



Meeting Minutes
IADC Accounting Issues/Procedures Committee
AIP Revenue Recognition Sub-Committee
17 August 2015, 2-4pm
EnSCO, PLC
5847 San Felipe, Suite 3300, Floor 40, Houston, TX, 77057

Attendance:

In-Person:

1. Dean Gant (IADC)
2. Nauman Yousuf (Parker Drilling)
3. Janelle Flores (Diamond Offshore)
4. Melissa Essary (Diamond Offshore)
5. Brandili Dehls (Parker Drilling)
6. Jacob Campbell (EnSCO)
7. Scott Lyon (EnSCO)
8. Ken Smith (EnSCO)
9. Debbie King (Vantage Drilling)
10. Maria Liapino (Weatherford)
11. Nick Brown (Seadrill)
12. Richard Tatum (Pacific Drilling Services, Inc.)
13. David Meliza (Transocean)
14. Jay Ignacio (Atwood Oceanics)
15. Chip Schweiger (Whitley Penn, LLP)

Via Phone:

16. Tyson De Souza (Seadrill)
17. Scott Davis (Noble Drilling)

Agenda Item: Next meeting & Location

Ken Smith, Director – Financial Reporting, of EnSCO has offered to host the next meeting on Thursday, August 27, 2015 from 2 to 3 P.M. at 5847 San Felipe, Ste. 3300, Houston, TX 77057. The purpose of this meeting is simply to come to a consensus on the questions noted in Appendix 1.

Note: Anti-Trust Statement

It is the policy of IADC committees that no discussion of any specific proprietary information will be exchanged. It is also strictly forbidden that any promotion of or solicitation for participation in agreements between IADC members be allowed.

Agenda Item: “Approval of the Mission Statement”

The sub-committee discussed its mission statement: “As an industry, to come to a consensus and document the Association’s understanding of and position on the application of the new revenue recognition standard (ASC 606) specifically regarding drilling contracts”. The sub-committee unanimously agreed and accepted the mission statement.

Agenda Item: “Presentation and highlights of key contract terms and potential applications to the new standard based on submissions provided” – The sub-committee members discussed the following topics in detail in preparation for the next meeting.

- A. Standard contract terms and the current accounting methods
- B. Description of the performance obligation and the transaction price
- C. Contract standard elements

Based on the above the sub-committee discussed these components and formulated decisions that need to be made for appropriate accounting treatment.

- A. The discussion included the accounting of "Single Performance Obligations". It was discussed that mobilization and de-mobilization would be considered a single performance obligation. This method would be based on appropriate estimates which would be subject to later true-up and disclosures.
- B. The sub-committee also discussed the concept of "Practical Expediency" which is a shorter accounting method with fewer disclosure requirements. It was discussed whether the "practical expediency" method could be used with the existence of up-front paid fees.

The sub-committee also discussed the following for future consideration:

- A. The attendees agreed that a collective document should be presented to each firm's auditors presenting one application of the interpretation of the standard.
- B. The attendees also discussed the need to document the drilling industry's determination that the drilling contract is not a lease.
- C. The attendees discussed the impact of mobilization fees on the contract day rate and the determination of any financing aspect. Also discussed was whether mobilization fees were to be considered a significant financing component or a promised good or service.
- D. The attendees also agreed that revenue recognition should be based on actual drilling results. The question remained whether the revenue recognition would be determined through the "periodic true-up process" in Step 3 or through the application of the "practical expedient".

For the next meeting the attendees are to be prepared to discuss their efforts in evaluating whether "practical expediency" is available or not.

See Appendix 2 for Group Notes from the Meeting

After a full discussion of the agenda topics the committee was adjourned.

Appendix 1 (Group Questions from Meeting to be discussed in the next meeting)

IADC Revenue Subcommittee Meeting Issues
8/17/2015

- 1.) Is the “right-to-invoice” practical expedient applicable given the existence of up-front fees?
 - a. Depending on the conclusion, the following issues may or may not be applicable;
 - i. How should priced options be considered?
 - ii. How should a constraint to variable consideration be applied for items such as performance bonus, penalties, price escalations, etc.?
 - iii. Do different day rates represent “variable” consideration (comment from PWC)? What are the practical implications of concluding they are fixed vs. variable?
 - b. Does the existence of any of the above variable items also impact our ability to use the practical expedient? Consider accounting implications of the above items in the event the practical expedient is not applicable.
- 2.) How should we amortize mobilization? Same basis as day rate, in line with measure of progress (i.e. based on actual contract progress as opposed to straight-line of amortization)?
- 3.) Should there be a financing component for amounts received in respect of mobilization / capital upgrades? Is the answer impacted based on whether the fee is received up-front or over time?
- 4.) Should treatment of various reimbursables (e.g. catering) differ under the new standard from a gross vs. net perspective?

Appendix 2 (Group Notes from Meeting)

ISSUES

~~ESV - Any change to mob or ^{other} upfront revenue recognition?~~

*
ESV - How should we amortize mob into income - some basis as day rate? No more straight-line amortization?

ESV - Is the practicable expedient applicable given existence of upfront fees?

DO - Consider ~~up~~ priced options →

DO - Significant constraint argument (performance bonuses)

*
SEADRILL - Lease Standard

SEADRILL - How to consider perf. bonus while applying practical expedient?

*
DO - Financing element for mob/capital upgrade paid on day rate basis over contract

VAN - Do different day rates represent "vehicle" consideration?

CONCLUSIONS

- ESV - Single Performance Obligation (STEP 2)
- ESV - (STEP 3) TRUE-UP - based on revenue earned to-date
- SEADRILL - (STEP 3) - PRACTICAL EXPEDIENT

ISSUES (CONT)

* Reimbursables - Gross vs Net
(Catering)