



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

**Emerson**  
8000 West Florissant Avenue  
P.O. Box 4100  
St. Louis, MO 63136-8506  
T 314 553 2327

July 7, 2016

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

File Reference No. 2016-230 – Proposed Accounting Standards Update: *Simplifying the Accounting for Goodwill Impairment*

Dear Ms. Cospers:

Emerson appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Simplifying the Accounting for Goodwill Impairment*. We continue to support the Board's efforts to simplify U.S. GAAP as we agree with reasonable, practical approaches that reduce complexity while communicating important information to users. Our comments on the proposal follow.

### **Proposed Single-Step Goodwill Impairment Test**

We strongly support the proposal's simplified, single-step impairment test that is required when a qualitative analysis indicates an impairment may exist. The current approach to determine the implied fair value of a reporting unit's goodwill using a hypothetical acquisition model to re-value all assets and liabilities is overly costly and complex. It is difficult to assess the value of the entire business absent an arm's length transaction with a third party, much less to value all the assets, including intangibles. Valuations can vary significantly due to the subjectivity of the process. In our opinion, goodwill impairment should simply be calculated as the excess of book value over fair value of the business.

In the next phase of this project, we recommend that the Board consider goodwill impairment testing at the operating segment level. Determining operating segments is already complex and judgmental. The requirement to go beyond the operating segment level to determine reporting units adds significant effort and complexity, as the business and management structure of a company is constantly evolving, requiring frequent redetermination of the reporting units, their value and reallocation of goodwill.

### **Other Recommendations for Goodwill and Intangibles**

We strongly recommend that the accounting for intangibles acquired in a business combination be simplified by eliminating the requirement to separately account for intangibles that are not distinct and separable from goodwill. Intangibles should only be recorded where there are contractual rights that can be sold or exchanged and for which similar transactions can be observed in the market place. Intangibles that are not separable, such as a company's distribution system, assembled workforce and customer relationships are hypothetical assets and do not exist apart from goodwill. It is costly to identify and value these types of intangibles which are subject to significant variability in the valuation process and which have questionable reliability. We support

subsuming all intangibles that are not separable and contractual-based into goodwill, which reflects the benefit of all facets of an entity working together to deliver solutions to current and future customers.

We also believe that goodwill should be amortized if the requirement to identify noncontractual intangibles is eliminated. We acknowledge the theoretical concept that acquired goodwill “turns over” as time passes, while new goodwill is created. We do not support trying to develop a model to account for this newly created goodwill as it would be very subjective and unreliable. As a practical matter, we do support a cost allocation approach of amortizing goodwill over time, thereby recognizing the diminishing value of goodwill and protecting against the possibility of overstatement of assets. Further, impairment tests are inherently subjective due to the difficulties of determining fair value absent a third-party transaction. Given the long term nature of goodwill, we recommend amortization over a period of time of up to 40 years.

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

Sincerely,

A handwritten signature in blue ink that reads "Richard J. Schlueter". The signature is written in a cursive style with a large initial "R".

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

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