December 13, 2010

Via email to director@fasb.org

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

Re: Proposed Accounting Standards Update – Leases (Topic 840), File Reference No. 1850-100

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 proposed Accounting Standards Update, “Leases (Topic 840)” (the “proposed ASU”).

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, Asia and Australia.

Overall, Chevron supports the Boards’ objective to develop a standard that incorporates lease obligations and leased assets in the statement of financial position. However, we believe the Boards have gone beyond this objective by introducing concepts that will create substantial additional work for preparers, with little resulting benefit to financial statement users. We believe these conceptual changes add unnecessary complexity to lease accounting, significantly increasing the level of resources required by financial statement preparers to implement and maintain the changes. We also believe there are inconsistencies within the proposed ASU, and with respect to the FASB Conceptual Framework, that will likely cause confusion among financial statement preparers and users. Finally, assuming the Boards proceed with the model proposed in the ASU, we believe there are key aspects that require clarification to assist preparers in applying them in practice.

Following is a brief summary of our primary concerns:

Lessee recognition and measurement model

We conceptually agree with the Boards’ primary objective that leases currently treated as operating leases should be reflected in the statement of financial position of the lessee. However, we believe the Boards have created a measurement model that is overly complex and difficult to apply in practice. We believe
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this will cause companies to incur significant costs to develop systems and controls necessary to support the initial valuation and subsequent revaluation of a lease. Specifically, we believe the proposed provisions will require lessors and lessees to implement new modules in their financial reporting systems to track and control the reassessment. To fully implement the ASU as proposed, we estimate it will cost Chevron in excess of $50 million. We do not believe the benefits provided by the proposed ASU outweigh the significant costs that will be incurred.

From a lessee’s perspective, the concepts proposed in the ASU for measurement of the right-of-use asset and the liability to make lease payments will create substantial additional work, primarily in determining the probability of occurrence of various lease terms and in calculating the present value of the probability-weighted cash flows of uncertain elements of lease rental payments. For the determination of the probability of occurrence of various lease terms, we believe the “more-likely-than-not” threshold should be changed to a simpler model, whereby a renewal term beyond the primary term is only considered if it is “highly likely” the renewal will occur. In calculating the present value of liabilities related to the uncertain elements of lease rental payments, we believe an expected outcome approach should be allowed if that represents management’s best estimate of the future obligation.

Additionally, while we appreciate the Boards’ proposal that the lessee be allowed to record short-term leases on an undiscounted basis, we do not believe this accommodation has gone far enough. We believe including short-term leases on the statement of financial position places undue burden on the lessee, with little benefit to financial statement users.

Finally, when a contract contains both service and lease components and the service component is not distinct, we do not believe the proposed lease accounting requirements should be applied to the entire contract. We believe the lessee should be required to allocate the value of the contract between the lease and service components based on management’s best estimate of the value of each component.

Lessor recognition and measurement

We do not believe a lessor should have separate approaches to recognition and measurement based on an assessment of the risks and benefits it has retained. Only one approach should be allowed and we believe the derecognition approach is most appropriate. The performance obligation approach is inconsistent with the lessee’s accounting as both parties will be recording an accounting asset related to the same underlying asset during the lease term. If the lessor has transferred the right to control the use of the asset during the lease term, it should derecognize the asset.

Additionally, requiring the lessor to assess whether it has retained exposure to significant risks and benefits in determining whether to use the performance obligation or derecognition approach is inconsistent with the Boards’ indicated philosophy that the right to control the use of a specified asset is what determines whether a transfer of assets has taken place, rather than an assessment of risks and rewards.

Determination of lease term

The Boards’ proposal that lease terms should be determined based on the longest possible term that is “more-likely-than-not” to occur is not consistent with the FASB Conceptual Framework concerning characteristics of a liability. We believe a standard of occurrence much greater than “more-likely-than-
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not” must be met before a possible lease renewal term should be included in the measurement of relevant assets and liabilities.

Clarification of lease criteria

We believe additional information needs to be provided (i.e., criteria and examples) to assist preparers in determining when arrangements contain a lease. Specifically, we believe the criteria used to help define a lease are confusing and can be difficult to apply in practice. Although these criteria are essentially the same as those used currently (provided in EITF 01-8), we understand that the use of these criteria has led to inconsistent treatment of similar transactions. We believe if further clarification were provided, including practical examples, for the terms “direct others to operate,” “control physical access to” and “control,” some of the inconsistencies could be prevented.

Presentation and disclosure

In our view, amounts related to leases should be disclosed in the notes to the financial statements rather than being separately presented on the face of the financial statements. We believe disclosure in the notes provides consistent information for financial statement users and allows preparers to properly aggregate information that is not material for financial statement presentation.

Our detailed responses to selected questions posed by the Boards in the proposed ASU are included in the attached Appendix.

We trust our comments are helpful to the Boards 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,

[Signature]
Appendix – Responses to Questions

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Conceptually, we agree that a lessee should recognize an asset when it controls the right to use a specified asset, and a liability to make lease payments related to that asset. However, consistent with our comments in response to Question 2 below, that the derecognition method should be the only approach available to lessors, we believe the asset recorded by the lessee should be viewed as property, plant and equipment (PP&E), rather than as a “right-of-use” intangible asset.

Although we understand the Boards’ position behind developing a “right-of-use” asset, we believe this overly complicates the accounting for leases. We believe economic benefits derived from the underlying asset should be recorded in the financial statements of either the lessee or the lessor, but not both parties.

Under current accounting concepts, capital leases are presented on a lessee’s statement of financial position as PP&E, as substantially all of the benefits and risks of ownership have been transferred from the lessor to the lessee. Under the proposed ASU, the lessee will record a right-of-use asset when the rights to control the use of the asset have been transferred. Even if substantially all the benefits and risks of ownership have been transferred, these assets will be treated as right-of-use intangible assets by the lessee. We do not propose separate treatments for those situations where substantially all the benefits and risks of ownership have been transferred from those that do not meet this condition. We believe one treatment – either tangible or intangible – is appropriate for both situations. Although we can see logic behind the lessee recording the asset as either a tangible or intangible asset, we believe treating the asset as tangible is consistent with the lessor derecognizing the asset from its books.

We agree the lessee should recognize amortization (depreciation) of the PP&E and record interest on the liability to make lease payments.

Question 2: Lessors

(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

(b) Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?
Consistent with our response to Question 1, we disagree that lessors should have separate approaches dependent on the level of exposure to risks and benefits the lessor retains. We believe the derecognition approach is the only method that is consistent with the concept that the underlying right to control the specified asset has been transferred from the lessor to the lessee, during the term of the lease. The fundamental concept in recording lease arrangements on a lessee’s statement of financial position under the proposed ASU is that the right to control the use of the specified asset has been transferred from the lessor to the lessee. We believe either the lessor or the lessee should be recording the specified asset on its books during the lease period (whether it is labeled as PP&E, an intangible “right-of-use” asset, or some other form of asset), but not both parties. Thus, we do not believe the performance obligation approach is appropriate, as it is inconsistent with the concept that the right to control the use of the asset has been conveyed to another party.

One example of why we disagree with the performance obligation approach involves situations where Chevron “subleases” significant assets initially contracted for under a service arrangement. Under the proposed guidance, we may be required to account for these subleases using the performance obligation approach. If so, this would require that we record a right-of-use asset for the present value of the lease payments related to the specified PP&E, in addition to the right to receive lease payments for the portion of the specified PP&E being subleased. We do not believe this accounting is appropriate as it will overstate asset values (and, thus, economic benefits) on our statement of financial position. We believe the derecognition approach is more appropriate as the portion of the right-of-use asset being subleased will be derecognized. Note that if both the lessor of the head lease and the lessee of the sublease use the performance obligation approach, four assets would be on the books related to the same PP&E for the term of the sublease—the underlying asset and right to receive the head lease payments for the lessor and the right-of-use asset and right to receive sublease payments for the lessee.

In paragraph 43 of the proposed ASU, it appears the Boards have tried to address the issue of an intermediate lessor recording multiple assets related to the same PP&E by providing for a netting of lease assets and liabilities. Although this would be somewhat beneficial in addressing this problem, we believe the resulting net lease asset or liability lacks relevance and would be confusing to financial statement users.

We agree with the Boards’ proposal that there should be no separate approach for lessors with leveraged leases.

**Question 3: Short-term leases**

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such
lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65). (See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

(a) We disagree with the proposed accounting for short-term leases. In our opinion, short-term leases should not be placed on the statement of financial position, but instead, should be expensed as incurred.

In practice, most companies would not enter into a lease agreement of less than one year for assets that are significant to the operation. To do so would place the organization at risk of losing critical assets or being subject to significant price uncertainty. The proposed accounting for short-term leases adds significant complexity and places undue burden on the organization without a clear benefit to the user of financial statements over the present accounting for short-term leases.

We understand the Boards’ concern that companies may attempt to engineer short-term lease agreements to avoid application of the accounting requirements for long-term leases. However, we believe the proposed ASU has sufficient safeguards (such as the 12-month maximum possible lease term requirement) to minimize this risk without bringing short-term leases onto the statement of financial position. To mitigate any remaining concerns, the Boards could consider additional disclosures to highlight the type of assets acquired through short-term lease agreements to bring added transparency to management practice.

If the Boards proceed with the proposed accounting for short-term leases, we agree that the lessee should have the option to elect the proposed simplified requirements for short-term leases because of the minimal effect discounting would have on the right-of-use asset and associated payment liability. This option is preferred to the complexity associated with proposed accounting for long-term leases and reduces the administrative burden the proposed ASU places on the organization.

(b) We disagree that the lessor should have the option to elect on a lease-by-lease basis whether or not to recognize assets and liabilities arising from short-term lease agreements. As noted in our response to question #2, if the lessee is required to recognize a right-to-use asset associated with a short-term lease, then the lessor should be required to derecognize the associated asset. This avoids inconsistency in the statements of financial position of the two companies.

Question 4: Definition of a lease
This exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1 – B4 and BC 29 – BC 32). This exposure draft also proposes guidance on distinguishing a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC 59 – BC 62) and on distinguishing a lease from a service contract (paragraphs B1 – B4 and BC 29 – BC 32).

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
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(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We believe the definition of “lease” in the proposed ASU is confusing and will be difficult to apply in practice. This is primarily an issue when attempting to determine if a contract has conveyed the right to control the use of a specified asset for service arrangements that include possible lease components. The application of the definition is essentially the same as that provided under EITF 01-8 which, we believe, frequently resulted in similar transactions being treated inconsistently among varying entities. These inconsistencies will be much more evident under the proposed ASU when all leases are recorded in the statement of financial position. We believe clarification should be provided for certain terms used in the proposed ASU to help users determine when a contract conveys the right to use a specified asset.

Specifically, we recommend the following terms be defined, with specific examples provided for increased clarity:

(i) “direct others to operate” from paragraph B4(c) – Clarification should be provided concerning the level of direction implied; for example, is it a role with limited decision-making authority, a command role in the day-to-day operation of the asset, or something in between? Factors to be considered in making this determination should be provided.

(ii) “control physical access to” from paragraph B4(d) – Factors to be considered in determining whether an entity controls physical access should be provided; for example, if an entity controls more than an insignificant amount of the output of an asset, is it deemed to always control physical access to the asset since others cannot use the asset for that period of time? If not, provide examples of where an entity controls more than an insignificant amount of the output of an asset, but is not deemed to always control the use of the asset.

(iii) “output” from paragraphs B4(c), (d) and (e) – Examples should be provided showing how to determine the output of the asset, especially where there is no clear physical output. For example, what is the “output” when an entity contracts for an agreed period of time for a vessel to move product from one location to another, or a facility to store the product?

In paragraph B2 of the proposed ASU, concerning the assessment of whether fulfillment of a contract depends on the use of a specified asset, we are concerned with the provision that an asset is implicitly “specified” if a lessor can substitute another asset for the underlying asset but rarely does so in practice. We suggest more clarity be provided around this provision, with practical examples. We note the current example involves the lease of an aircraft where it is impractical for the entity to substitute another aircraft. We find this example where substitution is “impractical” to be much clearer than situations covering what an entity may do “in practice.” For example, if an entity typically does not substitute for the underlying asset because there is rarely a need to do so, does this mean the entity has a “practice” of not substituting another asset for the underlying asset?

Additionally, paragraph B3 of the proposed ASU provides that “a contract that permits or requires the supplier to substitute other assets only when the specified asset is not operating properly may be a lease” (emphasis added).” It is unclear how one is expected to determine whether or not the underlying asset
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should be considered a lease in this situation. We suggest that factors or indicators be provided to assist in determining when the specified asset would or would not be considered a lease.

Question 6: Contracts that contain service components and lease components
This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:
(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
(b) The IASB proposes that:
(i) A lessee should apply the lease accounting requirements to the combined contract.
(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We do not agree with the proposal in paragraph B5 that the whole contract be considered a lease when a service component is not distinct. We believe the lessor and lessee should be required to allocate the value of the contract between the service and lease components based on management’s best estimate of the value of each component. We believe the practice of treating service costs as part of a leased asset is arbitrary and should not be allowed.

By recognizing services as part of the lease of the underlying asset when the service is not distinct, the lessor will be recognizing benefits related to future services prior to the time the service has been performed. We do not believe this is appropriate. Similarly, we do not believe it is appropriate for the lessee to reflect an indistinct service component as part of a right-of-use (or other) asset in the statement of financial position since this would overstate the value of the lease.

Regardless of the ultimate decision on this matter, we recommend that the FASB and IASB converge their treatment in this area.

Question 8: Lease term
Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?
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We agree that the lease term should consider some options to extend or terminate the lease. However, we strongly disagree that the lease term should be measured using the longest possible term that is “more-likely-than-not” to occur. We believe that use of a “more-likely-than-not” threshold would result in recognition of amounts that are inconsistent with the Boards’ Conceptual Framework and, therefore, do not meet the definition of a liability in the financial statements.

Instead, we believe the Boards should continue to use the current concepts in USGAAP and IFRS when defining the lease term. For example, we believe the definition in IAS 17 Leases, properly indicates that the lease term should only include periods in the lease contract where, at the inception of the lease or in any subsequent remeasurement period, it is “reasonably certain that the lessee will exercise the option” to renew. We believe this equates to a higher threshold than “more-likely-than-not” and is similar to the concepts in the definition of lease term in ASC 840. We believe this higher threshold would result in amounts that are consistent with the description of a liability in the Boards’ Conceptual Framework.

FASB Statement of Concepts No.6, Elements of Financial Statements (Concepts No. 6), paragraph 36, states: “A liability has three essential characteristics:

(a) It embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable rate, on occurrence of a specified event, or on demand,

(b) The duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid future sacrifice, and

(c) The transaction or other event obligating the entity has already happened.”

Based on the characteristics of a liability, as stated in Concepts No. 6, we believe it is inappropriate to include the longest possible term that is more-likely-than-not to occur in the measurement of a lease liability for the following reasons:

- If an entity has not committed itself to, or does not have a high degree of confidence it will, renew a lease with a third party, then it has no responsibility or duty to pay for the lease beyond its current terms and the condition of subparagraph (a) is not met.
- In the absence of such lease renewal commitment, the entity continues to have discretion over whether or not to incur such obligation, so the condition of subparagraph (b) is not met.
- Until the entity actually renews the lease, or it is reasonably certain that this will occur, there has been no event obligating the entity to continue the lease beyond the existing lease term, so the condition of subparagraph (c) is not met.

Likewise, we note the IASB’s current draft of The Conceptual Framework for Financial Reporting 2010, has similar concepts as outlined in paragraph 4.16. Therefore, we ask the Boards to reconsider the basis for measuring the lease term to include only periods that are highly likely to occur, or a similar threshold indicating it must be remote that the options would not be exercised.

Question 9: Lease payments
Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?
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We are concerned with the complexity of estimating contingent rentals, expected payments under term option penalties and residual value guarantees using a probability-based, expected outcome technique. We believe lessees and lessors can reasonably account for these contractual factors using other, simpler measurement techniques. We believe these alternate techniques will generate reasonable representations of expected lease payments and will further reduce the need for reassessment and subsequent adjustments.

In general, we believe accounting measurements should be based on techniques that generate the most accurate representation of the underlying transaction using information available at the time the estimate is made. While measuring uncertainties is difficult and probability-weighting may be the most appropriate method to calculate the expected outcome where there is a wide range of possible outcomes, we take issue with the view that a probability-weighted amount should always be used, particularly if the expected outcomes are limited to specific amounts or “all or nothing” outcomes (e.g., payments of a specific amount only after certain criteria are met).

Therefore, we ask the Boards consider describing the expected outcome in terms that permit management to use recognized measurement techniques that best fit the facts and circumstances of the agreement to estimate lease payments.

**Question 10: Reassessment**
*Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?*

We agree with the Boards that users of financial statements receive more relevant information when entities remeasure the lease assets and liabilities at each reporting date to reflect significant changes to the lease term. This evaluation ensures the financial statements reflect meaningful and relevant information for the users of financial statements.

We strongly support the Boards’ position that changes to the lease asset or lease liability should only be made if significant changes to the underlying lease have occurred. This threshold avoids detailed examination of every lease at each reporting period, while ensuring the financial statements reflect meaningful information. This approach is consistent with ASC 360 which requires periodic assessment to determine if changes in circumstances indicate a permanent change in the earnings potential of an asset.

**Question 12: Statement of financial position**
*(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?*
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(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

Conceptually, we believe amounts related to leases should be disclosed in the notes to the financial statements rather than separately presented on the face of the financial statements as outlined in the proposed ASU. We believe disclosure in the notes provides consistent information for financial statement users and allows preparers to properly aggregate information that is not material for financial statement presentation, as provided for under SEC materials, ASC 205, Presentation of Financial Statements, and IAS 1, Financial Statements. Therefore, we ask the Boards to reconsider the proposed requirements to present lease information separately in the financial statements.

In addition, we ask the Boards to consider the following presentation concerns regarding the proposals for the statement of financial position:

- Lessees currently present assets related to capital leases as tangible assets in PP&E. As noted in our response to question 1, we believe the Boards should reconsider the need to designate the right-of-use asset as an intangible. If the Boards continue to regard the right-of-use asset as an intangible asset, then we believe lessees and lessors should aggregate amounts related to the right-of-use asset with other intangibles instead of with PP&E.
- Under the derecognition model, we believe preparers should not disaggregate the residual asset and present it separately from other PP&E, and should not distinguish amounts related to subleases separately from other leases in either the statement of financial position or in the notes. We believe financial statement users are primarily interested in understanding an entity’s total exposure to leasing activities and believe that requiring separate presentation in the notes and/or financial statements is overly complex, especially when compared with the benefit gained.
- If the Boards disagree with our previous recommendation that lessees should not be required to reflect short-term leases on the statement of financial position, we believe the Boards need to address the classification of short-term lease assets (since PP&E is a non-current asset) and also address presentation of short-term lease liabilities.

**Question 13: Income statement**

*Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?*
As discussed in our response to Question 12, we believe amounts related to leases should be disclosed in the notes to the financial statements rather than separately presented on the face of the financial statements as outlined in the proposed ASU.

**Question 14: Statement of cash flows**
*Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?*

As discussed in our response to Question 12, we believe amounts related to leases should be disclosed in the notes to the financial statements rather than separately presented on the face of the financial statements as outlined in the proposed ASU.

**Question 15**
*Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) identifies and explains the amounts recognized in the financial statements arising from leases; and
(b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows? (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?*

The proposed disclosure requirements could be reduced significantly if the Boards adopted a simplified lease accounting model. As noted in our responses to the previous questions, the proposed model is overly complex and will place undue burden on preparers. The proposed disclosure requirements are further evidence of this point.

However, if the ASU is implemented as proposed, we generally agree with most of the disclosure items in paragraphs 70 - 86 and BC168 – BC183, but without the disaggregation requirements. In addition we ask the Boards to consider removing the following items from the disclosure requirements as we believe they will not result in decision-useful information:

- **Paragraph 73, item vii** – We believe that separate disclosure of initial direct costs incurred during the period is unnecessary. While we understand that financial statement users are interested in the cash flows associated with leasing activities, we do not believe it is necessary to break these cash flows into separate components. Additionally, in our experience, these initial direct costs are generally not material.
- **Paragraph 77** – Although we believe a reconciliation of opening and closing balances provides useful information and can be captured without significant cost, complying with the requirement to disaggregate the “right-of-use assets” and “liabilities to make lease payments” by underlying asset will be very costly while providing little incremental benefit to financial statement users.
- **Paragraph 78** – If the Boards disagree with our request to eliminate the performance obligation approach, we note that all lessors will use the guidance in paragraphs 28 and B22 through B27 of the proposed ASU to determine whether it retains significant exposure to risks and benefits
associated with the underlying asset. Therefore, we believe requiring disclosure of the risks and benefits retained by the lessor will primarily result in generic information that is not entity-specific and, therefore, will be of limited use to financial statement users.

**Question 16**

(a) **This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?**

(b) **Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**

(c) **Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

a) We support the proposed simplified retrospective approach. Under this approach, the impact on companies would be minimized by permitting the use of existing capital lease valuations, and to limit the recognition of existing operating leases to the remaining lease payments.

b) For simplicity and comparability, we prefer a single adoption approach. Allowing entities to have the option of full retrospective application potentially reduces comparability between entities.

c) For transaction heavy activities, such as lease accounting, most large companies will need to implement a system solution to capture and retain transaction detail needed to comply with the requirements in the proposed ASU and those associated with Sarbanes-Oxley (SOX). We believe the most cost-effective software solution for 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 implement the new modules and complete the required internal system testing. Companies will also need to assess the technical architecture of their ERP systems to determine whether any changes are required to implement the new accounting module. A high volume of master data representing each lease will need to be gathered, converted and loaded into the ERP systems as part of the implementation effort. Implementation requires thorough integration testing of the new modules before roll out can begin for the organization. If companies have multiple ERPs, or multiple instances of the same ERP, the cost and effort to implement the new modules increases significantly. New work procedures will need to be developed for the accounting organizations. For large multinational firms, training will need to be deployed to multiple U.S. and international work locations.

In addition to these implementation activities, new testing processes must be developed to meet Sarbanes-Oxley (SOX) requirements. New testing protocols will need to be developed for the applications and testing documentation requirements will need to be defined. These requirements add additional time to the implementation of the new standards.
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While it is difficult to estimate the timeline required for this work, we believe that up to 3 years will be required to complete these activities in advance of the comparative reporting period, even with the simplified retrospective approach. If the new standard is issued mid-2011, the effective date of the new standard 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 17**

*Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?*

Companies will incur significant costs to develop systems and controls necessary to support the initial valuation of the lease. The reassessment provision results in potential changes to the valuation of the lease agreement, requiring that organizations implement new functionality in their financial reporting systems to track and control the reassessment. Sarbanes-Oxley and external audit requirements will require that organizations develop robust tracking and documentation requirements to demonstrate compliance with the new requirements. To fully implement the ASU as proposed, we believe it will cost Chevron in excess of $50 million.

Accordingly, we do not believe the proposed ASU passes the cost-benefit test. We request the Boards consider a simplified approach for recognizing leases in the financial statements.