March 9, 2006

Ms. Suzanne Bielstein, Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

File Reference No. 1250-001

Dear Ms. Bielstein,

We would like to take this opportunity to respond to the Proposed Statement, “The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115.” Emerson is a diversified manufacturer of electrical and electronic products with a market capitalization in excess of $30 billion.

As noted in our previous comment letters, we are opposed to the expanded use of fair value. The shift away from the current mixed attribute accounting model appears to give undue weight to convergence with international standards and to an overly complex theoretical model. Proposals need more consideration of the costs and complexities of implementation to preparers, as well as whether the information is understood by users.

**Inconsistency and Comparability**
The Exposure Draft states that the current model results in volatility in reported earnings. We do not agree that the current model results in volatility for companies in most industries and believe that the Proposed Statement does nothing to alleviate this perceived volatility. Operational performance is by far the most significant driver of results, and the existing rules for Management’s Discussion and Analysis do a good job of explaining year-over-year performance for a given period. The current model has predictive value, both for the companies reporting financial results and the users of the information. We believe the proposed change may actually increase volatility.

Allowing companies to elect fair value treatment on a contract-by-contract basis will lead to incomparability among companies in a given industry. Not only will it be difficult to compare earnings for companies within an industry, comparisons among periods for one company could be volatile as well, since it is possible for similar transactions to be treated in a different manner. The Board acknowledges this in paragraph A28 of the Proposed Statement, but these concerns are dismissed because of support for greater use of fair value, convergence, and internally consistent financial reporting. These factors seem to take precedence at the expense of comparability and consistency, two “cornerstones” in accounting.
Comparability should be far more important than expanding the use of fair value, especially when doing so adds complexity and does not result in financial statements significantly more useful than those under existing rules. Rushing to convergence for convergence sake, without fully weighing the impact to the companies that must comply with new requirements, results in pronouncements that are overly complex and costly to implement. Also, we fail to see how allowing a company to elect fair value treatment on a contract-by-contract basis would result in internal consistency.

While we agree that existing hedging rules are very complex and overly burdensome, we believe a significant portion of the earnings volatility that the proposed standard is attempting to eliminate can be done within existing accounting rules. We understand the issues that banks and other financial institutions have, but we do not believe that these changes are the best answer. The overly restrictive hedging rules could be relaxed rather than allowing preparers to elect fair value measurement on a contract-by-contract basis. For example, the range for “highly effective” could be widened or eliminated, financial instruments other than derivatives could be allowed for hedging, and the eligibility criteria for a hedged item in paragraph 21 of FAS 133 could be less stringent.

**Fair Value Not Readily Determinable**

One Board member suggested requiring use of fair value for all financial assets and liabilities to address the issue of consistency and comparability. We are strongly opposed to such a proposal, which underestimates the incremental burden on preparers to apply fair value accounting to all financial assets and liabilities. In addition, Issue 1 states that the Proposed Statement applies to investments in equity securities that do not have readily determinable fair values. We do not understand how preparers will regularly determine the change in fair value of a financial asset that does not have a readily determinable fair value. Financial institutions may have greater ability to achieve this ideal, but non-financial preparers definitely do not have these resources.

Applying fair value techniques to certain assets and liabilities is much more difficult in practice than may be perceived theoretically. When there is no history or market for exchanges between third parties, the determination of fair values is highly subjective and the values can and do vary widely. We recognize the need to value certain assets and liabilities in an acquisition, but even more difficult is the continuous updating of fair values on an ongoing basis. In our experience, we do not believe anyone has developed the ability to continuously determine the fair value of all assets and liabilities of the business on an ongoing basis. The costs to preparers involved in updating these fair values on a continuous basis are not worth the increased complexity to the financial statement user.

The Board has decided to consider financial assets and liabilities in Phase I and non-financial assets and liabilities in Phase II. We believe it is impractical to apply fair value measurement to all financial assets and liabilities, let alone non-financial assets and liabilities. We believe the Board should not pursue fair value measurement for non-financial assets and liabilities. For example, restating property, plant, and equipment (PP&E) to fair value is impractical. Continuous recalculation of the fair value of PP&E would be cumbersome and costly. Continuous adjustments to depreciation expense cannot be realistically made and would add to the complexity of accounting and related deferred tax effects.

Another example of non-financial assets that should not be fair value measured each period is intangible assets recorded as a result of an acquisition. We are not aware of an efficient method of continuously updating the fair value of these intangibles and most companies do not have the in-house resources necessary to perform the analysis. The analysis of other intangibles is comprehensive, complex and expensive as assumptions are run through various models. Companies, like Emerson, that employ acquisitions as a component of growth may experience a significant increase in fees paid to third parties, beyond the increases already seen from FAS 141 requirements.
**Fair Value Measurement Not an Improvement**

The Proposed Statement makes reference to FASB Concepts Statement No.1, and while we agree that financial reporting should provide information that is useful to potential investors and creditors and other users in making rational investment and credit decisions, we do not see how a very imperfect fair value model would achieve these goals any better than the current model. Investors and analysts put much more emphasis on a company's ability to generate cash flows into the future than they put on periodic changes in the fair values of assets and liabilities. We believe the costs to the company outweigh the fact that these users will not see increased benefit. Analysts and investors will have to be re-educated and the predictive value of financial information will be diminished due to the difficulty in predicting income statement impacts of fair value adjustments and then deriving cash flows each period.

In our opinion, recent proposed accounting pronouncements increase the complexity of financial statements and disclosures at a time when companies are adapting to further scrutiny and shortening reporting deadlines. We believe that updating fair values for certain assets and liabilities on a quarterly or annual basis will not result in improved financial reporting since the amounts are too subjective and do not add value to users. While international convergence is a worthwhile goal, it should not be done if financial reporting is not improved.

**Disclosure**

The standard attempts to compensate for the lack of comparability and consistency with additional disclosures. Only very technically knowledgeable users will be able to understand the disclosures intended to explain the differences among companies and reporting periods. Users of financial statements are already overloaded with complex disclosures. Although we oppose this proposal, if this standard is issued, any disclosures of the amount of assets and liabilities measured at fair value should be allowed in the footnotes rather than on the face of the balance sheet.

**Conclusion**

Considering the likely confusion to financial statement users, the increased costs to preparers and the inconsistencies that this proposal creates, the benefit of fair value is not clearly evident. The Board should not overlook the usefulness of the current model with respect to its simplicity, predictability, consistency and comparability. A simpler solution is to relax the complex and restrictive hedging rules.

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

Sincerely,

R. Schlueter
Vice President & Chief Accounting Officer

cc: Walter J. Galvin
Senior Executive Vice President & Chief Financial Officer