December 11, 2012

Ms. Susan Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2012-220 – Invitation to Comment, Disclosure Framework

Dear Ms. Cosper:

Emerson appreciates the opportunity to comment on the Disclosure Framework Discussion Paper (the “DP”). We support the Board’s efforts to improve the relevance and effectiveness of disclosures. We believe this can be accomplished by focusing on material matters, principles-based disclosures, and quarterly disclosures only updated for significant changes. We continue to be very concerned with complexity and disclosure overload. A summary of our comments follows:

- We believe the disclosure principles should be a broad description of the general nature of items that should be considered for disclosure for any area. The principles should include the concept that increasing levels of disclosure should be provided for a topic as the item becomes increasingly material to the entity.

- The suggested approach of disclosing information that “could make a material difference in assessments of future cash flows” for factors outside the entity’s management control (e.g. macroeconomic trends) is much too broad. Users, not preparers, are fundamentally responsible for evaluating all available information to make forecasts of sales, earnings and cash flows to make investment decisions. The proposal would greatly expand disclosures of this nature and we do not support that.

- Financial reporting is intended to present information about historical transactions the entity has entered into, including the future effects of those transactions. Subjective, forward-looking information with regard to known events and uncertainties belongs in the Form 10-K for public companies, in MD&A or Risk Factors and subject to the SEC’s safe harbor provisions.

- The purpose of interim statements should be to provide operating information for the period and update the most recent annual disclosures only for material changes, and not repeat the annual disclosures.

- Widespread changes to the formatting and organization of footnotes are not necessary. Emphasizing focus on relevance and clarity of content is much more important to achieving disclosure effectiveness than specifying how information is presented.
Disclosure Framework

The framework should identify the characteristics of information that should be considered for disclosure. Much of that content can be extracted from the DP itself. We do not support preparers using an exhaustive list of decision questions to determine disclosures on their own. Our concern is that this may lead to complex processes for preparers to justify why disclosures were or were not made, rather than improve disclosure effectiveness. Therefore the Board should continue its role of developing full sets of items that are important to consider for each specific topic in the codification. However, it should be clear in the principles and the codification that preparers must be allowed to make judgments based on relevance and materiality to determine if no disclosure, low, medium or complete disclosure as outlined in the codification (and beyond if the preparer deems it important for investor understanding) is appropriate.

Disclosures should include information that is unique to the entity or industry and that enhances investors’ understanding of historical events or transactions. Disclosures ‘or companies’ should vary because the amount of information on a topic should be different depending on relevance and materiality. Users may interpret this as resulting in lack of comparability but it is appropriate or disclosure overload will continue. In addition, disclosures should not include information already apparent from the financial statements, or subjective forward-looking information. Providing examples of different degrees of disclosure without mandating a particular version may be appropriate. We oppose required disclosures based on “tiers” or “minimum” content. These would continue to create in-substance checklists, even when not relevant or material to the company.

Future Cash Flows

The suggested concept of disclosing information that “could make a material difference in assessments of future cash flows” is much too broad. It has always been incumbent on users of financial statements to evaluate an entity’s prospects for future cash flows. Per Concepts Statement No. 1: “the role of financial reporting is to provide information useful in making business and economic decisions” and “although financial reporting should provide basic information to aid them [investors, creditors and other users], they do their own evaluating, estimating, predicting, assessing, confirming, changing, or rejecting.”

Financial reporting fundamentally provides a historical view, with forward-looking information limited to known effects of transactions that have occurred (e.g., future maturities of long-term debt), and not company forecasts of how it may perform. Placing the onus on the entity to provide all information that could make a material difference in assessing future cash flows is far beyond the scope of financial reporting. This would likely increase disclosure overload as companies try to protect themselves from litigation.

Using the SEC’s “known events and uncertainties” concept for MD&A, the Board needs to clearly delineate between objective forward-looking information based on historical transactions, and subjective information based on possible future events. Predicting cash flows for future transactions based on assumptions about changes in the economic or business environment is inherently uncertain and cannot be verified. Limiting this subjective information to only MD&A will ensure it is appropriately covered by the SEC’s safe harbor provisions.

Interim Disclosures

Interim disclosures are becoming increasingly complex, with many annual disclosures being repeated quarterly. This trend is contrary to SEC S-X Rule 10-1 requirements, which state that interim financial statements only need certain disclosures if they materially update information from
the previous annual period. While we acknowledge that users make investment decisions continuously, interim disclosures should be evaluated together with the most recent annual disclosures.

For example, if a litigation matter is disclosed in the annual report and an important development has occurred, that should be updated in the quarter, otherwise there is nothing to report. Disclosure of an unusual increase or decrease in expense or in payments may be relevant if something material occurs in a quarter. Another example is the requirement to disclose all the components of pension expense for the current quarter and year-to-date compared to prior year, every quarter. This provides no value as that information changes little from quarter to quarter, even for material pension plans.

We strongly support the DP’s concept that comprehensive interim disclosures should not be required if 1) the information is relatively unchanged from the annual report, 2) users can easily estimate the relevant data using annual financial statements, or 3) the disclosure is not consistent with the nature of interim financial statements.

**Format and Organization**

The criticisms of disclosures being boilerplate, repetitious and that relevant information is difficult to identify and piece together are valid, but cannot be addressed simply by altering the format or organization of the footnotes. Reducing unnecessary content is critical to improving disclosure effectiveness. Comments on specific items follow:

- **Tables** – While tables may better organize information, simply mandating tables over prose will not make it easier for users to sort through the details if irrelevant information continues to be required. In most cases, we oppose requirements for roll forward tables which are more suited for accountants and auditors to “prove their work.” A reconciliation of accounting activity during the period is not particularly valuable, especially for normal recurring transactions, and not on a quarterly basis. The important issue is whether there has been an unusual income or expense item, or receipt or payment, and if it will be recurring. Another example is requirements that have expanded over time to reflect fair value in the financial statements, rather than include in the notes as supplemental disclosure, which has led to exhaustive and rigid financial instruments disclosures and tables. This information is difficult for even accounting technicians to understand. We question the usefulness of these disclosures to investors. Our experience is users have a desire to get back to “traditional” sales and earnings information excluding the impact of fair value adjustments that are now required in the financial statements. Tables and detailed content should be mandated judiciously, and only when the information is truly significant and another format could be potentially misleading.

- **Highlighting** – Highlighting or summarizing the most “newsworthy” disclosure items is unnecessary. Users will have their own views on what is most newsworthy. The preparer’s responsibility is to present information in the most clear, concise way possible so that users can then identify information they deem relevant. If the information is not “newsworthy,” it should not be disclosed at all and the disclosure framework should include this concept.

- **Order** – Rearranging the order of the notes would not make it easier for investors to identify relevant information. Any prescribed order would be arbitrary and subjective. The order of presentation should be left to preparers and from our experience is generally reasonable. The relative importance of information is for investors alone to judge.
• **Organization** – Grouping all similar information into a single discussion would gather too much disparate information, lack cohesion, and still likely present overlap issues due to the need to provide context. For example, making all disclosures required for cash, derivatives, long-term debt, available-for-sale securities, and pension assets in a single financial instruments footnote would be difficult to present concisely. We concur with the DP that some clarity is lost in the current approach, but that’s largely because information is often required to be repeated. Less prescriptive requirements would combat this by allowing preparers judgment to present information as few or as many times as necessary in order to provide full and fair disclosure. Cross-references would help reduce duplicative information.

• **Significant Accounting Policies** – Significant accounting policy information is important for a complete understanding and should either remain in a stand-alone footnote or be disaggregated into topical areas. Relocation outside the notes will not improve usefulness or understanding. Largely redundant disclosures could be reduced by working with the SEC to present combined SEC “critical accounting policies” and GAAP “significant accounting policies” in the notes, or in MD&A annually, but not both.

More generally, it is important that the Board work with the SEC to ensure a streamlined disclosure regimen. A recent example is the FASB proposal on liquidity risk that both heavily overlaps and in some ways conflicts with existing SEC requirements. This creates an unnecessary burden on preparers and confuses investors who do not fully appreciate nuanced differences. FASB proposals are also trending towards more forward-looking disclosures better suited to MD&A and its safe harbor provisions.

We appreciate the Board’s candor with respect to the current state of disclosure requirements. Paradoxically, the Board has responded to requests for more information with increasingly detailed disclosures and users now contend they cannot find relevant information. Prescriptive and inflexible requirements lead to one-size-fits-all compliance-based reporting, often with full annual disclosures repeated quarterly. We encourage the Board’s efforts to reduce complexity and disclosure overload and recommend that the disclosure principles emphasize relevance and materiality that allow judgment and flexibility. We believe this will result in including truly relevant information in the financial statements with better understanding of transactions and events, and reduced clutter.

We appreciate the opportunity to respond to the Discussion Paper and trust that our comments will be seriously considered in future Board deliberations.

Sincerely,

Richard J. Schlueter  
Vice President, Controller and  
Chief Accounting Officer

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