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Mr. Martin F. Baumann  
Chief Auditor  
Public Company Accounting Oversight Board (PCAOB)  
1666 K Street NW  
Washington, D.C. 20006

Docket Matter No. 34 – Concepts Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements

Emerson Electric is a global manufacturing entity with 2011 sales of more than \$24 billion. The Company appreciates the opportunity to comment on the PCAOB's recent Concept Release re: Reports on Audited Financial Statements.

In spite of the Release's reference to the auditor's "unique" role in public company financial reporting, an auditor's insight is largely limited to what has already occurred and the resulting financial statement impact. No one has a better understanding of or is more qualified to discuss an entity's results of operations, financial position, risks, control environment and future prospects than that entity's management. Creating a role for auditors to publicly comment on a company's financial statements beyond matters currently addressed by management under Rules S-X and S-K requirements is unnecessary and fraught with potential pitfalls. In such an environment, we envision auditor commentary quickly becoming boiler plate recitals that meet industry-determined requirements but provide no real value to investors. In a worst-case scenario, auditor discussions of matters that have been satisfactorily resolved with management (an everyday occurrence given the complexity of issues in today's business environment) are interpreted by investors as a disclosure of accounting "problems," due to a lack of understanding of the interaction between auditors, management and the audit committee, or of the audit process itself. This will unintentionally and inappropriately impact market expectations and valuations.

The basic premise of the PCAOB's question of whether the auditor's report should be expanded to provide more useful and relevant information to investors implies that the current U.S. GAAP and SEC financial reporting regime does not currently provide financial statements that are sufficiently relevant or useful. If there truly are shortcomings in the current financial reporting model, as implied by the Release, any perceived deficiencies should be addressed through appropriately targeted FASB and SEC rulemaking, not through an expansion of the auditor's reporting responsibilities. Management, with Audit Committee oversight, would then ultimately be responsible for meeting these revised SEC requirements, as they are currently. Expanded auditor discussion, if any, should be limited to matters concerning the auditor and the planning, conduct and inherent limitations of the

audit itself. We believe the best role for the PCAOB with regard to shareholders is to remain focused on a strong audit inspection process and ultimately improving audit quality.

We are not altogether sure what deficiency in the financial reporting regime the Release aims to correct, as it is difficult to imagine the recent financial crisis could have been averted through additional financial reporting. Business is inherently risky, as is equity investing, and no amount of financial reporting will ever replace the responsibility of investors to fully research and understand the risks associated with the markets, industries and companies in which they invest. Financial reporting looks backward to explain how an entity was impacted by economic events and circumstances and cannot be expected to eliminate investment risk by forewarning of the next recession or financial crisis. Ever greater amounts of financial disclosure will not alter this dynamic, whether the risks arise from macroeconomic changes or from micro industry- and/or company-specific developments. We also believe that to some degree, the perceived demand for auditor identification of important disclosures results directly from the current disclosure overload, where every nuance is discussed in depth and tabular roll-forwards of detailed account activity make it difficult for investors to know what is relatively more or less important for their particular risk tolerance. In effect, investors might be saying that due to the already heavy volume of disclosure, they are having trouble separating what is genuinely important from what is perfunctory compliance.

Following are additional, specific comments on various items discussed in the Release:

- The current Pass / Fail model of audit reporting functions properly and does not require revision. If all accounting matters are satisfactorily resolved, then there simply are no issues to report. Either the financial statements are fairly presented and acceptable for filing with the SEC or they are not. There is no place for a hypothetical discussion of what might have happened. Further, what will be the definition of a contentious issue, or a "close-call," as the Release terms it? A lengthy or highly technical discussion between management and auditors, even where positions differ significantly, does not mean the matter is *contentious*; it does not even mean the transaction is especially risky. Whether it is simply a new transaction, evolving circumstances requiring extra time, or a complex matter elevated to the SEC for Staff consideration, once resolved the background and mechanics of resolution are not important. It is commonly understood that unaddressed or unresolved material issues could lead to a qualified opinion, which should rightfully be accompanied by additional disclosure. But added discussion of resolved matters is just not necessary. And we note there is already a requirement for management to report disagreements with auditors to the Audit Committee and publicly disclose the nature of such disagreements under Rule S-X. An auditor rendering an unqualified opinion and then discussing transactions that might have resulted in a qualified opinion had the accounting not been satisfactorily resolved can only confuse, and potentially mislead investors.
- We are very concerned an Auditor's Discussion and Analysis (AD&A), or other qualitative auditor assessments of financial reporting, will quickly push disclosures toward Big 4-decided standards, as management will want to avoid disclosures that appear to conflict with the view of their auditors. Investors will then lose critical nuance and perspective as seen through management's eyes as disclosures ultimately become subject to the limitations of an auditor's disclosure checklist. Management is far more experienced than any auditor and is the only appropriate source of meaningful qualitative disclosures regarding risk management or accounting

alternatives. Requiring auditor reporting on these matters will ultimately result in the Big 4, instead of management or the SEC, collaborating to make decisions on accounting and reporting policies, including choosing preferability among GAAP-allowed accounting approaches.

- Investors will not necessarily understand the substantive differences between AD&A and MD&A, and instead will likely assume the auditor is “right” and management is “wrong,” based on the public perception of auditors as corporate watchdogs. However, the key considerations in an auditor’s decision on AD&A content will most likely not be what is in the best interests of shareholders, but instead will be what best avoids litigation for the auditor. This approach will limit auditor disclosures to something less than useful and we foresee AD&A being formulaic and filled with the caveats and disclaimers common in auditor procedural reporting. This will not create the independent expert “comfort” sought by the PCAOB or certain investors. It will simply increase auditor fees and add to disclosure overload.
- To ensure consistency with financial statement disclosures, auditors commonly review and provide input to management on other financial information in MD&A, press releases and analyst call information. We believe that in general auditors’ views are respected and incorporated into the overall communication approach when appropriate. Additionally, auditors can withhold their opinion when there are material differences between the financial statements and other financial information. We therefore do not believe that auditors need an official and expanded role regarding the form or content of other financial information, as we are concerned that auditor involvement will quickly limit management’s discussion to only matters that can be objectively verified by the auditor. Additionally, we believe that under the current U.S. regulatory and legal environment, auditor and management language regarding risks or MD&A will quickly conform to one another in lowest common denominator disclosure. This will sacrifice management candor and insight for the sake of procedural consistency, especially as it relates to forward-looking information.
- The Release discusses the possibility of the auditor pointing out specific elements of an entity’s financial disclosures for emphasis. Financial statements and footnotes are integral to one another and designed to be read together, in their entirety. An auditor highlighting specific sections for reader emphasis will inappropriately elevate these matters and simultaneously diminish the non-emphasized disclosures. By what standard is the auditor to gauge significance? Will emphasized items be consistent across companies and industries? Will they be considered key by all shareholders? Would they be the same items to which management might assign emphasis? A detailed analysis by management of business risk factors is already required in annual 10-K reporting and these disclosures are a key element of investor understanding of an entity. Asking auditors to highlight what they believe are the most significant risk factors is effectively having them advise investors on which risks to focus, and conversely, which to ignore. It is the investor’s responsibility to be fully informed about any company in which he might invest, prior to committing resources. Financial disclosures are provided in their entirety, without bias, so that investors can decide which elements have more importance, based on the investor’s investment objectives and risk tolerance. More disclosure, regardless of the source, can never replace this responsibility.

- Outside of the accounting profession, the process of conducting an audit is largely unknown and investors might benefit from having a better understanding of the auditor's role, responsibilities and obligations, and the inherent limitations of an audit. The auditor's report already provides a solid summary of the auditor's and management's responsibility regarding their respective roles in the current financial reporting regimen. Additionally, PCAOB auditing standards plus the Center for Audit Quality's guide to public company auditing are public information and readily available to any investor who wants an in-depth understanding of audit requirements, approaches and techniques. Individual investors must have some responsibility for fully understanding the auditor's role, including the responsibility for detecting material misstatements, whether resulting from fraud or unintentional error. If investors will not avail themselves of this easily accessible information, then it seems doubtful auditor reporting in this area will advance investor understanding.

### **Conclusion**

It is not clear to us exactly what malady the PCAOB is attempting to cure with this Release, as it is difficult to imagine the recent financial crisis could have been averted through additional financial reporting. Management, auditors and investors each have specific, interdependent but ultimately individual responsibilities in the financial reporting and investing regime. Management's responsibility, with proper audit committee oversight, is to report on its operations, risks, and outlook based on existing U.S. GAAP and SEC requirements. The auditor's responsibility is to plan and perform an audit, and render an opinion on the financial statements based on U.S. GAAP and industry and PCAOB auditing standards. Investors have a responsibility to gain an in-depth understanding of a company, its competition, and the markets in which they compete prior to committing their resources. Equity investing involves risks and uncertainties and that risk cannot be regulated away. No amount of disclosure, regardless of its source, will be a substitute for thorough investor research. A new disclosure role for auditors will not provide investors predictability regarding the depth or breadth of future industry- or company-specific impacts from adverse economic circumstances.

We appreciate the opportunity to respond and trust our comments will be taken seriously in future Board deliberations on this issue.

Sincerely,



Richard J. Schlueter  
Vice President & Chief Accounting Officer

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