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We appreciate the opportunity to comment on the Exposure Draft – Proposed Accounting Standards Update – Leases (Topic 840).

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. Air Products has annual revenues of \$9 billion and operations in over 40 countries. As a lessee, we enter into operating leases, principally related to real estate and distribution equipment, and capital leases for the right to use machinery and equipment. As a lessor, certain of our take-or-pay sales contracts are considered leases under current Topic 840 (formerly EITF Issue No. 01-08 as pre-codification source) and accounted for as capital leases.

Overall

We commend the FASB and IASB on their continued efforts to achieve further convergence of the accounting standards and recognize the complexity of a project addressing lease accounting. We agree with the Boards' objective to report relevant and representationally faithful information to users of the financial statements about the amounts, timing and uncertainty of cash flows arising from leases. However, for reasons summarized below, we do not believe that this proposal fully meets this objective. We disagree with the lessor's accounting model and strongly recommend that the Boards' reconsider the types of arrangements that are considered leases.

The current leasing standard contains a sharp 'bright line' distinction between capital and operating leases, which some have argued has led to a lack of comparability and undue complexity. While this Exposure Draft eliminates these bright line tests, the proposed model will still afford companies the opportunity to engineer their lease contracts to reduce or eliminate the recognized amount for the assets and liabilities related to lease contracts.

We believe that the overall proposed requirements will be burdensome and costly to adopt and maintain both from a lessor and lessee standpoints. We do not believe

that this proposal is a sufficiently significant improvement to current guidance to justify these additional costs.

Reconsider Lease Definition

We believe that the scope of the proposed lease accounting standard should include a reassessment of the types of arrangements that would be considered leases. We and other constituents have previously expressed concerns that the scope of EITF Issue No. 01-08 results in arrangements being inappropriately classified as leases. In previous comment letters, we have firmly stated our objections to EITF Issue No. 01-08 in an effort to encourage a principles-based approach which allows for a broader evaluation of the substance of the arrangement by a more comprehensive analysis of the risks and rewards of ownership. Accordingly, we recommend a fundamental reconsideration of the definition of a lease and revisiting the scope of current standards, specifically EITF Issue No. 01-08 guidance.

Performance Obligation versus Derecognition Approach - Lessors

The proposed guidance will require lessors to account for leases under a performance obligation or derecognition approach based on the lessor's retention of exposure to significant risks or benefits associated with the underlying asset during or after the term of the lease. Paragraphs B22 and B24 of the Leases Exposure Draft provide factors that lessors should consider in making their assessment. Those criteria are intended to reveal whether the principal risk associated with a company's business model is a credit risk (derecognition approach) or an asset risk (performance obligation approach). We strongly recommend that the assessment of risks for the determination of this accounting be based on a more comprehensive analysis of the risks and rewards of ownership. The assessment of risks and rewards of ownership should include considerations of risks such as development, design, construction, operating and commercial risks. The total risk and reward allocation and the fact pattern of the arrangement in its entirety should be used in the determination of the accounting approach.

Under the proposed exposure draft, the derecognition of the asset associated with a take-or-pay sales contract may not reflect the substance of the business transaction in the industrial gases industry. Our business is one based on long-term contracts for the supply of industrial gases. Therefore, accelerated recognition of revenues appearing as asset sales would imply that our fifteen to twenty year obligations and benefits have been fully satisfied and realized during the reporting period. This accounting, under the derecognition approach, would be misleading to investors in our industry.

Summary

In summary, we believe that the scope of the proposed lease accounting standard should include a reassessment of the types of arrangements that would be considered leases. We, and other constituents, have expressed concerns that the scope, which is unchanged from current accounting, results in arrangements being

inappropriately classified as leases. Assuming that the scope remains unchanged, the lessor's assessment of risk to differentiate between the performance obligation approach and derecognition approach should be based on a comprehensive analysis of the risks and rewards of ownership.

We appreciate the opportunity to provide comments on the proposed Leases Exposure Draft and would be pleased to discuss our views further with you.

Respectfully,

Paul E. Huck

Sr. Vice President and Chief Financial Officer