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September 7, 2010

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

File Reference No. 1830-100

Dear Mr. Golden,

We take this opportunity to comment on the Proposed Accounting Standards Update to ASC 820, *Fair Value Measurements and Disclosures*. Emerson is a diversified Fortune 100 global manufacturing and technology company.

#### Overview

We agree that fair value accounting is appropriate for financial instruments where quoted prices in active markets are available, such as stocks and exchange traded currency and commodity contracts. We even accept ad hoc fair valuations in connection with one-time specific transactions such as acquisitions. However, fair value measurement of routine transactions is certainly not appropriate based on Level 3 inputs and perhaps not even for certain Level 2 transactions. The time, cost and systems necessary to either account for or disclose thousands of transactions at fair value when market prices are not readily available is not only excessive, but of questionable value.

We question the relevance/usefulness of fair value in aiding investors to project future operating results and cash flows. Pursuant to Concept Statement No. 1 (CON 1), the primary focus of financial reporting is to provide information about earnings and its components that are useful in making business and economic decisions, not to measure directly the value of business. CON 1 also states that although financial reporting provides <u>basic information</u> to aid investors, creditors and others, these users of the information do their own evaluating, estimating, predicting and accessing. Even FASB Chairman Herz expressed frustration with fair value in connection with his observations regarding providing guidance on valuing liabilities: "I personally believe we are getting to hypothetical things that don't have any grounding in reality. We're forcing people to do mental gyrations in parallel universes. I think this is less relevant, more costly…" We also believe readers of financial statements cannot understand the voluminous disclosures required by ever more complex accounting.

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When there is no history for exchanges between third parties, the calculations of fair value can and do vary widely. There are often a range of possible inputs for many assumptions, each with defensible positions. Since there are no observable market transactions, these values can never be verified. The valuation process can take several weeks to complete, including determining hypothetical market participants, projecting cash flows, calculating the present value of those projected cash flows, using an appropriate discount rate and *then* making judgments about value. Updating this analysis even annually (or worse, quarterly) is difficult and inherently uncertain. We believe this already leads to disclosure that is not representationally faithful of the economic performance of the business, nor reliable or verifiable. Expanding fair value disclosures to include sensitivity analysis simply exacerbates the unreliability problem as well as creates others.

Because of these issues and the questionable utility of fair value disclosures beyond Level 2 to financial statement users, we urge the FASB to refrain from expanding the use of fair value disclosures beyond current practice. Our ongoing concern is that accounting standards continue to be overly academic and very complex; requiring investments of time and money with questionable added value for the goal of adhering to theoretical concepts rather than providing useful information. In that vein, we would like to comment specifically on the proposed requirement for uncertainty analysis of recurring Level 3 measurements.

## Developing Sensitivity Disclosures is Not Practical

It is easy for survey respondents to tell the FASB they would find more information on Level 3 disclosures useful, but the true utility to investors is undefined and essentially impossible to determine. Also of concern is the requirement for preparers to provide extensive disclosure while users may only actually use small portions of the overall disclosures. We therefore question the value of sensitivity disclosures and the practical basis for their preparation. The time, cost and management effort required to create these disclosures far outweigh any perceived benefit. It is simply not practical or operational to develop alternative disclosures even annually for valuations which already demand extraordinary time and effort to meet existing requirements. This may well work for financial institutions routinely employing in-house valuation models, but there exists no practical solution for nonfinancial entities.

The FASB recognized these concerns when it previously considered and rejected these same sensitivity analysis disclosures when promulgating the original FAS 157. In our view, nothing has changed since the first time FASB declined to require these disclosures. We also believe the cost and difficulty in providing these disclosures will lead to boiler plate discussions of what could or could not impact the disclosed values, but always ultimately providing a net neutral view of potentially favorable or adverse impacts – which of course will be of zero value to users and simply add bulk to disclosures. This will be especially true for Level 3 disclosures related to hedge fund or private equity investments where the valuations come directly from the investment managers and include adjustments for such items as "environmental factors" or "market risk judgment." Obtaining sensitivity analysis for such inputs from third party investment managers will be well near impossible.

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## Level 3 Sensitivity is Not Useful to Investors

By definition, Level 3 measurements are inherently uncertain, given that the key inputs are not market observed or even necessarily market available. It seems the SEC standard of a reasonable investor would possess basic knowledge of the fair value hierarchy, would understand the inherent limitations associated with Level 3 asset values and would factor this into his/her investment decisions accordingly. Depending on the nature of the item being valued, we believe knowledgeable users inherently understand that estimates not based on market-based inputs (i.e., Level 3 items) could vary, for example, ten to 20 percent. Providing additional "what if" disclosures could easily cause an investor to believe a different outcome is more accurate and therefore reach an inappropriate investment conclusion — especially if they are predisposed, for whatever reason, to see management's disclosure in a particular light.

The proposal ignores the fact that Level 3 disclosures already reflect management's reasoned opinion (and perhaps that of experts employed by management) reached through careful analysis and weighing of factors. Current literature requires that to the extent possible, factors considered are to reflect inputs that would be used by market participants. If different inputs, or similar but differently weighted inputs were more germane to the analysis, they would have already been considered. How is disclosure of the impact of factors or weighting considered and rejected by management meaningful; especially given the limitations inherent in valuing Level 3 assets?

#### Legal Concerns

Despite the FASB's assertion that the sensitivity disclosures are not intended to provide opportunities to second-guess management, that's precisely what could very well happen in the aggressive and adversarial litigation culture in the U.S. Because businesses are often seen as deep-pocketed targets by potential claimants, any implication that creditable alternative valuation inputs should have been used could invite spurious litigation, especially if cash flows ultimately realized differ from those implied by disclosures. Conversely, potential litigants could also assert that potential alternate inputs not disclosed but perhaps discussed by another entity for a similar transaction, were willfully withheld. As opposed to simply proposing these changes in the name of convergence, the FASB should seek to foster a better understanding by the IASB of the true nature of the U.S. litigation environment, with the goal of eliminating the disclosure from IAS 37 or any converged literature. Otherwise, non-U.S. entities could enjoy competitive advantage from not being the target of lawsuits.

# Conclusion

We are concerned by what we see as a needless expansion of disclosure requirements for which compliance is already costly and time consuming. We do not believe the proposed new disclosures will provide a true benefit to investors and may in fact create exposure for the company and those very investors by inviting litigation. Given the inherent limitations on valuing Level 3 assets and the questionable value that sensitivity disclosures provide, we request that the FASB not expand fair value disclosures.

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In a general sense, the Board seems to have lost sight of the implementation cost and on-going cost of complexity being created by the avalanche of new rules and disclosures, diminishing the competitiveness of U.S. businesses. Similar to the processes used by companies to weigh important business decisions, new or incremental accounting and disclosure requirements should only be added by the Board after very careful consideration of all costs and only when the benefits are obvious and substantial.

Given the significant volume of very important and highly technical accounting and disclosure updates recently proposed, we urge the Board to extend the comment deadline for the proposed update on Revenue Recognition in Contracts with Customers to December 31, 2010, and also extend the comment deadline for the proposed update on Leases to March 31, 2011.

We appreciate the opportunity to respond on the proposed Update and trust our comments will be seriously considered in future deliberations on this issue.

Sincerely,

Richard J. Schlueter

Vice President & Chief Accounting Officer

cc: Frank J. Dellaquila Senior Vice President & Chief Financial Officer