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December 15, 2010

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Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Post Office Box 5116  
Norwalk, Connecticut 06856-5116

File Reference No. 1850-100

Dear Technical Director:

Thank you for the opportunity to respond to the Financial Accounting Standards Board ("FASB") regarding the exposure draft for the proposed accounting standards update to Topic 840, *Leases*. We recognize the need for improved accounting and reporting standards related to leases and acknowledge the standards setters' objectives to ensure that assets and liabilities arising under leases are recognized in the statement of financial position. We believe that the proposed leasing model, however, will lead to more confusion and undue complexity for both the preparers and users of the financial statements. Additionally, the subjectivity and judgment required by the preparers to comply with the proposed model will result in diversity in practice, reducing the comparability of financial statements.

#### **Background**

Transocean Ltd. is a leading international provider of offshore contract drilling services for oil and gas wells. Aside from being the largest, our mobile offshore drilling fleet is one of the most modern and versatile fleets in the world. As of December 15, 2010, we owned, had partial ownership interests in or operated 138 mobile offshore drilling units. In addition, we have four offshore drilling units under construction.

Our primary business is contract drilling services, which involves contracting our mobile offshore drilling fleet, related equipment and work crews primarily on a dayrate basis to drill offshore oil and gas wells for our customers. We do not contract our drilling units without also contracting the work crew to perform the drilling services. Under the drilling contract, the drilling contractor is responsible for the operation of, access to and safety of the rig and rig equipment, and the customer is responsible for the development of the drilling programs, the direction of the drilling operations, and, ultimately, own the oil and gas reservoirs associated with the well. Our drilling contracts generally name a drilling unit that will be used in performing our services. Under certain circumstances, with our customer's consent, we may substitute the named drilling unit with another similarly equipped drilling unit. Even though such substitution generally requires a contractual amendment, it is not generally denied. The fee structure for drilling contracts is based on defined differing dayrates that are contingent upon certain operating conditions, such as operating dayrate, standby dayrate, waiting-on-weather dayrate, repair or downtime dayrate. The dayrate may also be subject to adjustments based on certain cost fluctuations, often compared to a base rate or index over the term of the drilling contract. Additionally, we may be eligible to earn fees for certain performance achievements, mobilization, or demobilization. The contract may be structured for short-term, well-by-well periods, or long-term, multi-year periods.

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Under existing accounting standards, we recognize revenues as earned, commencing at the time our rig is accepted at the well site by the customer and ending on the contract end date with a completion requirement for a well-in-progress. We recognize revenues for contract preparation or mobilization fees to a well site on a straight-line basis over the estimated firm period of drilling, consistent with the general level of activity and services provided.

#### **Key Concerns**

The following are our key concerns with the proposed accounting standards update:

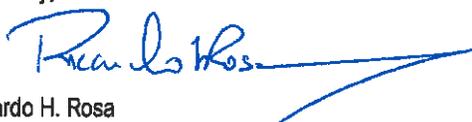
- **Transparency** – Most industry participants currently publish a periodic fleet status report to provide the investment community with a rig-by-rig schedule of our contracts, listing the operating dayrate for prospective contractual periods. Using this data, investors and analysts can reasonably estimate projected revenues for the stated periods by applying additional assumptions related to our operational efficiency or utilization since the existing recognition model results in revenues being recognized over the service period with the general pace of activity. Under the proposed model, which may require bifurcation of the dayrate into service and lease components, the analyst's current practice will be difficult to accomplish and will require reconciliations to the bifurcated components in order to explain differences between stated dayrates and recognized revenues. The bifurcated components will also add confusion and lack of comparability between companies, as there is no market for contracting drilling rigs separate from drilling crews and related services.
- **Simplicity** – Under existing accounting standards, we generally recognize operating revenues as earned during the firm period of drilling operations and pre-operating revenues in a relatively simple manner using straight-line amortization over the same operating period, which commences when the rig is accepted by our customer at the well site for operation. Under the proposed standards, this relatively simple model will be replaced with a substantially more complex model, requiring significant judgments and estimates that, in turn, will require additional time and cost for preparing and auditing our financial statements. This more complex model, furthermore, does not correlate with the management of our operations or the pattern of our cash flows. If required to bifurcate different revenue streams under the proposed standards, internal reporting and external reporting will differ and will likely require reconciliations of our dayrates to our recognized revenues since these will not be directly correlated under the proposed model.
- **Comparability** – Among industry participants, revenue recognition standards are consistently applied in a relatively straight-forward manner as describe above. Considering the significant assumptions, judgments and estimates that will be required under the proposed accounting standards, we believe that the comparability among industry participants, and even among rigs within our fleet, will be reduced substantially. Additionally, the proposed accounting standards update lacks guidance in certain key areas which could lead to diversity in interpretation and application.

Thank you for your consideration of our key concerns as stated above. We have responded to the specific exposure draft questions in the attached Appendix. Although we have responded to many of the questions posed in the exposure draft, we are most interested in those that have a significant effect on our industry, including questions 2, 4, 5, 6, 8, 9, 10 and 17.

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If you have any questions regarding our comments or require additional information to assist you in connection with our comments, please contact Ricardo Rosa, Senior Vice President and Chief Financial Officer at +(41) 22.930.9003 or John Briscoe, Vice President and Controller, at (713) 232-7771.

Sincerely,



Ricardo H. Rosa  
Senior Vice President and Chief Financial Officer



John H. Briscoe  
Vice President and Controller

Attachment

Question	Comment
<p><b>Question 1: lessees</b></p> <p>(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?</p> <p>(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?</p>	<p>(a) Although we generally agree with the right-of-use model for leases for lessees, we have concerns with the proposed measurement guidance (see our responses to questions 8 and 9). We believe that this model accurately presents the economics of the financing characteristics of lease arrangements and effectively achieves the objective of ensuring that assets and liabilities arising under leases are recognized in the statement of financial position. Additionally, the proposed model appropriately eliminates (i) the dual treatment (e.g., capital vs. operating) for the same economic transaction and (ii) the ability to deliberately structure a lease for on-balance sheet or off-balance sheet treatment by removing the bright lines of the existing standards.</p> <p>(b) We generally agree with the theory and proposal to amortize the right-of-use asset and to impute interest on the lease liability. However, we believe that the potentially significant assumptions related to uncertain lease terms (see our responses to questions 4, 8, and 9) may produce volatility in the carrying amounts and recognition, particularly since the asset and liability are amortized at different rates by applying different approaches (i.e., straight-line vs. effective interest). Additionally, due to the extreme volatility of offshore drilling contract dayrates and potential negotiation and signing of drilling contracts multiple years in advance of the start of a contract, the amount of recognized liability may be substantially different for similar assets under the proposed accounting standards update.</p>
<p><b>Question 2: lessors</b></p> <p>(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?</p>	<p>(a) We do not believe that the proposed accounting standards update represents an improvement to the existing standards for lessor accounting, particularly in the case of service contracts that are determined to contain a lease component considering the significant uncertainties related to the lease term and related measurements (see our responses to questions 4, 6 and 12).</p> <p>(i) We disagree with the proposed performance obligation approach to accounting by the lessor, as we believe that it will cause confusion for the user and complexity for the preparer. Aside from the initial confusion resulting from the same asset being presented on the statements of financial position of both the lessee and lessor, the significant assumptions applied by the lessee and lessor will likely result in the same asset being presented at two different amounts. If the boards elect to retain this approach in the final accounting standards update, we believe additional interpretive guidance is necessary.</p> <p>(ii) As for the derecognition approach, although we believe it may be appropriate in certain instances as discussed in the proposed standards, we believe that partial derecognition based on a subjective assessment of the fair value of transferred rights versus the fair value of the retained rights will promote disparate and incomparable measurement among the lessee and lessor.</p> <p>We also believe that the two methods will result in further lack of comparability between similar offshore contract drilling companies, as similar assets contracted at similar dayrates may have different useful lives and the remaining useful life can be impacted by life</p>

Question	Comment
<p>(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?</p> <p>(c) Do you agree there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?</p>	<p>enhancement shipyards. Two companies could, therefore, apply different methods to two similarly equipped drilling units solely because the two drilling units have different remaining useful lives.</p> <p>(b) We do not agree with the proposed recognition standards for the performance obligation method. As stated above, this method will result in inconsistent asset and liability measurement among preparers and revenue recognition that is inconsistent with revenue recognition principles. Specifically, this model will produce a revenue stream that could be front-loaded since the initial asset and liability measurements would be computed by considering (i) contingent revenues that could be higher than the revenues that will actually be recognized and (ii) renewal period options that may never be exercised that could have higher dayrates than those in the firm contract. We do not believe such contingent revenues should be projected based on the probability-weighted and <i>more-likely-than-not</i> principles, which is inconsistent with revenue recognition principles. First, the probability-weighting results in recognition that is not based on a contractual amount. Second, we believe that recognition of contingent revenues should only occur upon achievement of a higher likelihood, such as the <i>reasonably assured</i> likelihood that is consistent with revenue recognition principles and other lease accounting principles. Further, offshore drilling contracts do not include a discount rate, and calculation of a rate implicit in a contract will be subject to the extreme volatility of dayrates in the industry.</p> <p>As for the net lease asset or liability presentation, we note that the proposed model does not specify whether current and long-term amounts will be required to be separately disclosed. We recommend that the boards explicitly state expectations on this classification, and we propose a single net asset or liability presentation is appropriate with further disclosure required in the footnotes to the financial statements.</p> <p>(c) No comment since we do not enter into this type of transaction.</p>
<p><b>Question 3: short-term leases</b></p> <p>This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:</p> <p>(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).</p>	<p>(a) We generally disagree with the proposed standards related to short-term leases. As an alternative simplified approach, we propose expensing such leases, using balance sheet presentation, by applying a model similar to the existing operating lease model. We believe the currently proposed model results in costs that outweigh the benefits due to the substantial volume of short-term leases that may apply to preparers. The short-term nature of these leases is not accurately presented as a financing arrangement on the statement of financial position, and we do not believe that such presentation is meaningful to the users of the financial statements.</p>

Question	Comment
<p>(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65)</p> <p>(See also paragraphs BC41-BC46) Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?</p>	<p>(b) We generally agree with the proposed standards regarding the lessor's option to elect, on a lease-by-lease basis, not to recognize assets and liabilities associated with short-term leases. Furthermore, we recommend that this approach be required by the standards in order to promote comparability and consistency of application. Allowing the option to elect this alternative will likely result in diversity in practice.</p>
<p><b>Question 4: definition of a lease</b></p> <p>(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?</p> <p>(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?</p> <p>(c) Do you think that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?</p>	<p>(a) Although we generally agree with the definition of a lease, we believe that additional clarification and illustrations are warranted, particularly with regard to the definition of a <i>specified asset</i> and a unit of output that is <i>contractually fixed</i>.</p> <p>As for the reference to a specified asset, our drilling contracts generally name the drilling unit that will be used to perform our services. Still, under certain circumstances, which occur infrequently and only with our customer's consent, we may substitute the named drilling unit with another similarly equipped drilling unit. Although substitution generally requires a contractual amendment, it is not generally denied. We believe that additional interpretive guidance would be helpful in determining whether or not an asset in this situation would be considered a specified asset.</p> <p>As for the reference to a unit of output, the definition is based on whether the price paid for the output is <i>contractually fixed</i> per unit of output. Drilling contracts, assuming they are deemed to contain a lease component, define dayrates that vary during the contractual period contingent upon operational conditions present at the time of billing (i.e., operating dayrate, mobilization dayrate, waiting-on-weather dayrate, repair dayrate). Aside from these variable dayrates, the drilling contract may also define additional conditions under which we may be eligible for contingent revenues, such as performance bonuses. Accordingly, we do not consider the price paid per unit of output to be fixed. We believe that additional guidance would be helpful in determining whether or not the price paid per unit of output would be considered <i>contractually fixed</i> in this situation.</p> <p>(b) No comment.</p> <p>(c) We recommend that the boards provide additional guidance regarding paragraph B4(c), which states that <i>the entity has the ability or right to operate the asset in a manner that it determines</i>. In the offshore contract drilling industry, we contract our equipment and work crews on a dayrate basis to construct oil and gas wells according to our customer's specifications. Although our customers make all decisions regarding the construction of the well and direct our drilling operations to meet their well design specifications, we retain responsibility for overall safety, maintenance and operation of the drilling rig, including physical access to the rig. The customer will select the drilling location, but we maintain certified captains and offshore installation managers that retain ultimate responsibility for</p>

Question	Comment
	<p>the movement or station keeping of the rig and have final decision-making authority over operations, respectfully including the authority to shut down any operation deemed to be unsafe. Accordingly, it is unclear if the criteria of paragraph B4(c) has been met based on our operating circumstances.</p> <p>We also recommend that the boards provide additional guidance with regard to the distinguishing features of a service contract with an embedded lease component, as currently described in paragraphs B5-B8. In particular, please elaborate on or provide illustrative examples for identifying a distinct service component and bifurcating an identified service component. In the contract drilling industry, for example, although certain participants may infrequently offer drilling services without a drilling unit, we do not offer our drilling units without also providing drilling services. As a result, estimating the amount of dayrate associated with a lease component and the amount associated with a service component cannot be calculated without applying substantial judgment and subjectivity to the estimate, as there is no viable market for a bareboat charter of a drilling unit. Additional judgment would be required to project contingent revenues since dayrates may fluctuate substantially within a contract period depending on contractual terms and operational conditions, including potential well-in-progress contractual provisions, which allow the customer to complete a well that has been started before the stated contract end date and which can add significant time to a contract term. The term of these additional periods, and whether they will occur, is impossible to estimate. Considering the number of assumptions that would be involved, we believe that the substantial judgment and subjectivity will result in (i) increased diversity in practice among preparers resulting in substantial differences in estimates of the service component and (ii) undue complexity for preparers and lack of comparability for users of the financial statements. We further believe that the diversity and complexity is more extreme than that noted by the boards in the exposure draft introduction regarding existing standards and, therefore, contradictory to the objectives established by the boards. The considerable judgments and varying assumptions that will be required to estimate the service component of a contract to construct offshore oil and gas wells will also add to the complexity and uncertainty associated with auditing the financial statements of offshore contract drilling companies.</p> <p>Additionally, assuming that drilling contracts contain a lease component, this proposed model could significantly alter the industry's existing revenue recognition model, which is considered by many in the investment community to be transparent, straight-forward and comparable among industry participants, by rendering it more complicated for preparers to compute and for reducing comparability among industry participants thereby reducing the usefulness of financial reporting. The proposed model could result in the recognition of contingent revenues, which can be extremely variable, by applying the probability-weighted and <i>more-likely-than-not</i> principles to determining the future lease payments and the lease term. We recommend, if this standard is to be applied to our service contracts, that we apply a <i>reasonably assured</i> standard of determining the future lease payments and lease term, which is consistent with existing revenue recognition criterion and certain other lease accounting principles.</p> <p>See also responses to questions 8 and 9.</p>

Question	Comment
<p><b>Question 5: scope exclusions</b></p> <p>This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).</p> <p>Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?</p>	<p>We recommend that the boards offer additional guidance with regard to the scope exclusion related to "...leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources." According to the existing lease standards, the scope excludes "...lease agreements concerning <i>the rights</i> to explore for or to exploit natural resources..." Therefore, although the boards' intent may have been to retain the original definition and scope of leases, this modified language appears to have altered the scope in such a way that one might interpret our drilling contracts to qualify for the scope exclusion since our contracts are for services and equipment used to explore for the noted resources, which may have been the intended interpretation of the guidance.</p>
<p><b>Question 6: contracts that contain service components and lease components</b></p> <p>This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease component is not distinct:</p> <p>(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.</p> <p>(b) The IASB proposes that:</p> <p>(i) a lessee should apply the lease accounting requirements to the combined contract.</p> <p>(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.</p> <p>(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.</p> <p>Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?</p>	<p>We recommend that the boards offer additional guidance with regard to contracts that may contain service components and lease components. In particular, under existing standards, we recognize revenues associated with our service contracts upon inception of the drilling operations for which our customer has engaged our services and over the operating period consistent with the general pace of activity and level of services being provided. When we receive payments prior to the commencement of drilling operations, such as mobilization fees, contract preparation or customer-requested capital upgrades, each of which can be substantial in amount, we defer recognition and amortize such deferred amounts and the related costs over the contractual operating period. We recognize contingent revenues, such as performance bonuses, upon satisfaction of the contingency.</p> <p>If interpreted to contain a lease component under the proposed standards, our revenue recognition model will differ significantly, potentially accelerating revenue recognition to an earlier stage in the contractual period, possibly prior to mobilization, shipyard preparation, or earlier. Additionally, by measuring lease payments and the lease term based on cash flows projected over a lease term that is <i>more likely than not</i> to occur, revenues would be, in part, attributable to contingent revenues that are based on alternative dayrates, such as stand-by, waiting-on-weather, or repair dayrates and on satisfaction of performance criteria that have not been achieved. Therefore, if the drilling contracts are determined to include a lease component, we believe that additional guidance should be offered to define the inception of a lease and commencement date of a lease and that a higher likelihood, such as <i>reasonable assurance</i>, should be required for revenue recognition related to future lease term and future lease payments. In short, our current revenue recognition model considers that our customers do not contract our drilling units for the purpose of moving them to location or to prepare the rigs for operation even though our customers may pay significant amounts related to these activities, but rather, that our customers contract our drilling units – <i>and our services</i> – to construct wells. Hence, the commencement of drilling operations marks the beginning of the revenue recognition process.</p>

Question	Comment
<p><b>Question 7: purchase options</b></p> <p>This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).</p> <p>Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?</p>	<p>No comment. This feature does not apply to our situation, however, since our customer does not enter into our contractual arrangements with the intent of purchasing our drilling units, but instead, enters into our contractual arrangements for the purpose of engaging our services to construct oil and gas wells.</p>
<p><b>Question 8: lease term</b></p> <p>Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?</p>	<p>We do not agree with the proposed approach to defining the lease term as the longest possible term that is <i>more likely than not</i> to occur. The <i>more-likely-than-not</i> standard is a significantly lower threshold than the <i>reasonably assured</i> criterion required by the revenue recognition principles and the other lease accounting principles and, therefore, has potential for considering future revenue streams that have a higher likelihood of never coming to fruition resulting in greater volatility of earnings, in particular in the offshore contract drilling industry where dayrates are subject to extreme volatility. Additionally, the proposed model may result in the recognition of assets that do not represent <i>probable future economic benefits</i>, which was the definition of an asset under the superceded concepts statements and is contradictory to a model that requires recognition of revenues based on a lower threshold. We believe that a more appropriate measurement would consider only the firm contract period or one that is subject to a higher likelihood, such as <i>reasonably assured</i>, in order to prevent potentially overstating the lease receivable. We also believe that additional clarification is required with regard to the inception of the lease term, as stated in our response to question 4.</p>
<p><b>Question 9: lease payments</b></p> <p>Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?</p> <p>Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?</p>	<p>We disagree with the proposal that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique. However, we recommend that the boards offer additional guidance with particular regard to the requirement that a lessor include uncertain lease payments when they can be <i>reliably measured</i> and whether this is intended to be the same as the <i>reasonably estimated</i> standard proposed in the revenue recognition exposure draft. We believe these references should be stated consistently to prevent confusion and inconsistent application as a result of contradictory interpretations.</p> <p>Additionally, we note that the measurement of the lessor's lease receivable and the lessee's lease liability will require significant judgment and subjectivity that will likely result in amounts that are not comparable. This situation will be exacerbated by the assumptions regarding the substantial variability of uncertain cash flows, particularly considering the high likelihood that the lessor and lessee would apply significantly different assumptions.</p>

Question	Comment
<p><b>Question 10: reassessment</b></p> <p>Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?</p>	<p>We generally agree with the proposal to remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make or in the right to receive lease payments as a result of changes in the lease term or contingent payments. However, we believe that such significance will be difficult to assess without performing the calculations. As a result, we believe the amount of time required to make this assessment will be excessively demanding considering the already burdensome requirements of the proposed lease standards, as noted in our responses to questions 8 and 9. Additionally, due to the amount of subjectivity, it will be difficult to determine whether a significant change in the liability is the result of changes in facts and circumstances or, if performed by two different individuals, changes in assumptions. This subjectivity also adds a significant level of complexity to an audit of the calculations.</p>
<p><b>Question 11: sale and leaseback</b></p> <p>Do you agree with the criteria for classification as a sale of leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?</p>	<p>No comment.</p>
<p><b>Question 12: statement of financial position</b></p> <p>(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets and that the lessee does not lease (paragraphs 25 and BC143-BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?</p> <p>(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?</p> <p>(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?</p> <p>(d) Do you agree that lessors should distinguish assets and liabilities that arise under the sublease in the statement of financial position (paragraph 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?</p>	<p>(a) We do not believe that presentation of the right-of-use assets and lease payment liabilities should be required to be separate from other tangible assets and financial liabilities of a lessee. We believe that this balance sheet presentation unnecessarily clutters the presentation, distracting the users with information that is not meaningful on the face of the financial statement. We, therefore, believe such information would be more appropriately presented in a footnote disclosure.</p> <p>(b) We do not agree with the proposal to present the underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling a net lease asset or lease liability. We believe that this presentation unnecessarily clutters the balance sheet that distracts the user with information that is not meaningful. The presentation, as proposed, is only exacerbated when the preparer consolidates variable interest entities that are involved in the same business, for which separate presentation of the variable interest entities material balances are also required. Accordingly, we believe this information is more appropriately presented in the footnotes to the financial statements.</p> <p>(c) We do not agree with the proposal to separately present lease payment receivables from other financial assets for similar reasons stated above. We, instead, believe that footnote disclosure is more appropriate.</p> <p>(d) We do not agree with the proposal to separately present in the statement of financial position assets and liabilities that arise under a sublease. We believe that footnote disclosure is more appropriate for the reasons stated above.</p>

Question	Comment
<p><b>Question 13: income statement</b></p> <p>Do you think that lessees and lessors should present lease income and lease expenses separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?</p>	<p>We do not believe that separate presentation is meaningful unless otherwise required under existing materiality measures.</p>
<p><b>Question 14: statement of cash flows</b></p> <p>Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153, and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?</p>	<p>We do not believe that separate presentation is meaningful unless otherwise required under existing materiality measures.</p>
<p><b>Question 15: disclosure</b></p> <p>Do you agree that lessees and lessors should disclose quantitative and qualitative information that:</p> <p>(a) Identifies and explains the amounts recognized in the financial statements arising from leases; and</p> <p>(b) Describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?</p> <p>(paragraphs 70-86 and BC168-BC183)</p> <p>Why or why not? If not, how would you amend the objectives and why?</p>	<p>We generally agree that lessees and lessors should be required to disclose quantitative and qualitative information regarding the amounts recognized in the financial statements arising from leases. Considering the significant judgments and estimates included in the measurement and recognition requirements of the proposed lease model, we believe this information would not only be beneficial to the user but essential to understanding the substantial subjectivity involved, in particular if required to bifurcate a service component. We also agree that information related to the amount, timing and uncertainty of the future cash flows would be beneficial disclosure.</p>
<p><b>Question 16: transition</b></p> <p>(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date initial application using a simplified retrospective approach (paragraphs 88-96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?</p> <p>(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?</p> <p>(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?</p>	<p>We generally agree with the proposed simplified retrospective approach, as the full retrospective application would be overly burdensome relative to the benefits to the users of the financial statements.</p>

Question	Comment
<p><b>Question 17: benefits and costs</b></p> <p>Paragraphs BC200-BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?</p>	<p>We believe that the proposed lease model produces little benefit relative to the substantial costs when compared to existing lease accounting standards. The level of subjectivity involved in establishing judgments, assumptions, and estimates for critical elements of the measurements of assets, liabilities, and revenues will likely result in widespread diversity in application and in increased complexity in preparing and using the financial statements. This reduced comparability is amplified if the service component of offshore contract drilling services are bifurcated and presented separately in the statement of operations. Such subjectivity also adds complexity to the audits of such judgments. Assuming such standards are deemed to apply to our service contracts, discussion and analysis related to our measurements of assets, liabilities, and revenues will be overly complex compared to existing measurements. Furthermore, the amount of time and work required to perform the initial measurement and ongoing reassessments considering the significant fluctuation in dayrates and uncertainties regarding lease terms will be overly burdensome on our internal resources as well as significantly increasing the cost of independent audits.</p>
<p><b>Question 18: other comments</b></p> <p>Do you have any other comments on the proposals?</p>	<p>No comment.</p>
<p><b>Question 19: non-public entities</b></p> <p>Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?</p>	<p>No comment.</p>