May 31, 2006

LETTER OF COMMENT NO. 197

Technical Director – File Reference 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 06856-5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. 1025-300 SFAS 87/88/106 and 132(R) Exposure Draft Comments

Dear Mr. Herz:

The Stanley Works ("Stanley") appreciates the opportunity to respond to the proposed Statement of Financial Accounting Standard identified above. Stanley is a worldwide supplier of tools and security solutions with reported 2005 sales of $3.3 billion and numerous defined benefit plans throughout the world. We support the Board's efforts to improve financial reporting with respect to defined benefit pension and post-retirement medical / life plans.

Our responses to the questions in the Notice for Recipients are as follows:

Issue 1: We agree information to implement the proposed standard is readily available.

Issue 2: We support the requirement that the measurement.date must be the same as the fiscal year end date, but there are important practical constraints. We use a year end measurement date already, but we are able to do so by establishing discount rates one month earlier (updating only if material interest rate changes occur, e.g. more than 50 basis points, and even then only for the largest plans). We have conferred with Watson Wyatt which coordinates most of our pension and FAS 106 reporting worldwide, and Mercer which does certain plans, regarding the feasibility of obtaining timely reporting in compliance with the strict discount rate and asset reporting at year end per the exposure draft paragraph B39. The actuaries who provide this reporting indicate they will require more than a week of additional time if they have to rerun all the numbers for minor discount rate changes and late asset value changes, delaying the deliverable reports potentially past our press release date. Such strict requirements with regard to discount rates and asset values would detract from the timeliness and value of financial reporting.

The greater concern is plan asset reporting which is not under the actuaries control; the asset reports, even in the U.S., are frequently not available until 30 or more days following the year end date. Our treasury team indicates the financial institutions are so pressed with year end reporting requirements as it is there is no leverage to obtain it faster. While the delays in obtaining asset statements seem ridiculous (a normal bank statement can be generated much faster) they are perennially the hardest element to obtain. Plan asset statements are a difficult bottleneck and we do not see how we can resolve it. To accommodate the need for timely reporting we presently permit asset

reports one month prior to year end to be rolled forward using the expected rate of return, actual contributions and actual benefit payments. It is important to allow companies the latitude of such reasonable approximations in order to facilitate timely financial reporting. It is unreasonable to put companies in the position of publishing balance sheets in earnings releases that will invariably change, immaterially, in the 10K (creating an unfortunate impression there was an error in the press release), due to lack of timely reporting on defined benefit plans. Requiring very exact discount rate and asset reports in the final OCI may lead companies to exclude the balance sheet from earnings releases thus undermining timely financial reporting objectives.

The more material the plans were to the financial position of a company, or where imminent settlements were probable, or where there were important debt covenants affected by the measures, the more a company would be required to use precise year end asset values and discount rates in its reporting. Therefore we ask the Board to revise the language in paragraph B39 which presently states "discount rates and measurements for most plan assets should not be prepared at an earlier date and projected forward", to at least insert language that materiality may be considered. We anticipate unless the language in this paragraph is revised for pragmatic considerations it will result in a very literal, strict interpretation that does not meet cost / benefit thresholds. The actuaries and corporate finance professionals are working extensive overtime during January so working harder to do it faster will not resolve the matter; also it will be very difficult for the auditors to timely complete their related procedures which are already among the last performed if the reports are further delayed. For many companies, the plans are not material enough to require such precision particularly when there are extensive estimates in other aspects of the reported defined benefit liabilities. Finally, using discount rates established one month ahead of year end and assets rolled forward for one month is entirely consistent with the approach used pervasively in reporting numerous other results. Companies are able to timely report results that are materially correct by performing reviews of key reserves during the quarter and not all at the year end date – updates are done for material changes and defined benefit plan reporting should be no different.

Issue 3a: We have no concerns with the practicality of retrospective application.

Issue 3b: We have no important concerns. Executive compensation plan metrics using return on capital employed will require revision. Our Treasurer indicates the ratings agencies already include disclosed pension funding status in debt to equity ratios so a change in that metric is not expected to be problematic.

Issue 4: We have no concerns on the measurement date beyond those outlined in response to Issue 2.

Projected Benefit Obligation as Measure of Liability

We understand the considerations articulated in SFAS 87 paragraphs B138 to B143 where the Board concluded the PBO should be the measure of the plan liability. We also recognize it was not feasible for the Board to change that conclusion within the scope of

phase one of this project. The exposure draft paragraph B17 implies the Board does not intend to revisit this conclusion in phase two of the project as we believe appropriate. Because the PBO includes the effects of future pay increases, which have not been earned and may well never be earned, to the extent it exceeds the ABO it does not represent a liability. Such future pay increases assumed generally exceed the rate of inflation, that is they incorporate a real rate of increase, and so it is not as simple as saying nominal discount rates are used to compute the liability and therefore a nominal liability measure (the PBO) should be used, nor is that argument conceptually persuasive. As discussed in SFAS 87 paragraph 138, if a plan is terminated or a vested employee does not render future service the participants will not be entitled to benefits incorporating additional pay increases. The likelihood that future pay increases will never be reflected in benefits is much greater than it was when SFAS 87 was issued given the high rate of curtailments and terminations of defined benefit plans; it is not an abstract, remote possibility but a probable one for most voluntary defined benefit pension plans.

Future compensation increases should not be included in the service cost element of net periodic pension cost either, as they have not been earned. Pension expense, like other compensation expense, should reflect what has been earned and should not include what may be earned in the future. Measuring the expense based on current compensation and using prevailing discount rates to discount the liability is not inconsistent but rather reflects the substance of the arrangement and the most likely outcome for voluntary plans (that the plan will be curtailed but settlement will not occur until many years later); for ongoing plans with service cost elements such measurement is also conceptually appropriate. SFAS paragraph 143 discusses the notion that failure to have the expense reflect future final pay increases based on such an element in a plan's benefit formula would result in not recognizing that expense, but it will be recognized if and when it is earned which again is often improbable. Requiring service expense to reflect possible future pay increases, and recording a liability that reflects potential future pay increases, results in recognition of amounts in the current financial statements that are generally not probable of occurring and more importantly have not yet been earned. While disclosure of the PBO makes sense, recording it on the balance sheet does not. Also, in SFAS 87 paragraph 143 the Board noted in support of its conclusion to the challenging matter of whether the PBO should be the liability measure that the ABO would be the basis on which the minimum pension liability is recorded. However, given the conclusions in the present exposure draft, that rationale is no longer valid and this further undermines the PBO as the measure of the liability. Accordingly, we urge the Board to reconsider this matter in phase two of the project and to instead require the ABO as the liability measurement.

Stanley appreciates the opportunity to comment on the proposed standard as well as the Board's consideration of our views during further deliberations. If you have any questions regarding our comments or would like further information, please contact me at (860) 827-3877.

May 31, 2006

Sincerely,

Michele Webster
Senior Manager, External Reporting & Technical Accounting

Cc: Don Allan, Vice President & Corporate Controller