October 3, 2019

Via email to director@fasb.org

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

Re: Invitation to Comment – Identifiable Intangible Assets and Subsequent Accounting for Goodwill,
File Reference No. 2019-720

Chevron Corporation (Chevron) appreciates the opportunity to provide comments to the Financial Accounting Standards Board (the “Board”) regarding the Invitation to Comment – Identifiable Intangible Assets and Subsequent Accounting for Goodwill.

Chevron is one of the world’s leading integrated energy companies. Through its subsidiaries that conduct business worldwide, the company is involved in virtually every facet of the energy industry. Chevron explores for, produces and transports crude oil and natural gas; refines, markets and distributes transportation fuels and lubricants; manufactures and sells petrochemicals and additives; generates power and develops and deploys technologies that enhance business value in every aspect of the company’s operations. As at June 30, 2019, Chevron has a goodwill balance of approximately $4.5 billion.

Overall, Chevron supports the model that requires amortization of goodwill and impairment testing annually or upon a triggering event. We consider that a default period of between 10 and 15 years is reasonable for the goodwill to be amortized. This will greatly improve the comparability of results between companies in all sectors as all companies will now expense the purchase cost of an acquisition over time. Fair value measurements in the oil and gas industry can differ between companies given different future oil price assumptions, and this results in considerable variation in amounts being allocated to goodwill across the sector. It can be argued that goodwill should represent the fair value of the synergies to be expected over a number of years. In relation to oil and gas companies, a default period of 10 to 15 years maximum is reasonable given the typical proved reserves life of 10 to 15 years. We consider it would be difficult to support an amortization period longer than 15 years given the underlying nature of the assets in our business.

Although not specifically discussed in the invitation to comment, we recommend that the method of adoption should be carefully considered if a change to require amortization is formalized. We consider that a retrospective option should be allowed with retained earnings being adjusted for the amortization that would have occurred between the date of the acquisition and the date of a new standard being effective. This will address the goodwill that would have been booked as if the standard had been implemented since the acquisition date. Also, this would prevent the incongruity that the prospective amortization of goodwill for an acquisition 15 years ago where the synergies have been achieved would
be treated in the same way as amortization of goodwill on an acquisition one year ago where the synergies have still to be realized.

With respect to recognition of intangibles in a business combination, we consider that there should be no change to the current approach. Given the differences in characteristics between goodwill and intangible assets we consider it would be inappropriate to subsume intangible assets into goodwill.

Our detailed comments to selected questions posed by the Board in the Invitation to Comment are included in the attached Appendix.

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 David Pizzala, Assistant Comptroller, at (925) 842-5031 or Alan Henderson, Accounting Policy Manager, at (925) 842-8681.

Sincerely,

APPENDIX: QUESTIONS FOR RESPONDENTS

Section 1: Whether to Change the Subsequent Accounting for Goodwill

1. What is goodwill, or in your experience what does goodwill mainly represent?

We consider that goodwill represents the fair value of synergies acquired in relation to an acquisition, and this is the difference between the consideration paid and the fair value allocated to the assets and liabilities acquired.

2. Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.

With respect to our Company, the costs of providing the information is reasonable. This is partly due to the fact that we make few acquisitions and that the nature of the businesses that we acquire are generally oil and gas properties where the major of the purchase price is allocated to the fair value of the assets acquired.

3. On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

We fully support adopting goodwill amortization. This will not only greatly improve the comparability of results between companies in the same sector but also between sectors, as all companies will now expense the purchase cost of an acquisition over time, consistent with such cost that was allocated to the acquired property, plant & equipment. Fair value measurements in the oil and gas industry can differ between companies given different future oil and gas price assumptions, and this results in considerable variation in amounts being allocated to goodwill across the sector. With regular amortization of goodwill, an impairment charge is less likely, and will be reduced by amortization that has already occurred. Lower
and less frequent impairments will result in greater comparability and less volatility in the reported earnings of companies.

4. If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics:

   a. A default period
   b. A cap (or maximum) on the amortization period
   c. A floor (or minimum) on the amortization period
   d. Justification of an alternative amortization period other than a default period
   e. Amortization based on the useful life of the primary identifiable asset acquired
   f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
   g. Management's reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

It can be argued that goodwill can be considered to represent the fair value of the synergies to be expected over a number of years. In relation to oil and gas companies, a default period of 10 to 15 years is reasonable given the typical reserves life of 10 to 15 years. In our business, we consider an amortization period longer than 15 years would not be appropriate. We recommend that if a period of 10 to 15 years is not used, then there should be a clear justification by management in the financial statements to explain why a different period is being used.

5. Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.

We consider that a reader of financial statements would require an amortization period to be reasonable, and we consider it would be very hard to justify a period longer than 15 years.

6. Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.

We consider that disclosure should only be made when the amortization period is different to the default period. We would suspect that most equity investors would be concerned if a period of over 15 years was being used as it could indicate that the company did not employ capital discipline and may have over paid for an acquisition. We do not consider that the cost would be significant of providing this information.

7. Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2017-04 reduce the usefulness of financial reporting information for users? Please explain.

The cost is significantly reduced as a second lengthy and involved quantitative analysis is eliminated. Step 2 of the goodwill impairment test is very complex. The usefulness of financial reporting information is not reduced by eliminating Step 2. The method of evaluating the fair value of a reporting unit assigns fair value to the assets and liabilities in aggregate. As goodwill is ascribed to the entire reporting unit, the fair value of the entire reporting unit is the proper evaluation criteria.
8. Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users? Please explain and describe any improvements you would recommend to the qualitative screen.

The qualitative screen does reduce the cost of the goodwill impairment test. A qualitative assessment can be performed far more quickly than a quantitative assessment and can be completed with fewer and less costly resources. Update 2011-08 does not reduce the usefulness of financial reporting information because performers of the qualitative assessment are familiar with the factors that might lead to a goodwill impairment and can identify when an impairment is likely from the criteria in the qualitative assessment. In the event of a likely impairment, a quantitative analysis would be performed, leading to the same result as applying the quantitative test in each period.

9. Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response.

We do not support removing the annual requirement for a qualitative assessment. The current standard allows for a qualitative assessment that is reasonable and can be performed quickly and efficiently. To remove this annual requirement could result in impairment of goodwill not being booked in a timely manner. Conversely, we do not support an annual requirement for a quantitative assessment as we consider they are expensive and unnecessary when the qualitative assessment is appropriately applied.

10. Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)? Please explain why in your response.

We do not consider this would have a material impact on our company.

11. What other changes to the impairment test could the Board consider? Please be as specific as possible.

The current qualitative test process is very efficient, and we do not propose any changes to this.

12. The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering “yes” or “no” to the questions in the table below. Please explain your response.

We consider that amortization with impairment assessment upon a triggering event as the most appropriate model.

Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

Questions 13 – 19

Given the differences in characteristics between goodwill and intangible assets, we consider it would be inappropriate to subsume intangible assets into goodwill and amortize. In many cases, the benefit of customer relationships included within intangible assets may have shorter useful lives than goodwill, so it would not be consistent to combine them. Acquisitions in the oil and gas sector generally relate to the
acquisition of physical oil and gas properties, and intangible assets are generally not acquired. As a consequence, we do not consider it appropriate for us to provide individual responses to questions 13-19.

Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets

20. What is your assessment of the incremental costs and benefits of disclosing the facts and circumstances that led to impairment testing that have not led to a goodwill impairment loss?

We do not consider that adding this information would be useful to the reader of the financial statements. Impairment testing is not performed only on goodwill, but also on other fixed assets when there is an appropriate triggering event. We do not provide details of other assets that we have reviewed for impairment where there is no impairment loss booked, and we do not consider that this information would be useful to the reader of the financial statements.

21. What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

We recommend that if a change to require amortization is adopted, the method of adoption should be carefully considered and that a retrospective option is allowed with retained earnings being adjusted for the amortization that would have occurred between the date of the acquisition and the date of a new standard being effective to address the goodwill that would have been booked as if the standard had been implemented since the acquisition date. This would prevent the incongruity that the goodwill amortization charge on future earnings for an acquisition 15 years ago where the synergies have been achieved would be treated in the same way as an acquisition one year ago where the synergies have still to be realized.

Section 4: Comparability and Scope

24. Under current GAAP, to what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

We do not have concerns on this given that our main competitors are similar public business entities with similar business profiles.

25. Please describe the implications on costs and benefits of providing PBEs with an option on how to account for goodwill and intangible assets and the option for the method and frequency of impairment testing (described previously in Sections 1 and 2).

Our responses are covered in sections 1 and 2. To ensure comparability we recommend that impairment tests are based on triggering events or annually, resulting in any impairment charges being reflected in the correct accounting period.

26. To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.
We recognize that there are multiple differences between GAAP and IFRS and not just in relation to goodwill. Given that goodwill is only one difference we do not consider that this will reduce the usefulness of the reporting information.

27. Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets. Please select all that apply and explain why comparability is not important to you in certain cases.

a. Comparability among all entities reporting under GAAP (one requirement for PBEs, private business entities, and not-for-profit entities) b. Comparability among all PBEs reporting under GAAP c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS.

Other Topics for Consideration

We consider that comparability among all PBE’s reporting under GAAP is the most important to our company.

Next Steps
29. Would you be interested and able to participate in the roundtable?

Yes.