



LETTER OF COMMENT NO. 211

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Russell Golden
Technical Director
File Reference No. 1630-100
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Preliminary Views on Financial Statement Presentation

Dear Mr. Golden:

We would like to take this opportunity to comment on the FASB Discussion Paper *Preliminary Views on Financial Statement Presentation*. Emerson is a diversified Fortune 100 global manufacturing and technology company. We believe the significant departure from the traditional financial statement presentation as outlined in the Discussion Paper is unwarranted and could potentially create investor confusion rather than promote clarity. We also believe the disclosure goals of the Paper do not reflect how management typically views a business and will impose significant costs in excess of any potential benefit to shareholders.

- In our experience, analysts and investors rarely, if ever, request information of the nature or in the form being proposed.
- Reporting expenses by their nature does not match how information is gathered, analyzed and used in management decision making. We question whether this information has relevance to investors.
- This proposal, especially as it relates to reporting cash flows by the direct method (as well as expenses by nature and the reconciliation), will trigger significant one-time and ongoing costs while providing little benefit to users. The direct method cash flow presentation is currently available under GAAP but it is rarely employed because management does not find it useful and there is no user demand for information in this format.
- Reconciling cash flows to comprehensive income by line-item would be a costly compliance exercise that does not provide meaningful information. Accrual accounting currently provides a good measure of operating performance and earnings and traditional financial statements explain how earnings translate to cash flow in a meaningful manner.
- We do not believe comprehensive income is a meaningful operating metric. Disclosure of items adjusted directly through equity are important to understand but not as a measure of operating performance. Replacing the income statement with a statement of comprehensive income would inappropriately elevate the stature of comprehensive income and not provide meaningful information to financial statement users.

- The focus on “cohesiveness” appears overly complex and theoretical and will not necessarily result in better information for decision making. Traditional financial statements already articulate one to the other. Cohesiveness at the line-item level is not inherently superior; it is additional data, but not better information.

Demand for Information

We do not see demand for the format or content of information proposed by the Discussion Paper. We believe the current design and function of the primary financial statements is simple and intuitive and very well understood by users. The income statement illustrates among others (by category or transaction when material), revenues and related costs, borrowing costs for the period, miscellaneous items and net results. The balance sheet is logically divided by an entity’s assets and liabilities and further divided into current and noncurrent elements. The statement of cash flows ties the two together in the format management typically uses for analysis. The questions we most commonly receive from analysts and investors relate to expected sales and profits which they appropriately translate into future cash flows. If earnings do not translate into cash flow, traditional financial statements explain the reason why and investors question the operational reasons for the increase in receivables or inventory etc... Cash flow by function or nature will not explain this. Providing cash flows directly, say for materials, or labor, or administrative salaries does not provide insight into the income statement through management’s eyes regarding future results and therefore no real benefit to investors. Income taxes and interest paid are already disclosed so direct cash flow presentation does not add anything for these items. For the changes in this proposal, there will be high costs associated with updating IT systems, updating policies and procedures and re-training employees. As such, there will be high incremental costs incurred in perpetuity, including personnel costs to meet the quality demands of managing the increased volume of detailed transactions for audit, Sarbanes-Oxley and external reporting compliance. Our experience is analysts’ routinely respond to surveys by saying they want the additional information, however, we question how much of this incremental data would genuinely be used and seriously doubt the level of detail being proposed is cost justified.

Category Groupings

The categories proposed for the primary financial statements – operating, financing and investing – are reasonable and generally align with how management views assets, liabilities, operating results and cash. However, we believe financing (or investing) assets should be combined with operating assets and liabilities when not significant. Perhaps separate presentation is necessary for financial institutions. We also believe if the classified balance sheet is eliminated, then the current and noncurrent asset and liability sub-totals should also be eliminated. In general, categorizing the balance sheet and income statement are not unreasonable, but the number of line items expected is overwhelming. The detailed listings of figures and categories shown in the examples provide data but no insight or context. Regardless of general groupings, flexibility for management to provide the information in a way meaningful to them should be permitted with guidelines but not stringent requirements. Jumbling the traditional format could also cause confusion over current operating, financial position and cash flow metrics. If users or preparers have to reconstitute figures back to the

traditional format in order to compute metrics, the proposed presentation actually becomes a burden rather than an aid and begs the question why the proposed format is better.

Expenses by Nature

The proposal to disaggregate income and expense items by their nature is unworkable for many companies and is not supported by cost / benefit analysis. Multi-national and multi-line companies are generally managed from the top down with corporate-wide data aggregated at the functional level (i.e., sales, cost of sales, overhead). This functional view determines resource allocation and drives corporate strategic decision making. Logically, an entity's systems are configured to support the accumulation and reporting of data at the same level as desired by management. Information does exist at lower levels and in tremendous detail but such information is used analytically at that level to tactically manage the business, to control costs, to grow revenue and so on. Reconfiguring systems to accumulate this lower level analytical information in this fashion and with internal controls sufficient for external reporting under GAAP and compliance with Sarbanes-Oxley would be prohibitively expensive. This level of detail is especially irrelevant to companies with diverse operating portfolios where aggregation on a consolidated level is not meaningful, and disclosure at a business level would be competitively harmful. (In addition, we are especially opposed to expanding P&L, balance sheet, and cash flow information by operating segment which has been brought up in discussions on this topic.) Where genuine user demand for specific incremental disclosures exists (for example, order backlog for certain manufacturers), it is likely management is already making such information available via quarterly filings, 8-Ks, website postings, analyst conference calls, etc.

Direct Method Cash Flows

We strongly disagree with the view that direct method cash flow reporting is the appropriate approach. Accrual accounting measures performance, i.e., when revenue is earned and expenses are accrued, which is appropriate and meaningful. The current indirect cash flow format clearly connects accrual accounting to cash by highlighting important elements such as material non-cash items included in net income (given separate line-item treatment) and changes in the components of working capital. It is not useful to highlight how much cash was received or disbursed on a nominal basis by line item. By itself, this information is essentially meaningless in the current period and has no predictive value.

The true need for a direct method statement of cash flows is questionable when much of the information is rarely prepared in this format and not used by management for making business decisions. We question how critical this information can be to knowledgeable financial statement users (the SEC's standard) when it's not critical to management. Also, not all entities have standard enterprise-wide accounting and reporting systems with common transaction ledgers and detail trial balances. While having these systems capabilities would make this type of data gathering easier, the costs to develop and enable the reporting required by the direct method of cash flow reporting cannot be justified for companies not in this position. Individual material, non-operational line item cash flows or noncash items are already disclosed under existing GAAP. Direct method of cash flow reporting is currently permitted under GAAP but is rarely used because it does not provide management or investors with useful information.

Reconciliation

The proposed detailed reconciliation of comprehensive income to cash flows is not useful and is an academic exercise. It appears to be some type of "analytical proof" that perhaps might be prepared by an auditor for his workpapers on a simple company, certainly not a global company. The example in the Discussion Document, which shows very detailed figures yet provides no substantive information, simply illustrates what is already well known -- that the items following net income in the statement of comprehensive income are noncash changes in balance sheet accrual or deferral accounts that have no predictive value regarding future cash flow. Material noncash items already receive appropriate disclosure, and along with the balance sheet, the user can understand receivables to be collected and payables to be paid in the future. If working capital increases, cash flow goes down. This is clear in the current cash flow presentation and will be lost in an overly complex reconciliation. Under current GAAP, important individual material noncash items of this nature should be disclosed but not each and every line in the example reconciliation. The example illustrates one or two fairly immaterial noncash items that provide little useful information. The rest represents changes in the balance sheet that one would expect to find in a reconciliation of this nature but adds no information. We believe a goal of improving understanding of cash flow could be accomplished with additional guidelines beginning with identification of what material items should be expected to be disclosed in the current cash flow statement or notes that is not being provided today.

Comprehensive Income

We believe requiring the reporting of a single statement of comprehensive income and further, reconciling this statement to the statement of cash flows, are overly theoretical and do not enjoy practical, user-driven demand. Comprehensive income as a performance measure is not meaningful. Labeling this as "income" which generally means "earnings," could be misleading. Has an enterprise earned or lost anything when a company's assets increase or decrease due to translation of foreign assets or liabilities that will continue to be employed in continuing operations? We are concerned that requiring a single statement of comprehensive income as a primary financial statement would elevate comprehensive income to the level of net income and confuse investors. Constituents and the Board itself rejected this view in FAS 130 and nothing has changed since then to warrant the current proposal. We believe the income statement must remain the primary vehicle for reporting operating results and net income must remain free of the confusion that will result from subsuming it into a statement of comprehensive income.

Cohesiveness

The Discussion Paper emphasizes cohesiveness, mentioning it dozens of times. It appears cohesiveness is being used to rationalize changes which are overly theoretical while usefulness and simplicity of information are being discounted. We believe current financial statements are already cohesive and additional line items could create confusion. Current financial statement categories do not "line-up," but they do interact and support one-another, and stand together as a whole. We also feel the cohesiveness concept, and changes based on the concept, is somewhat academic to the detriment of practical considerations. An example is the expenses-by-nature approach, which could potentially create many more financial statement line items than practical. Our preference would be for financial statements to evolve over time using a practical and logical approach.

Summary

As stated previously, we do not believe the changes discussed are warranted and the FASB's own research a few years ago indicated "no widespread dissatisfaction with financial statement display." The proposed financial statement formats are potentially confusing and display extraneous information that may obscure the true performance of the business. Our conclusion is there is nothing fundamentally wrong with the current form or content of the primary financial statements. Instead of establishing form and content with a one-size-fits-all approach, we suggest the FASB instead encourage voluntary disclosure of the operating, investing and financing groupings. This will allow companies an opportunity to provide insight into how management views and analyzes these areas which may lead to greater understanding of the business.

We are concerned that the numerous projects on the FASB's technical agenda along with the push to converge with IFRS has lead to such a volume of proposals that companies are severely limited in their ability to adequately consider and thoughtfully respond to each, much less implement the numerous new standards being issued. A small number of comment letters will not mean preparers are disinterested. We encourage the FASB to carefully consider the substantive merits of respondents' views, and not just make decisions on the volume of letters received. We believe the FASB has more important major projects on its agenda and this proposal is not pressing and should be terminated.

In summary, we do not support the potential changes outlined in the Discussion Paper. We believe them to be impractical, failing any reasonable cost benefit analysis, and not supported by genuine financial statement user demand.

We trust Emerson's view will be seriously considered in future deliberations on this subject.

Sincerely,



Richard J. Schlueter
Vice President & Chief Accounting Officer

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