



AMERICAN PETROLEUM INSTITUTE

May 22, 2015

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Revenue – Deferral of the Effective Date (File Reference No. 2015-240)

Dear Chair Golden,

The American Petroleum Institute (“API”) is pleased to provide comments on the Board’s proposal to defer the effective date of ASU No. 2014-09, Revenue from contracts with Customers (“Update 2014-09”). The API is the only national trade association that represents all segments of America’s oil and natural gas industry. Our more than 500 members – including large integrated companies, exploration and production, refining, marketing, pipeline, marine businesses and service and supply firms – provide most of the nation’s energy. Our publically traded member companies – representing a market capitalization in excess of \$2 trillion – support retirement and pension plans, mutual funds, and individual investments of millions of U.S. citizens. The industry also supports 9.8 million U.S. jobs, 8% of the U.S. economy, and delivers tens of millions of dollars every day in revenue to our government.¹

The API supports the FASB’s proposal of a deferral of the effective date for Update 2014-09. The API believes a deferral of at least one year is necessary to allow companies adequate time to properly implement this comprehensive and principles-based accounting standard.

Since the issuance of the new revenue standard in May 2014, our member companies have identified certain potentially significant accounting and disclosure implementation issues which will take substantial time and effort to resolve. As part of the ongoing effort to resolve these issues, representatives from our member companies and other important stakeholders have been participating in the AICPA’s Oil and Gas Revenue Recognition Task Force (the “Task Force”). Once the Task Force reaches a consensus on the appropriate accounting and disclosure for these issues, its conclusions will be submitted to the AICPA Financial Reporting Executive Committee (the “FinRec”) for their consideration. Furthermore, the API understands in circumstances

¹ “The Economic Impacts of the Oil and Natural Gas industry on the U.S. Economy in 2011: Employment, Labor Income and Value Added,” PricewaterhouseCoopers, July 2013.

where an issue is particularly complex or significant or if consensus by the FinRec is not reached, the issue(s) will be further elevated to the Transition Resource Group for resolution.

While the API supports the Task Force and believes addressing industry-specific implementation issues collectively will result in a smoother and more consistent implementation of the new revenue standard, it is currently unclear how long this process will take. Additionally, the Board has already identified certain areas of the standard (e.g. identifying performance obligations, licenses, principal versus agent considerations) that will not only require further evaluation, but are also likely to result in amended guidance. Further, several industries, including the oil and gas industry, face unique challenges due to potential implications of the new standard with respect to current industry practices established by other regulatory bodies, such as the U.S. Securities and Exchange Commission. Lack of clarity on these impacts and numerous other interpretative issues are a significant impediment to preparers reaching conclusions for certain accounting and disclosure policies. Until consensus is reached and final guidance is provided, it is impossible for companies to ensure all issues are adequately identified, enabling them to make critical implementation decisions around changes to systems, resources, processes, and internal controls. As such, the API supports an extended deferral (e.g. two years) of Update 2014-09; however, the API believes a further deferral should be extended to all companies and not only those that intend to apply the guidance retrospectively to each reporting period presented.

Many of our members are multinational organizations that have both US GAAP and IFRS filing requirements. For example, many of our members report consolidated results on a US GAAP basis, but have requirements for statutory reporting for subsidiaries and/or equity investments that require IFRS. Regardless of the FASB's deferral decision, we respectfully encourage both the FASB and IASB to establish a converged effective date or otherwise ensure the effective dates align moving forward between US GAAP and IFRS for the new revenue recognition standards.

The API also has concerns about the interaction from impacts of the new leasing accounting standard with the implementation of the new revenue standard. The leasing standard, once finalized, could significantly impact how many of our members account for certain contracts. For example, under current guidance, contracts for certain service arrangements do not meet the definition of a lease and are therefore within the scope of the revenue standard. However, it is anticipated under the new lease accounting standard, certain of these service arrangements will meet the criteria for lease accounting and thus will no longer fall within the scope of the new revenue standard. While the effective date of the new leases standard is currently unknown, the API expects it to have a much more profound impact on our industry from a systems and process perspective. Therefore, we respectfully request the Board require an effective date for the leases standard of no earlier than January 1, 2019 if issued as final in 2015. Accordingly, to the extent the Board is considering linking the effective date of ASU 2014-09 and the new leases standard, we respectfully request the Board not to underestimate the complexities and challenges of these standards and consider at least a two year deferral.

We thank the Board for the opportunity to provide these comments. We would be pleased to meet with the Board or staff to discuss them further, as well as to provide additional information that may be helpful. Should you have any questions, please contact Michael Flickinger at (202)-682-6824 or FlickingerM@api.org.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Comstock". The signature is fluid and cursive, with a long horizontal line extending to the right.

Stephen Comstock
Director – Tax and Accounting Policy
The American Petroleum Institute

A handwritten signature in black ink, appearing to read "Ken Seaman". The signature is cursive and includes a large, sweeping flourish at the end.

Ken Seaman
Assistant Controller
ConocoPhillips
Chair – API Accounting Subcommittee