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Submitted via email to director@fasb.org

Mr. Russell G. Golden, Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 1810-100, Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities ("proposed ASU")

Chevron Corporation ("Chevron" or "the company"), based in San Ramon, California, is one of the world's leading integrated energy companies, with subsidiaries that conduct business worldwide. The company explores for, produces and transports crude oil and natural gas; refines, markets and distributes transportation fuels and other energy products; manufactures and sells petrochemical products; generates power and produces geothermal energy; provides energy efficiency solutions; and develops energy resources for the future, including biofuels.

Chevron appreciates the opportunity to provide comments on the proposed ASU, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

We are supportive of the FASB's (the Board) objective to improve the decision usefulness of financial instrument reporting by providing investors with transparent and useful information about an entity's utilization of financial instruments. We are also supportive of the Board's efforts to address all aspects of the accounting for financial instruments and derivative and hedging activities in one integrated proposal. However, it is our view that the proposed ASU does not meet these objectives for industrial or commercial entities, whose business strategies and operations differ from entities that primarily trade or transact in financial assets and liabilities. We therefore do not support the proposed ASU as presented, and offer the following general comments and suggestions for addressing our concerns.

Convergence

Chevron supports the concept and objective of a single set of high-quality accounting standards for all major capital markets. However, we believe that the IASB and FASB (the Boards) have issued proposals that create further divergence in the accounting for financial instruments. If the existing proposals are adopted as the final standard, companies would be required to make changes to their accounting for financial instruments twice, once under U.S. Generally Accepted Accounting Principles (GAAP), when the FASB standard becomes effective, and subsequently under IFRS if those standards are adopted in the U.S. We strongly encourage the Boards to resolve the remaining differences between the standards before issuance of final requirements. Doing so will better meet the objective of fostering "international comparability of financial information about financial instruments," as indicated in the proposed ASU.

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We believe a converged standard on accounting for financial instruments is an important element of the broader objective of making significant progress toward convergence prior to adoption of IFRS in the U.S.

In our opinion, the most significant area of divergence between the proposed ASU and the IFRS requirements is in the measurement and accounting for investments in equity instruments. The proposed changes in this area do not improve existing U.S. GAAP (ASC Topic 815, *Derivatives and Hedging* and ASC Topic 825, *Financial Instruments*) and do not reflect the business strategies companies typically employ. We also believe the guidance under existing U.S. GAAP is better aligned with IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 9, *Financial Instruments*, where the mixed model approach better reflects the business strategies of companies.

Mixed Measurement Model

We support a mixed measurement model for financial assets and liabilities. While the Board's proposed model allows some exceptions, it is essentially a fair value model rather than a mixed measurement model. We are concerned that some aspects of the proposed model would result in increased earnings volatility for many reporting entities, and these proposals do not meet the Board's objective of increasing transparency and providing more useful information. In particular, designating fair value through net income as a default measurement for all financial assets and liabilities may, in many cases, produce the opposite of that intended by the Board and result in confusing and irrelevant information being presented to investors. We therefore do not believe that fair value through net income should be designated as a default measurement for all financial assets and liabilities.

We favor an approach that is consistent with the classification and measurement model under IFRS 9, which does not designate 'fair value through net income' as the default measurement approach for financial assets and liabilities. While the IFRS 9 approach is also based on an entity's business model and an instrument's cash flow characteristics, it allows for a greater exercise of judgment in determining the classification and measurement of financial assets. This allows management to determine the accounting treatment that most appropriately reflects the nature of the underlying transactions and therefore provides information that is more relevant and useful to users of financial statements.

For example, unlike entities whose cash flows and business strategies are focused on the trade of traditional financial instruments, Chevron's business strategies include profitable growth in core areas of our upstream portfolio, improved returns and growth of earnings across our downstream and chemicals value chain and investment in profitable renewable energy and energy efficiency solutions. The cash flows realized by the company are predominantly a result of the proper execution of those strategies, rather than from the realization of gains or losses on financial instruments. We therefore believe that amortized cost is the appropriate measurement category when an entity's objective is to hold assets or liabilities in order to collect or pay contractual cash flows consistent with these strategies, and that those cash flows are payments of principal and interest (or equivalent) on the principal amounts outstanding. This is consistent with IFRS 9, which allows entities to classify their financial assets on the basis of both their business model for managing those assets and the contractual cash flow characteristics of those same assets.

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Investment in Equity Instruments

We do not agree with the guidance in the proposed ASU that all equity instruments not accounted for under the equity method of accounting (because the relevant criteria cannot be met or measured at redemption price) should be measured at fair value with changes in fair value recorded in net income. Chevron's intent is to hold equity investments in non-marketable equity securities for the long term in order to receive returns in the form of tax benefits, and to realize future cash flows from providing energy efficiency solutions and developing future energy technologies through investments in various alternative energy ventures. The measurement of these investments at fair value through net income does not align with Chevron's business strategies or investment economics expected to be realized from holding these investments. Instead, these investments should be held at cost. Further, the proposed requirements to measure these investments at fair value through net income will impose significant operational challenges due to the lack of observable market values or other relevant data for many of these investments.

We believe that the current GAAP in ASC Topic 323, *Investments – Equity Method and Joint Ventures*, ASC Topic 325, *Investments – Other* and ASC Topic 810, *Consolidation* have appropriately addressed the accounting for investments in equity instruments and therefore we do not believe any further amendments to the accounting are needed. However if the Board believes that further guidance should be provided in this area, those changes should be made in the standards outlined above as a separate joint project with the IASB in an effort to achieve convergence in this particular topical area.

We trust our comments are helpful to the FASB in determining next steps for the project.

If you have any questions on the content of this letter, please contact Al Ziarnik, Assistant Comptroller, at (925) 842-5031.

Very truly yours,



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Appendix – Chevron Responses to Select, Most Relevant Questions for Preparers Contained in the Proposed ASU

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

We generally agree with the scope of financial instruments included in the proposed ASU but encourage the Board to provide additional implementation guidance on the application of the definition of both a financial instrument and a derivative and to consider how different business strategies could result in different accounting treatment for these instruments.

In paragraph BC18 of the proposed ASU the Board states that risks and market forces have blurred the distinction between industries and have heightened the need for greater comparability in the financial statements of entities in different industries, thus reinforcing the Board's belief that all entities with similar financial instruments should account for those instruments in a similar manner. While we agree with the statement on comparability we believe the logic of the Board should extend beyond considering the holding of similar financial instruments by entities in different industries to place more emphasis on the business strategies of entities in different industries before applying the accounting uniformly.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

We believe that the existing GAAP in ASC Topic 323, *Investments – Equity Method and Joint Ventures*, ASC Topic 325, *Investments – Other* and ASC Topic 810, *Consolidation* have appropriately addressed the accounting for investments in equity instruments and therefore we do not believe any further amendments to the accounting is needed. However if the Board believes that further guidance should be provided in this area, those changes should be made in the standards outlined above as a separate joint project by the Boards.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

Accounting for certain instruments at their redemption value introduces another measurement category that adds complexity to a proposed standard designed to reduce complexity in this area. As stated in the body of our letter, we believe that a mixed measurement model for financial assets and liabilities is appropriate. Within that context, if the redemption value of certain equity investments (other than those accounted for under the equity method) is a reflection of the fair value of the investment, based on the business strategies of the holding entity, then companies should be permitted to use redemption value to determine the fair value of the investments (under the fair value through net income category). This principles based approach may allow for similar treatment of other "like" investments without the need for specific identification of the investments.