



LETTER OF COMMENT NO.

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8000 West Florissant Avenue

St. Louis, MO 63136-8506 www.gotoemerson.com

P.O. Box 4100

January 15, 2009

Mr. Russell G. Golden Technical Director – File Reference: Proposed FSP FAS 141 (R)-a Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. 141(R)-a, "Business Combinations."

Dear Mr. Golden:

Emerson would like to take this opportunity to comment on proposed FASB FSP 141 (R)-a. We appreciate the Board's willingness to listen and attempt to respond to the views of financial statement preparers and other interested parties regarding fair value disclosures. However, we continue to believe the Board gives too much credence to the theoretical view that virtually all assets and liabilities can be reliably remeasured to fair value on a quarterly basis. In summary:

- Although Emerson supports the FASB's decision to relax the requirement under FAS
 141(R) for initial and on-going fair valuation of acquisition contingencies, we believe
 eliminating the fair value requirement for these contingencies is the best way to simplify
 and therefore improve, financial accounting and reporting.
- Beyond valuation from observable inputs in a robust market, (e.g., exchange traded or
 over-the-counter derivatives) fair value methods are inherently uncertain, difficult to
 implement operationally (particularly for on-going measurement) and do not necessarily
 have a predictive relationship to future cash flows.
- The longstanding FAS 5 approach of accruing contingent liabilities when they are both
 probable and can be reasonably estimated is both operationally practical for preparers and
 widely understood and accepted by users of financial statements. We believe FAS 5, as
 presently constituted, should be the accounting and disclosure standard for all
 contingencies.
- The proposed disclosures in FSP 141(R)—a are not practical and do not adequately address preparer concerns over forced disclosure of prejudicial information. Although the Board acknowledges these concerns, the aggregation alternative offered for disclosure of similar items falls short of the goal of providing relief.

General Comments on Fair Value

Emerson supports the Board's basic decision to allow an alternative to strict fair value accounting for acquisition contingencies and we acknowledge the FASB's willingness to listen and respond to the input of financial statement preparers and lawyers. But we believe the FASB has not gone far enough and recommend the Board eliminate the use of fair value for all contingencies.

As Emerson has previously stated to the Board, fair value has a role for many of the one-time valuations necessary to develop an opening balance sheet for acquisitions. This work often takes weeks or months to develop and finalize and frequently involves the utilization of subject matter experts both inside and outside the company. Marshaling the resources necessary to replicate fair values for on-going quarterly valuations is neither practical nor cost effective.

In fact, we believe little will be gained from such work. The ultimate disposition amount for a contingency is by definition unknown and unknowable. That's why contingencies are incorporated into purchase/sale agreements as matters to be settled later, once all facts and circumstances are known. If parties to a transaction, with operational experience and the advice of experts, cannot fair value each and every element of a deal, it follows that subsequent efforts with fewer resources and under stricter time constraints will not be able to provide an accurate on-going fair valuation. Conversely, much harm could be done by inaccurate fair value adjustments in the form of quarterly earnings volatility and false investor or analyst assumptions, whether overly optimistic or overly pessimistic, regarding future earnings results and cash flows.

The FASB persists in expanding the use of fair value because it fits the Board's narrow theoretical view. We encourage the Board to not overlook the benefits of the historical cost accounting model, which has been reliable, understandable, verifiable and representationally faithful in depicting underlying operations for many years. As we have noted in previous communications with the Board, Concepts Statement No. 1 holds that the primary focus of financial reporting is to provide information useful in making business decisions, not to directly measure the value of a business. While there is a place for fair value in certain one-time transactions, more often fair value estimates are best utilized as supplemental disclosures to historical cost-based information.

Last, we note that the current illiquidity of credit markets stems largely from the singular inability of financial institutions to accurately value those elements of their investments for which there are no observable market or market inputs. Providing lengthy disclosures about the methods, inputs and risks associated with recording assets and liabilities of uncertain value, as in the fair value approach, provides no real benefit to users of financial statements. A more practical approach would be to recognize all contingencies under the approach outlined in FAS 5, based on experienced judgment about probable outcomes.

Support for FAS 5

Emerson believes the reasonable solution to the issues of uncertainty and on-going measurement is to incorporate the longstanding FAS 5 approach of recording a contingent liability when, in management's judgment, the amount is both probable of occurring and can be reasonably estimated, with contingent assets generally not recorded. FAS 5 is well understood and accepted by both preparer's and users of financial information. We also believe an amount accrued and disclosed under FAS 5 approximates the expected cash to be paid which is the measure meaningful to investors. If simple and understandable is truly one of the FASB's goals, FAS 5 is more than adequate and should be the required approach for all contingencies, both contractual and noncontractual.

Requiring the fair value approach for acquisition contingencies could also potentially confuse or mislead users when FAS 5 disclosures for non-acquisition-related contingencies are also present. For example, a potential litigation liability accrual related to on-going operations will be made under FAS 5, whereas an acquisition-related litigation accrual will be made under the fair value guidance in FSB FAS 141(R)-a. This lack of consistency should be addressed not by expanding the use of fair value but rather through consistent and universal application of FAS 5.

Concerns Regarding Disclosures

Emerson is opposed to the proposed expansion of disclosure requirements contained in FSP 141(R)—a. FAS 141(R) already has significant disclosure requirements, many of which we believe are costly, burdensome and not beneficial to users seeking decision-useful information. We reiterate our views expressed above that fair value, if not based on observable markets or market inputs, has too many variables that preclude true precision and therefore limit the benefit to financial statement users. Further, to require quarterly updates of this potentially limited use information simply creates a costly exercise in data gathering and reporting, thereby failing any reasonable cost benefit analysis.

We continue to believe, as detailed in our letter to you dated August 7, 2008 regarding the proposed amendment to FAS 5, that the so-called protections against potential disclosure of prejudicial information are inadequate and could actually invite litigation depending on the circumstances. The aggregation alternative potentially alleviates these concerns in some cases, but for instances where material litigation is focused on narrow subject matter, aggregation is inadequate and may in fact provide plaintiffs insight into matters currently protected by attorney client privilege.

The issue in the marketplace as we see it is inadequate compliance with and enforcement of the disclosure requirements of FAS 5. The focus of FAS 5 is precisely where the disclosure of contingencies should be ... discussion and potential accrual of genuinely material situations which could impact a reasonably informed investor's decision making. No amount of speculation about the potential outcomes of unasserted claims, roll-forwards of the minutiae of changes to contingencies or verbiage about the inputs for other than market-based fair values can substitute for simple and straight-forward discussion of management's best estimates of potential cash exposures.

Summary

In summary, while we generally agree with the Board's decision to somewhat relax the fair value requirements for acquisition-related contingencies, it is not enough. Absent observable market inputs, the fair value concept remains flawed, if not potentially misleading, and should be eliminated. Investors would be better served by a focus on management's estimates under FAS 5 of cash exposures from truly material events and circumstances. We also remained concerned about the volume and practicality of disclosure outlined in the proposed FSP, and that the proposed "protections" against disclosure of prejudicial information are inadequate and could potentially lead to adverse legal outcomes for companies.

Emerson appreciates the opportunity to comment on the FSP and trust our comments will be seriously considered in future deliberations on this issue.

Sincerely,

Richard J. Schlueter

Vice President & Chief Accounting Officer

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Cc: Walter J. Galvin

Senior Executive Vice President

& Chief Financial Officer