group and outreach participants during pre-agenda research.

Issue 2: Amortization

12. Issue 2 is whether additional guidance is necessary to apply the existing amortization requirements in Subtopic 926-20 to content with no direct revenue. Under Subtopic 926-20, entities are required to amortize their produced content by using the individual-film-forecast-computation method that requires an entity to estimate ultimate revenues. In the absence of revenues from third parties, entities are required to amortize their produced content in a manner that best reflects the use of that content. The Task Force considered the following two alternatives to resolve Issue 2:

> **Alternative 2A**—Maintain current industry guidance (no standard-setting is necessary)
>
> **Alternative 2B**—Amend the amortization guidance in Subtopic 926-20 to provide more prescriptive guidance on viewership and the use of amortization curves.

13. The Task Force reached a tentative conclusion on Alternative 2A to maintain current industry guidance. Based on feedback received from the working group, the Task Force noted that entities with no direct contracted revenue apply the amortization guidance in paragraph 926-20-35-2 by using viewership curves as an estimate of the use of a title. Viewership curves are established by pooling historical viewership data for different types or genres of content and are reviewed periodically.

14. In current practice, because paragraph 926-20-35-2 is generally applied consistently in a manner that best reflects the use of the content, the Task Force did not observe a need for amendments to the guidance or a need to provide more prescriptive guidance for entities with indirect revenues (for example, by explicitly requiring the use of viewership curves). Consistent with feedback from the working group, the Task Force noted that flexibility and judgment in the model is necessary to allow entities to amortize their content in the manner that they believe best represents the use for that content. For example, the Task Force was concerned that adding prescriptive guidance could prevent entities from adopting a different estimate of the use of a title if viewership no longer is the most relevant indicator.

Issues 3-5: Unit of Account, Impairment Indicators, and the Impairment Model

15. The Task Force discussed Issues 3 through 5 together because the three issues are interrelated and all relate to impairment. Issue 3, on unit of account, considers whether to address the challenges encountered by entities with no direct contracted revenue in performing the impairment test at the individual film level (for example, one alternative discussed is to apply the impairment model to the lowest level of identifiable cash flows, which may be a portfolio of content). Issue 4, on impairment indicators, considers whether additional indicators are needed to evaluate the performance of a film after its release. Issue 5, which is on the impairment model, considers whether the same impairment model should be applied to both produced content in Subtopic 926-20 and licensed content in Subtopic 920-350, Entertainment—Broadcasters, Intangibles—Goodwill and Other.

16. The Task Force did not reach a tentative conclusion on any of these three issues. In discussing the unit of account for the impairment assessment, certain Task Force members acknowledged that a higher-level unit of account for impairment may not ever result in an impairment loss when the lowest level of identifiable cash flows is the entity's entire business. Therefore, the Task Force discussed whether certain impairment indicators should result in the reevaluation of the amortization calculation or the useful life of a film in situations in which an impairment loss is not required. The Task Force also noted that the proposed impairment indicators would be applied to individual films but, under one alternative, entities would determine whether an impairment loss is necessary at the lowest level of identifiable cash flows. Some Task Force members expressed concerns about utilizing a different unit of account for the impairment indicators than the determination of the need for an impairment loss. Certain Task Force members suggested that in the case of a producer with a large portfolio of films for which the unit of account is the entire portfolio of films, one impairment indicator likely would be met by at least one film each reporting period. As a result, the entire portfolio would need to be tested for impairment each reporting period, which would increase the cost of applying the guidance and limit the usefulness of the indicators. The Task Force also discussed whether a fair value or net realizable value impairment model for both Subtopic 920-350 and Subtopic 926-20 would be appropriate, with many Task Force members indicating that a fair value model would be appropriate.

17. No tentative conclusions were reached on impairment. Task Force members requested that the FASB staff work with the working group to discuss the operability of the proposed alternatives, changing the unit of account for impairment from an individual film level to a pooled level and how entities with different business models would determine the unit of account and evaluate the

indicators. Some Task Force members generally supported the recommendations in Issue Summary No. 1 on these issues but noted that illustrative examples and feedback from the working group would be helpful to understand how the proposed solutions would be applied to different business models. The Task Force also asked the staff to work with the working group to provide additional feedback on how the impairment assessment would interact with the amortization guidance.

Issue 6: Presentation and Disclosures

18. The Task Force provided limited feedback on Issue 6 and requested that the FASB staff solicit feedback from the working group to assess the staff's proposed presentation and disclosures requirements.

Current EITF Discussion

Issue 1 – Cost Capitalization

19. 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.

20. 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.

Issue 2: Amortization

21. 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.

22. 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.

23. 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 resulting from this Issue 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.

Issues 3: Unit of Account for Impairment

24. 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.

25. 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 resulting from this Issue 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.

26. 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.

27. The amendments resulting from this Issue 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 life cycle. 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 expect 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.

28. 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.

<u>Issue 4: Impairment Indicators</u>

29. 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.

30. 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 high-growth or start-up businesses would need to use judgment in applying this indicator.

Issue 5: Model Used for Measuring Impairment

31. 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.

32. Because the Task Force reached a consensus-for-exposure to allow produced films and license 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.

Issue 6: Presentation and Disclosures

33. 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 life cycle, 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.

34. 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).

35. 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.

36. 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.

Issue 7: Transition

37. 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 resulting from this Issue to the capitalization guidance to all costs that are incurred on or after the effective date. The amendments to the impairment, amortization, and presentation and disclosure guidance would be applied at the beginning of the first reporting 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.

38. 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 resulting from this Issue related to impairment under those transition methods.

<u>Issue 8: Transition Disclosures</u>

39. 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 resulting from this Issue do not justify the expected costs. The transition disclosures are in lieu of those required in paragraphs 250-10-50-1 through 50-3.

<u>Issue 9: Private Company Considerations.</u>

40. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should apply to private companies. A proposed Update resulting from this Issue will include a question asking whether respondents believe that private company alternatives are necessary.

Board Ratification

41. At its October 10, 2018 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and directed the FASB staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot.

Status

42. Upon issuance of the proposed Update, a 30-day comment period will commence. Further discussion is expected at a future EITF meeting.