



Meeting Minutes
IADC Accounting Issues/Procedures Committee
17 September 2015, 2-4pm
IADC Headquarters
10370 Richmond Ave., Ste. 760, Houston, TX 77042

Agenda Item: Next meeting & Location

Dean Gant, Sr. Director Finance, IADC has offered to host the next quarter's meeting on December 10, 2015 from 2 to 4 P.M. at 10370 Richmond Ave., Ste 760, Houston, TX 77042.

Note: the committee meeting will take place in the 8th floor conference room.

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: "Update from Revenue Recognition Subcommittee"

Ken Smith of EnscO lead a discussion of the mission of the Revenue Recognition Subcommittee and its results to date as summarized in Exhibit A below.

The committee thanked Mr. Smith and other subcommittee members on the progress made to date through collaboration of industry participants.

Based on recent training updates sponsored by Big Four Auditing Firms, a discussion was held by members of the committee for the subcommittee to consider. Some of the issues raised for consideration on the implementation of the new revenue standard follow:

1. View that the upfront fees received from clients does not require an imputation of interest.
2. Need to further consider whether the practical expedient applies. The committee understands the FASB/IASB Joint Transition Resource Group for Revenue Recognition (TRG) is to consider this matter at its next meeting on November 9th.
3. Deferral of mobilization and contract preparation costs.
4. Disclosure requirements to ensure general consistency.

Additionally, the committee discussed its understanding that a final lease accounting standard will be issued in the fourth quarter of 2015. The committee agreed that the scope of the subcommittee should be expanded to deal with its implementation in conjunction with the revenue standard.

It was recommended that Deloitte should be invited to provide an update on new accounting standards and developments during the December 10th committee meeting.

Agenda Item: "Frequency required for impairment testing in current market conditions under ASC 360-10-35-21"

The committee reviewed the accounting literature for requirements of when to test for impairment. A discussion was conducted on whether companies were testing or being required by their auditors to test quarterly for impairment given current market conditions. Participants generally stated that they are performing impairment tests on only those asset groups they believe it is possible impairment exists. If a triggering event is determined to not exist, members are generally not performing an impairment test but may document their assessment in memo for auditors.

Agenda Item: “Reimbursable – Gross versus net presentation” – The committee indicated reimbursable transactions were generally being recognized on a gross basis. However, the committee members stated that the accounting is based on the contract terms or otherwise depends on the circumstances of the purchases to determine whether acting as a principal or agent in the transaction.

Agenda Item: “Subsidiary functional currency considerations”

The committee discussed circumstances in which the functional currency of a subsidiary may differ for statutory reporting under IFRS as compared to consolidated reporting under U.S. GAAP. Members of the committee indicated for U.S. GAAP that their foreign subsidiaries have been designated with the U.S. dollar as the functional currency with a few isolated exceptions.

Agenda Item: “SEC comment letter trends within the industry” – Committee members discussed their current experiences with SEC comment letters. Some of the topics discussed were regarding asset impairment, goodwill and the disclosure on early warnings of potential future impairment.

Agenda Item: “New Matters”

Discussion was conducted on the following:

1. Timing of Fleet Status Reports – The committee members discussed the timing of issuing their Fleet Status Reports. Some members stated they have moved from reporting Fleet Status Reports on a monthly basis to a quarterly basis.
2. Use of EBIDA in external reporting – Certain members of the committee indicated they provide non-GAAP EBITDA measures as part of earnings releases and Company presentations. Other members indicated they provide only GAAP based measures. When presenting non-GAAP EBITDA for actual results, committee members indicated they include a reconciliation to net income within the earnings release or presentation.
3. SOX management review controls – The committee discussed management review controls and the documentation retained in evidencing their performance of these controls. Certain committee members discussed difficulties from auditors requiring a high-degree of support be retained to evidence the performance of the control and at what level of precision. Other members indicated their auditors were satisfied with some evidentiary support along with consideration of the competency of the reviewer to adequately perform the control.
4. Reducing internal reporting requirements – The committee discussed the streamlining of internal reports in the effort to increase efficiency with fewer labor hours used due to reductions in staffing. Some members indicated they were eliminating certain internal reports as a result.
5. Useful lives and salvage values – The committee briefly discussed the useful lives of jack-ups and floaters and related salvage values. Some differences existed in useful lives among certain members, but participants broadly indicated consistent figures for each rig class and salvage values employed.

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

For further information regarding this committee please contact Dean Gant, IADC Senior Finance Director at 713-292-1945, ext. 213.

Exhibit A

IADC Revenue Recognition Subcommittee

- Mission – 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
- Process
 - Regular meetings to analyze Steps 1-5 of the revenue model
 - Periodic reports to the AIP Committee
 - Draft white paper to document the industry view
- Participants
 - Atwood, EnSCO, Diamond Offshore, Noble Corp, Pacific Drilling, Paragon Offshore, Parker Drilling, Rowan, Seadrill, Sidewinder Drilling, Transocean, Vantage Drilling and Weatherford

- Accounting Evaluation
 - Single Performance Obligation
 - Goods and services to be provided under the drilling contract (including mobilization) are not individually “distinct”
 - Combine into single performance obligation
 - Transaction Price
 - Total transaction price includes variable estimates
 - Various day rates (e.g. operating rate, standby rate, moving rate, etc.)
 - Performance bonuses, price escalations, price concessions, etc.
 - Re-estimation of transaction price and contract progress, resulting in quarterly true-up based on actual drilling services provided during the period
 - Upfront and other lump sum fees also recognized based on contract progress

- Application
 - Single performance obligation results in up-front / lump sum amounts for mobilization, capital upgrades, etc. recognized over contract term, similar to existing revenue model
 - Quarterly “true-up” results in day rate revenue recognition that is consistent with existing revenue model (i.e. will NOT result in a change in timing of recognition)
 - Required to use single measure of contract progress to recognize revenue. Therefore, mobilization and / or capital upgrade revenues will not be recognized on a perfectly straight-line basis
 - Estimates of total contract consideration used primarily to determine progress under contract and for disclosure purposes

Attendance:

Name		Company Name
Melissa	Essary	DIAMOND OFFSHORE DRILLING
Beth	Gordon	DIAMOND OFFSHORE DRILLING
Jacob	Campbell	ENSCO PLC
Scott	Lyon	ENSCO PLC
Ken	Smith	ENSCO PLC
Dean	Gant	IADC
Edward	Wong	PACIFIC DRILLING
Richard	Tatum	PACIFIC DRILLING
Kelly	Bludau	PARKER DRILLING
Jessie	Satterwhite	PATTERSON
Philip	Rider	SIDEWINDER DRILLING INC
Jason	Hitchen	SPENCER OGDEN
David	Meliza	TRANSOCEAN
Debbie	King	VANTAGE DRILLING COMPANY