



Meeting Minutes
IADC Accounting Issues/Procedures Committee
AIP Revenue Recognition Sub-Committee
30 June 2016, 2-4pm
Rowan Companies
2800 Post Oak Blvd., Houston, TX 77056

Agenda Item: Next meeting & Location

The next meeting date and location will be on August 18, 2016, from 2 to 4 P.M. at the offices of EnSCO, 5847 San Felipe, Ste. 3300, Houston, TX 77057 followed by the next meeting on September 1, 2016, from 2 to 4 P.M. at Parker Drilling, 5 East Greenway Plaza, Houston, TX, 77046.

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: “Determination of the application of lease standard to drilling contracts”

The subcommittee stated that with few exceptions the activities of the drilling contractors will be accounted for under the new lease standard. The exception would be contracts for services that do not include a rig and could apply in certain circumstances where contract terms were specifically supportive of that treatment. The committee discussed protective right in contracts and how those may appear to indicate control over the identified asset, but in many cases exist to provide the contractors the ability to protect the asset from undue harm. The committee agreed to proceed and address those contracts that were considered to contain a lease.

Agenda Item: “Determination of lease vs. non-lease and not components”

The committee discussed that each drilling contract will have components that will need to be analyzed for the appropriate accounting treatment. Those components include, but are not limited to: a. mobilization costs and fees, b. day rates, c. performance bonus, d. termination fees, and e. reimbursable costs. The list is not all inclusive but the committee agreed to focus on these components as they are largely consistent across contracts and relevant to the participants of the committee. Specifically, the committee agreed to focus on mobilization more specifically with regards to various forms and timing of mobilization consideration. The committee agreed to evaluate each of the components and how they are evaluated under the lease and revenue standards. These items will be covered in more detail at the next meeting.

Agenda Item: “Consideration of variable lease payments and in-substance fixed payments as it pertains to our day rates”

The committee discussed that the lease component of the drilling contract is that which pertains to the rig. Consideration for the rig is typically provided in the form of a day rate. Some stated that the day rate is 100% variable and therefore the variable consideration would be recognized as earned, similar to the way we recognized today. Some accounting firms have raised a concern that certain consideration elements of the drilling contract provide for standby rates and other weather related rates could be considered an in-substance fixed rate and therefore that consideration would be the minimum rate to be recognized across the lease term. The committee disagrees with the consideration of certain rates as in-substance fixed consideration and has agreed to evaluate contractual terms, historical consideration patterns and other data points that would be supportive of 100% variable consideration.

Agenda Item: “Allocation of the consideration between the lease and service components” The committee discussed the allocation of consideration between the lease, service and non-lease components. Some stated that the use of transfer pricing documentation will be leveraged in a cost plus margin approach. Consideration will need to be given the level of precision of these estimates of consideration and whether rates would vary by geographic region or rig type.

Agenda Item: “Other Discussion Items” The committee also discussed the presentation of lease and revenue income on the face of the income statement and that the lease component would likely be significant enough to warrant separate presentation. Additional analysis of the required disclosures will be evaluated in subsequent meetings. Further, the committee discussed operating vs. capital lease considerations. Should the day rate be considered 100% variable, it is unlikely that a lease would be treated as a capital lease under the new standard and as such further discussion will be had once the consideration topic above is resolved.

The committee discussed the need for a working group to outline the content and development of the white paper which would address both land and offshore drilling revenue recognition. The projected date for the first draft of the white paper would be presented to the AIP committee during September, 2016. A draft of the outline will be discussed along with the above topics at the next meeting.

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

Attendance:

Name		Company Name
Mike	Sanders	ATWOOD OCEANICS
Jay	Ignacio	ATWOOD OCEANICS
Katie	Pence	ATWOOD OCEANICS
Melissa	Barron	DIAMOND OFFSHORE
Jacob	Campbell	ENSCO PLC
Colleen	Grable	ENSCO PLC
Dean	Gant	IADC
Muhammad	Jawad	NOBLE DRILLING SERVICES
Diana	Monaghan	NOBLE DRILLING SERVICES
Edward	Wong	PACIFIC DRILLING
Katie	Cunningham	PARAGON OFFSHORE
Anthony	Randazzo	PARAGON OFFSHORE
Leslie	Nagy	PARKER DRILLING
Bruce	Sauers	PATTERSON UTI DRILLING
Dennis	Baldwin	ROWAN COMPANIES
Andy	Hart	ROWAN COMPANIES
Meredith	Woitas	ROWAN COMPANIES

David	Meliza	TRANSOCEAN
Anthony	DeBlanc	WEATHERFORD