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Summary of the January Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the January 17, 2019, meeting of the Emerging Issues Task Force (EITF or “Task Force”). Initial Task Force consensuses (“consensuses-for-exposure”) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

After each meeting, the official EITF minutes, including the results of the FASB’s ratification process, will be posted to the Deloitte Accounting Research Tool (DART) and to the FASB’s Web site (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 18-B, “Improvements to Accounting for Episodic Television Series”

Status: Final consensus.

Affects: Entities that account for episodic television series.

Background: ASC 926-20[1] provides guidance on accounting for film costs in the media and entertainment industry. The capitalization model for costs related to episodic television series in ASC 926-20 differs from that for film costs. An entity fully capitalizes film costs, while the capitalization of costs related to episodic content is subject to a constraint based on contracted revenues. Because there have been changes in how media is produced and distributed over the Internet, the differentiation between films and episodic series has become blurred. The Board added a project to the EITF's agenda to reconsider whether the cost capitalization model for episodic television series in ASC 926-20 is still relevant or whether it should be the same as the model applied to films. The scope of the project also includes consideration of whether any amendments to the cost capitalization guidance would require changes to the amortization, impairment, or presentation and disclosure requirements in ASC 926-20 or relevant guidance (e.g., ASC 920-350 for licensed program material). The FASB staff established an industry working group to advise the Task Force.

At its September 2018 meeting, the Task Force reached a consensus-for-exposure on the accounting for episodic television series, including (1) the alignment of the cost capitalization guidance related to episodic content with the guidance for films by removing content distinction, (2) amortization, (3) impairment testing, and (4) presentation and disclosure. See Deloitte's September 2018 *EITF Snapshot* for more information.

In November 2018, the FASB issued a proposed ASU[2] based on the consensus-for-exposure that the EITF reached at its September 2018 meeting.

Summary: At its January 17, 2019, meeting, the Task Force discussed the comment letters received on the proposed ASU, reaffirming many issues from the consensus-for-exposure and making minor revisions when applicable. Specifically, the Task Force reaffirmed the following:

- The cost capitalization guidance related to episodic content will be aligned with the guidance for films through removal of the content distinction and constraint.
- The amortization and impairment analysis for a film would depend on whether the film must be assessed individually or as part of a film group (which represents the lowest level for which identifiable cash flows are independent). A film would be part of a film group if it is expected to be predominantly monetized with other films instead of being predominantly monetized on its own.
- Amortization of a film that is predominantly monetized on its own would be subject to the individual-film-forecast-computation method, whereas a film in a film group would be amortized on the basis of a reasonable method representative of its use.
- The amortization guidance in ASC 926-20 will be amended to (1) require entities to assess and update the remaining use of a film in a film group for changes in estimates and (2) specify that changes in estimates of the use of a film are accounted for prospectively.
- Impairment indicators for individual films and film groups.
- An entity will perform film impairment tests at a group level, rather than an individual film level, for film groups. Impairment for a film group would be allocated to individual films by using the same model as that in ASC 360.
- The impairment model for licensed content in ASC 920-350 will be amended to align with the fair value model for produced content in ASC 926-20.

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[2] FASB Proposed Accounting Standards Update, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials* — a consensus of the FASB Emerging Issues Task Force.

- Certain amendments to the presentation and disclosure requirements in ASC 926-20 and ASC 920-350, including:
  - Alignment of the guidance in ASC 926-20 and ASC 920-350 with respect to the presentation of film costs by eliminating the specific classification requirements in both of those subtopics. That is, the ASU would eliminate the requirement to classify content assets as (1) noncurrent under ASC 926-20 and (2) current or noncurrent on the basis of the estimated time of usage under ASC 920-350.
  - The requirement for an entity to disclose information about impairment losses of film costs recognized. The disclosure requirements should also be applied to licensed content that is within the scope of ASC 920-350.
  - Transition disclosure requirements related to (1) the nature and reasons for the change in accounting principle, (2) the transition method selected, and (3) a description of the financial statement line items affected by the change.

The Task Force also reached a consensus that the final guidance would:

- Require an entity to reassess the predominant monetization strategy (i.e., as an individual film or part of a film group), compared with the beginning capitalization strategy, when a significant change in the monetization strategy occurs. An impairment indicator would also be created at the individual film level when such a change occurs.
- Require an entity to separately present and disclose information for films that are predominantly monetized on their own and films that are predominantly monetized with other films and licenses, rather than to separately present and disclose information related to theatrical films and direct-to-television products as was previously tentatively decided.
- Amend ASC 920 to align with the cash flow requirements in ASC 926 by requiring classification of cash flows for licensed content as operating activities in the statement of cash flows.

Effective Date and Transition: The Task Force reached a final consensus that the effective date of the amendments resulting from this Issue will be as follows:

- *Public business entities* — Fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2019.
- *All other entities* — Fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2020.

An entity may early adopt the guidance in any annual or interim period after the standard is issued.

The Task Force reaffirmed its consensus-for-exposure that an entity would apply a prospective transition method and clarified that the amendments would be applied at the "beginning of the interim period that includes the adoption date." The amendments in this Issue also apply to private companies.

Next Steps: FASB ratification is expected at the Board's January 30, 2019, meeting, after which a final ASU will be issued.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for March 21, 2019.

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