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Financial Accounting Standards Board
File Reference 154-D
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Gentlemen:

We appreciate the opportunity to comment on the Financial Accounting Series Exposure Draft on Consolidated Financial Statements: Policy and Procedures dated 16 October, 1995. Air Products is a major supplier of industrial gases and related equipment, chemicals, and environmental and energy systems with consolidated annual sales of nearly \$3.9 billion.

We commend the FASB for its foresight in realizing the need to further define the terms *control of an entity* and *temporary control*. Over the past several years we have developed our own accounting guidance with regard to partnership arrangements which reflects the same spirit that the FASB is attempting to convey in this Exposure Draft. In evaluating the facts and circumstances relative to effective control, we find our venture and partnership arrangements in compliance with this FASB assessment and do not anticipate a change in our consolidated financial statements as a result.

Relative to the FASB's position on *temporary control*, Air Products recommends further evaluation of the "one year is temporary" concept. Although an exception is cited, there can be several others. The Board's discussion of temporary control deals only with acquisition of a subsidiary. We believe creation of a subsidiary should likewise be addressed. Our view of this issue is that an entity created with the intention, upon formation, to be ultimately sold should not be consolidated. In this case the subsidiary is designed to hold the construction of an asset. The construction period of our major projects can exceed one year. Therefore, the standard should allow for one year or construction cycle of the project. Also, start up partnerships can experience legal and financing delays which can be lengthy though we fully intend to eventually sell a 50% ownership interest in a project company. Using the same substance-over-form logic applied in determining *control*, it is recommended the FASB look at the substance of the transaction in deciding what is truly temporary rather than a rigid time frame. Past practice should serve in evaluating intentions regarding temporary control.

Although the Board rejected the concept of proportionate consolidation for subsidiaries, Air Products still believes there is merit to this concept. We strongly urge the Board to reconsider their judgment and explore the considerable benefits that proportionate consolidation would have to users of financial statements. Under the Board's proposal, both the equity method of consolidation and the elimination of a noncontrolling interest of a consolidated entity are done



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using single line items in both the statement of financial position and the income statement. This simplistic form of presentation results in a distortion of the relationship of net income to critical line items such as revenue, direct profit, operating expenses, operating income, and interest expense in the income statement. Similar distortions would also take place between net income and cash flow to the working capital, plant and equipment, and debt line items on the statement of financial position. Under proportionate consolidation, the impact of the subsidiaries on these line items would be included based upon the proportionate ownership. Therefore, the users of financial statements could then calculate ratios that are more meaningful on the business of the entire company and its various segments.

As an example, Air Products in its primary business, Industrial Gases, has considerable investment in a number of joint ventures in both our European and Asian regions. Additionally, our Environmental and Energy Systems business is almost entirely in the form of joint ventures. All of these ventures are not controlled by Air Products. However, they do represent a substantial portion of our business and some of the primary growth opportunities which exist for our Company today. By its current portrayal in our financial statements, these businesses cannot be as well understood by the users of our financial statements. In our Energy and Environmental Systems business, we have published separately to our investors, proportionate financial statements to help them better understand this business. Please see a copy of our disclosure which is attached. For our internal management, we have also prepared such proportionate statements on a regular basis to help them understand the impact of the business on the company and to help them manage the business. It is our belief that these statements provide investors with a much better understanding of the business and assist investors in making decisions about the company as they assist our management.

In addition, we have two additional concerns with the exposure draft that would be addressed by adopting proportionate consolidation. The first concerns the distorting effect of consolidating a subsidiary which meets the effective control definitions and only has a minimal ownership percentage. For example, recognizing a 99% Minority Interest caused by consolidation of a 1% sole general partner in a limited partnership. If proportionate consolidation is not adopted the establishment of a "floor" with regard to percentage partnership ownership, (perhaps 30%) in those cases, could cushion the effect.

Second, with regard to the display of the noncontrolling interest in a consolidated statement of financial position, we believe this should appear between liabilities and equity. By definition, the noncontrolling interest is not a liability; nor is it an equity interest in the consolidated financial statements of the parent as stated in paragraph 60 of Concepts Statement 6.

In a business enterprise, the equity is the ownership interest. It stems from ownership rights (or the equivalent) and involves a relation between an enterprise and its owners as owners rather than as employees, suppliers, customers, lenders, or in some other nonowner role.

Based on the above, all accounts within equity must represent ownership interests of the shareholders of the parent company. Shareholders of the parent company do not have ownership rights to the minority interest of consolidated subsidiaries. Proportionate consolidation would not have this problem. However, if not adopted, we believe that when a new balance sheet

component is created, if it does not meet the definition of assets or liabilities, it should not necessarily default to equity. The Board should either create a new element of financial statements to report the share of these minority interests or continue current practice, therefore avoiding any equity definition.

By considering the noncontrolling interest a component of equity, as the Board is concluding, the relationship among the financial statement elements is affected as well as any other relevant ratios. As a company which uses Return on Equity as a performance indicator, Air Products is concerned about the interpretation needed to do the required ROE restatement to communicate a meaningful trend. An inconsistency appears to exist between the proposed presentation of the minority interest in consolidated balance sheet and income statements. Paragraph 107 of the standard allows for two alternative presentations of the income statement while the balance sheet classification is rigidly defined as equity. To be consistent, at the least, an alternative presentation should be afforded for the balance sheet. We feel, for clarity, a new element of financial statements should be created to report a minority interest in consolidated subsidiaries.

We thank you again for the opportunity to express our views on this important consolidation issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul E. Huck". The signature is fluid and cursive, with a large initial "P" and "H".

Paul E. Huck

Vice-President and Corporate Controller