



EnSCO plc  
5847 San Felipe  
Suite 3300  
Houston, Texas 77057  
(713) 789-1400  
www.enscoplc.com

February 5, 2018

Ms. Susan Cospers  
Technical Director  
File Reference No. 2018-200  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2018-200, Proposed Accounting Standards Update, Leases (Topic 842) – Targeted Improvements

Dear Ms. Cospers:

EnSCO appreciates the opportunity to share our views with respect to the Financial Accounting Standards Board's ("FASB" or the "Board") Exposure Draft of the Proposed ASU, Leases (Topic 842) – Targeted Improvements (the "ED").

EnSCO's business is to contract our offshore drilling rigs, related equipment and work crews to drill oil and gas wells for our customers. The proposed accounting standards update of ASC 842 is important to us given that our drilling rigs are operated under contracts that contain both a lease component and a nonlease component.

We appreciate the Board's efforts to reduce the cost of implementing the new leases standard by introducing a practical expedient to permit lessors to not separate nonlease components from the associated lease components if certain criteria are met. We believe that this amendment, if codified, will reduce costs of implementation without sacrificing the quality of information provided to investors. However, we believe the unintended consequence of the criteria required to apply this practical expedient will result in disclosures that are not meaningful to our investors.

While we appreciate that the proposed update provides some relief for operating lease contracts which meet certain criteria, it does not provide relief for all operating leases, in particular longer-term operating leases with more than an insignificant nonlease component. Certain of our longer-term contracts may not meet the criteria in ASC 842-10-15-42A b. as they are of a longer term nature and contain a nonlease component that is significant enough that when aggregated with the lease component would preclude operating lease treatment. However, when consideration is allocated between lease and nonlease components, the lease qualifies for operating lease treatment. This creates a meaningless differentiation in the presentation of certain of our nonlease services for contracts that are otherwise similar, whereby:

- The revenue from nonlease components of contracts that meet the criteria for the practical expedient will be included as part of operating lease income and related disclosures; however,
- The revenue from nonlease components of contracts that don't meet the criteria for the practical expedient will be allocated separately from the lease component and would not be part of the operating lease income disclosures.

The lease and nonlease components have the same pattern of recognition for both leases that qualify for the practical expedient and those that don't. As such, the resulting presentation of the nonlease components of similarly structured contracts in different line items within revenue on the income statement is not meaningful and may be misleading to investors.

We feel this issue can be resolved in one of two ways while still maintaining the cost of implementation as well as the value to investors. The first way is through evaluating the predominant element in the contract, which could lead lessors with more than an insignificant amount of nonlease revenue to recognize their combined income stream in accordance with the revenue standard. Alternatively, disclosure requirements could permit the combination of revenue from nonlease components and the revenue from lease components to be aggregated should they qualify for operating lease treatment.

#### *Evaluation of the Predominant Element in the Contract*

One approach we could envision for when one or more nonlease components are the predominant elements in the contract is to stipulate that the lessor use the Topic 606 guidance to determine the accounting for the single combined component, and not use lease classification based on Topic 842. If the accounting that would result under Topic 606 for the single combined component in nonlease predominance scenarios would not be different from the accounting that would occur if the components were separated as currently required under Topic 842, then the lessor could apply the practical expedient to that lease and follow Topic 606 in accounting for the single component. We do not believe a predominance filter is either overly complex to apply, nor would it be new – the Board having used this notion in both paragraph 842-10-25-5 related to lease classification for a combined lease component and paragraph 606-10-55-65A related to licensing sales-based royalties. It is our view that using Topic 606 in these cases to determine eligibility for the expedient and accounting for the single component would provide the most sensible result and the best information provided to investors, who might view Topic 606 information in these cases as more useful and relevant than Topic 842 information.

#### *Addition of a Disclosure Element to the Practical Expedient*

Alternatively, leaving the guidance in the exposure draft as is, a disclosure element can be added to allow lessors to present the nonlease component together with the lease component if certain criteria are met. Where the practical expedient is not afforded if the combined consideration would not result in an operating lease, but if after allocating, the lease is considered an operating lease, the lease and nonlease components for that contract can be disclosed together as operating lease income. This will ensure consistency of presentation for contracts that are similar in nature and wouldn't separate disclosures based on the applicability of a practical expedient when the underlying accounting is the same. While companies that are required to allocate the consideration between lease and nonlease components cannot fully avail themselves of the cost efficiencies provided by the practical expedient in the ED, there may be efficiencies in the application of the allocation provisions whereby the precision of stand-alone selling prices are mitigated by the combined financial statement presentation.

The disclosure requirement of the standard can be revised as follows:

842-30-50-5 A lessor shall disclose lease income recognized in each annual and interim reporting period, in a tabular format, to include the following:

- a. For sales-type leases and direct financing leases:
  1. Profit or loss recognized at the commencement date (disclosed on a gross basis or a net basis consistent with paragraph 842-30-45-4)
  2. Interest income either in aggregate or separated by components of the net investment in the lease
- b. For operating leases:
  1. Lease income relating to lease payments.
  2. If a lease meets the criterion in paragraph 842-10-15-42A(a) and the lessor has elected the practical expedient in paragraph 842-10-15-42A for the relevant class of underlying asset, but fails the criterion in paragraph 842-10-15-42A(b), the lessor may elect to disclose, as an accounting policy election for such leases, the nonlease portion of the lease payments together with the lease payments.
- c. Lease income relating to variable lease payments not included in the measurement of the lease receivable.

In conclusion, we believe the Board has proposed two amendments to the new leases standard that provides preparers with viable alternatives to cost-effectively adopt and implement the new guidance without sacrificing the quality of information to investors. With consideration of the above proposals, we believe that greater benefit can be provided both to preparers as well as to stakeholders.

Respectfully submitted,

/s/ Tommy E. Darby

Controller

/s/ Colleen W. Grable

Director – Corporate Accounting