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Ms. Susan Cosper Technical Director File Reference No. 2012-200 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference No. 2012-200 - Proposed Accounting Standards Update, "Disclosures about Liquidity Risk and Interest Rate Risk," an update of Topic 825, *Financial Instruments*.

Dear Ms. Cosper,

We would like to take this opportunity to comment on the Proposed Accounting Standards Update, "Disclosures about Liquidity Risk and Interest Rate Risk" (the "proposed ASU"). Emerson is a diversified global manufacturing company with 2011 sales in excess of \$24 billion. Our comments are made from the perspective of a manufacturer; different rules may be appropriate for financial institutions. A summary of our comments follows:

- The proposed ASU essentially duplicates information already required by SEC MD&A
 requirements plus certain elements of US GAAP and therefore will not provide investors with
 new, actionable information. It is inefficient and confusing to investors to have two similar but
 different tables.
- The proposal to schedule out quarterly obligations for as many as the next seven quarters and several years thereafter, and then refresh the schedule every quarter, is onerous and costly. For entities that have going concern risk, these disclosures may be useful, but the cost for all other entities that are fiscally sound cannot be justified. For the vast majority of companies, these disclosures will become a compliance burden with no value.
- We particularly oppose the requirement to refresh these disclosures every quarter. We believe updating annual disclosures for significant events will meet investors' needs.
- The disclosure of "available liquid funds" does not acknowledge the essential fact that most companies meet the majority of their obligations through cash generated by ongoing operations, not cash on-hand or lines of credit. We are also unsure why this table is necessary when this information is readily available in current disclosures.

Existing Requirements

The proposed ASU requires information for non-financial institutions that essentially replicates existing MD&A requirements in Item 303 of Regulation S-K, with the exception of prescribing additional and different periods for disclosure, without providing incremental decision-useful information. Although the proposed ASU is based on expected maturities rather than contractual, this is a nuance that is largely irrelevant. Qualitative comments on significant differences compared to expected maturities could be added easily, if that is a key goal, without doubling the disclosure.

Item 303 also requires qualitative discussion of events impacting liquidity. The Background Information in the proposed ASU states that users often attempt to track and analyze an entity's available liquid funds, but note "the information is often difficult to obtain because it is not provided consistently across entities." We believe such information is readily available through currently required disclosures and other sources. Examples are as follows:

Sources of Liquidity

- Cash and equivalents and highly-liquid marketable securities
- Financing arrangements, including backstop lines of credit and commercial paper programs
- Sources and uses of cash and significant noncash transactions
- Form 8-K filings of new financing arrangements

Cash Obligations

- SEC table of contractual obligations
- Details of debt obligations, including current maturities
- Lease obligations
- Retirement and healthcare plans obligations
- Income tax obligations
- Derivatives and other financial instruments
- Form 8-K filings for new debt issuances

It is the investor's responsibility to analyze the information that is disclosed. In our view, the information provided is often not utilized.

One-Size-Fits-All Approach

We acknowledge that the disclosures may be useful for at-risk entities, or for financial institutions which by their nature are highly leveraged, and for whom it is critical to closely manage obligations and cash flows on a daily basis. We do not believe the proposed disclosures are relevant for the vast majority of entities. We strongly oppose mandated disclosure requirements that use a one-size-fits-all approach regardless of risk profile, credit rating, access to capital, profitability, etc.

The specified periods in the proposed cash flow obligations table are overly prescriptive, especially the requirement to provide information for up to the next seven quarters and refresh them on a quarterly basis. Management does not collect or analyze information in this format for any other purpose, and therefore it is not readily available without significant effort. The Board may not fully appreciate the cost and burden to collect, analyze, control, approve and report the

information necessary to comply with the proposed disclosures on a quarterly basis, especially for large, multi-national companies that are decentralized. While this information may be useful for investors in companies with "going concern" risk, those entities should already be providing substantial liquidity and cash flow disclosures under existing SEC and US GAAP requirements.

It is also unclear what liabilities the Board intended to be included in the "Other Obligations" category in its example. Clarification is needed in the proposed ASU that current liabilities such as accounts payable and accruals need <u>not</u> be included, given that the separate presentation of current and long-term liabilities is well understood by investors. Collecting short-term contractual obligations arising from routine purchase orders is an onerous disclosure requirement that provides no value for a going concern, and requiring it to be updated quarterly is just not practical. Due to the complexities around pensions and income taxes, and extensive disclosures provided annually on these issues, it should be made clear these are not required in the table. Income taxes are particularly problematic as it raises the whole "scheduling" problem as to when deferred taxes will be realized.

We believe the prescribed reconciliation of undiscounted cash obligations to the balance sheet is inappropriately mixing requirements rather than just focusing on cash obligations. Investors are truly interested in the actual amounts of anticipated cash outflows in future periods, not the nuances of how those amounts must be discounted to arrive at their present balance sheet amounts. It will be burdensome to reconcile undiscounted obligations and confuse the basic presentation of future cash outflows. The reconciliation is merely an exercise in accountants "showing their work" rather than providing information that is useful to investors.

The specified periods as well as other aspects of the proposed ASU diverge from the requirements of IFRS 7. This is contradictory to the aim of the Board's current MOU-based agenda and we feel such changes should be avoided unless they are so imperative as to warrant further divergence from IFRS. We suggest the FASB avoid creating additional differences from IFRS until a decision is made by the SEC whether and how to incorporate IFRS into US GAAP.

The proposed ASU is also contradictory to the goal of the Disclosure Framework Discussion Paper and will only reinforce the compliance-based reporting approach with which the Discussion Paper finds fault. We support the Discussion Paper's suggested principles-based approach for development of new disclosures and believe a principles-based approach, as used in IFRS 7, would prescribe what information to disclose but not how to present it, thus allowing preparers to use judgment and present information from the viewpoint of management, which is the SEC's preference. Overall, we believe that less prescriptive requirements are preferable, and match the principal that disclosures should expand as items become increasingly relevant and material. This will help achieve the FASB's stated goal of more focused and relevant disclosures.

Quarterly Disclosure

In general we are opposed to providing the same disclosures in quarterly financial statements as in annual statements. Each quarterly reporting period cannot contain full-year reporting requirements. Therefore, we strongly disagree with the requirement to refresh the proposed disclosures on quarterly basis.

US GAAP and SEC requirements are based on the premise that interim financial statements *update* information from the previous annual period, rather than stand on their own. On a

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quarterly basis, significant events impacting liquidity risk are required to be disclosed by securities laws. Therefore, we do not believe that quarterly updates of the tables in the proposed ASU are necessary to understand liquidity risk other than providing updates for genuinely material developments.

Cash Flow Generated by Operations

The proposed ASU requires disclosure of "available liquid funds" which, as proposed, includes only cash on-hand and borrowing capacity. This information is readily available through presentation of cash on the balance sheet, footnote discussion of restrictions on cash, and the required disclosure of existing lines of credit. It is unclear why this information needs to be separately presented in a table.

Further, we believe the focus on available liquid funds ignores the fact that most companies meet their ongoing obligations through cash flow generated by operations, augmented by cash onhand and borrowing. We believe these proposed additional disclosures miss the point and do not add value beyond currently required annual disclosures.

Conclusion

We do not believe the proposed disclosures will provide significant new information to investors to evaluate a company's ability to meet its obligations, but do believe they will be costly to implement and maintain.

Longer-term events such as innovation, industry changes, and the performance of domestic and global economies can impact liquidity, but these events are not predictable. The global recession and credit crisis experienced in recent years has certainly impacted many companies, especially financial institutions. However, requiring all companies to prepare the same prescriptive disclosures each quarter, when such information is readily available in existing disclosures, will not forewarn investors of the next financial crisis. Should the Board move forward with the proposed ASU, we recommend a significant transition period before the final standard is effective to allow companies time to prepare for these changes.

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

Sincerely,

Richard J. Schlueter

Vice President, Controller and Chief Accounting Officer

cc: Frank J. Dellaquila

Senior Vice President and Chief Financial Officer

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