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April 10, 2006

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washing, DC 20549-9303

Re: File No. S7-03-06

Dear Ms. Morris:

In support of Chairman Christopher Cox's goal of "comprehensive—but also comprehensible" disclosure of executive compensation, Emerson Electric Co. submits the following comments on the Security and Exchange Commission's recently proposed rules regarding Executive Compensation and Related Party Disclosure, Release Nos. 33-8655; 34-53185; IC-27218; File No. S7-03-06 (the "Proposal").

We applaud the Commission for addressing the need for more comprehensive disclosure of executive compensation. In our view, the Proposal has identified elements of executive compensation that investors will find useful. However, we are concerned that the inclusion of elements of past, current and future compensation in the proposed Summary Compensation Table is not conducive to transparency and simplicity of presentation to investors. Some of these elements will have been earned; others will be contingent on service and/or achieving performance criteria. The valuation of some of these elements is straightforward; others have vastly different valuation methods which will require a plethora of explanatory footnotes. The aggregation of these disparate elements will not provide meaningful disclosure or insight to investors, and will be confusing and difficult for even a sophisticated reader to interpret properly.

We propose instead that earned and unearned compensation be shown in two different tables. We believe that the Summary Compensation table should not include the accounting valuation of stock options, restricted stock, performance-based stock awards and other stock-based compensation. Instead, such items should be included in the summary compensation table when earned, e.g., stock options when they become exercisable (at the in-the-money value), restricted stock when it vests (market value), and performance-based stock awards when they vest and the performance conditions have been met (fair value of payout). Dividends received each period on stock-based awards that have not been earned would be included in the table.

A separate table would include information on grants of all stock-based awards. The table would include, year by year, and award by award, the information necessary for adequate disclosure of these awards. The proposed Compensation Disclosure & Analysis would discuss these awards as they relate to the compensation decisions made in the year being reported.

Similarly, we do not believe that the Summary Compensation table should include the year's increase in actuarial value of pension benefits. Pension payments, due to their unique deferred status, are not typically regarded in the same way as current compensation. Their actuarial valuation is not comparable to value actually received by the executive; it is dependent on several assumptions that may or may not come true (e.g., longevity), and that may or may not have any real significance to an individual for a given year (e.g., changes in discount rate). Therefore, we believe that pension benefits should be reported in a separate table that lists (i) total annual pension payments at the normal retirement age, based on average current compensation for the executive in each of the three most recent years, and (ii) total annual pension payments assuming the executive had retired as of the end of the last fiscal year being reported.

We also submit the following additional comments on the Proposal:

1. According to the Proposal, the "Stock Awards" column (f) of the new Summary Compensation table is to include the value of stock-based compensation awards computed under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("FAS 123R"). It also is to include the value of earnings, such as dividends, on previously granted awards.

Since the value of the right to receive dividends is already incorporated into the FAS 123R valuation analysis, including the value of future dividends when they are actually received would constitute double counting. Therefore, if the approach we suggested above is rejected, and stock-based awards are retained in the Summary Compensation table as currently proposed, Emerson recommends that any future earnings or dividends on stock awards which are incorporated in the initial FAS 123R valuation not be added to the Stock Awards column in subsequent years.

2. We do not agree with the Proposal's use of total compensation to determine the Named Executive Officers. Incentive compensation can vary dramatically from year to year depending, for example, on the vesting or payment of stock-based awards. Including such items in the Summary Compensation Table likely would result in frequent changes to the list of Named Executive Officers from year to year, and create confusion for investors. In addition, if the Summary Compensation Table includes the increase in actuarial value of defined benefit (pension) plans, as presently proposed, total compensation would skew the list to employees with longer service whose current compensation might be significantly less than that of other executives.

3. We believe that it is inappropriate to disclose the compensation of up to three additional employees whose income is higher than any of the Named Executive Officers. While the Proposal states that only the job descriptions of such additional employees be provided, as a practical matter the identities of these employees usually would be readily discernible from their job descriptions. Accordingly any confidentiality envisioned by the Proposal as to their identities would be illusory.

4. The Proposal would not require compensation disclosed for the two years prior to the first reporting year under the new rules to be restated in conformity with the new rules. Because of the expense and difficulty involved in restating such disclosures, Emerson supports this. We suggest in addition, however, that the disclosure under the old rules not be required at all in the first two reporting years under the new rules. That information would be already publicly available online in prior proxy statements, and inclusion of a separate compensation table providing noncomparable information would diminish, not enhance, clarity to investors.

5. The Proposal would replace the current Compensation Committee Report, which is furnished but not filed, with a Compensation Disclosure & Analysis, which would be filed. In Emerson's view, requiring management of an issuer to certify to the disclosure of its own compensation would be a step backward in good corporate governance. First, neither the issuer's CEO and CFO, nor those members of management on whom they rely for information, should have access to discussions of the compensation committee, which access would be necessary to give them a basis on which to make such certifications. Second, members of management should not be the ones to determine how much analysis of their own compensation is appropriate. Emerson proposes instead that the substantive disclosure requirements of the CD&A be incorporated into the Compensation Committee Report, which should continue to be furnished, not filed, by the issuer on behalf of its Compensation Committee.

6. Emerson notes that the material terms of compensation awards would continue to be required disclosure by footnote. As this information is readily available online in other company filings, Emerson suggests that a cross reference to such other filed descriptions be allowed, except for the specific terms of the awards in question.

7. The current rules require disclosure of perquisites when their aggregate amount for any executive exceeds the lesser of \$50,000 or 10% of the executive's annual salary and bonus. The Proposal requires disclosure of the aggregate amount if it exceeds \$10,000, as well as identification of each perquisite by type in a footnote.

Lowering the disclosure threshold to \$10,000 would not provide meaningful additional disclosure. To the contrary, identification of the perquisites at this level would provide information that is not material to an investor, and detract from the information that is material. Emerson therefore supports retaining the current perquisite thresholds.

8. The Proposal employs a two part test as to whether an item constitutes a perquisite. First, it is not a perquisite if it is "integrally and directly related to the

performance of an executive's duties". If it is not so related, it is a perquisite if it "confers a direct or indirect benefit that has a personal aspect . . . unless it is not generally available on a non-discriminatory basis to all employees".

The first part of the test is likely to be interpreted too narrowly, and the second part too broadly, leading to unreasonable results. For example, would a cell phone that an executive is allowed to use for personal purposes be a perquisite? Personal use is not integrally and directly related to business, and such use clearly conveys a personal benefit. Most issuers do not provide cell phones to all employees, even if they are widely available to management. Under the Proposal, therefore, an issuer would have to treat the cell phone as a perquisite, track its usage, and come up with a principled incremental cost for the personal usage. Similar examples are personal stationery, pens, exercise facilities, etc. Do investors care? Would the effort/cost involved in tracking such items be worth the benefit? We submit that the answer is clearly "No".

The use of company-provided aircraft provides another example of the problem with this perquisite test. The Proposal states that the use of company-provided aircraft would not qualify as "integrally and directly related" to performance of an executive's duties. While we do not agree, some argue that such use might confer a personal benefit. Use of company-owned aircraft is clearly not available to all employees. Therefore, many securities practitioners have interpreted the Proposal as meaning that the use of company-owned aircraft, even for a straightforward business purpose, might constitute a perquisite.

We understand that Commission staff members have recently indicated that this result is not the Commission's intent, and Emerson requests that the final rules make it clear that such use of company aircraft would not constitute a perquisite. In any event, this further illustrates the problem with the perquisite test used in the Proposal.

We propose an alternative. Except for the use of company-owned aircraft, for which the current position of the Commission would continue to apply, and for any other particular items identified by the Commission, the existence of a perquisite should be determined by reference to Internal Revenue Service compensation standards. If an item is a perquisite under the IRS rules, then the incremental cost of such item, as currently required, would be included in the perquisite total.

The IRS rules are well known and well developed. Applying them in most cases, even if the Commission provides specific exceptions, would lessen the burden/cost of the perquisite disclosure, without lessening the disclosure value to investors.

9. The Proposal would require disclosure of estimated payouts and benefits under termination or change in control agreements. If uncertainties exist regarding the amounts payable, the issuer would be required to make reasonable estimates and disclose material assumptions upon which those estimates were based.

Emerson suggests that the Commission provide basic “safe harbor” assumptions to be used in connection with disclosure of these estimated payouts and benefits (including those which accelerate or vest awards under compensation plans). In particular, we propose that the following be included among such assumptions: (i) that the change of control took place at the end of the most recently completed fiscal year, and (ii) that the fair market value or sales price of the issuer’s stock was the market price on such date.

We thank you for the opportunity to comment on this important matter. Should the Commission have any questions regarding our comments, please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Wayne Withers". The signature is written in a cursive, flowing style with a large initial "W".

W. Wayne Withers
Executive Vice President, Secretary
and General Counsel