January 19, 2011

Via email to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: Discussion Paper – Effective Dates and Transition Methods, File Reference No. 1890-100

Chevron Corporation (Chevron) appreciates the opportunity to provide comments to the Financial Accounting Standards Board and the International Accounting Standards Board (the “Boards”) regarding the Effective Dates and Transition Methods Discussion Paper.

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.

Overall, Chevron supports the Boards’ efforts to converge the accounting standards identified in the Memorandum of Understanding and to improve financial reporting. We believe the Boards’ effort to seek input from preparers, auditors, and users of financial statements will help identify the best alternative for the timing and implementation of the changes to the accounting standards.

As drafted, the proposed standards will have an unprecedented level of impact on the company’s financial systems. Implementing this level of change in our core financial systems will drive our Enterprise Resource Planning (ERP) system priorities for 3-4 years. Chevron’s total estimated cost for this level of change exceeds $400 million, which exceeds our previous estimates for conversion to the International Financial Reporting Standards (IFRS). As noted in our comments on the individual Exposure Drafts, we have serious concerns over the balance of costs and benefits associated with the proposed changes. We believe the Boards’ outreach efforts should assess for consideration, potential changes to the requirements that reduce the complexity and cost of the proposals.

Following is a brief summary of our primary concerns:
High quality accounting standards

We are concerned by the pace at which the Boards are attempting to reach final accounting standards. The comment letter process has identified significant concerns with the proposed accounting standard updates which we believe should be addressed by the Boards. In certain circumstances, we believe these issues are significant enough to warrant re-exposing the revised standard. Otherwise, final standards may be issued that will require subsequent changes and modifications, creating further disruption and additional cost for changes to financial systems and processes. We believe serious consideration should be given to deferring the targeted June 2011 date for final standards to allow appropriate time for re-deliberation and outreach.

Implementation

The proposed standards require fundamental changes to our accounting and reporting systems and associated accounting work processes. For example, implementing the direct cash flow method described in the Financial Statement Presentation staff draft will require extensive changes to financial systems that capture transaction level data, modifications to custom system-to-system interfaces and significant business process redesign. The complexity of the proposed accounting requirements for revenue recognition, leases, and financial instruments will also require companies to implement new systems functionality and process changes. All of these changes would need to be completed prior to the comparative reporting period to fulfill data capture and Sarbanes-Oxley control requirements.

We believe internal and external information technology resources will be a significant constraint to how quickly companies can realistically implement the new standards. If the standards are implemented with a single-date approach, we estimate the earliest they can become effective is for 2017 reporting, with 2015 and 2016 as comparative periods.

International Financial Reporting Standards (IFRS)

In our opinion, the timing of implementation of the new accounting standards must be considered in the broader context of the potential U.S. adoption of IFRS. If the SEC decides in 2011 that U.S companies must adopt IFRS, then the implementation of these new standards must be coordinated with that adoption. Both initiatives are potentially targeting implementation for the 2015/2016 time period. To not consider a coordinated implementation would place an undue burden on companies and dramatically increase the cost, complexity and risks of the implementations. In addition, a simultaneous adoption or adoptions in close succession could create significant confusion in the capital markets and undermine investor’s ability to understand the effects of the changes.

Our detailed responses to selected questions posed by the Boards in the discussion paper are included in the attached appendix.

We trust this material will be helpful to the Boards in determining the effective dates and transition method for the proposed standards, and appreciate the opportunity to comment.

Very truly yours,
Appendix – Responses to selected questions

*Question 1e: Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow.)*

The proposed accounting standards have detailed the significant accounting changes that are being contemplated by the Boards. In many instances, these proposals fundamentally change the accounting for certain transactions and dramatically increase the level of disclosure that will be required. These changes will require development of new functionality within financial systems, implementation of these enhanced systems, and development of new accounting and reporting work processes.

The company has issued comment letters in response to the changes that have been proposed by the Boards. The letters express our support for certain changes that we believe will strengthen financial reporting, and raise concerns where we believe the proposed changes do not meet the objective of providing decision-useful information to investors at a reasonable cost.

The following recap summarizes the degree to which the proposed new standards will likely affect the company:

- **Financial Statement Presentation (FSP)** – The proposed changes include implementing the direct cash flow method, the segregation of operating and investing activities in the financial statements, new disclosure requirements for balance sheet accounts and segment reporting footnotes. We estimate it will cost in excess of $200 million to implement the proposed requirements. The cost is driven primarily by changes required to numerous financial systems that capture transaction level data to support the direct cash flow method.

- **Revenue Recognition** – The proposed accounting requirements include the calculation of transaction price, bifurcation of credit risk, a requirement to measure onerous contracts at the performance obligation level, and expanded disclosure requirements. We estimate that implementation of the proposed changes will cost up to $130 million to modify the financial systems to support the new requirements.

- **Leases** – The proposed rules introduce significant complexity to the valuation of leases. As a result, the company expects it will need to implement new functionality within its financial systems to manage and assess thousands of leases that will be brought onto the balance sheet. The new functionality is estimated to cost up to $50 million to implement.

- **Financial Instruments** – As presented, the provisions included within the proposed accounting rules will allow the company to recognize fair value changes of most financial instruments through OCI. However, the company maintains a number of long-term cost investments which, under the proposed rules, are required to be carried at fair value with subsequent changes recognized through income. This change will have a significant impact on the company, requiring the development and maintenance of hundreds of valuation models for individually immaterial long-term investments in certain energy-related and tax credit investment projects.

In total, we estimate the cost to adopt the new accounting and reporting requirements is in excess of $400 million. If retrospective adoption is required, we estimate that an additional $50 million in costs will be incurred to develop the systems and processes necessary to support parallel reporting during the comparative reporting period.
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Question 2: Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):
   a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?
   b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

As noted above, the proposed accounting standards represent significant change relative to the current accounting requirements. Companies will need to invest substantial time and effort to properly implement these changes. A number of the new requirements impact transaction-heavy financial processes which will require development and implementation of new or enhanced functionality in our core Enterprise Resource Planning (ERP) systems. To be most cost-effective, software solutions for certain of these new requirements will need to be developed by the vendors of the major ERP systems. Such an approach offers the advantage of standard solutions that are integrated with other modules in the ERP systems necessary for financial reporting. The time required to complete this software development work is uncertain. We expect that most ERP software vendors will wait to develop new functionality until the standards are finalized. Software development and testing may take 9-18 months or longer before release to customers.

Once these new software modules are ready, preparers will need to finalize the design of the new business processes and configure, test and implement the new modules in their ERP environments. If companies have multiple ERP’s, or multiple instances of the same ERP, the cost and effort to implement the new modules and business processes increases significantly. In addition to these implementation activities, new testing processes must be developed to meet Sarbanes-Oxley (SOX) requirements. For example, new testing protocols will need to be developed for the applications and testing documentation requirements will need to be defined. Development of the SOX controls and testing processes adds additional time to the implementation of the new standards.

The proposed accounting rules introduce significant complexity over the existing accounting requirements. New accounting policies and procedures will need to be developed to properly apply the new accounting requirements to the company’s businesses. The complexity of the proposed standards requires the development of comprehensive training materials to ensure the workforce is adequately prepared to correctly apply the new requirements.

Multinational companies face unique challenges to educate and train a global work force. In many instances, the work force will not be familiar with the concepts in the proposed standards. For example, the proposed changes for revenue recognition define transaction price as the probability-weighted amount of consideration that an entity expects to receive from a customer, instead of the stated contract price. The proposed ASU for financial instruments requires long-term equity investments currently recorded at cost to be recorded at fair value, requiring the development of valuation models because of the lack of market data to fulfill this requirement. In addition, the proposed leases standard relies on the “expected outcome” technique to value estimated contingent rentals, residual value guarantees, and term option penalties. Each of these changes adds significant complexity to accounting procedures and work processes. The work force will also need to be trained on new software solutions developed for the financial systems as a result of the new accounting requirements. The company has found that computer-based training (CBT), paired with “classroom” instruction, is the most effective tool for educating our global workforce on the new
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functionality. In many instances, the CBT modules must be available in multiple languages, which increases training cost. These new CBT tools will take time to develop.

The successful adoption of the new standards will require both internal and external resources. Internal finance resources will be required to evaluate the new standards, determine the detailed impact on existing work processes and systems, and develop new processes and procedures. Internal and external information technology resources will be required to evaluate new system requirements, work with external vendors to develop and evaluate new system modules, test and implement new system functionality, and develop training materials for new functionality. Change management resources across the organization will be required to educate the work force on the new requirements, and communicate the impacts on the company’s financial results. Investor relations personnel will need to be prepared to educate shareholders on the impact of the new standards on the company’s results.

While it is difficult to estimate the timeline for this work, we believe that up to three years will be required to complete these activities in advance of the comparative reporting period, even with a limited retrospective approach on certain standards. If the new standards are issued mid-2011, the effective date of the new standards would need to occur no sooner than 2017 to ensure the necessary system enhancements are in place by year-end 2014 to support the comparative reporting period.

Question 3: Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

The company does not anticipate the proposed accounting standards will have material impacts on the financial reporting system aside from the impacts noted above. As with any significant change, there is the potential for unanticipated consequences, which will not become apparent until detailed work is performed.

Question 4: In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

The adoption of the proposed accounting standards will have a fundamental impact on the company’s financial systems. Many of the proposed standards will require new functionality to be developed in order to comply with the new requirements. In addition, the proposed retrospective or limited retrospective transition method still requires companies to maintain two sets of accounting records for the comparative reporting period, both for reporting and to meet Sarbanes-Oxley control requirements.

The changes to the financial systems as a result of the new accounting requirements must be integrated into ongoing system work, which include system upgrades, maintenance, new program development, and other customized applications that are required to meet business requirements. All significant ERP systems projects are typically planned over a three-year window to ensure system changes are implemented in a coordinated manner, to reduce risk and to optimize limited resources. Adding a new ERP project of this magnitude will have significant ramifications for the company’s ERP strategy,
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requiring careful planning and coordination to ensure critical activities such as maintenance and upgrades are maintained, while addressing the many new requirements.

We estimate that it will take about three years to complete the necessary system modifications for the new accounting requirements. This time is required to test and implement new accounting modules, develop the system capability to handle the two sets of accounting records for the parallel reporting period, and to complete the necessary training. As indicated, the new standards are issued mid-2011, the earliest possible effective date would be 2017 to ensure the necessary system enhancements are in place by year-end 2014 to support the comparative reporting period.

We recommend the Boards consider prospective adoption of the new accounting standards, with the exception of retrospective adoption of the requirements for FSP. Under this approach, companies would modify the opening balance sheet based on the new accounting requirements for the reporting period a new standard becomes effective, with no restatement of prior periods. Retrospective adoption of FSP would be required in the period it becomes effective to present the comparative periods in the statement of financial position on the same basis.

The advantage of prospective adoption is that companies would not have to develop the systems required to track two sets of financial data for the comparative reporting period. We estimate this will shorten the time required to implement the new standards by up to two years, and save about $50 million. Concerns regarding the lack of comparative data once the new standards are adopted could be mitigated if the Boards require a disclosure of the estimated impact of the new accounting standards. This would be consistent with the approach used with the 2009 update to ASC 932.

Question 5: In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

b. Under a single date approach, what should the mandatory effective date be and why?

c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.

d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

As noted above, the effort to adopt the new accounting standards will have a profound impact on financial systems and work processes. Whether prospective or retrospective adoption is required, we prefer a sequential approach over the single-date approach.

A sequential approach will allow companies to implement the required system changes in a systematic manner. Developing, testing, and implementing a series of incremental changes to the accounting systems helps mitigate risks inherent in large, complex systems changes. In addition, a sequential approach enables the resource requirement to be spread over a greater time period, allowing greater use of internal resources and smoothing the demand for external resources. This sequential approach would still require
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consideration be given to the interrelationship of several of the new requirements. For example, the implementation of a new leasing module must take into account the reporting requirements from the proposed Financial Statement Presentation to avoid rework.

A sequential approach also ensures companies will have adequate time to educate and train internal and external stakeholders. Many of the new standards could significantly impact the financial user’s view of the company. As a result, senior management, finance staff, auditors, Boards, analysts and investors will need to be educated on the impact the changes will have on the company’s financial statements. In addition, internal work processes will need to be changed to reflect the new accounting requirements.

In contrast, a single-date approach would result in a large, complex and more risky systems project, which would be more difficult to execute. In our experience, major date-driven system changes which have broad impact across multiple modules within an ERP can often result in design or programming errors, cost overruns and costly rework post-implementation. These consequences are the direct result of the highly-integrated nature of ERP systems and the many interfaces to other supporting systems. Furthermore, a single-date approach would require greater use of external professional resources. This can significantly increase the overall cost of implementation since external resources are more expensive, and competition for the required expertise can further drive up rates. Also, education and training of internal system users and management, as well as external stakeholders, is complicated by the magnitude of a single-date change.

Under a single-date approach, we believe 2017 (or 2015, if prospective adoption, as described above, is permitted) is the earliest date the new accounting standards can be adopted. This date ensures companies have sufficient time to develop, test and implement the necessary system functionality and processes to support the new accounting requirements. These proposed effective dates will also ensure adequate time for training of the work force. Assuming final standards are issued by mid-2011, companies will have three years to prepare their financial systems and work force in advance of the 2015-2016 comparative reporting period.

If the Boards endorse a sequential approach, we recommend effective dates be grouped to ensure that the new accounting requirements that have an interrelationship with other proposed accounting changes are implemented at the same time. For example, the proposed changes for revenue recognition and lease accounting are such that these standards should be implemented at the same time. In addition, proposed standards that require extensive system modifications should be sequenced through the implementation period to keep the pace of system changes manageable.

We believe the optimal grouping of standards and their respective effective dates are as follows:

Group 1 - 2015
  • Other Comprehensive Income

Group 2 - 2016
  • Leases
  • Financial Instruments
  • Revenue Recognition

Group 3 - 2017
  • Financial Statement Presentation
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Should the Board decide on retrospective reporting for the standards in Groups 2 and 3, companies will also need to develop the parallel reporting capabilities to support comparative reporting beginning with 2014.

Question 6: Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

As indicated in our response to question five, we believe allowing companies the option to early adopt the standards will give companies the opportunity to implement the new requirements in the most efficient manner. We don’t believe it’s necessary to place restrictions on early adoption. We believe companies will implement the new standards in a manner that will ensure that new requirements that are interdependent are implemented at the same time.

Question 8: Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

The Boards should have the same transition method and effective dates for the new standards. This approach provides investors with the greatest comparability as company transition to the new standards.