December 15, 2010

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

Dear Technical Director:

We acknowledge the need for improved financial accounting and reporting in respect of leases and appreciate the opportunity to comment on the Financial Accounting Standards Board (“FASB”) exposure draft (“ED”) of the accounting standards update to Topic 840, Leases.

Ensco plc is a global offshore contract drilling company and provides offshore contract drilling services to the international oil and gas industry. We provide drilling services on a "day rate" contract basis. Under day rate contracts, we provide a drilling rig and rig crews and receive a fixed amount per day for drilling a well which include both short-term and long-term contract durations and may include options to extend those terms. Our customers bear substantially all of the ancillary costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

We acknowledge the FASB’s objective of the ED in regards to reflecting assets and liabilities on the balance sheets of the lessees in respect of operating leases. However, we believe the ED proposes accounting that is complex, overly subjective and ineffective on a cost-benefit basis from both the lessee and lessor perspective. Specifically, we believe that unintended or unfavorable consequences for lessors will occur as a result of the FASB’s objective to improve accounting for lessees. Application of the ED would significantly change the method in which operating results of the offshore contract drilling industry are recognized and presented, no longer providing an accurate, comparable representation of the economics of our drilling contracts, the understanding of the contracting parties and the manner in which the business is managed.

Under current accounting standards, our drilling contract revenues and expenses are recognized on a per day basis, as the work is performed. This results from the fact that day rate revenues are typically earned, and contract drilling expense is typically incurred, on a uniform basis over the terms of our drilling contracts. This basis of accounting provides for a simple and transparent presentation of the performance and
underlying fundamentals of the operations of our company and industry. We have not considered our drilling contracts as leases under current accounting standards, however, we do not believe such a determination would have led to a material alteration in the recognition and presentation of our operating results.

Although the ED appears not to change the scope of what is deemed as a lease, the proposed accounting for leases places more emphasis on that determination. We request that the FASB provide additional guidance on the application and scope of the ED, specifically as it relates to the determination of whether a service contract includes a lease element and whether such lease element, if any, should be bifurcated. Our business is managed with the viewpoint that we provide a service, not that we are a lessor of assets. We do not offer and/or price the lease of our drilling rigs separately from the drilling services we provide and, therefore, our business model does not support the bifurcation of our drilling contracts into a separate lease element. As previously mentioned, such bifurcation would lead to what we believe are unintended or unfavorable consequences on our industry’s financial accounting and reporting model.

We would like to take this opportunity to describe certain of these unintended or unfavorable consequences as they specifically relate to our company and industry. Our drilling contracts stipulate a day rate that is earned on a uniform basis as services are rendered. A day rate is the basis for understanding, analyzing and measuring the performance of our company and industry and the underlying fundamentals of each segment of the global offshore drilling market. We believe the bifurcation of this day rate into a lease element and a service element would result in an unjustified revision of the financial reporting and revenue recognition model for our industry, which has otherwise proven to provide transparency and simplicity to our investment community for many years. Future revenues based on drilling contract backlog is easily forecasted under the current accounting standards whereas the proposed ED would result in a significant increase in the complexity of estimates necessary to derive earnings forecasts utilized by our investment community. We believe the complexity of this new framework would require the usage of non-GAAP disclosures to reconcile the revenue recognized under our drilling contracts to the day rates stipulated in those contracts as the amounts reported in our financial statements would no longer coincide with the economics of the underlying contracts.

Furthermore, the usage of the effective interest rate method would result in the front loading of revenue on our drilling contracts which is inconsistent with the fact that drilling services are typically provided to our customers on a uniform basis over the contract period. For example, the proposed accounting under the ED would result in more
revenues and operating income recognized in year one of a two year term drilling contract as opposed to revenues and operating income recognized in year one of a one year term drilling contract, assuming both have the same day rate, rig type, similar complexity of drilling services provided and economic costs incurred by the company to provide those services.

Lastly, we do not believe the usage of a weighted-average probability method to record lease receivables (and thereby determine the amount of revenues recognized) is appropriate, specifically as it is applied to highly cyclical industries such as the offshore contract drilling industry. Our drilling contracts may contain options to extend which are subject to change throughout the duration of the contract. Therefore, the prediction of option exercises is highly subjective given the cyclical and market sensitive nature of our industry. Revenue recognition on this basis will almost certainly result in timing differences of the revenues recognized on similar drilling contracts held by industry participants when combined with the effective interest rate method. For example, two different companies may execute multi-year drilling contracts with identical terms and recognize different amounts of revenues and operating income in year one of those contracts due to the differing views each management team may have with respect to option exercises that are based in part on the likelihood that future events will occur.

Please see the attached Appendix for our responses to certain specific questions included in the ED.

Sincerely,

[Signature]

Douglas J. Manko
Controller and Assistant Secretary
EnSCO plc
500 N. Akard Suite 4300
Dallas, Texas 75201
Question 2: Lessors

(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?

(b) Do you agree with the board’s 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?

Response:

(a) We generally agree with the proposed factors to be utilized in determining whether the performance obligation or derecognition approach should be applied.

(b) We do not believe the recognition guidance is appropriate and believe it would result in accounting that is complex, overly subjective and ineffective on a cost-benefit basis from both the lessee and lessor perspective. Specifically, we believe that unintended or unfavorable consequences for lessors will occur as a result of the FASB’s objective to improve accounting for lessees. We do not agree with the usage of a weighted-average probability method to record lease receivables or the usage of the effective interest rate method which will result in the front loading of revenue on our drilling contracts and introduce subjectivity into the recognition of revenues, resulting in unintended earnings volatility. We believe the current operating lease model for lessors where income is recognized on a straight-line basis and contingent fees are recognized when earned is more representative of the economics of our drilling contracts. Our current model also allows for comparability by the investment community of EnSCO plc and its peers.

Question 4: Definition of a lease

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(b) 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?

Response:

(a) Although the ED appears not to change the scope of what is deemed as a lease, the proposed accounting for leases places more emphasis on that determination. Our
business is managed with the viewpoint that we provide a service, not that we are a lessor of assets. Although a customer may specify a type of rig based on numerous geographical and/or regulatory requirements, which is usually stated in the drilling contract, our drilling rigs are generally interchangeable within a specific geographic region in respect of those rigs that we choose to bid to our customers as well as the rigs bid by our competitors. We do not offer and/or price the lease of our drilling rigs separately from the drilling services we provide and, therefore, our business model does not support the bifurcation of our drilling contracts into a separate lease element. Therefore, we believe there are industries such as ours where application of the ED does not provide a logical framework for the recognition and presentation of operating results, especially in consideration of the manner in which our business is managed.

(b) We request that the FASB provide additional guidance on the application and scope of the ED, specifically as it relates to the determination of whether a service contract includes a lease element, what constitutes a specified asset, what qualifies as contractually fixed per unit and whether such lease element, if any, should be bifurcated.

Question 5: Scope exclusions

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).

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?

Response:

We provide offshore contract drilling services to the international oil and gas industry. Our drilling rigs are utilized by us to provide drilling services to our customers who explore for, or produce, oil and natural gas. It is unclear whether our industry was intended to qualify for this scope exclusion. We request that the FASB provide additional guidance in regards to the application of the scope exclusion included in the ED.

Question 6: Contracts that contain service components and lease components

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 components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) The IASB proposes that:
   (i) A lessee should apply the lease accounting requirements to the combined contract.
   (ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
   (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.

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?

Response:

As previously noted, our business is managed with the viewpoint that we provide a service, not that we are a lessor of assets. We do not offer and/or price the lease of our drilling rigs separately from the drilling services we provide and, therefore, our business model does not support the bifurcation of our drilling contracts into a separate lease element. We acknowledge that the application of the two suggested approaches noted above in regards to service contracts that may contain a lease element would result in significantly different outcomes.

Therefore, we request that the FASB provide additional guidance on the application and scope of the ED, specifically as it relates to the determination of whether a service contract includes a lease element, what constitutes a specified asset, what qualifies as contractually fixed per unit and whether such lease element, if any, should be bifurcated. We also request the FASB provide additional guidance on determining distinct service components.

Question 8: Lease term

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?
Response:

We do not agree that the lease term should be measured 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, specifically as it is applied to highly cyclical industries such as the offshore contract drilling industry. Our drilling contracts may contain options to extend which are subject to change throughout the duration of a contract. Therefore, the prediction of option exercises is highly subjective given the cyclical and market sensitive nature of our industry. Revenue recognition on this basis will almost certainly result in timing differences in revenues recognized on similar drilling contracts held by industry participants when combined with the effective interest rate method. For example, two different companies may execute multi-year drilling contracts with identical terms and recognize different amounts of revenues and operating income in year one of those contracts due to the differing views each management team may have with respect to option exercises that are based in part on the likelihood that future events will occur. We believe the application of this measurement guidance will reduce the comparability of operating results for our industry in general and introduce more subjectivity to revenue recognition in particular.

Question 9: Lease payments

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?

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?

Response:

We do not believe the usage of a weighted-average probability method to record lease receivables (and thereby determine the amount of revenues recognized) is appropriate, specifically as it is applied to highly cyclical industries such as the offshore contract drilling industry. This method combined with the usage of the effective interest rate method will result in reduced comparability of operating results across our industry due to the subjectivity of estimates involved and the resulting potential for volatility in revenues recognized. We believe the lease assets and liabilities should be recorded as the total minimum lease payments due and that contingent fees should be recorded when earned.
Question 17: Benefits and costs

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?

Response:

We believe the ED proposes accounting that is complex, overly subjective and ineffective on a cost-benefit basis from both the lessee and lessor perspective due to the issues of application and lack of tangible, or otherwise intangible, benefits to Enscopl or the offshore drilling industry as discussed above.