April 28, 2011

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Proposed Accounting Standards Update – Balance Sheet (Topic 210), Offsetting
File Reference No. 2011-100

Dear Board members:

Hess Corporation (Hess or the Corporation) appreciates the opportunity to comment on the Proposed Accounting Standards Update on Balance Sheet (Topic 210), Offsetting “ASU”. Hess is a global integrated energy company primarily engaged in the exploration for and production of crude oil and natural gas, the manufacturing of refined petroleum products and the purchasing, trading and marketing of refined petroleum products, natural gas and electricity. The Corporation is supportive of developing a converged balance sheet offsetting accounting standard for both U.S. GAAP and IFRS; however, we have significant concerns about the Boards’ proposal regarding netting of derivative assets and liabilities. We have provided responses to specific sections of the ASU affecting the Corporation. Following are the principal areas of concern we have with the proposal:

- We question whether the gross presentation of eligible assets and liabilities on the balance sheet will achieve the stated objective of improving investor understanding of future cash flows relating to derivatives.
- We believe the proposed netting criteria are overly restrictive and difficult to apply.
- We recommend that the proposed disclosures be required on a prospective basis only, or that the effective date of the standard be at least three years from the date of adoption.

See our detailed comments below.
Objective of Balance Sheet Classification

The Boards’ objective of the proposed ASU is to present the financial statements in a manner that is useful for assessing the following:

- The entity’s ability to generate cash in the future;
- The nature and amounts of the entity’s economic resources and claims against the entity;
- The entity’s liquidity and solvency.

We believe that these objectives are already achieved with the current presentation of derivative assets and liabilities. An entity’s estimated future cash flow cannot be determined by the gross or net presentation of derivative assets and liabilities in the statement of financial position, other than understanding the rights and obligations that are current (i.e. one year or less) versus long-term (more than one year). Gross presentation would not change the working capital of an entity or otherwise allow a reader to better predict the timing of future cash flows relating to derivatives.

Liquidity and solvency metrics are used to determine an entity’s ability to pay off its short-term and long-term debt obligations. The current presentation of derivative assets and liabilities provides the user a more realistic view of these ratios than under gross derivative presentation, which would distort certain financial statement ratios.

We believe that financial reporting should provide information that is useful to investors, creditors and other users of financial statements in making rational investment, credit, and similar decisions. From the point of view of a user who is trying to understand the entity’s core business and how it manages its risks, a grossed up presentation of derivative assets and liabilities will only make the users’ analysis more difficult to understand the true economic position of the entity. We believe the most appropriate presentation of gross assets and liabilities relating to derivatives is in the notes to financial statements. We agree, as proposed, that these disclosures could be enhanced to provide a gross to net reconciliation.

Relevance of Gross Presentation of Derivative Assets and Liabilities

Gross presentation of all derivative assets and liabilities (before the effect of netting) is currently required in the notes to the financial statements. Together with the net presentation in the statement of financial position, these disclosures provide financial statement users with all the necessary information about the scope of an entity’s derivative and risk management activities.

We fundamentally disagree with the Boards’ contention that the net presentation of derivative assets and liabilities, taking into consideration the effect of master netting arrangements, would reduce a user’s ability to understand the implied economic leverage position of the entity. On the contrary, we believe that a presentation that takes into account the effect of master netting arrangements (effectively combining all contracts into a single contractual obligation enforceable by law), represents an economic view of the entity and facilitates an understanding of the true risk and economic leverage of that entity. For instance, a potential acquirer considering the purchase of a derivative portfolio would evaluate the net fair value of the portfolio and assess the
primary risk of the credit worthiness of the counterparties. In our view net presentation provides a more relevant economic view of an entity rather than an accounting view.

We believe that the widely practiced concept of netting based on master netting agreements is a realistic way of presenting counterparty risk on the balance sheet, along with footnote disclosure of gross and net balances. We also believe that cash collateral received or paid should be netted against the related receivable or payable on the balance sheet, as it effectively represents a collection of a receivable and payment against a liability.

We also note that there are several other examples in existing GAAP that address gross versus net presentation and require or permit net presentation in the financial statements. ASC 845, formerly EITF 04-13 “Accounting for Purchases and Sales of Inventory with the Same Counterparty” addresses the circumstances under which inventory purchases and sales should be viewed as a single exchange transaction. The task force concluded “that two or more inventory purchase and sales transactions with the same counterparty that are entered into in contemplation with one another should be combined...” The task force also agreed “that the issuance of invoices and the exchange of offsetting cash payments is not a factor in determining whether two or more inventory purchase and sales transactions with the same counterparty should be considered as a single exchange transaction...” We believe the principles in ASC 845 would allow for considerably more netting on both the income statement and the balance sheet, than the principles in the proposed ASU. The netting of derivative instruments with a legal right of offset is a similar concept to other accounting principles for which net presentation on the balance sheet is permitted.

While we note that income taxes were scoped out of the proposed ASU, we observe that the provisions of ASC 740 which address the financial statement presentation of income tax assets and liabilities (essentially monetary amounts due to or from a single counterparty) allows netting on the balance sheet. ASC 740 states “For a particular tax-paying component of an enterprise and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all non-current deferred tax liabilities and assets shall be offset and presented as a single amount. However, an enterprise shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions.” We question why the concepts in the proposed ASU are more relevant to a financial statement user than those referenced above and elsewhere in existing GAAP and strongly reiterate our view that footnote presentation of gross amounts would be more appropriate and consistent with current principles.

**Impact of Non-Performance Fair Value Adjustments**

ASC 820 requires that reporting entities consider the effect of nonperformance risk, including credit risk, in determining the fair value of both assets and liabilities. Typically, credit risk is measured based on a unit of account grouping that may differ from that used for the fair value measurement for an individual instrument. For example, credit adjustments assume that netting has already taken place, as multiple contracts may be grouped together in determining the credit risk adjustment to the extent the contracts are covered by a master netting arrangement. Although it is not entirely clear from the proposed ASU, we understand that credit adjustments could continue to be determined on net counterparty balances. However, we believe the allocation of credit adjustments based on net balances will not be able to be appropriately
allocated to gross balances presented on the balance sheet and believe further clarification in the proposed ASU is required. Furthermore, if it is appropriate to determine credit adjustments on the basis of net counterparty balances, we do not agree that gross presentation of these balances on the balance sheet should be considered a preferable presentation.

Requirement to Settle Simultaneously

The Boards are proposing to require net settlement of assets and liabilities only when an entity intends to settle assets and liabilities on a net basis or when the transactions are to be executed at the same moment (the definition of “simultaneous settlement”). In practice no settlement takes place at the same moment even in cases where there is such an intent, as almost always there is some time lag between the moments when two contracts settle (this could be caused by time differences, system differences between the netting parties, operational limitations, netting procedures, etc.). This will certainly make the netting rules so restrictive that almost no entity will be able to apply them.

Even for centrally cleared derivatives, entities will need to obtain a detailed understanding of the method of settlement for each of the exchanges or clearinghouses to ensure that their transactions are settled or processed “simultaneously”. Some of the factors to consider include:

- how long the processing of daily settlements take;
- how the settlement of transactions is being processed (simultaneously or in batches)
- whether there is a continuous net settlement process.

If the Board’s intent is to require transactional payment settlement, it could permit a practical expedient in the form of the currently used concept of “daylight overdraft” as described in ASC 210-20-20 Glossary. This term is defined as an “accommodation in the banking arrangements that allows transactions to be completed even if there is insufficient cash on deposit during the day provided there is sufficient cash to cover the net cash requirement at the end of the day. That accommodation may be through a credit facility, including a credit facility for which a fee is charged, or from a deposit of collateral.”

We suggest that the definition of “simultaneously settled” as it is currently drafted be amended to allow the practical expedient described above as it will be difficult, if almost impossible, to determine in most cases whether the settlement took place at the same moment.

Practical Challenges

The proposed presentation and disclosures will require capturing more granular information that is currently not readily available (for example, capturing information about timing of settlements). Significant time will be needed to implement processes and procedures necessary to report these new disclosures.

The retrospective presentation requirement will be even more difficult to implement as it relates to information about past transactions and events that might not have been previously captured. We believe that a significant amount of time and resources will be needed to identify and potentially recreate those records in order to be able to meet the proposed requirements. Therefore, we believe that prospective compliance with the new disclosure requirements should
be considered or that the effective date of the standard should be at least three years from the date of adoption.

Thank you for the opportunity to provide comments on the proposed ASU. We would be pleased to discuss our views with you at your convenience.

Sincerely yours,

[Signature]

John P. Rielly
Senior Vice President and
Chief Financial Officer