May 14, 2013

Via email to director@fasb.org

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


Chevron Corporation (Chevron) appreciates the opportunity to provide comments to the Financial Accounting Standards Board (the “Board”) regarding the Proposed Accounting Standards Updates, “Financial Instruments, Recognition and Measurement of Financial Assets and Financial Liabilities” and the companion document “Proposed Amendments to the FASB Accounting Standards Codification” (the “proposals”).

Overall, we support the Board’s efforts to improve financial reporting for financial instruments while reducing the complexity of accounting for these instruments. In particular, we believe the practicability exception for measurement of investments in nonmarketable equity instruments that do not qualify for consolidation or the equity-method of accounting will be very helpful in achieving this objective. We also support the proposal to codify all guidance on financial instruments into a single Topic.

However, we have the following concerns regarding certain aspects of the proposals:

- Fundamentally, we do not believe the Board should amend the equity method of accounting as part of this project. In line with this, we do not support the proposed one-step impairment model for equity investments, particularly for those investments accounted for using the equity method, since the one-step model does not permit reversals of impairment losses when subsequent events indicate the economic value underlying these investments has recovered. Also, should the Board ultimately decide that equity-method investments initially classified as held for sale should be accounted for at fair value through net income, we believe provisions should be added to the proposals to address subsequent changes in the plan to sell.

- The presentation requirements appear overly prescriptive as they will require all entities, including nonfinancial institutions, to restructure and expand information in their financial statements. We believe the proposals may require us to add up to 10 lines to our statement of financial position, resulting in a more complex, multi-page document, which will be of minimal, if any, additional benefit to our financial statement users. We believe a better approach is to make this additional information available in a note to the financial statements.

Our detailed responses to selected questions posed by the Board in the proposals are included in the attached Appendix.
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We trust our comments are helpful to the Board 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,
Appendix – Responses to Questions

Questions in the Proposed ASU issued on February 14, 2013

Subsequent Measurement

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

We strongly support the Board’s practicability exception for measuring equity investments without readily determinable fair values at cost less impairments (if any), plus or minus changes resulting from observable prices in orderly transactions from the identical investment or a similar investment of the same issuer. For cost benefit reasons, we consider this to be a fundamental provision of the proposals. Therefore, we encourage the Board to retain the proposed exception in the final standard.

However, we do not support the proposed one-step impairment model for all equity investments subject to the practicability exception for the reasons outlined in our response to question 35.

Presentation

Question 23: The proposed amendments would require public entities to parenthetically present fair value for items measured at amortized cost on the face of the statement of financial position. Does that presentation requirement provide decision-useful information? If not, why? What would you propose instead?

While we acknowledge that this question is directed toward users, we are concerned that the requirements to group information related to financial instruments in the financial statements by the method used to measure the instruments will unnecessarily complicate the financial statements for many issuers. This concern stems from our view that the financial statements should be clear and concise, with supporting information included in the notes.

As indicated in our summary of concerns, we believe the proposals would require us to add up to 10 lines to our statement of financial position. These lines would be needed to separately categorize instruments by their measurement method and characteristics (i.e., short-term and long-term), communicate fair value and allowances related to debt instruments, and provide adequate subtotals. If implemented, this presentation will result in a multi-page balance sheet which we believe our users will find confusing and more difficult to understand than if this information was made available in a note to the financial statements.

Therefore, we ask that the Board consider providing an alternate presentation in the notes, such as it did for information related to amounts reclassified in accumulated other comprehensive income in ASU 2013-02. We believe that the ability to present information in the notes, including fair value information for financial instruments carried at amortized cost, will allow preparers to integrate the information more effectively into their existing reporting structures, thereby facilitating clear and concise communication of information to users of the financial statements.
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**Equity Method Accounting**

*Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?*

As indicated in our summary of concerns, we do not believe the Board should address the accounting for equity method and joint venture investments outlined in ASC Topic 323 as part of this project. This is based on our view that the equity method of accounting properly reflects the economics of these investments, as we believe that companies such as Chevron typically enter into these investments with the expectation that the return they earn will be derived from the underlying profitability of the entity, as opposed to a return based on market fluctuations. In fact, most of our investments that qualify for the equity method of accounting do not have readily determinable values and the shares in each of these investments are typically held by a few corporations or similar business entities.

However, if the Board continues to believe that the proposed amendments in Subtopic 323-10 are required, we have a concern that once an equity investment is initially recognized as held for sale, the proposals contain no provision to reflect a change in the investor’s decision to sell. We view the inability to recognize these changes as inconsistent with similar provisions provided for in Subtopic 360-10 related to changes in a plan to sell. Further, we believe the inability to reclassify these investments for treatment under the equity method of accounting would provide inconsistent accounting results for similar investments that an entity would be holding in its portfolio.

To alleviate these concerns, we suggest the Board permit recategorization of investments that are initially held for sale, but are subsequently held for use, to the equity method, assuming all other criteria for applying the equity method of accounting exist, and consider measuring the reclassified investment using an approach similar to that provided in ASC 360-10-35-44 for property, plant and equipment. Specifically, we suggest that an entity remeasure the investment at the date that it is no longer held for sale at the lower of its (i) initial carrying value adjusted for changes it would have recognized had the equity method of accounting been applied, or (ii) fair value on the date of the subsequent decision not to sell.

*Question 35: The proposed amendments would change the current two-step impairment model for equity method investment to a one-step model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?*

As noted previously, we do not believe the Board should address the accounting for equity method and joint venture investments as part of this project. However, should the Board decide to proceed with these proposed amendments, as referenced in our response to question 19, we do not support the replacement of the current two-step impairment model with the proposed one-step model. We believe the one-step model would lead to recognition of impairment losses without any provision to reflect subsequent changes in the economics of these investments.

While we acknowledge the Board’s concern with application of the “other-than-temporary” evaluation in ASC 323, we believe a two-step model provides a more faithful reflection of the nature of these investments than the proposal, and is consistent with other impairment models in U.S. GAAP, such as the
two-step model for long-lived assets in ASC 360. We are also concerned that a one-step model for impairing equity method investments, particularly those that have readily determinable fair values, could lead to reflecting impairment losses at the balance sheet date that result from conditions that have no correlation to the underlying economics of the entity (e.g., an overall drop in the market). Therefore, we ask that the Board consider retaining a two-step model, particularly the current “other-than-temporary” evaluation.

If the Board continues to believe that a two-step model is difficult to apply to all equity investments, including those accounted for using the equity method and those carried at amortized cost under the practicability exception, we ask that the Board consider modifying the proposed one-step model to incorporate the ability to reverse impairment losses for subsequent events that indicate impairment conditions no longer exist. Specifically, we believe that the Board should consider adopting provisions such as those outlined in paragraph 42 of IAS 28, Investments in Associates and Joint Ventures (as amended May 2011), that permit reversal of impairment losses to the extent the recoverable amount of the investment subsequently increases.

Questions in the Proposed Amendments to the Codification issued on April 12, 2013

Question 2: Do you believe that all guidance related to financial instruments in various Topics in the FASB Accounting Standards Codification® (for example Topics 310 and 470) should be consolidated into a single Topic?

We support the Board’s proposal to consolidate all guidance on financial instruments into a single Topic as we find it much easier to work with guidance that is located within a single Topic. Should the Board decide to consolidate the information, we ask that the Board make use of subtopics to further organize the information within the Topic.