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

LETTER OF COMMENT NO. 135

Dear Sir or Madam:

We appreciate the opportunity to comment on the Exposure Draft for the proposed Statement “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).” Air Products is a multinational major supplier of chemicals, industrial gases and related equipment with annual sales exceeding \$8 billion, assets of \$10 billion and worldwide employees of 22,200. The company sponsors defined benefit pension plans and other postretirement benefits that cover a substantial portion of its worldwide employees.

We support the FASB’s objectives in improving postretirement benefit plan accounting. However, we do not believe that the proposed Exposure Draft would achieve this goal because it does not include a comprehensive review of postretirement benefit plan accounting. We encourage the Board to reconsider implementing a phased approach and to wait to require changes until the comprehensive review planned for Phase 2 is complete. The proposal would require material balance sheet adjustments to our defined benefit pension plan liabilities, while increasing their volatility. We do not believe it is appropriate to require such adjustments without a complete review of the entire accounting theory for postretirement benefit plans.

While FAS No. 87 and 106 are not theoretically perfect, they provide a practical solution to a complex accounting issue. We caution the Board in reviewing these standards in both phases to consider the potential repercussions that may result from changing the accounting for postretirement benefit plans.

Pension plan liabilities as reflected on the balance sheet should continue to be based on the ABO and not the PBO. Recognition of the PBO as a liability would be inconsistent with the definition of a liability in Statement of Financial Accounting Concepts – Elements of Financial Statements (CON6). Paragraph 36 of the Concept Statement indicates that a liability should be based on events that have already occurred and that the entity has little or no discretion to avoid future sacrifice. The company is not contractually obligated to grant future pay increases, such increases are discretionary. A liability based on the PBO reflects a potential liability, as opposed to an actual liability. We support the continued use of the ABO to measure defined benefit pension plan liabilities in the balance sheet with footnote disclosure of the PBO.

Basing the liability on the PBO would be inconsistent with the accounting in other areas such as major maintenance costs. The company currently recognizes a liability for major maintenance as the expense is incurred. There is near

certainty that these costs will be incurred at some future point and the company has the ability to predict these costs with a high degree of accuracy. This future expenditure results due to the current use of the equipment but there is no present obligation to incur these costs. As a result, major maintenance costs do not meet the characteristics of a liability until the company incurs the expense. Using this logic, pension plan liabilities should be based on the ABO versus the PBO, as there is not a present obligation to provide future salary increases.

We, also, question whether the unfunded PBO represents the true funded status of a pension plan. A plan with assets less than its PBO could satisfy its liabilities from existing assets, considering future appreciation and earnings, as the liabilities become due in future years. Our company's funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits without creating unnecessary surpluses. Based on the historical and expected return on assets, fully funding the PBO would lead to unnecessary surpluses. The liability based on the PBO does not meet the definition of a liability, as it will not necessarily require future sacrifice. Requiring the recognition of a liability based on the PBO would be misleading, as it would convey the wrong message to the users of our financial statements.

Our response to the specific issues for which the Board invited comment is provided below:

**Issue 1: Cost of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position**

We agree the costs to implement changes to include the funded status of the postretirement benefit plans on the balance sheet would not be significant, as all relevant information is already presented in the footnotes to the financial statements.

**Issue 2: The Employer's Measurement Date**

The measurement date would be a reporting entity's fiscal year end unless a plan is sponsored by a subsidiary that is consolidated using a fiscal year end that is different. Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

Air Products currently uses a measurement date as of the end of its fiscal year for all of its plans, except for two European plans. Therefore, for Air Products there would not be any significant implementation issues related to changing the measurement date. However, the company incurs additional expenses in budgeting future pension expense for the plans using fiscal year end as the measurement date. Since the valuation date for most plans coincides with the fiscal year end, the Company must estimate pension expenses in its budgeting process. The use of an earlier measurement date would permit us to base our budget and recognition of the first quarter expense based on an actual valuation rather than an estimate. The expense of budgeting would be eliminated and the accuracy of first quarter reporting would be improved if the Company utilized an early measurement date for those plans similar to our two European plans.

**Issue 3: Effective Dates and Transition – Recognition of the Overfunded or Underfunded Status**

*Issue 3(a):* Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Are there other reasons that retrospective application might be impracticable?

We concur with the FASB's proposed implementation date for fiscal years ending after December 15, 2006. We encourage the Board to consider

prospective application as we believe very little benefit would be derived from retrospective application. It would be sufficient to include the impact of adopting this new standard in the footnotes.

*Issue 3(b):* Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. What types of contractual arrangements other than debt covenants would be affected by the Exposure Draft?

To extent the company has debt covenants or other contractual arrangements based on balance sheet metrics, these metrics are likely to change as a result of this Exposure Draft. The metrics in these covenants or contracts will have to be reevaluated and potentially renegotiated as needed in order to reflect the accounting change. Any time a contract is opened for renegotiation, the company faces the risk of renegotiating other contractual terms and conditions.

**Issue 4: Measurement Date**

The proposed statement requires the change in the measurement date be effective prospectively with fiscal years beginning after December 15, 2006. Are there any specific impediments to implementation that would make the proposed effective date impracticable? How would a delay alleviate those impediments?

As discussed in Issue 2, this change would not significantly impact Air Products as the majority of our postretirement benefit plans utilize fiscal year end as the measurement date.

**Issue 5: Not-For-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

No comment provided since Air Products is a publicly traded company.

**Summary**

We support the continued use of the ABO to measure defined benefit pension plan liabilities in the balance sheet with footnote disclosure of the PBO. At minimum we believe that a change in the recognition of the funded status based on the PBO be delayed until the impact of such a change can be examined in the context of a complete review of the accounting for postretirement benefits. Implementing a change currently, without a comprehensive review, would cause unnecessary work and confusion around an area that is already highly complex.

We appreciate the opportunity to express our view on this Exposure Draft. Please feel free to contact me if you would like to discuss further.

Sincerely,



Paul E. Huck  
Vice President and  
Chief Financial Officer