AIR PRODUCTS

LETTER OF COMMENT NO. 3

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Paul E. Huck
Vice President and
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17 September 2007

Russell G. Golden
Director of Technical Application & Implementation Activities
FASB
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Dear Mr. Golden:

We appreciate the opportunity to comment on the proposed Statement 133 Implementation Issue No. E23 dated 23 July 2007. Air Products is a major supplier of industrial gases and related equipment, chemicals, and environmental and energy systems with consolidated annual sales over $8 billion.

When Statement 133 was issued, it provided the short cut method as a simplified accounting model for companies to swap fixed rate debt to floating rate debt. By affording companies this option, it enabled sound economic transactions to manage interest rate risk to be accounted for in a reasonable manner without creating excessive work for the company or potential confusion for readers of the financial statements. The new rules as proposed will remove a majority of those benefits at a significant cost to companies in the form of money, time, and resources. Companies will not be able to adapt their hedge strategies and be able to apply the new rules immediately. In the meantime, the users of the financial statements will not be served with better financial information and more effective disclosure, but rather volatile movements in earnings that will not easily be understood nor necessarily reflect economic reality. As a result, we strongly disagree with the proposed changes to Statement 133 and believe that the current accounting model accurately portrays the economics of such interest rate swap agreements.

Timing of Project

The Board is currently investigating whether to amend Statement 133 and eliminate the shortcut method of assessing effectiveness and fair value hedge accounting altogether. Given this possibility, the proposed amendments are ill-timed. The adoption of the rules as proposed will create a significant amount of work to implement in a time when company resources are already constrained dealing with all the other recently issued accounting pronouncements and the requirements of Sarbanes-Oxley. Then, in a short period of time, all that work and effort may become obsolete since the shortcut method and fair value hedge accounting could altogether be abolished. As a result, we recommend that if the Board continues to pursue these amendments, the timing of this issue be revised to align with the other project currently being considered.

Amendments as Proposed

Requiring a company to enter into an interest rate swap at the time the debt is issued is ignoring the business reasons for why companies enter into swaps in the first place. It is the risk management policy of many companies to maintain a certain ratio of fixed rate debt versus floating rate debt. As outstanding debt issuances mature, it may become necessary for a company to swap existing fixed rate debt to floating rate debt to maintain these ratios and effectively manage its interest rate risk. If a company is able to swap out the appropriate notional amount of debt with interest rate reset dates and indices matching those of the fixed rate debt on a date after settlement, the hedging relationship will be equally as effective in hedging interest rate risk as a swap entered into on day one. Given the relative simplicity of the instruments involved in this example, we believe the current model of assuming no ineffectiveness is still appropriate. If late hedges are prohibited from the short-cut method, we fear that companies will weigh the cost-benefit of entering into swaps and determine that it is not worth the administrative burden and earnings volatility to do so. In other instances, companies could decide to hedge before they would want to just to receive the desired accounting treatment.

This requirement would also be a drastic change from the rules as currently written in Statement 133. Paragraph 68 does not prohibit the assumptions of ineffectiveness for late hedges. In fact, the examples provided in paragraphs 115 and 134 expressly state that the date of the debt and the swap "need not match for the assumption of no ineffectiveness to be appropriate". If the Board specifically considered this point when issuing the Statement, we believe changing the rule at this point is inappropriate and an unnecessary use of resources and costs. It also would appear that such steadfast rules are a departure from the current theme of issuing principle-based standards.

The proposed amendments assume that a company entering into a swap on day one versus some future point is that only at day one will the interest rates of the debt and the swap be equal to one another. However, in most cases, this is not a practical assumption since the issuer of the debt will have to pay some form of spread, associated with their credit rating, on the debt causing its interest rate to not match up with the fixed interest rate on the swap even on day one. As a result, any changes in fair value of the debt and the swap won't exactly offset in future periods. Paragraph 70 of Statement 133 indicates that this need not be the case to apply the shortcut method, as separating credit risk from the interest rate risk would add further complexity to the rules. However, those companies that are excluded from utilizing the shortcut approach will have to calculate ineffectiveness which will take into account its credit rating when future changes in fair value are calculated and recorded.

Transition

If the amendments were affirmed in their current state, we believe the adoption of the new rules should afford companies more time to develop the appropriate fair value models for existing debt agreements. The Board should consider the development of additional guidance on how to calculate fair value as the current rules would run the risk of companies using different methodologies, thereby impacting the comparability these rules strive to achieve. Once these items were in place, a transition window of at least six months would be necessary for companies to dedicate the resources for properly implementing this guidance. This added complexity already increases the chances of

errors in financial statements. To require quick implementation will further increase those chances and hinder the comparability these changes are trying to achieve.

In addition, we disagree with the transition approach of dedesignating hedges that would no longer qualify for the shortcut method under the proposed rules. It is quite possible that companies would have taken a different approach to hedging their interest rate exposures had these rules been in place at the hedge's inception. After all, paragraphs 115 and 134 were very clear that late hedging on its own would not preclude the assumption of no ineffectiveness.

We believe that any new rules related to this topic should be applied to derivatives entered into prospectively. This would be more consistent with the transition provisions of most accounting rules. We understand that in certain instances, such as with variable interest entities, that the new accounting rules would apply to arrangements that will continue indefinitely so that the new rules must be applied to existing arrangements. However, in this instance, we are dealing with debt agreements and interest rate swaps that have finite lives and believe that applying the new rules to existing derivatives is inappropriate.

Conclusion

When the Board contemplated this issue nearly a decade ago, it determined that late hedging would not preclude the assumption of ineffectiveness. We believe this model is still appropriate and we have complied with the rules in their current form. As a result, we do not anticipate the proposed changes would have a material impact on our income statement. However, the proposed changes will result in a burdensome amount of additional work for recording basic hedging relationships involving "plain-vanilla" type financial instruments without any real benefit to the readers of our financial statements. In addition, the Board is already considering additional changes to the Standard that will make this issue obsolete. As such, we request that the Board reconsider changing the rules on late hedging and allow companies to continue to utilize the shortcut method as currently written and reinforce that model with companies that have inappropriately applied the shortcut method to this point in time.

We thank you again for the opportunity to express our views on this important issue and would welcome any further inquiry by the Board to ensure our position is fully understood.

Sincerely,

Paul E. Huck