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Via email to comments@pcaobus.org

Office of the Secretary
Public Corporation Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

Chevron Corporation (Chevron) appreciates the opportunity to provide comments to the Public Corporation Accounting Oversight Board (PCAOB) on the concept release regarding possible revisions to PCAOB standards related to reports on audited financial statements – Rulemaking Docket Matter No. 34.

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 develops the energy resources of the future, including biofuels. The company's activities are widely dispersed geographically with operations in North America, South America, Africa, Asia, Australia and Europe.

We appreciate the PCAOB's consideration as to what might enhance communications to investors and what might lead to more efficient markets and improved allocations of capital. While there may be some opportunity for improvement within the current auditor's report to clarify what an audit represents and what an auditor's responsibility is, we strongly believe that it is management's responsibility to provide investors with information about the company and the financial statements. Many of the proposals in the concept release infringe upon this principle, which we believe should be protected and strengthened. If there are shortcomings in disclosure identified through the PCAOB's outreach efforts, we believe they should be addressed through additional rule-making by the appropriate authority (e.g. FASB or the SEC) to enact changes to management's reporting requirements. Additionally, we would like to note that we are not aware that our investors have asked for, or are asking for, any expansion in auditor communications. We believe that providing significant additional information in the auditor's report would impose real costs that will ultimately be borne by the company's shareholders, and therefore, that the incremental costs associated with providing this information should be carefully balanced with the perceived benefits.

Please see detailed responses below to selected questions, which provide further background and clarification of our position.

Question 1. Many have suggested that the auditor's report, and in some cases, the auditor's role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.
c. Should the Board consider expanding the auditor's role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?

We do not believe the auditor's role should be expanded to provide assurance on matters in addition to the financial statements. The current scope of the auditor's role is adequate and functioning appropriately. Additionally, for a large, accelerated filer such as Chevron there may not be sufficient time for the auditor to complete the audit of the financial statements and provide assurance in additional areas. This could distract the auditor from their primary responsibilities and potentially reduce the quality of the audit of the financial statements. We do not believe that additional assurances from the auditor would be sufficiently useful to offset this risk and the incremental costs.

Question 2. The standard auditor's report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach to the opinion is sometimes referred to as a "pass/fail model."

a. Should the auditor's report retain the pass/fail model? If so, why?

We believe that the current "pass/fail model" is adequate for the same reasons identified by investors in the PCAOB's outreach. The standardized language of the auditor's report provides consistency, comparability, and clarity of auditor reporting. We do not share the concerns about the standard auditor's report being "boilerplate"; in our view, a standard is the natural and predictable end result of a pass/fail process that is consistent and comparable. For most companies, the report quickly conveys the necessary information to investors. The greatest strengths of the report could be quickly lost, and confusion unnecessarily created, if auditors were to attempt to convey subtleties that underlie their opinion. This type of information should be documented in the auditor's workpapers and conveyed to the audit committee (as per existing requirements), but should not be communicated by the auditor directly to the investing community.

Question 3. Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g., management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.

Financial reporting standards are very clear that the financial statements are the responsibility of the company's management. Management bears responsibility and certifies to the completeness and accuracy of the financial statements. Any additional information that is deemed necessary should be provided by management.

Question 5. Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?

d. If you do not support an AD&A as an alternative, explain why.

We are strongly opposed to the Auditor's Discussion & Analysis (AD&A) as an alternative. As noted in our response to Question 3, providing information about the financial statements is the responsibility of management. There would be significant effort involved in preparing and reviewing an AD&A, discussing it with management and the board audit committee, and resolving potentially confusing differences between it and management's report. All of these activities would divert attention from each party's critical and distinct responsibilities regarding the financial statements and would blur duties between preparer and auditor.

Furthermore, all the key points noted as potential topics for the AD&A already have an established forum for their communication that does not distort the lines of responsibility. For example, the auditor's views regarding the company's financial statements - such as management's judgments and estimates, accounting policies and practices, and where the company could have applied different accounting or disclosures - is already required to be communicated by the auditor to the board audit committee. Management is already required to discuss its significant accounting policies in the notes to the financial statements and its critical accounting estimates and assumptions in Management's Discussion and Analysis (MD&A). The auditor audits the notes and reads the MD&A for consistency with the audited financial statements. The auditor's significant judgments in forming the audit opinion should be documented in its working papers. These are subject to scrutiny through peer and PCAOB reviews and are not intended for the general public because of the confidentiality of the information, the high level of detail and the significant judgments involved. We do not believe that dissemination of this information should extend beyond existing frameworks.

In the concept release there is mention of significant, but not material, items using various characterizations: "close calls", "significant deliberations", and "potential material impact." The existing financial reporting and internal controls frameworks generally only require reporting of material items in the financial statements. All of the aforementioned characterizations begin to shift and distort those reporting requirements as more attention is paid to significant, but not material, items. Many existing standards and rules would have to be rewritten to further clarify this expansion of reporting. We do not believe this is necessary or efficient. While a healthy dialogue exists between management and the auditors regarding all types of significant items, it would be very difficult under existing reporting deadlines to develop useful and understandable discussions of those items for financial reports. We feel that existing reporting requirements regarding material items are adequate and functioning appropriately. Any move into partial reporting of some significant, but not material, items would only add cost and create potential confusion and overly expansive and confusing disclosures.

Question 14. Should the Board consider a requirement to include areas of emphasis in each audit report, together with related key audit procedures?

b. If you do not support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.

We do not support a requirement to include areas of emphasis in each audit report. We believe this will result in "boilerplate" language. Furthermore, existing standards already allow the auditors to add areas of emphasis at their discretion. We believe this is functioning as appropriate and preserves the auditor's ability to include or exclude references, as necessary, based on the circumstances involved.

Question 19. Should the Board consider auditor assurance on other information outside the financial statements as an alternative for enhancing the auditor's reporting model?

g. If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.

We do not support auditor assurance on other information outside the financial statements. Under existing standards, the auditor already reviews the other information in documents containing audited financial statements and considers whether such information, or the manner of its presentation, is materially inconsistent with the financial statements or represents a material misstatement of fact. Management

carefully considers any comments on this information provided by the auditor. Expanding the audit assurance effort to include the MD&A and earnings releases would substantially increase audit fees and there may not be adequate time to complete the additional procedures within existing reporting deadlines. Moreover, we believe this expansion of effort would not add meaningful value beyond that currently provided by the auditor's review of this information to ensure its consistency with the audited financial statements. If there are misunderstandings within the investing community about the scope and role of the auditor with regard to information outside the financial statements, we would support some inclusion in the auditor's report, which clarifies the existing role. See further discussion below.

Question 21. *The concept release presents suggestions on how to clarify the auditor's report in the following areas:*

- *Reasonable assurance*
- *Auditor's responsibility for fraud*
- *Auditor's responsibility for financial statement disclosures*
- *Management's responsibility for the preparation of the financial statements*
- *Auditor's responsibility for information outside the financial statements*
- *Auditor independence*

a. Do you believe some or all of these clarifications are appropriate? If so, explain which of these clarifications is appropriate? How should the auditor's report be clarified?

We do not have any significant concerns with additions to the auditor's report to clarify terms or the auditor's existing responsibilities. Of the items noted, we believe it may be most useful to provide clarifications on the auditor's responsibility for monitoring fraud, the auditor's and management's responsibilities regarding the financial statements, and the auditor's responsibility for information outside the financial statements. Clarifying the definition of reasonable assurance and providing additional commentary on auditor independence would not add value. The auditor's independence is directly stated in the title of the report, "Report of Independent Registered Accounting Firm."

b. Would these potential clarifications serve to enhance the auditor's report and help readers understand the auditor's report and the auditor's responsibilities? Provide an explanation as to why or why not.

A succinct clarification of some of the above items could augment investors' understanding of what an audit is and what responsibilities the auditor has. We would expect that, with any new additions, a standard, unqualified auditor's report should still fit on a single page within the financial report.

Question 23. *This concept release presents several alternatives intended to improve auditor communication to the users of financial statements through the auditor's reporting model. Which alternative is most appropriate and why?*

The only option that Chevron supports is the clarification of certain items in the auditor's report. All of the other alternatives weaken the core principle that communicating information regarding the financial statements is the responsibility of management. The auditor should focus on completing the audit effectively and improving its communication with management and the board audit committee, within existing standards, which we believe to be adequate. The auditor should not have an expanded role in communicating information to investors and financial statement users beyond the inclusion of its opinion in the financial report. It is not surprising that the PCAOB would discover in its outreach efforts that investors would like to

September 21, 2011
Page 5

receive more information from the auditors. Likewise, they would certainly like to receive additional information from the company's external legal counsel, regulators, and other entities, which have access to information about the company that is not in its financial reports. However, we believe the confidential nature of much of this information and the complexity of the auditor's judgments underlying their opinion are most appropriate for their workpapers.

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If you have any questions on the content of this letter, please contact Al Ziarnik, Assistant Comptroller, at (925) 842-5031.

Very truly yours,



Matthew J. Foehr