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Director of Research and Technical Activities
File Reference No. 194-B
Financial Accounting Standards Board
401 Merritt 7
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Gentlemen:

We appreciate the opportunity to comment on the Financial Accounting Series Exposure Draft (Revised) on Consolidated Financial Statements: Purpose and Policy dated 23 February 1999. Air Products is a major supplier of industrial gases and related equipment, chemicals, and environmental and energy systems with consolidated annual sales of nearly \$5 billion.

We understand the Board considered and rejected the concept of proportionate consolidation for subsidiaries, and has not yet considered whether this method is appropriate for joint ventures and other unconsolidated entities. However, we continue to strongly believe the proportionate consolidation method is a superior method of accounting and reporting for both controlled and non-controlled entities. We urge the Board to reconsider their decision of rejecting the proportionate consolidation method for controlled entities and to further explore the considerable benefits that proportionate consolidation would have to users of financial statements.

Under the current Board proposal, both the equity method of accounting for investments and the elimination of a noncontrolling interest of a consolidated entity are accomplished 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 entities on these line items would be included based upon the proportionate ownership. Therefore, the users of financial statements could then calculate ratios that are much 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 Power Generation business is almost entirely in the form of joint ventures. Although all of these ventures are not controlled by Air Products, they do represent significant businesses and



are key to our long term strategy for growth of our company. By their current portrayal in our financial statements, these businesses are not well understood by the users of our financial statements. Since joint ventures and partnerships are an increasingly popular form of business, users of financial statements of many companies will not be able to adequately understand these types of businesses.

For our internal management, we prepare proportionate financial statements to help them understand the performance of the business and its contribution and impact on the company. It is our belief that these statements provide our management with a much better understanding of the operations, resources, obligations, and cash flows of the business and therefore assist them in making decisions about the company. In keeping with SFAS No. 131, we also believe investors would be better served with these proportionate financial statements.

We understand proportionate consolidation is currently acceptable practice in the United States for investments in industries in which it is established industry practice such as in some oil and gas venture accounting. Additionally, proportionate consolidation is either a required or acceptable method of accounting for interests in joint ventures in many countries including but not limited to Canada, Australia, Austria, Denmark, France, Germany and the Netherlands. The consistent use of proportionate consolidation for both equity investments and consolidated entities would greatly increase the comparability of financial information both among all countries and among company's using differing forms of organizations to achieve their objectives.

We also have two concerns with the exposure draft that would be addressed by adopting proportionate consolidation. The first relates to the definition of control and how it will be applied in today's complicated financial environment. Although the exposure draft identifies two essential characteristics of control and several presumptions of control, there is still much room for interpretation. We believe this will result in some company's trying to work around the definition and/or abuse it to achieve desired reporting results. Additionally, we contend that even if the two criteria for control are met, a company may not have pragmatic control. In practice, controlling interests work with non-controlling interests to come to agreement. The proportionate consolidation method eliminates the control issues.

This second concern with the exposure draft relates to consolidating an entity which meets the effective control definition 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 would result in very distorted financial reporting results. Proportionate consolidation would alleviate this concern.

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

Sincerely,



Paul E. Huck
Vice-President and Corporate Controller