Richard J. Schlueter
Vice President, Controller
and Chief Accounting Officer

Emerson
8000 West Florissant Avenue
P.O. Box 4100
St. Louis, MO 63136-8506

T 314 553 2327

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

File Reference No. 2013-220 – Proposed Accounting Standards Update: "Recognition and Measurement of Financial Assets and Financial Liabilities"

Dear Ms. Cosper:

Emerson appreciates the opportunity to comment on the Proposed Accounting Standards Update, "Recognition and Measurement of Financial Assets and Financial Liabilities." We appreciate the Board's consideration of feedback received on the 2010 proposal. We did not support that proposal's expansion of fair value, and believe the mixed measurement model in the current proposal provides more relevant information to investors. Our comments follow.

- **The new categories for measurement will not simplify accounting and will confuse investors already familiar with current classifications.** We support the Board's decision to retain a mixed measurement model, with classification dependent on management intent. In our view, the proposed classifications are not an improvement over existing terminology, and may in fact confuse investors. Current terms (held-to-maturity, available-for-sale and trading) should be retained as they are descriptive, plain-English, familiar to investors, and succinctly describe how management intends to benefit from the financial instrument.

- **The "solely payments of principal and interest criteria" may be too strict and create needless complexity.** There is a large variety of features that can be included in financial instruments even though the primary objective is to hold and collect contractual cash flows. The proposal implies "primarily" may be a better description then "solely" and that may be a more reasonable principle. The proposal may be impractical to apply as it requires an evaluation of these features to determine whether the instrument meets the "solely payments of principal and interest criteria" or whether mark-to-market accounting is required for every situation. In addition, when the objective is to hold, prudent business practices dictate that management must monitor the specific credit and market conditions and continuously re-evaluate that objective. We suggest the amortized cost category include those instruments that may be sold periodically, but exclude those instruments where management's intent is to invest in financial instruments for trading purposes.

- **Equity investments currently classified as Available-for-Sale should remain eligible for accounting through other comprehensive income.** Investments accounted for on the cost basis are made for a variety of purposes, including for example, strategic learning to explore new technologies or markets. We believe that changes for an equity investment's market value should not be recognized in net income unless the investment is impaired, or until a decision is made to liquidate or make further investment (at which point it could become an equity method investment or consolidated entity). For publicly traded equity investments, we recommend that

changes in market value should be recorded based on how management intends to benefit from the financial instrument: through net income if held for trading, and through other comprehensive income ("OCI") if held for other than trading.

- **Equity investments without readily determinable fair values should not be adjusted for occasional "observable transactions."** If the proposed mark-to-market accounting for equity investments is required, investments not publicly traded (or otherwise not having readily determinable fair values) should continue to be carried at cost, with the basis adjusted only for impairment. As noted, equity investments are made for a variety of reasons and recent activity in a largely inactive market does not necessarily equate to fair value. Adjusting the carrying value for "occasional observable transactions" could result in significant earnings volatility not supported by the economics. In addition, there should be a limitation that the information disclosed must be available without undue cost or effort. Our concern is this could be a burdensome process to undertake routinely. If this change is made, the Board must clarify its expectations for documenting observable transactions.

- **The fair value of financial instruments recorded at amortized cost should not be presented on the face of the balance sheet.** Extensive fair value disclosure requirements already exist for financial instruments and this data is easily located in the notes to financial statements or MD&A. As described in the proposal, assets and liabilities recorded at amortized cost will reflect the substance of management's intent for how the cash flows will be received or paid, and is therefore the most meaningful measure for investors. Fair value is secondary information, and as the Board has determined in other proposals, providing it parenthetically on the face of the balance sheet will clutter the statements, confuse investors, and give undue prominence. In addition, the Board should also explicitly state that immaterial items need not be disclosed, whether parenthetically or in the notes. This may be an area where requirements for financial institutions may need to be different from other entities as the vast majority of their business is dealing in financial instruments.

- **The proposal should support the use of management judgment to determine the extent of disclosure when financial instruments are not material.** The proposal requires extensive disclosures for equity investments without readily determinable fair values. These investments are often immaterial. As discussed in our letter dated December 11, 2012 regarding the Disclosure Framework, the extent of disclosure should reflect the risk and relative materiality of the transaction or balance. We support the principle that management judgment should be used to expand or reduce disclosure as financial instruments become more or less significant. In addition, the proposal's requirement to report total gains and total losses related to financial instruments measured at fair value through OCI <u>separately</u> should be eliminated.

- **Detailed disclosures should be limited to annual reporting.** Interim disclosures should not contain the same level of detail as annual reporting if circumstances have not changed. While we acknowledge that investors make decisions year-round, interim reporting is intended to supplement the most recent annual financial statements. There is no value in providing the same qualitative discussion and similar quantitative information each quarter if there are no material changes since year end. Targeted disclosure of material changes occurring since the most recent annual period, if any, achieves the objective.

- **Eliminate accounting for "embedded derivatives" in nonfinancial contracts.** An area that should be modified in this project is accounting for embedded derivatives. Under current rules, routine purchase orders or contracts that are not denominated in the functional or local currency of a buyer or seller are required to be marked-to-market through net income before delivery. This is a very impractical and burdensome requirement that is inconsistent with the accounting for other contracts and creates volatility in earnings that distorts an entity's actual performance.

If the entity transacts in its local currency but that is not its functional currency, there is not a requirement to account for an "embedded derivative." This is practical as there are good business reasons why this occurs that is not due to an objective to speculate. Similarly, the presumption should be the same where the contract is not denominated in the local or functional currency of buyer or seller.

The current rules provide for a very narrow exception that almost never applies: if the product routinely (we understand this effectively means "always") trades in the currency in the contract. There is another exception if the "substantial party" to the contract is other than one of the contracting parties with the appropriate functional currency. It really is not possible to know the other party's functional currency or structure to make this determination, nor is it practical to analyze and document with appropriate detail the substantial party exception of the entities own product flow for thousands of individual transactions in order to document the exception. Large complex diversified multinational corporations have complex supply chains that are constantly evolving and changing internal and external sourcing which makes documenting this exception extremely difficult for individual transactions. Often, there is no real economic exposure to the entity as the primary cost of sourcing (which may be external or intercompany) and currency denomination of the sales contract are the same so hedging would not be prudent. Sometimes it may be the customer's ultimate customer that desires to settle the transaction in a certain currency. In other situations, it is common practice to conduct business in US dollars or Euros where currency exchange restrictions exist (e.g., China) or where the local currency is weak. From an economic perspective, the entity manages all these exposures in aggregate with all of its various transactions, not individually as is required to document embedded derivative exceptions.

Contracts are denominated in a currency that makes good business sense because the price and cost are denominated in the same currency, the parties desire to settle the contract in a highly liquid, fully-tradable currency, or for other good business reasons. In summary, we believe the presumption should be that these contracts are not considered speculative unless there is evidence to the contrary, and, therefore, not accounted for as embedded derivatives. Routine purchases and sales contracts outside the functional or local currency of the buyer or seller should not be marked-to-market through net income or OCI before delivery of the product or service has occurred, and a receivable is recorded. We would appreciate it if this issue could be addressed before conclusion of the financial instruments project.

We appreciate the opportunity to respond and trust that our comments will be seriously considered in future Board deliberations.

Sincerely,

Richard J. Schlueter
Vice President, Controller and
Chief Accounting Officer

cc: Frank J. Dellaquila
Executive Vice President and Chief Financial Officer