

## **Statement from the Advisory Expert Committee on Accounting Issues:**

An FPSO is a floating platform used for oil and gas activity at sea to process and store crude oil and gas at a field. The FPSO is anchored at the field for many years and it was re-designed and upgraded to fit the specific oil field. Normally (up to recently) the contracts between an oil company and the lessor of FPSO's have been long-term contracts, because the investments in the FPSO to be upgraded and tailor made for the specific oilfield are very large. Earlier the contracts were usually long-term, but in recent years the contract periods have shortened. The contracts usually have options for the oil companies to extend the lease contract for many years and for many periods of years (shorter extensions).

The Advisory Expert Committee was asked to consider, whether a lessor could depreciate an FPSO in accordance with a usage method. The conclusion is amongst other things based on IAS16.50 and IAS16.6, which states: "The depreciable amount of an asset shall be allocated on a systematic basis over its useful life». Useful life is defined as «the period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from the asset by an entity». IAS 16.56 states that specific factors must be considered when determining the useful life of an asset, amongst which can be mentioned: «expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output»

Usage methods are not described in detail in IAS 16, and they are neither described in detail in the accounting literature\*. Therefore, there are not a specific criteria or rules on how to apply usage methods and the Committee believes that following factors might be considered when to apply a usage method for lessors:

- Depreciation should be allocated with a reference to expected number of hours or physical volume of oil and gas processing (cf. IAS 16.6 and IAS 16.56) and the expected number should be assessed with reasonably precision
- The remaining usage should not be reduced when the asset is idle
- Lessor shall have control, that the FPSO will be used in the assessed number of hours or processing volume

The committee concludes that based on the information provided in this case the considered factors are not met to a satisfactory degree for the "usage method" to be applied.

\*By IFRS literature we mean the accounting manuals from the big four global accounting firms from KPMG, PWC, E&Y and Deloitte.