



Meeting Minutes
IADC Accounting Issues/Procedures Committee
AIP Revenue Recognition Sub-Committee
27 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. Carrie Cumming (Atwood)
4. Melissa Essary (Diamond Offshore)
5. Jacob Campbell (Ensco)
6. Scott Lyon (Ensco)
7. Ken Smith (Ensco)
8. Kelly Bludau (Parker Drilling)
9. Scott Davis (Noble)
10. Eddie Wong (Pacific Drilling)
11. Bo Edwards (Ensco)

Via Phone:

1. Maria Liapino (Weatherford)

Agenda Item: Next meeting & Location

Kelly Bludau, Assistant Corporate Controller of Parker Drilling has offered to host the next meeting on Tuesday, September 22, 2015 from 2 to 4 P.M. at 5 Greenway Plaza, Suite 100, Houston, TX 77046. The purpose of this meeting is simply to continue to come to a consensus on the questions noted in the current meeting and draft a white paper on the application of the new revenue recognition rule. The goal of the Drafting Committee is to have a draft whitepaper for our initial conclusions on Steps 1-3 of the standard for the subcommittee's review.

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: "Discussion of Appendix 1"

1.) Is the "right-to-invoice" practical expedient applicable given the existence of up-front fees?

Committee response: It was agreed that the "practical expediency" method would not apply when the contract is taken as a whole when there is a mixture of up-front fees and day rates applied. Since the upfront mobilization is not a separate value to the customer the committee stated that they believed that this further supports the reasoning that the practical expediency method of recognizing revenue would not apply.

- i. Depending on the conclusion, the following issues may or may not be applicable;
 - i. How should priced options be considered? **Committee response:** The option has to be assigned a probability as to the expected exercise. This percentage would be re-evaluated each quarter during the true-up process of billing and recognizing revenue.

- ii. How should a constraint to variable consideration be applied for items such as performance bonus, penalties, price escalations, etc.? **Committee response:** At the beginning of the contract period an assessment should be made as to the probability of the events and the likelihood that a significant reversal in outcome will not occur. Historical trends should be taken into account as part of the documentation of the expected results.
 - iii. Do different day rates represent “variable” consideration (comment from PWC)? What are the practical implications of concluding they are fixed vs. variable? **Committee response:** Most of the participants agreed that the likelihood of incurring different day rates would suggest that this would be variable consideration. The true-up process would take this into account to recognize the actual day-rates earned.
- ii. 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. **Committee response:** The participants agreed that the practical expedient is not applicable because of the discrepancy in the amount invoiced and the value to the customer. The variable aspect of the events during the contract which require true-up would lead to the conclusion that 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)? **Committee response:** The mobilization is an integral part of the drilling contract and therefore would be deferred and amortized over the life of the contract. One member (Carrie Cumming – Atwood) contended the idea of amortizing mobilization fees as they could be seen as relating to the moving of the rig. However, general consensus was that all of the normal drilling services provided are one performance obligation inclusive of mobilization fees.
- 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? **Committee response:** The attendees stated that if the mobilization fees and the payment for capital upgrades are included in the day rate then the time value of money does come into play and should be addressed if it is material to the overall contract.
- 4.) Should treatment of various reimbursables (e.g. catering) differ under the new standard from a gross vs. net perspective? **Committee response:** The attendees stated that the new guidance would not change the accounting for reimbursables and they should be continued to be recorded at gross value.

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