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Technical Director
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We appreciate the opportunity to comment on the Proposed Accounting Standards Update (Revised) – Revenue Recognition (Topic 605) - Revenue from Contracts with Customers.

Air Products and Chemicals, Inc (“Air Products”) serves customers in industrial, energy, technology, and healthcare markets worldwide with a unique portfolio of atmospheric gases, process and specialty gases, performance materials, and equipment and services. In fiscal 2011, Air Products had sales of \$10.1 billion and operations in over 40 countries.

This proposed standard is of particular interest to Air Products’ Equipment and Energy Segment. Our Equipment and Energy segment designs and manufactures cryogenic and gas processing equipment for air separation, hydrocarbon recovery and purification, natural gas liquefaction (LNG), and helium distribution. Equipment is sold worldwide to customers in a variety of industries. Revenues from equipment sale contracts are currently recorded primarily using the percentage-of-completion method.

We support the objective of developing a single revenue recognition model that reduces the amount of industry specific standards and the inconsistencies within those standards. We do, however, have a few concerns with the proposed standard as drafted. While we agree with the changes in guidance on determining whether revenue is recognized over time, we recommend further clarification of the accounting for long-term construction contracts (i.e., by more directly specifying an exception to the transfer of control model and expanding the guidance on cost recognition). We also believe collectibility should be a condition of revenue recognition, and similar to current practice revenue should not be recognized unless collection is reasonably assured. In regards to the proposed disclosure requirements, we believe the proposed disclosures will be burdensome and costly to prepare, without increasing transparency or producing financial statements that provide better information or are more understandable for users. Each of our areas of concern is discussed in more detail below.

Revenue Recognition over Time

As noted in our previous comment letter on the 2010 exposure draft, we believe enforceable contractual rights, as opposed to transfer of control of assets, should dictate the recognition of revenue for long-term construction contracts. Accordingly, we agree with the changes in guidance which added the criteria for recognizing revenue over time. Consideration is given to enforceable contractual rights, shifting focus away from the transfer of control of the asset (e.g., via physical possession) for performance obligations satisfied over time by including the “alternative use” and the “right to payment for performance” criteria. Also, we agree with the guidance on evaluating the practical limitations on readily redirecting an asset (e.g., incurring significant costs/reduced profit) in addition to evaluating contractual rights.

However, we recommend further changes be made to clarify the guidance on long-term construction contracts. Since paragraph 36 recognizes that there are inherent differences between transfer of control and satisfying performance obligations over time, we do not believe forcing the guidance on long-term construction type contracts to fall within an overall transfer of control model is appropriate. Rather, it should be presented more directly, as an exception to the overall transfer of control model.

Cost Recognition – Construction Contracts

We also recommend clarification on the accounting for costs associated with long-term construction contracts. Currently, the accounting guidance on construction-type contracts specifically addresses both revenue and cost recognition. If this guidance is eliminated with the issuance of a revenue recognition standard, we are concerned there may be different interpretations on the proper accounting for costs associated with long-term construction contracts. We believe that additional guidance is needed to assist preparers in determining whether costs that have been incurred on a long-term contract that is considered to be a single performance obligation satisfied over time would meet the criteria in paragraph 91 to be recognized as an asset. Specifically, we believe that more guidance should be given to assist in interpreting the criteria in paragraph 91(b). “The costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future.”

When a long-term construction contract is considered a single performance obligation because is its highly integrated, the cost pool should be viewed in a similar fashion. Therefore, we believe costs associated with long-term construction contracts should be recognized consistent with the pattern of revenue recognition. The matching of costs with associated revenues is essential to portray the true and complete economic substance of the transaction. We believe this cost recognition should be consistent with the guidance in the exposure draft on fulfillment costs and would suggest clarification to ensure consistent interpretation and application. Without additional guidance, we believe that the potential for different interpretations on the accounting for costs associated with long-term construction contracts could negatively impact the comparability of financial statements of companies that engage in long-term construction contracts.

We also suggest adding a comprehensive example to the implementation guidance, incorporating both the revenue recognition and the fulfillment cost guidance as applied to a long-term construction contract. Appropriate assumptions would include: the contract is accounted for as a single performance obligation; the criteria for

revenue recognition over time are met; contract fulfillment costs include both equipment (including significant upfront expenditures) and labor costs (including upfront engineering and subsequent manufacturing); customer does not take physical control of the work in progress; title and risk of loss does not transfer until physical delivery at the end of the contract; and direct-labor hours is used as the measure of progress towards completion.

Collectibility

We disagree with the proposed guidance where there is no revenue recognition threshold for expectations about collectibility. We believe collectibility should continue as a condition for initial revenue recognition, and revenue should not be recognized unless reasonably assured. Paragraph 1 of the exposure draft states, in part, “revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.” We believe that it is inconsistent with this definition for a financial statement preparer to recognize revenue when the “inflow or other enhancement of assets” is not reasonably assured. The probability threshold of reasonably assured has been operational and effective in current practice. Also, a threshold of reasonably assured is consistent with the proposed guidance in the exposure draft on the cumulative amount of variable consideration which may be recognized as revenue.

The basis of conclusions accompanying the proposed guidance indicates concerns about collectibility may be addressed by requiring a contract with a customer to have commercial substance. Also, significant doubt about collectibility may indicate the parties are not committed to perform their respective obligations. In either of these cases, the criteria qualifying a contract for accounting under the proposed guidance may not be met. While these criteria may not be intended to represent a collectibility threshold for revenue recognition, we believe some preparers may in practice rely upon these criteria to effectively achieve a similar accounting outcome. To ensure consistency in application, we believe a collectibility threshold of reasonably assured should be directly defined and be a requirement of revenue recognition.

We disagree with the presentation of impairment losses as a separate line item adjacent to revenue. Where collectibility issues are identified subsequent to initial revenue recognition, we believe bad debt expense should be recognized and reported along with other expenses. When a collectibility issue relates to revenue in a prior period, presentation adjacent to current period revenue may be misleading.

Collectibility issues already receive appropriate disclosure and presentation throughout the financial statements and do not warrant more prominent disclosure as a separate line item adjacent to sales. For example, accounting policies and provisions are disclosed. A schedule on valuation accounts provides a roll forward of the allowance for doubtful accounts. Material items or trends should be identified and discussed in the Management’s Discussion and Analysis (MD&A).

Interim Disclosure Requirements

We consider the disclosure requirements excessive on an annual basis and even more so for interim reporting. Interim disclosures for revenue recognition should be subject to the general principle that disclosure is warranted when there is a significant change since the fiscal year-end annual disclosure. Management is in the best position to determine/judge if there is a significant change.

We believe current existing disclosures accomplish the appropriate balance of cost/benefit and there is no need to expand disclosure requirements. Disaggregation of revenue is currently addressed in segment disclosures. Material contract asset and liability balances would receive separate balance sheet line item classification and/or supplemental information footnote disclosure. Changes in account balances would be reflected on the cash flow statement, with associated commentary in the MD&A. Major accounting policies are disclosed and where requiring difficult, subjective, or complex judgments/estimates should be identified as a critical accounting policy for detailed discussion in MD&A disclosure. These current disclosures already provide financial statement users with the information needed. The disclosure requirements proposed will be burdensome and costly to prepare and will not enhance transparency.

We noted that on 2 March 2012, the Financial Executives International (FEI) submitted a comment letter voicing some concerns with the exposure draft, the most significant being the proposed disclosure requirements. We agree with the points made by the FEI related to the proposed disclosures, and rather than reiterate their points, we would like to indicate our support for the views expressed in their response.

Summary

While we support the objective of developing a single revenue recognition model that reduces the amount of industry specific standards, this should not prohibit fairly specific guidance where warranted. We suggest the guidance be revised to clarify that the enforceable contractual rights dictate the recognition of revenue for long-term construction contracts and to specify an exception to the overall transfer of control model. Also, to ensure consistency in interpretation and application, we suggest comprehensive guidance be provided on both the revenue and cost recognition for long-term construction contracts (i.e., to replace today's comprehensive percentage-of-completion accounting guidance). Collectibility should remain a condition for revenue recognition and should be clearly defined as such in the guidance. We believe current existing disclosures already encompass revenue recognition and the related financial statement impacts, achieving the appropriate balance of cost versus benefit.

We appreciate the opportunity to provide comments on the exposure draft for the proposed accounting standards update related to revenue recognition and would be pleased to discuss our views further with you.

Respectfully,

A handwritten signature in black ink, appearing to read "P. Huck", written in a cursive style.

Paul E. Huck
Sr. Vice President and
Chief Financial Officer