

February 23, 2012

Technical Director
FASB Emerging Issues Task Force
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Re: File Reference No. EITF-11A

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We would like to take this opportunity to comment on the Proposed Accounting Standards Update regarding Parent's Accounting for Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business within a Consolidated Foreign Entity. Emerson is a diversified global manufacturing company with 2011 sales in excess of \$24 billion.

In short, we do not support the Exposure Draft guidance regarding the release of the cumulative translation adjustment (CTA) into earnings upon the loss of (sale of) a controlling financial interest in a group of assets that is a business within a consolidated foreign entity. The following summarizes our comments on the Exposure Draft:

- The sale of a group of assets that is a business is not equivalent to the loss of a controlling financial interest in a foreign entity. We believe the sale of a group of assets that is a business is too narrow a unit of account to apply the release of CTA into earnings
- If the proposal goes forward, the treatment of CTA upon the sale of a group of assets that is a business should include the same considerations applied to a loss of a controlling financial interest in a lower-tier foreign entity.
- The Task Force should address complexities that exist in current practice to determine
 the amount of CTA to recognize upon the sale or substantial liquidation of a foreign
 entity, before expanding the scope to release CTA into earnings upon the sale of a
 group of assets that is a business.

Not Equivalent to the Loss of a Controlling Financial Interest in a Foreign Entity

The sale of a group of assets that is a business should not result in the release of CTA into earnings if the sale does not affect the controlling financial interest in the relevant operations of the foreign entity in which the assets reside. This is consistent with the view expressed in paragraph BC6 of the Exposure Draft. CTA resides at the level of the *parent's net investment in the foreign entity* and should not be released into earnings unless the parent's net investment decreases. For example, if a Euro foreign entity divests a product line that is not a foreign entity but is deemed a business under ASC 805 and reinvests the proceeds into another product line in the same Euro functional currency, no change has occurred to the parent's net Euro investment exposure and therefore no CTA should be released into earnings. Despite selling a product line that might qualify as a business under the rules, the parent did not lose control over the relevant business operations of the foreign entity. The divestiture is part of the natural evolution of the foreign entity's business.

Comments re: EITF Conclusion on Releasing CTA

Page 2

Application of Scope

If the proposal goes forward, we believe the sale of a group of assets that is a business is too narrow a unit of account to apply the release of CTA into earnings. Instead we propose the release of CTA into earnings upon the sale or substantial liquidation of an entire foreign entity that is a business. The determination of functional currency is based on a distinct and separable operating unit (i.e. foreign entity), not a group of assets that is a business within a foreign entity. A foreign entity is able to produce meaningful financial statements that include the assets of the operation as well as the funding of those assets and relevant income statement effects. Similar financial information is not necessarily available for the numerous permutations of a group of assets that may be deemed to be a business at the time of sale but which were not separately accounted for or reported before the sale. Limiting the scope of the Exposure Draft to the sale of a business that meets the existing definition of a foreign entity would simplify the accounting process as well as alleviate the judgment needed to apply a "systematic, rational, or pro-forma basis" to allocate CTA into earnings, because CTA is already explicitly maintained at the foreign entity level.

Considerations for Lower-Tier Foreign Entities

If the proposal goes forward, the release of CTA into earnings upon the sale of a group of assets that is a business should take into account the same considerations as a second- or lower-tier foreign subsidiary when the parent foreign subsidiary has the same functional currency. Under current practice, the sale of a second-tier foreign subsidiary does not necessarily result in the release of CTA into earnings. Judgment is needed to consider: 1) the similarity of the second-tier foreign subsidiary's business to the operations remaining under the foreign parent and 2) the use of cash proceeds from the sale (i.e., proceeds invested by the foreign parent in another subsidiary in substantially the same business in the same country).

Address Existing CTA Complexities

In practice, there are many complexities in determining the amount of CTA to recognize in earnings when a foreign entity is sold or substantially liquidated. International business has grown substantially since the issuance of FAS 52 and complicated foreign entity holding company structures have emerged. There is a greater need for clarification on the application of existing rules on the amount of CTA to recognize from the sale or substantial liquidation of a second- or lower- tier entity before expanding the scope to recognize CTA on a sale of group of assets that is deemed to be a business.

To illustrate, when determining the amount of CTA to release into earnings in the event of a sale or substantial liquidation of a second-tier foreign entity, should the CTA only at the level of the second-tier entity be considered, or also include CTA at the level of the foreign parent, or also include CTA at the foreign parent and all other subsidiaries in the group, with the same functional currency? Note that the original decision to capitalize the first and second-tier subsidiaries with intercompany debt or equity, and whether to extract dividends or lend out excess cash via intercompany borrowings over time, affect the amount of CTA at various levels in the group. These discretionary decisions are motivated by tax and other considerations. Depending on the answer, the amount of CTA to release upon sale or liquidation of the second-tier subsidiary can vary greatly.

Conclusion

We support the current ASC 830-30-40 guidance in which CTA is only released into earnings upon the sale or substantial liquidation of the foreign entity. This approach allows for a concrete triggering event and reduces the judgment (and accounting complexities) required to determine whether a group of assets represents a business and the amount of "related" CTA to be released into earnings. We believe a group of assets that is a business is too narrow a unit of account. The sale of a group of assets that is a business within a foreign entity is not the same as a loss of a controlling financial interest in a foreign subsidiary, and we therefore do not

Comments re: EITF Conclusion on Releasing CTA Page 3

believe the same CTA treatment should apply unless that asset group qualified as a "foreign entity" under the existing rules prior to preparing for sale. Our view is that a sale of a group of assets that might qualify as a business is more an evolution of the foreign entity and for which the parent's exposure to the foreign currency investment has not changed, and therefore no release of CTA is appropriate.

Further, disposal of a group of assets that may be deemed a business may increase the frequency of addressing the difficult considerations of how much CTA to recognize which is not clear under the existing rules. Before expanding the scope to release CTA into earnings upon the sale of a group of assets that is a business, we suggest the Board address the complexities that already exist in current practice in determining the amount of CTA to be recognized upon sale or substantial liquidation of a first or second tier foreign entity discussed herein.

We appreciate the opportunity to respond to the Proposed Accounting Update and trust that our comments will be seriously considered as the Task Force continues deliberations on this issue.

Schlueter

Sincerely,

Richard J. Schlueter

Vice President, Controller and Chief Accounting Officer

cc: Frank J. Dellaquila

Senior Vice President and Chief Financial Officer