



Meeting Minutes
IADC Accounting Issues/Procedures Committee
AIP Revenue Recognition Sub-Committee
1 September 2016, 2-4pm
Parker Drilling
5 Greenway Plaza, Suite 100, Houston, TX 77046

Agenda Item: Next meeting & Location

The next meeting date will be on September 15, 2016, at IADC Corporate offices at 10370 Richmond Ave., Ste. 760, Houston, TX 77042 (the meeting will be at 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: “Discussion of Edited Summary of the Lease/Revenue Standard” – Posted to

the web with these minutes is the edited draft of the summary of the lease/revenue standard discussed in the sub-committee. Colleen Grable, Chairwoman of the Subcommittee, Ensco, invited feedback regarding the completion of the draft of the summary of the lease/revenue standard for the next meeting. The committee discussed a recap of action items identified in prior meetings. Mr. Craig Parks and Steve Macicek of Ernst and Young were in attendance to add their comments. The following discussion topics were discussed during the meeting and many will require follow-up at future meetings:

1. The standard application differences for land and offshore contracts. The committee will strive to ensure the white paper is specific enough to identify where differences in practice may exist between land and offshore drillers and, for clarity, will ensure that the definition of a standard contract either specifically include or specifically exclude such criteria.
2. The variable component in regard to day rates. Additional examples from contracts were identified in further support of a fully variable day rate whereby the rig could be earning a zero rate in circumstances outside of the control of the driller.
3. The establishment of probabilities regarding day rate based on the contract and projected down time. The committee requested that additional context be added to the white paper from the lease accounting literature regarding assessing probabilities of day rates to be earned in the context of variable consideration, a concept that is prohibited in the leasing standard and is in contrast to the revenue standard.
4. The group continues to be in agreement regarding the adoption date of the lease/revenue standards on January 1, 2018, which requires early adoption of the leasing standard. The committee will revisit the discussion of transition method as many participants had yet to fully analyze their positions.
5. The topic of substantive substitution of assets and its economic benefit was discussed in the context of the white paper requiring clarification of some language therein.
6. The group discussed the concept of economic benefit in the context of the control element in the definition of a lease. It was discussed that the decisions to be made regarding the use of the asset that significantly affect the economic benefits to be derived from the use of the asset determine control. Although drilling contractors are benefitting economically from the use of their asset by another party through receipt of a day rate, the decisions made about the use of the asset, such as where to put the asset to drill,

- drive the economic benefits from the use of the asset.
7. The committee discussed the narrow scope exception for drilling contracts not being considered leases. This topic is open for further discussion.
 8. The group then discussed the commencement date of the lease as the point in time in which the lessee (customer) has control or dictates the activity regarding control of the asset. Although many pre-contract elements are at the direction of the customer, the white paper will clarify the requirements of acceptance testing at the drilling site as well as conditions that restrict the customer from changing the mobilization location to further support the commencement date coinciding with the commencement of drilling operations.
 9. The committee discussed the topic of recognizing reimbursables, gross vs. net revenue of billing reimbursables and the various forms of reimbursables. The committee determined to exclude them from the white paper based on the broad range of application, but rather will continue discussions outside of the white paper to delve into inconsistencies with reimbursable expenditure accounting among drillers.
 10. The group also discussed the acceptance of the lease aspect of the drilling contract by each member's management. While management teams are in different stages of understanding the new standards, any lessons learned will be shared as part of future meetings.
 11. The committee discussed the allocation of consideration between the lease and non-lease components, (i.e. consideration for the rig and consideration for drilling services). It is expected that each member of the committee may have different analysis and evidence to support the allocation method used. Various inputs should be considered and the best available information should be used. Additional discussions around the legal entity structure common in drilling companies whereby a legal entity owns the rig and another operates the rig led the committee to discuss the allocation of profits under bareboat charter agreements common in these types of arrangements. Transfer pricing studies to support the allocation of profits between these legal entities may be available to support the split of revenues between the lease and service components. As the charters are typically allocated based on profits, the rig owners would bear a majority of the variability in day rates. Further discussion was had whereby some drillers have additional information relating to drilling services provided without a leased asset that would give a stand-alone comparable rate for the analysis.
 12. The group discussed comparing lease and revenue disclosures after the white paper is done and will not propose adding any discussion of disclosures in the white paper at this point in time.
 13. The next meeting will be on the 15th of September at the IADC offices and everyone is asked to provide feedback for the next draft of the Revenue/Lease Standard Summary.

Action items for the next meeting include the following:

Provide edits/comments on the current draft.

Provide any feedback or discussion points from discussions with audit firms.

Consider transition plan for adopting standards and incorporating into the white paper.

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

Attendance:

Name		Company Name
Katie	Pence	ATWOOD OCEANICS
Melissa	Barron	DIAMOND OFFSHORE

Jacob	Campbell	ENSCO PLC
Colleen	Grable	ENSCO PLC
Derek	Sample	ENSCO PLC
Craig	Parks	EY GLOBAL SERVICES
Steven	Macicek	EY GLOBAL SERVICES
Bill	Ballew	GULFMARK OFFSHORE
Dean	Gant	IADC
Muhammed	Jawad	NOBLE
Edward	Wong	PACIFIC DRILLING
Shaun	Land	PACIFIC DRILLING
Katie	Cunningham	PARAGON OFFSHORE
Elizaveta	Udilovich	PARAGON OFFSHORE
Brandili	Dehls	PARKER DRILLING
Kelly	Bludau	PARKER DRILLING
Leslie	Nagy	PARKER DRILLING
Bruce	Sauers	PATTERSON UTI
Glenn	Smith	ROWAN COMPANIES
David	Meliza	TRANSOCEAN