October 25, 2010

Via email to director@fasb.org

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Staff Draft 2010/July 1 – Financial Statement Presentation

Chevron Corporation appreciates the opportunity to provide comments to the Financial Accounting Standards Board (FASB) on the “Staff Draft of an Exposure Draft on Financial Statement Presentation” (Staff Draft) released July 1, 2010.

Chevron is a global, integrated energy company based in San Ramon, California. 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 is developing energy resources for the future, including biofuels. The company’s activities are widely dispersed geographically, with operations in North America, South America, Europe, Africa, the Middle East, Asia and Australia.

In general, we support the FASB’s concept for creating a more cohesive structure across the financial statements. We also recognize the proposals included in the Staff Draft are an important step towards convergence of International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (U.S. GAAP). However, we have several concerns with some aspects of the Staff Draft, particularly related to:

- definitions of operating and investing activities
- balance sheet account disclosures
- segment reporting footnote disclosures
- the direct statement of cash flows, and
- the complexity of implementation

We offer our comments and suggestions for addressing these and other concerns below.

Definitions of Operating and Investing Activities

While we are not necessarily opposed to separation of business activities from financing activities throughout the financial statements under the cohesiveness principle, we believe the proposed, separate definitions of the operating and investing categories are not valuable to financial statement users.
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The proposed investing category is not particularly meaningful. Under the current model, there is a clear distinction between how operations generate cash and how that cash is used for various investing and financing activities such as capital expenditures, dividends to shareholders, and share repurchases. This is consistent with the framework management uses for making resource-allocation decisions and for communicating to the company’s financial statement users. We do not believe there is sufficient demand from users to significantly redefine operating activities to include capital expenditures and the effects of asset sales. Furthermore, there would be a loss of historical comparability beyond the three years presented in the financial statements upon implementation.

While the proposal does encourage a management approach in some respects, it is very prescriptive in terms of the classification of items into operating and investing activities in many instances. For example, proposals in the Staff Draft indicate that investments in affiliates and joint ventures are to be presented as investing activities in the financial statements. The classification requirements become unclear, however, when one considers the language on page 17 of the Staff Draft that “no significant synergies are created for the entity by combining an asset or liability classified in the investing category with other resources of the entity,” which implies that an investment-by-investment assessment may be required to determine the proper classification as operating or investing and that classification will be inherently subjective.

Joint ventures and equity affiliates are common in the oil and gas industry and synergies are likely to be present, leading to a conclusion that these investments would be classified as an operating activity rather than an investing activity. We are concerned that the very subjective distinction between operating and investing activities will lead to lack of comparability in financial statements across competitor groups. We encourage the FASB to provide additional guidance and clarity for classifying between operating, investing, and financing activities. Without additional guidance, we believe the lack of clarity will result in inconsistent application and therefore, the information will become less meaningful and potentially misleading to the user.

Balance Sheet Account Disclosures

The Staff Draft proposes that an entity disclose analyses of changes in assets and liabilities that management regards as important for understanding the entity’s financial statements. We support the concept that management judges the relative importance of potential items for disclosure. We are concerned about the very prescriptive nature of the quantitative disclosure requirements discussed in paragraph 246, which does not appear to allow management an opportunity to determine a meaningful way to disclose what may be deemed a significant change in an asset or liability. For example, if there was a significant change in accounts with high transaction volumes, such as inventory or accounts payable, it would be extremely burdensome to quantify all movements within the account, and would lead to excessive disclosure of quantitative reconciliation information with little or no meaning to financial statement users. We believe that a concept similar to that found in paragraph 251 should drive disclosure requirements: an entity shall disclose qualitative and quantitative information that in its judgment is relevant to understanding the change in an asset or liability.
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Segment Reporting

We disagree with the additional disaggregation of net income by nature and function for segment reporting.

The FASB’s proposal would result in additional disclosures by reportable segment (e.g. net operating income, net investing income and net financing expense; net operating assets, net investing assets and net financing liabilities). However, unless this information is being received and reviewed by the Chief Operating Decision Maker (CODM) on a regular basis, it would not be disclosed based on current principles within ASC 280. We believe the underlying principle within ASC 280, which drives disclosure of segment information only if it is used for making operating decisions and assessing performance by the CODM, should not be modified or set aside to require disclosure of additional segment information based on the proposed model.

The Staff Draft calls for further disaggregation of net income by nature and function for segment reporting. Obtaining information at this level of detail would be extremely costly and the value of the information would be negated due to the complexities of indentifying by-nature information for overhead allocations to and within operating segments. If an income statement by segment is required, we recommend the lines and categories used should be the same as the lines and categories the preparer uses for the Statement of Comprehensive Income rather than requiring further disaggregation by nature and function. We believe this type of presentation would be more concise and meaningful to users, enhance comparability across companies, and increase the ability to use standard eXtensible Business Reporting Language (XBRL) tagging, rather than creating a proliferation of custom tagging.

Additionally, the proposed requirement to present operating cash flow by segment is not practical. Preparing a consolidated statement of cash flows accurately and within the accelerated reporting deadline is currently a challenge. Compiling information at the segment level would significantly increase the effort depending on the required number of segments. Furthermore, analysis and eliminations of intercompany cash flows would be burdensome.

Direct Cash Flows and Implementation Cost Estimates

We strongly oppose the proposed requirement to use the direct method for the statement of cash flows and associated reconciliation disclosures. The Board indicated that evaluating the costs and benefits of the direct statement of cash flows is an important step in the process and we support that assessment.

We use an indirect method to calculate cash flows, and we understand nearly all preparers use the same approach. We have not heard from our financial statement users a demand for a direct statement of cash flows. To the contrary, we believe users are primarily focused on net income and that the indirect method provides more useful information by establishing the relationship between net income and cash flows from operating activities. The information required to compile a statement of cash flows using the direct method is not readily available. The time, effort and cost required to compile the necessary data would be significant and likely far exceeds any perceived benefits. The primary difficulty lies with disaggregating cash flows from operating activities into various categories of cash disbursements by nature. To obtain this detailed information would require extensive changes to numerous information systems that capture transaction level data, modifications to custom interfaces and significant business process redesign. There
are also challenges in retaining by-nature information for overhead allocations to operations and in classifying discrete expenditures that may be of more than a single nature (such as labor and materials) which may result in arbitrary allocations that would negate the usefulness of the information. Furthermore, as noted in the Balance Sheet Account Disclosure section, the effort needed for the proposed requirement to prepare a footnote with a reconciliation of balance sheet account movements to cash flow outweighs the assessed benefits. We estimate the cost for these and other proposed changes in the Staff Draft to be approximately $150-$225 million for Chevron. Implementation of systems changes of this magnitude would require approximately three or more years. The increase in detailed information arising from the proposed standard will result in additional operating costs from maintaining systems and processes, incremental controls and data validations, and from additional analytical staff required to review and prepare the information for financial reporting.

While some additional information on gross cash inflows and outflows may be useful to financial statement users (such as cash receipts from customers), this information could be included as supplemental information in the notes to the financial statements. Should the Board ultimately decide to require the direct statement of cash flows, we recommend some modified approach that does not include disaggregation of cash disbursements, potentially allowing the possibility to prepare a modified direct statement of cash flows without extensive systems changes. We encourage the Board to continue its efforts to identify simplified alternatives as discussed in its September 2010 webinar, “Financial Statement Presentation - Presenting Cash Flow Information”. We estimate implementation of a modified direct statement of cash flows without extensive system revisions would cost Chevron $50-$80 million and take approximately two years.

If the Board ultimately decides to forego the requirement to present a direct statement of cash flows and simplifies the segment reporting requirements by not requiring additional disaggregation by nature and function, we estimate a cost of $20-$30 million for adopting the other changes proposed in the Staff Draft. These more limited changes could be implemented in approximately one year. The cost would be significantly less than the previous two scenarios because the changes would primarily relate to account mapping, reporting, and some high-level process changes and enhancements largely impacting the consolidation process. Although we can support this option, we question whether $20-$30 million in incremental cost will provide sufficient additional value to the user to justify the change from the existing model and standards.

Implementation

Implementing the proposed financial statement presentation model would consume extensive resources, as described in the previous section. The extent of these resource requirements depends heavily on the method adopted in the final standard for development of the cash flow statement. We have not completed detailed cost estimates of the systems changes required, but have worked with the company’s Information Technology group to provide a reasonable range for each scenario described above.

We, as preparers, will require time to plan, develop, and implement both system and process changes as well as retrain accounting staff and update internal control procedures and documentation. Establishment of Statement of Financial Position opening balances will require significant effort, as will updating of XBRL tagging and testing of internal controls. Effort will also be needed to implement additional review procedures by the auditors.
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Many of the changes in the standard will need to be fully operational in our systems and processes at the transactional level prior to the start of a two-year parallel reporting period. As a result, we estimate that to fully implement this proposed model, it would take us three to five years from issuance of the final standard, depending on the degree of change in the standard. Given the wide range in the complexity and difficulty of the implementation for the three scenarios described above, and assuming issuance of the final standard in 2011, the company would propose an implementation date no earlier than the year 2014 for the simplest scenario described above to 2016 for the most complex direct cash flow scenario.

Given the resources required to make the changes proposed, we ask that the Board carefully weigh the perceived benefits of financial statement and reporting changes with the costs — broadly defined — for preparers.

* * *

We hope our comments are helpful to the FASB in determining next steps.

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

Very truly yours,

[Signature]