December 20, 2010

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

Re: File Reference No. 1850-100: Leases

We would like to take this opportunity to comment on the Exposure Draft on Leases. Emerson is a diversified Fortune 100 global manufacturing company. We believe the proposal does not provide more useful information to understand the performance of the enterprise and the perceived improvements cannot be cost justified. The proposed changes are costly and complex and will demand significant resources to create systems to analyze, account for, and continuously update thousands of leases. We note the Exposure Draft is an improvement from the Preliminary Views. If the proposal goes forward, we suggest the following changes:

- We support the simplified approach for short-term leases and suggest this or a similar approach be extended to all leases. This will maintain simplicity and efficiency in the accounting.

- There is not a need to report leases as a separate line-item treatment in the financial statements, except perhaps when the leasing of assets is a primary operating activity or the principal source of funding for capital assets.

- The "more likely than not" threshold for determining the impact of renewal options on the lease term is too low; the "reasonably assured" standard from existing guidance should be retained.

- We disagree with the transition approach as it will place undue administrative and cost burdens on preparers for little benefit. We believe an end-of-period recording of assets and liabilities supplemented by qualitative disclosures regarding comparative period cash flows is sufficient.

**Views on Lease Accounting**

We continue to view operating leases fundamentally as executory contracts that should not be recorded on the balance sheet. An obligation to make future payments does not necessarily produce an asset, which is precisely why there is a clear difference between operating leases and capital leases under current GAAP. When a company contracts to purchase a specific quantity of a product in the future, it appropriately discloses the future cash commitment but does not recognize a "right-of-purchase" asset. An operating lease is similar to this purchase commitment. We are concerned the theory of the proposed leasing standard could ultimately lead to the conclusion that all executory contracts, such as purchase orders and long-term sales and supply agreements, should be recorded in the financial statements prior to the transactions actually occurring.
The factors driving a management decision to lease a building or other assets are different than the considerations involved when purchasing those assets. Leasing provides flexibility to quickly change locations due to changing business conditions or replace assets due to rapidly changing technology, while avoiding the disposal risk (and rewards) associated with owning the assets. Grossing up the balance sheet to recognize the right-of-use for a rented building effectively elevates "assets" related to operating leases to the same level as owned assets which can be sold, pledged as collateral, transferred, etc. The right-to-use "asset" is an accounting offset to the lease liability, without real substance in a business sense.

The accounting for operating leases is well understood and fully ingrained in financial reporting. Under current rules, cash payments equal expense so the economics of leasing are consistently reflected in both operating earnings and operating cash flow, providing a better measure of enterprise performance than the proposed rules. This approach is meaningful to understand performance, not complex, and transparent with existing disclosures. Under the proposal, companies that measure operating earnings and segment results on an EBIT basis (before financing and tax costs) will report 10% -- 20% higher results under the new rules as a portion of the lease costs are charged to interest expense. We do not believe this is a better measure of performance. Similarly, operating cash flow will have no reduction for the use of leased assets (other than the interest expense component) but will continue to reflect a cash inflow for the tax benefit associated with the entire lease payment. In our view, this is not a better portrayal of the economics in the financial statements. Current disclosures allow financial statement users to understand the differences between operating and capital leases and the impact of each on the entity's operations and cash flows. Using this information, the credit rating agencies consider lease commitments on a company's ability to service its obligations. We do not see the benefit of changing the accounting for leases when their impact is already well understood and there have been no notable financial reporting surprises or systemic accounting problems resulting from existing lease accounting.

**Simplified Approach**

If the project moves forward, we advocate a simplified approach for all leases to improve accounting efficiency and enhance investor understanding. The apparent concern for investors is lack of balance sheet recognition of lease obligations.

The cost and time involved in analyzing, recording on the balance sheet, and continuously updating what today are operating leases would be extremely burdensome. Although leasing may not be particularly material to a large international company, this proposal would require an outsized compliance effort to account for thousands of leases including not only facilities, office space and equipment, but every vehicle, computer, copier, fax machine, mobile phone, etc. There is a high cost for the proposed complex accounting involved with training and educating personnel across a worldwide organization to analyze every lease in detail to determine the liability, and then maintain and update each lease for every subsequent modification, option renewal or other change in contingency. If the Board feels compelled that all leases must be reported on the balance sheet, extend the simplified approach (outlined in the Exposure Draft for leases of 12 months or less) to all leases and maintain the accounting such that reported earnings and cash flow under existing rules does not change. At an absolute minimum, extend the Exposure Drafts simplified approach to every lease with a term of 36 months or less. The final rules should also state an explicit principles-based approach allowing for management judgment to determine which leases this accounting should apply, not just reliance on the general concept of materiality.

**Presentation**

We do not support an explicit requirement for separate line-item presentation on the face of the financial statements simply for leases. Instead, the current materiality thresholds in Regulation S-X should apply, with supplemental category disclosure being made in the footnotes, if necessary. We are not opposed to "on-the-face" disclosures when companies
lease assets as one of their principal operating activities or employ leasing as a primary source of funding for capital assets. A principles-based approach utilizing Regulation S-X and management judgment should be used to determine what is appropriate similar to decisions for other items. If the proposal moves forward, “Lease Assets” should simply be an additional line item within the current fixed assets disclosure along with land, buildings and machinery and equipment. “Lease Obligations” should just be an additional line item in the detail of long-term debt, with a stated range of interest rates or a single weighted-average rate. Disclosure of these items on the face of the balance sheet should depend on the materiality of the liability, not simply because they are lease related. If the Board’s final conclusion is that these are assets and debt obligations, then they should be reported the same as any other fixed asset or debt obligation and not be given special treatment in financial reporting. Future lease obligations should be reported with debt and included in the future long-term debt maturities without separate disclosure. Leased Asset amortization should be reported together with depreciation expense, and lease interest combined with interest expense on other debt.

**Lease Term**
Preparing detail probability analysis to determine the appropriate lease term is not practical nor is it realistic to think this yields a better result. Judgment is simply required based on the facts. We believe the “more likely than not” threshold (i.e., greater than 50%) is too low when contemplating the variables that might impact the lease term. Our strong belief is the higher standard of “reasonably assured” should be maintained as currently found in ASC 840 and is consistent with ASC 450. In our view, if you are going to require recording commitments that may or may not come to fruition, a higher threshold should be required. In addition, the reasonably assured approach is already ingrained in current lease accounting analysis and we doubt investors are concerned with this fine distinction.

**Transition**
It will be extraordinarily difficult to adopt this Standard retrospectively and the proposed simplified retrospective approach, which still requires lease data to be collected and analyzed two years prior to adoption, will only provide a small reduction of the administrative burden. Instead, we favor a truly prospective approach, where an entity only applies the Standard to new leases executed after the date of adoption. During the transition, disclosure of current and future year operating lease payments for legacy leases could be provided plus disclosure of current and future lease payments accounted for under the new rules. This would allow the users to understand both the old and new lease payments as disclosed today during transition. If this is found unacceptable, we would accept adjusting the balance sheet for lease obligations and the offsetting right-of-use assets at the date of adoption with only the subsequent periods reflecting the impact of the new rules going forward. If the Board does conclude on some form of retrospective adoption, any adjustments should be based only on leases in existence at the actual date of adoption and clearly exclude any leases which have expired during prior periods. The new rules should allow for a minimum of two years before required adoption. In addition, a minimum of two years should be provided between implementing this standard and each of the other Memorandum Of Understanding projects.

**Other Items**

**Question 1 (A) —** Do you agree a lessee should recognize a right-of-use asset and liability to make lease payments?

No. As outlined previously, we do not believe recognizing these assets and liabilities would be an improvement in the accounting or enhance investor understanding of operations or cash flows.
**Question 10** – Do you agree that lessees should remeasure assets and liabilities arising under a lease when changes in facts and circumstances indicate there is a significant change in the liability to make lease payments?

The principle should be once the lease term is established, no further change should be made until a renewal option is actually exercised, or the lease is substantially modified. Any final rules should explicitly state that re-evaluation is needed “only” when very significant changes in facts and circumstances indicate the lease has been substantially modified such that it should be evaluated as a new lease. Examples should be provided.

**Question 15** – Do you agree that lessees should disclose quantitative and qualitative information that identifies and explains amounts recognized in the financial statements arising from leases, and that describes how leases affect the amount, timing and uncertainty of future cash flows?

No, we are strongly opposed to any quarterly disclosure of activity reconciliation or “what if” discussions regarding alternative outcomes on renewal options, contingencies, etc. Any combination of scenarios is theoretically possible, but selecting the combination of applicable variables as the most likely outcome reflects management’s experience and judgment and also means, conversely, that management believes alternate outcomes are unlikely by definition. Providing quantitative or qualitative disclosures of unlikely outcomes provides no benefit to investors and is contrary to the “through management’s eyes” approach embraced by the SEC. As always, if there is a known event or uncertainty for any issue that could materially affect the financial statements, it should be disclosed when and if it exits.

We strongly oppose the rollforwards and disaggregated information required by Paragraph 77 whether in aggregate, or worse by class of underlying assets. Developing and maintaining systems to track detail beginning and ending balances and movements for additions, payments amortization etc... for both lease assets and obligations is costly and burdensome and the detail will only clutter disclosures with data that will not be used and obscure relevant information.

We appreciate the opportunity to respond to the Exposure Draft and trust that our comments will be taken seriously as the Board continues deliberations on this topic.

Sincerely,

[Signature]

Richard J. Schlueter
Vice President and Chief Accounting Officer

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