

PCC-13-01A Comment Letter No. 43 PCC-13-01B Comment Letter No. 47 PCC-13-03 Comment Letter No. 37

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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 Nos. PCC-13-01A, PCC-13-01B and PCC-13-03 – Proposals of the Private Company Council

Dear Ms. Cosper:

We appreciate the opportunity to comment on the proposals of the Private Company Council (the "PCC"), "Accounting for Goodwill," "Accounting for Identifiable Intangible Assets in a Business Combination," and "Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps."

The PCC indicates private companies have raised concerns that existing GAAP is too complex and costly to implement. As a public company, we have exactly the same concerns. Fundamentally, large public companies are impacted by a broader range of complex rules and to a much larger degree because of their size and scope. Also note that "private" does not necessarily mean an entity is small or uncomplicated and there are many private companies that are global in scale and much larger than some public companies. We do not support the notion of "Big GAAP" versus "Little GAAP."

While we do not support creating separate rules for private companies, we are supportive of reasonable, practical approaches where GAAP could be made less complex and less costly, yet still communicate the important information to users. The current PCC proposals reflect many of our thoughts about simplification that were communicated when the original standards were being developed on these topics. If the Board believes these modified approaches are appropriate for private companies, we believe the same conclusions should logically apply to all companies. Whether a company is private or public should not make a difference as to what information is relevant when evaluating a company's financial results or financial position. Maintaining one set of GAAP for both private and public companies will also help ensure there is an appropriate balance between relevance of requirements and cost and complexity as standards are developed. Our specific comments on each of the proposals follow.

## Accounting for Identifiable Intangible Assets in a Business Combination

We believe identifiable intangibles should only be recorded where there are contractual rights that are separable from goodwill, such rights can be sold or exchanged, and for which similar transactions can be observed in the market place. Intangibles that are not separable, such as a company's distribution system, assembled workforce, customer relationships, and unpatented technology are hypothetical

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assets only, and do not exist apart from goodwill. It is costly to value these types of intangible assets which are subject to significant variability in the valuation process and questionable reliability. The first adjustment any analyst makes to project future cash flow is to add back amortization of intangibles as this expense is not viewed as an economic usage of wasting "assets." Therefore, we support subsuming all intangibles that are not separable and contractual-based into enterprise goodwill which reflects the benefit of all facets of an entity working together to deliver solutions to current and future customers. Since implementation of the rules for business combinations and impairments, we have found the valuations for nonseparable intangibles and businesses to be very subjective and costly. These rules are extremely complex to apply in practice.

## **Accounting for Goodwill**

Assuming the requirement to identify and amortize nonseparable, noncontractual intangible assets is eliminated, we support amortizing goodwill. Amortization is consistent with the concept that goodwill "turns over" as an entity operates. We recognize this is just a cost allocation method that does not reflect the economic changes in the business, but it is simple, involves little cost, and protects against potential impairments which are always subjective due to the difficulties of determining fair value absent an actual transaction with a third party. The current approach and the proposal do not provide for recording theoretical new goodwill that is created as old goodwill turns over, and we agree with that for many practical reasons. However, to temper this shortcoming, we recommend the previous goodwill amortization life of up to 40 years, but at a minimum, at least a life of up to 25 years.

We also strongly support the proposal's simplified, single-step impairment test that is only required when a qualitative analysis indicates an impairment may exist. The current approach to determine the fair value of a reporting unit's goodwill using a hypothetical acquisition model to re-value all assets and liabilities is overly costly and complex, and can result in significantly different outcomes due to the subjectivity of the valuation process and the degree to which intangible assets have been already amortized. In our opinion, goodwill impairment should simply be calculated as the excess of book value over fair value of the business. Finally, we support testing goodwill for impairment at the operating segment level and eliminating the "reporting unit" concept, which results in more complexity and requires significant judgment.

## **Accounting for Derivatives**

Reducing complexity in hedge accounting is appropriate, and we believe the more practical hedging approach in the proposal on interest rate swaps should be extended to all derivatives. In our view, hedge accounting under existing GAAP is overcomplicated and implies a level of precision that is not present or practical. Hedge accounting would be simplified and improved without sacrificing the quality of financial reporting through the following changes: (1) relax the requirements to use the shortcut and critical terms matching methods so that exact perfection in critical terms is not required, (2) remove the requirement to perform a quarterly effectiveness test, including calculation of the ineffective portion of the hedge, provided the hedge is expected to continue to be reasonably effective, and (3) allow entities to identify a component of an item as an exposure eligible for hedge accounting (e.g., copper in a motor). We support requiring mark-to-market accounting for derivatives entered into for trading or with the objective of speculating, but measuring ineffectiveness on a recurring basis for hedges that substantially mitigate risk is not cost effective or relevant.

In conclusion, we support the proposals' more practical and less complex approaches which could significantly reduce the costs of financial reporting without sacrificing accuracy, relevance or transparency. These relaxed requirements would benefit all companies, not just private companies.

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We appreciate the opportunity to respond to these proposals and trust 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**