StanleyBlack&Decker

1000 Stanley Drive, New Britain, CT 06053
T (860) 225 5111

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Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT
06856-5116 (Sent via e-mail to director@fasb.org)

Subject: File Reference No. 2016-310, Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities

Dear Ms. Cosper:

Stanley Black & Decker, an S&P 500 company, is a diversified global provider of hand tools, power tools and related accessories, mechanical access solutions and electronic security solutions, healthcare solutions, and engineered fastening systems. In 2015, the Company reported net sales of $11.1 billion, net earnings of $883.7 million, derivative assets of $72.2 million and derivative liabilities of $55.4 million. As part of the Company's risk management program, a variety of financial instruments such as interest rate swaps, currency swaps, purchased currency options, and foreign exchange contracts, are used to mitigate interest rate exposure and foreign currency exposure.

SBD appreciates the opportunity to comment on the Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities. Overall, the Company supports the proposed update as the changes introduce a more practical approach to risk management. The revisions align with the nature of risk in the global market environment and will allow companies to better manage and present those risks in financial statements. The enclosed attachment provides our comments in further detail.

We would be pleased to discuss our perspective on these issues with you at any time during the comment period and redeliberation process.

Yours truly,

Craig A. Douglas
Vice President & Treasurer

Jocelyn Belisle
Vice President & Chief Accounting Officer

Attachment

Attachment – Select Questions for Respondents

Question 1: The Board decided it would allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. Do you agree with that decision? Please explain why or why not. If not, what specific alternatives should the Board consider? Please explain why those alternatives would be beneficial.

Response:
The Company agrees with the decision to permit entities to designate contractually specified components as a hedged risk. The changes will allow SBD to hedge interest rate risk specifically resulting from changes in benchmark rates separate from interest rate variability due to the Company's credit profile. Additionally, the changes will permit the Company to explore hedging of pricing variability of raw materials (e.g. aluminum). Currently, the Company has opted not to seek hedge accounting treatment for commodity risk as complexity of the existing guidance to demonstrate initial and ongoing effectiveness and the direct and indirect compliance costs outweighs the benefit.

Question 2: The Board decided that it would retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments and forecasted issuances or purchases of fixed-rate financial instruments, maintain the existing list of permissible benchmark rates, and add the SIFMA Municipal Swap Rate to the list.

a. Should the Board retain the current concept of benchmark interest rates for fair value hedges of fixed-rate financial instruments and for cash flow hedges of forecasted issuances or purchases of fixed-rate financial instruments? Please explain why or why not.

b. If the Board continues to maintain the current concept of benchmark interest rates, should the Board consider within the concept expectations that a rate will become widely used?

c. If the Board continues to maintain a list of rates, are there any other rates that should be added to the list? Please explain why a particular rate meets the definition of a benchmark rate.

d. Are there other alternatives to the current concept of benchmark interest rates the Board should consider (for example, a principles-based approach)? Please describe those alternatives.

Response:

The Company agrees with the Board's decision to retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments, although we question the reason for continuing to include a list of rates in the standard that will need to be constantly updated. We support a principles-based approach for determining the interest rates that qualify as the benchmark rates. We agree with the stakeholders that maintained that the spread above the Fed Funds target rate is attributable to a "break even" rate representing the cost of servicing numerous prime-based consumer loans. The Basis for Conclusion cites that there is an implicit element of credit risk in prime based loans yet acknowledges that entities would primarily hedge prime rate with cash flow hedges—thus adding a composite prime is unnecessary. While explicit inclusion of a composite prime rate may not be needed, it will help clarify what is permitted particularly as companies' implementation efforts are reviewed with auditors. Furthermore, while the list of eligible benchmark rates may not change frequently, over time change is likely to occur. With rates at a historical low, they currently don't include a credit spread. Also, a quantitative assessment required at inception will address the impact on hedge effectiveness. Thus, why not adopt a principles-based standard now?

Further, the Company agrees with the Board's decision to eliminate the benchmark interest rate concept for hedges of variable-rate financial instruments because changes in the cash flows attributable to the explicit rate hedged would be clearly measurable. However, as discussed below, the Company supports a principles-based approach that broadens the definition of benchmark interest rate as it better aligns with the market.

Question 3: The Board decided that it would allow an entity to use either the full contractual coupon cash flows or the cash flows associated with the benchmark rate determined at hedge inception in calculating the change in the fair value of the hedged item attributable to interest rate risk, except when the current market yield of the financial instrument is below the benchmark rate at hedge inception. In that instance, the total contractual coupon cash flows would have to be used. Do you agree with this decision? Please explain why or why not.

Response:
The Company agrees with the concept of permitting the use of cash flows associated with the benchmark rate at hedge inception to calculate the change in fair value of the hedged item attributable to interest rate risk. It is our position that this will allow entities to more clearly reflect their risk management strategy. However, given the current market environment, it is unlikely that the market yield of the hedged item will be greater than the benchmark rate. For example, if the benchmark rate is US treasuries, since the rate issued would include a spread, the market yield to maturity would be above that of the government bond.

Even swap rates would be unlikely to ever have a yield above a comparable corporate bond. In hedging part of a bond's maturity, one would always be shorter than the security, thereby assuming an upwards sloping yield curve. In the rare instance where the convexity of the hedged item is greater than the hedge, this would be identified by hedge inefficiency.

Question 4: In regard to hedging forecasted transactions, paragraph 815-30-40-5, as amended, states that "a pattern of determining that hedged forecasted transactions are probable of not occurring would call into question both an entity's ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions." What is your policy on what constitutes a pattern? Are there certain instances or scenarios in which missed forecasts should not be incorporated into the consideration of this pattern?

Response:
If an event occurs on a regular basis that would constitute a pattern. For example, assume a Euro-functional entity with forecasted foreign-currency exposures related to USD denominated inter-company purchases on credit enters into a cash flow hedge. The entity designates as its hedged item the next, previously undesignated forecasted USD-denominated inter-company purchases to be incurred over a 12-month period. The entity then enters into a hedge accounting relationship to hedge the purchases over the same period. In this example, the entity's inability to forecast monthly transactions consistently over a consecutive three month period over that hedging relationship would be considered a pattern. Conversely, if the actuals differed from the forecast for only one month over the same 12 month period, a pattern would not exist.

Macro-economic events or significant market volatility that would impede an entity's ability to forecast would not be considered a pattern. Examples of those events could include the 2008 financial crisis or large currency devaluations. Markets that are routinely in flux would be excluded from this proviso.

Question 6: Do you agree with the following Board decisions on presentation? Please explain why or why not. If not, what other alternatives should the Board consider?

a. For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would modify current GAAP by requiring the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is presented.

b. For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would retain current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be recorded currently in earnings. For qualifying fair value and cash flow hedges, the proposed amendments would modify current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is (or will be) presented. For qualifying net investment hedges, there will be no prescribed presentation requirements for changes in the fair value of the hedging instrument excluded from the assessment of effectiveness.

c. For cash flow hedges in which the hedged forecasted transaction is probable of not occurring, the proposed amendments would retain current GAAP by requiring amounts recorded in accumulated other comprehensive income to be reclassified to earnings immediately. However, the proposed amendments would require presentation of reclassified amounts in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged forecasted transaction occurred.

Response:
The Company generally agrees with the Board's proposed presentation in the same income statement line item for derivative gains or losses from qualifying hedge relationships. The presentations of such amounts are more consistent, less confusing for readers and more accurately reflect the economic results of both the underlying risk, and as applicable, the financial results of a designated hedge.

However, the Company believes the presentation of reclassifications of AOCI amounts to earnings for cash flow hedges in which the forecasted transaction is not probable of occurring should be left to our discretion as such amounts would be disclosed in the notes to the financial statements.

Though not specifically addressed by Question 6, the Company supports continuation of current GAAP to exclude time value from the assessment of hedge effectiveness.

Question 7: Do you agree with the proposed disclosure amendments in (a), (b), and (c) below? Please explain why or why not.

a. Cumulative basis adjustments related to fair value hedges

b. Quantitative hedge accounting goals, if any, that an entity sets when developing its hedge accounting objectives and strategies and whether it met those goals

c. Revised tabular disclosure for fair value and cash flow hedges that would focus on the effect of hedge accounting on income statement line items

Response:
Overall, the revised disclosures will result in one-time implementation efforts to determine whether existing systems and processes can summarize the data required for disclosures. While the underlying transactional data exists, derivatives system providers will have to change systems to address both accounting and disclosure changes in order to assist their customers' compliance efforts. Examples of the changes that would impact systems include but are not limited to: reclassification of ineffective amounts, component and partial term hedging and capturing cumulative basis adjustments related to fair value hedges. The Board should consider this when seeking input from stakeholders prior to deciding on an effective date.

With regard to the specific proposals, aligning presentation of hedge instruments with the underlying hedged item will directly result in improvements as entities no longer need to disclose ineffective amounts.

Quantitative hedge accounting goals and the hedge performance against these goals change over time. The implications of including goals that change, or may not be met, introduce litigation risk for companies that include this in their financials. In addition, such specific information related to quantitative goals may inadvertently lead to disclosure of proprietary information. There are existing disclosure requirements about the Company's hedging objectives and strategies, including the volume of derivative activity, which we believe are sufficient for readers to gain an understanding of the Company's hedging program. Therefore, this disclosure should not be required. Finally, the Board should seek input from auditors on how they would audit quantitative goals.

Question 8: Unless the hedging relationship meets one of the exceptions that assumes perfect offset at hedge inception, an entity would be required to perform an initial quantitative test of hedge effectiveness and would be allowed to perform subsequent hedge effectiveness assessments qualitatively unless facts and circumstances change. Do you agree with this proposed change? Please explain why or why not.

Response:
The Company agrees with the proposal to perform subsequent hedge effectiveness assessments qualitatively. Many of the company's hedge transactions are for recurring or forecastable transactions such as foreign currency exposure from inter-company transactions, or interest rate payments. This change will ease the administrative burden of maintaining a hedging program.

Question 9: The Board decided that an entity may elect at hedge inception to perform subsequent assessments of effectiveness qualitatively. However, certain changes in the facts and circumstances associated with the hedging relationship in subsequent periods may require a quantitative assessment of effectiveness to be performed. Once an entity determines that a quantitative assessment of effectiveness is required, the entity would be prohibited to return to qualitative testing in periods after this determination is made. Can situations arise in which an entity no longer may assert qualitatively that the hedging relationship continues to be highly effective but when tested quantitatively would be highly effective? If so, please describe those circumstances. Should an entity be allowed to return to qualitative testing after such a significant change in facts and circumstances precluded it in a prior period? If so, please discuss the factors that an entity should consider to justify a reasonable expectation that the hedge will once again be highly effective on a qualitative basis.

Response:
There could be a number of scenarios where the qualitative assessment of effectiveness could be different than a quantitative one, but the hedge could still be highly effective. We feel a company should be allowed to return to qualitative testing if facts and circumstances change and the hedging relationship again qualifies for qualitative assessment of hedge effectiveness. One example for which qualitative and quantitative assessments may differ could be when a derivative counterparty encounters financial difficulty to the extent that occurred during the financial crisis. This would be a rare instance, but in that case, the change in fair value might cease to be highly effective at hedging the designated risk.

Question 10: Do you agree with the proposed amendment that would allow an entity to perform the initial quantitative testing portion of hedge documentation at any time between hedge inception and the quarterly effectiveness testing date using data applicable as of the date of hedge inception? Please explain why or why not.

Response:
Many of the Company's hedge transactions are for recurring or forecastable transactions. Thus, we support the proposal to allow an entity to perform the initial quantitative testing any time between hedge inception and the quarterly effectiveness testing date.

Question 13: How much time is needed to implement the proposed amendments? Should entities other than public business entities be provided more time? If so, how much more time?

Response:
As mentioned previously, while the underlying transactional data exists, derivatives system providers will have to change systems to address both accounting and disclosure changes in order to assist their customers' compliance efforts. The Company's adoption is dependent on when system changes can be

made. The Board should also consider companies' efforts to adopt other new accounting standards (i.e. revenue, leases, and impairment) when setting the adoption date for hedge accounting.

Question 14: Do you agree with the proposed transition method and disclosures in paragraph 815-20-65-3? Do you agree with the Board's decision not to allow a retrospective transition approach? Please explain why or why not.

Response:
The modified retrospective approach is optimal. The approach will simplify presentation and auditability of historical financial statements and disclosure, enhance comparability across entities and industries, simplify documentation requirements for existing hedge relationships and reduce complexity that may result from entities making new assumptions for existing hedge relationships that did not exist at inception.