February 2, 2018

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sent by e-mail to director@fasb.org

File Reference No. 2018-200, Leases (Topic 842): Targeted Improvements

Dear Ms. Cosper:

ConocoPhillips appreciates the opportunity to comment on the Financial Accounting Standards Board (FASB or Board) Proposed Accounting Standards Update (ASU), Leases (Topic 842): Targeted Improvements (the Exposure Draft). ConocoPhillips is the world’s largest independent exploration and production company, based on proved reserves and production of liquids and natural gas. Headquartered in Houston, Texas, our global operations involve the exploration, production, transportation, and marketing of crude oil, bitumen, natural gas, liquefied natural gas, and natural gas liquids in 17 countries. As of September 30, 2017, ConocoPhillips had approximately 11,600 employees worldwide, $75 billion of assets, and approximately $32 billion of annualized revenues. ConocoPhillips is a lessee under numerous agreements to lease marine-related vessels, aircraft, drilling equipment, computers, office buildings, and other facilities and equipment. Accordingly, the provisions of FASB Accounting Standards Codification (ASC) Topic 842, Leases (ASC 842), issued in February 2016, as well as this Exposure Draft and other ASC 842 Exposure Drafts previously issued for public comment by the FASB are of critical importance to the company.

We commend the FASB for its ongoing stakeholder outreach and for its efforts to reduce the costs and complexity of ASC 842 implementation for preparers while maintaining the usefulness and quality of information provided to financial statement users. Based on our review of the Exposure Draft, we note the proposed amendments would add an option for transition to ASC 842 that would permit an enterprise to apply the transition provisions of the new accounting standard at its adoption date instead of at the earliest comparative period presented in its financial statements (the "Optional Transition Method"). In addition, we observe the proposed amendments would add a practical expedient that would permit lessor enterprises to elect, on an asset class basis, to not separate non-lease components apart from the associated lease components, provided certain specified conditions are met (the "Lessor Practical Expedient").

While our involvement in leasing arrangements is primarily as a lessee, we support the objectives of the Exposure Draft. We also support the comment letter submitted by the American Petroleum Institute (API), dated January 29, 2018, and wish to provide additional feedback to the Board on certain elements of the Exposure Draft in the following paragraphs.

We view the Optional Transition Method as an improvement to ASC 842 and support the Exposure Draft as providing a meaningful reduction to the significant costs and complexity of ASC 842 implementation. In connection with the company’s implementation of ASC 842, we have identified certain technical accounting issues, questions, and/or challenges related to the current requirements to restate prior-period financial statements and prepare comparative period disclosure information as if the provisions of ASC 842 have
have been applied to leasing arrangements since the earliest period presented in our financial statements (i.e., as of January 1, 2017 since we will adopt the new accounting standard as of January 1, 2019). As such, we applaud the Board for considering the feedback and concerns from preparers and believe the Optional Transition Method is operable as written in the Exposure Draft.

However, we ask the Board to consider providing clarifying guidance with respect to the comparative period financial information and disclosures that would be required to be prepared by enterprises electing to apply the Optional Transition Method. We interpret the Optional Transition Method to provide for the application of FASB ASC Topic 840, Leases (ASC 840) to comparative period financial statements and disclosures, resulting in ASC 842 being applied going forward beginning with the date of adoption. We have historically interpreted the provisions of ASC 840 to require financial statement disclosures to be prepared on an annual, but not interim, basis. Our review of the interim and annual financial statements and disclosures of several unrelated enterprises appear to confirm our historical interpretations. As such, we believe questions may arise with respect to whether the disclosure-related impacts of applying the Optional Transition Method would effectively create an additional requirement to begin preparing ASC 840 disclosure information on an interim basis for comparative financial reporting purposes during the year of ASC 842 adoption (i.e., comparative interim period and year-to-date financial information).

We believe a requirement to prepare ASC 840 disclosures on such an interim basis for comparative reporting purposes could result in additional implementation costs and complexity, which would appear to be inconsistent with the overall objectives of the Optional Transition Method. Furthermore, we believe the current annual disclosure requirements of ASC 840 would provide sufficient financial information that would enable users of financial statements to make reasonable estimates of interim lease expenses for comparison purposes. Consequently, we suggest the Board provide clarifying guidance that indicates comparative period financial information subject to the provisions of ASC 840 be prepared only as of the prior annual financial reporting period when applying the Optional Transition Method, as opposed to the preparation of ASC 840 comparative period disclosure information on a corresponding prior interim period basis.

As noted above, our involvement in leasing arrangements is primarily as a lessee, so we have elected to not provide detailed comments on the Lessor Practical Expedient. However, we appreciate the Board’s willingness to address the concerns of both lessees and lessors with respect to ASC 842 implementation.

We thank you again for the opportunity to offer our comments on this Exposure Draft, and we hope you find our comments helpful. Please contact Cathy Brooks, Assistant Controller, by telephone at (281) 293-3195 or by e-mail at Cathy.A.Brooks@conocophillips.com if you have any questions or wish to discuss our comments further.

Sincerely,

Glenda M. Schwarz
Vice President and Controller
ConocoPhillips