5 April 2006

Technical Director – File Reference 1250-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Fair Value Option

We appreciate the opportunity to comment on the exposure draft for the proposed Statement “Fair Value Option for Financial Assets and Financial Liabilities.” Air Products is a multi-national major supplier of chemicals, industrial gases and related equipment with annual sales exceeding $8 billion and assets of $10 billion.

We commend the FASB for issuing a proposed Statement which is principle-based, consistent with its view that financial assets and liabilities should be measured at their fair value and that changes in fair value should be reflected in net income. While we agree that users of financial statements should be provided with information to allow them to estimate the fair value of an entity, we do not support introducing additional fair value measures into the financial statements themselves. Rather, we believe footnote disclosures, such as those currently required by SFAS No. 107 and 133, would effectively accomplish this objective.

Cash Flow and Historical Cost
Investors value a company such as Air Products based on its ability to produce cash which reflects the performance of the company’s operations. The financial statements currently portray results based on cash flow generated and performance achieved, utilizing historical cost measurements under a going-concern assumption. Moving towards fair value accounting represents a major change to the existing accounting model away from these basic fundamental principles. Such a change would decrease the value of information provided to users of our financial statements and the focus on the company’s operations and performance would be lost. For a publicly traded company, perceived fair value of the entity is available and quantified as reflected in its stock price. The financial statements should continue to reflect the company’s performance during a reporting period based on operations and cash flow.
Comparability
We disagree with the proposal to provide companies an election, on a contractby-contract basis, to value certain financial assets and liabilities at fair value. We believe consistent treatment for similar financial assets and liabilities should be the overriding objective. An option to apply the fair value measure on a contract-by-contract basis will reduce comparability within a company and across companies. We do not believe an increase in disclosure requirements and the resulting complexity effectively compensates for the lack of comparability.

Meaningful Financial Statements
The financial statements taken together, collectively, must provide the most relevant and pertinent information to users in a format which is easily understood. An increase in the use of fair value measurements might be viewed as valuable to balance sheet presentation in some cases, as it would reflect the current cash equivalent of assets and liabilities. In situations where a company holds investments for trading purposes as the principal purpose of its business, we would agree these monetary items should be marked-to-market. However, we do not believe it is appropriate to present fair value in situations where there is not an intent to sell an asset or settle a liability prior to its maturity or at something other than its carrying value.

Presenting assets and liabilities at fair value in the balance sheet would occur at the expense of introducing volatility, complexity, and confusion to the income and cash flow statements. The recording of unrealized gains and losses could create income statement volatility even in cases where an item would never be realized at a different amount. The income statement should be reflective of the operations of the company assuming it is a going concern. In addition, increased use of fair value measures would complicate the reconciliation of net income to cash flow from operating activities, a key measure tracked and evaluated by our investors.

Phase 2
We would not recommend pursuing Phase 2 of the fair value project, or at a minimum, Phase 2 should be delayed until the ramifications and user reactions to any changes implemented in Phase 1 are better understood. We believe the profession would benefit more from the Board’s continued focus on its efforts to move its rule-based standards to principle-based standards, while retaining an accounting model that is more closely tied to actual cash flows.

Summary
We believe the current accounting model based on a cash flow view is superior. The current model is less complex, easily understood, and reflects fundamental existing measurement attributes based on cash flow and historical cost. While we agree certain information on fair value is meaningful, this would best be provided in disclosures to the financial statements and not incorporated within them. An increase in the use of fair value measurements along with expanded disclosures will increase the complexity and cost of preparing and auditing financial statements, introduce more subjective and less reliable measures into
financial reporting, while decreasing comparability. Accordingly, we do not support providing the proposed election for financial assets and liabilities nor extending it to nonfinancial instruments.

Presented below is a summary of certain specific issues for which the Board invited comment, along with our response:

**Issue 1:** Should an entity not be permitted the option to initially and subsequently measure those financial assets and financial liabilities (specifically listed in the proposed Statement) or any others at fair value? If so, why should those financial assets and financial liabilities be excluded from the scope of this proposed Statement?

**Response:** An entity should not be permitted the option to value certain financial assets and liabilities at fair value as outlined under the proposed Statement. We agree fair value information on financial assets and liabilities is valuable and should be provided in disclosures to the financial statements but not incorporated within them. For our company, we believe the current disclosures made under SFAS No. 107 and No. 133 are effective in covering the financial assets and liabilities for which fair value information is meaningful.

We disagree with the Board’s classification of an investment being accounted for under the equity method as a financial asset since they are held for operational purposes. Air Products has a significant investment in equity affiliates which are nonpublicly traded ventures with other companies in the industrial gases or chemicals business. We do not intend to sell these investments, so it would not be meaningful to disclose fair value. The meaningful measure is the amount of investment the company has made and the current earnings from these affiliates as reflected in income currently.

**Issue 2:** Should an entity be permitted the option to recognize those firm commitments (as described in the proposed Statement) at fair value at inception of the contract? Should the scope be limited to forward contracts that meet the definition of “firm commitment” under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”?

**Response:** As we have indicated above, we believe that additional fair value measurements should be provided as disclosures and not recognized in the financial statements. Any definition of “firm commitment” included in this proposed Statement should be consistent with that provided under SFAS No. 133.

**Issue 3:** No comment provided since the company does not utilize these financial instruments.
Issue 4: The scope of this proposed Statement would also exclude:
   a. An investment that would otherwise be consolidated
   b. Employers' and plans' financial obligations for pension benefits, other
      postretirement benefits (including health care and life insurance
      benefits), postemployment benefits, employee stock option and stock
      purchase plans, and other forms of deferred compensation arrangements
      as defined in various other FASB Statements.
   c. Financial liabilities recognized under lease contracts as defined in FASB
      Statement No. 13, "Accounting for Leases."

Should an entity be permitted the fair value option election for those financial
instruments specifically excluded from the scope of the proposed Statement, as
the Board believes that any modifications to the accounting for such financial
assets and financial liabilities should be part of a reconsideration of those areas
and should not be affected by the fair value option?

Response: We agree that an investment that would otherwise be consolidated
should be excluded from the scope of the proposed Statement as we do not
consider this to be a financial asset. We recognize that separate accounting
literature addresses the accounting and disclosure requirements for pensions,
other postretirement benefits, and leases. However, to the extent these
arrangements involve financial assets and liabilities we believe including them
within the scope of this Statement is appropriate. Fair value information should
be provided on a disclosure basis, but not incorporated within the financial
statements themselves.

Issue 5: The proposed Statement represents Phase 1 of the fair value option
project. Phase 2 will consider permitting the fair value option for selected
nonfinancial assets and liabilities. The Board is seeking input on what
nonfinancial instruments should be included in the scope of Phase 2. Please
provide details of those nonfinancial instruments and why they should be
eligible for the fair value option. How would applying the fair value option to
those nonfinancial instruments (a) improve financial reporting, (b) mitigate
problems for reported earnings caused by the mixed-attribute model, and (c)
enable an entity to simplify its accounting methods? Is fair value information
readily available for those nonfinancial instruments?

Response: We do not support the move away from a cash-based view in the
financial statements to fair value. We would not recommend pursuing Phase 2
of this project; or at a minimum, Phase 2 should be delayed until the
ramifications and user reactions to any changes implemented in Phase 1 are
understood. For a manufacturing company such as Air Products, the most
relevant information to provide is based on historical costs. The company's
businesses are capital-intensive, and accordingly plant and equipment
represents the majority of noncurrent assets. We would strongly object to an
election to value plant and equipment at fair value. The historical cost of the
asset should continue to be matched against the revenues generated by the
asset.
Defining a measure of fair value for our plant and equipment would be extremely difficult. How would that value be determined? Would it be based on the value of the asset when it is providing customers product under long-term contracts? Or, would it be determined assuming the value of the asset itself absent associated customer contracts? Extensive disclosure requirements to explain underlying assumptions used in fair value calculations would be required.

**Issue 6:** Under the proposed Statement, an issuer who has elected the fair value option for its debt liabilities would report changes in fair value of those liabilities, including changes resulting from changes in that issuer's own creditworthiness, as gains and losses in earnings. If significant changes in fair value of those liabilities occur during a period, qualitative disclosures about the nature of those changes would be required. Do you agree with the Board's decision? What alternative approaches or additional disclosure requirements should the Board consider?

**Response:** Fair value information on debt liabilities should continue to be provided on a disclosure basis but not recognized in the financial statements. The measurement of fair value should incorporate changes resulting from an issuer's own creditworthiness.

**Issue 7:** How should changes in the fair value of assets and liabilities subsequently measured at fair value as a result of a fair value election be reported? Should those changes be aggregated with the effect on earnings derived from other similar financial assets and financial liabilities in the income statement, or should separate display of those changes in the income statement be required? What level of aggregation should be permitted? What additional disclosure requirements should the Board consider?

**Response:** As indicated throughout our response, we do not support the recognition of additional fair value measurements in the financial statements. We would support additional disclosure of certain fair value information for financial assets and liabilities.

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,

[Signature]

Paul E. Huck
Vice President and
Chief Financial Officer