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Senior Vice President and
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May 30, 2006

Mr. Robert H. Herz Chairman, Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

## Ingersoll-Rand Company Limited

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LETTER OF COMMENT NO. 114

Re: Proposed Statement of Financial Accounting Standards on Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans, File Reference No. 1025-300

Dear Mr. Herz:

This letter contains our Company's response to the March 31, 2006, request from the Financial Accounting Standards Board (FASB) to comment on the proposed amendment to FASB statements No. 87, 88, 106 and 132(R).

Ingersoll-Rand Company Limited (we, our, or the Company) is a leading provider of climate control, industrial, compact vehicle, construction and security products. The Company maintains manufacturing and assembly operations in the United States, Canada, Europe, Asia, and Latin America, and warehouses, offices and repair centers throughout the world. The Company has approximately 40,000 employees throughout the world, of which 19,000 work in the United States and 21,000 outside the United States. The Company has 65 pension plans covering its U.S. employees and non-U.S employees. The Company's pension plans for U.S. non-collectively bargained employees provide benefits on a modest final average pay formula and for U.S. collectively bargained pension plans principally on a flat benefit formula. Most non-U.S. defined benefit plans provide benefits based on earnings and years of service.

The Company also sponsors several postretirement plans covering eligible employees, mainly in the U.S. These plans provide for retiree health care and life insurance benefits. Postretirement health plans generally are contributory. The Company funds the postretirement benefit costs principally on a pay-as-you-go basis. Postretirement health care benefits are no longer available to new non-bargaining employees. Hourly bargaining employees are eligible if they attain normal retirement age with the required years of service.

The Company supports the efforts of the FASB to improve the existing rules to better reflect the underlying economics of benefit plans. We believe that our comments and

recommendations are shared by many other large multinational companies. Our recommendations for changes to the exposure draft are as follows:

- Allow for a measurement date one month in advance of the plan sponsor's fiscal year end.
- Eliminate retrospective application of the treatment of the net transition obligation.
- Use the accumulated benefit obligation (ABO) to measure pension liabilities.

## Measurement Date

For our Company, the proposed Statement would require plan assets and benefit obligations to be measured as of the balance sheet date, December 31. Currently our measurement date is November 30 of each year with a review performed as of December 31 to ensure no material changes have occurred requiring additional disclosure. Our concerns are the practicality of assessing, preparing, recording and reporting accurate information for our 70 defined benefit pension and postretirement benefit plans as of our year end. Since we are considered a "large accelerated filer," we, like other large multinational companies, are continually challenged to report our results earlier. Our current process is to review each plan's assumptions. We review all the actuarial assumptions that were used to determine current year expense and determine whether they are still appropriate including, but not limited to mortality tables, turnover rate, and disability tables. Details of some of our major assumptions reviewed are as follows:

- Determination of discount rate: Discount rate selection reflects the rates at which our pension liabilities could be effectively settled. We believe that setting the discount rates is very important in properly valuing our pension liabilities. First, we identify and review with our actuary the duration of each plan's liabilities. We base our discount rates on the yields of high-quality fixed income investments available. Studies are done for our large plans based on the Citigroup Pension Liability index and AA Corporate bonds with more than \$250 million outstanding. Additionally, a review is performed of yields reported by Moody's on AA corporate bonds to ensure the discount rates selected are appropriate. For non-U.S. plans, bond studies and local indices are utilized.
- Area reconciliations: Analyses of discount rates within regions are performed, such
  as plans sponsored in European Union countries, to ensure that the relationship of the
  discount rates selected for each plan is logical and consistent. Any deviations are
  documented and reconciled such as differences in discount rate due to the age of
  workforce or provisions of a plan.
- Asset values: Our U.S. asset values are usually available to us approximately ten business days after the close of the month. We have several non-U.S. plans that asset information takes approximately twenty to thirty business days to receive after the close of a month. Since we currently use November 30 as our measurement date we have been able to collect all the plan data on assets and reflect it accurately in our financial statements.

- Determination of long-term rate of return: The Company reviews its overall
  investment policy and the expected long-term rate of return for each plan with assets.
  Historical trends through the measurement date are reviewed.
- Management review: A comprehensive review of the assumptions is done with senior management and the chair of the audit committee to ensure they are fully aware of the impact of the assumption changes and the rational for the changes.

Our current process is robust. The use of discount rates, asset values and other assumptions as of the balance sheet date will not improve the reliability of the information; it could actually reduce reliability since the requirement will necessitate the use of estimates due to the compressed time frame.

Implementation of having a full mark to market approach as of the balance sheet date will be expensive. Due to the shorter timeline, the actuarial calculations will need to be done using several different discount rates in order to ensure that the applicable liabilities are available. Actuaries will charge for preparing these alternative scenarios. Trustees of assets that are able to produce the market value of assets at our balance sheet date will charge a premium since the time span will be very short. The ability to receive non-U.S. assets as of the balance sheet date is unlikely. If the FASB is unwilling to change their views on the measurement date, they must make provisions for early estimation of assets and liabilities. We believe that most of the companies that use their fiscal year end date as their measurement date are estimating the values disclosed in their financial statements.

Our recommendation is to allow a measurement date one month in advance of the plan sponsor's fiscal year end. We realize that the FASB's concern has been over curtailments and settlements that occur after the measurement date but before a company's fiscal year end. We believe that the FASB could address this by requiring that a remeasurement be effected in the fiscal year-end statements for these situations.

## Retrospective Treatment of the Net Transition Obligation

We do not believe that the retrospective treatment of the net transition obligation improves financial reporting. In 2001, our pretax net transition obligation was \$6.4 million for our defined benefit plans. At December 31, 2005, only a pretax \$2.9 million net transition obligation remained. Since we are an SEC registrant, the current exposure draft will require us and other companies to restate our financial statements from 2001 to 2005 in order to provide selected financial information. The application of this treatment for our Company and other companies imposes a significant amount of work for what we believe is of little value and will potentially confuse shareholders and investors. Our recommendation is to not change the treatment of the net transition obligation and the amortization expense in the income statement. If the FASB believes this to be important concept, we suggest they address materiality in applying the retrospective treatment of the net transition obligation.

## Liability Measurement

The exposure draft requires the use of the projected benefit obligations (PBO) for pension plans. We recommend that the FASB allow continued use of ABO for liability

measurement until at least the completion of Phase 2. To change and subsequently change again for Phase 2 will confuse shareholders and potential investors.

The balance sheet liability in the past has been based on the ABO, and currently we recognize unfunded ABO on our balance sheet. Including future salary levels in pension liabilities (PBO) does not provide shareholders with the most relevant information as to what the current value of the obligation is or what it could be settled for.

The use of the PBO on a sponsor's books may have unintended consequences such as encouraging plan sponsors to freeze plan benefits or lower future compensation increases. Additionally, plan sponsors may switch from traditional final pay plans to career average or flat dollar plans that provide comparable benefits but lower financial statement liabilities for all employees. This would result in inconsistent results as companies that provide comparable benefits would have different liabilities.

The FASB is expanding the definition of the liability without expanding the definition of assets set aside to extinguish the liability. We believe that the FASB must address the issue that some funding vehicles do not currently meet the criteria to be offset against the liability. Our nonqualified U.S. plans are underfunded because the trust that funding resides in cannot be used to offset our liability. Our Company takes its obligation to fund its pension plans seriously and has contributed almost \$300 million to its pension plans in the last two years. In addition, consideration should be given to statutory non U.S. plans where there are no efficient vehicles to fund the plans.

In closing, we appreciate the FASB's work in the area of defined benefit plans and other postretirement plans and would like consideration of our recommendations. While we believe the existing rules need to better reflect the underlying economics of benefit plans, some of the proposed changes do not achieve this goal. We would be happy to discuss further our views or answer any questions you may have.

Thank you.

Sincerely,

Timothy R. McLevish

Senior Vice President and Chief Financial Officer