

September 27, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street
Washington DC 20006-2803

Re: PCAOB Concept Release (“Concept Release”) on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements – PCAOB Release No. 2011-003 June 21, 2011

We appreciate the opportunity to provide our comments on the PCAOBs Concept Release relating to Auditor’s Reports on Audited Financial Statements. Praxair, Inc. is a Fortune 300 U.S. - based public company that produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings with 2010 sales of \$10 billion. About 60% of our sales are non-U.S. and we operate in over 40 countries. As such, we are very concerned with any proposals which would change the audit scope and/or communications related to our business/financial statements and the relationship with our external independent registered public accounting firm.

Although we support the PCAOB’s periodic evaluation of the auditors’ reports on audited financial statements, we do not support many of the proposals included in the Concept Release. In general, we believe:

- Auditors should not be the original source of disclosure about an entity; instead, management’s responsibility should be preserved.¹
- Auditor reporting should focus on the objective rather than the subjective¹ i.e., auditors should report on the accuracy and/or appropriateness of management’s presentations and disclosures as measured against a defined set of accounting, disclosure and auditing standards.
- Auditor reporting should be standardized, with limited flexibility to (i) disclose deficiencies, and/or (ii) emphasize significant matter(s) that typically would already be disclosed by management.

¹ Similar to comments made by the Center for Audit Quality, June 28, 2011.

- Any changes to the auditor reporting model should be narrow and should be focused on better communicating what is actually done in the audit, not expanding the scope or providing original disclosures about the entity being audited.

We will discuss each of the proposals below under the following topics (consistent with the Concept Release):

1. Supplement the audit report with a new “Auditor’s Discussion and Analysis”
2. Required and expanded use of emphasis paragraphs in the auditor’s report,
3. Expand the audit scope to include information outside of the financial statements e.g., MD&A, Non-GAAP presentations,
4. Clarification or addition of certain language in the auditor’s report
5. Considerations Related to Changing the Auditor’s Report

In an attachment to this letter, we have included additional comments addressing the specific questions requested in the Concept Release.

1. Supplement the audit report with a new “Auditor’s Discussion and Analysis”.

We do not support a separate “Auditor’s Discussion and Analysis”. As a basic principle, we believe management of an entity, with close oversight by its Board of Directors and Committees (e.g., Audit Committee), is and should be responsible for assuring the fair presentation of the company’s financial statements, the maintenance of effective internal controls over financial reporting, and the adequacy of disclosure relating to other required information (e.g., Business Description, Risk Factors, and MD&A among much more). In fact, each quarter the senior management of all public companies are required to certify to this and annually the members of the Board of Directors are required to sign the Annual Report Form 10-K. Although it is true that auditors, as a result of their audit process, should have “significant insight into the company” we do not believe that it is or should be the auditor’s responsibility to communicate his or her observations and/or beliefs in this regard, many which are necessarily of a subjective nature, to the general public - this is the responsibility of management. Instead, auditors should continue to report on the accuracy of management’s presentations and disclosures as reasonably measured against a defined set of auditing standards.

Besides the basic principles involved, it would simply not be practical, or cost effective, to require auditors to prepare a separate “Auditor’s Discussion and Analysis” for external disclosure.

2. Required and expanded use of emphasis paragraphs in the auditor’s report.

We do not agree with this proposal **to require and expand** the use of emphasis paragraphs within the auditor’s report. We understand that such paragraphs are already available to the auditor to emphasize a matter(s) regarding the financial statements – we support this approach. The Concept Release lists several of examples which we will not repeat herein.

We believe that the financial statements should stand on their own and should generally not require additional information to be added by the auditors, unless of course there are deficiencies in the entity’s reporting or if there is a matter that is extremely critical and needs to be

emphasized to the user. If the reporting entity does not prepare its financial statements or disclosures appropriately, then the auditor is currently required to address this in the audit report in an appropriate manner, including the use of an emphasis paragraph. **There is no need to require the auditors to include an emphasis paragraph just for the sake of having an emphasis paragraph.** In fact, by making such emphasis paragraphs routine, it would actually reduce their usefulness.

If there are other areas that the PCAOB wants the auditor to cover in the audit report then that is a different question (see proposal No. 3 following).

3. Expand the audit scope to include information outside of the financial statements e.g., MD&A, Non-GAAP presentations.

Although we do not believe the scope of the audit should be expanded to include information outside of the financial statements, we believe it may make sense to consider expanding the audit report to include a full description of the scope and results of what is already being done in the audit. The PCAOB Concept Release states on page 23:

“Current auditing standards describe the auditor’s responsibilities regarding other information outside the financial statements in documents containing audited financial statements (e.g., MD&A). These responsibilities include reading and considering whether such information or the manner of its presentation is materially inconsistent with the financial statements or represents a material misstatement of fact.”

We believe it may make sense to incorporate this thought within the standard audit report in an appropriate manner. Although we make no judgments on the adequacy of current guidance in this area, if the PCAOB concludes there needs to be additional guidance to auditors in this regard, such standards can easily be promulgated. For example, in such additional guidance, the PCAOB may want to specifically require the auditors to read the reporting entity’s critical accounting policies and/or risk factors and positively express their agreement, or include an emphasis paragraph if the entity’s disclosures are not appropriate or complete. However, we do not believe there needs to be an increase in the audit scope to accomplish the goal or in the reporting if the entity’s disclosures are appropriate.

4. Clarification or addition of certain language in the auditor’s report.

Although we are not experts in this area, it may make sense to modify the audit report to include wording that best describes what is currently being done in an audit. Some of the examples presented in the PCAOB Concept Release seem reasonable but we will leave the words to the experts who are currently practicing in this field. In concept, we do not disagree with the PCAOB’s Concept Release in this regard.

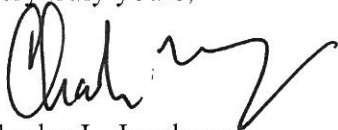
Considerations Related to Changing the Auditor's Report

Starting on page 31 of the Concept Release, the PCAOB lists several “practical challenges and unintended consequences” that were brought up during the staff’s outreach efforts. We agree with these concerns and they are real. The “practical challenges and unintended consequences” listed in the Concept Release are:

1. ***Effects on the Audit Effort.*** The PCAOB should continue to require a “standardized” audit report and should not expand the scope of the audit to include information outside the financial statements. Instead, if changed, the audit report should be modified only to better communicate what an audit already is and the audit conclusions thereon – all in a standard way. It would be counterproductive if auditors were required to prepare and issue a non-standardized report such as the Concept Release suggests e.g., in an “Auditor’s Discussion and Analysis”
2. ***Effects on the Auditor’s Relationship.*** We agree with the concerns expressed in the Concept Release. The stifling of auditor communications would be a terrible result. Companies need to have open communications with their auditors – it is good for the company and it promotes an effective audit. We should all remember the unintended consequences of the initial ASB/SOX 404 requirements which had the effect of stifling communications between the auditor and the company until later corrected. None of us want to live through that again.
3. ***Effects on Audit Committee Governance.*** We agree with the outreach participant concerns. Communications about the entity are the responsibility of the reporting entity, and its management and Board of Directors. Auditors should audit and communicate the results of their audit in a standard, and therefore, understandable way.
4. ***Liability considerations.*** We believe the concerns are well founded. History shows that more rules and subjective disclosures will inevitably give birth to more lawsuits.

Thank you for the opportunity to express our comments. We would be pleased to discuss our views with members of the Commission or with its staff. Please contact me at 203-837-2158 (chuck_jacobson@praxair.com) or Liz Hirsch (VP & Controller 203-837-2354, liz_hirsch@praxair.com) if you have any questions.

Very truly yours,



Charles L. Jacobson
Assistant Controller and Chief Accountant

Attachment Re: PCAOB Concepts Release (“Concept Release”) on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements – PCAOB Release No. 2011-003 June 21, 2011

Form of the Auditor's Report

1. *Many have suggested that the auditor's report, and in some cases, the auditor's role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.*

a. Should the Board undertake a standard-setting initiative to consider improvements to the auditor's reporting model? Why or why not?

Response: As noted in the attached letter, we support improvements to the auditor's reporting model that are focused on better communicating what is actually done in the audit. We do not support expanding the scope or providing original disclosures. Any improvement effort should be narrowly focused.

b. In what ways, if any, could the standard auditor's report or other auditor reporting be improved to provide more relevant and useful information to investors and other users of financial statements?

Response: We do not have significant problems with the current auditor's report. However, as noted in the attached letter, if warranted we believe it may make sense to consider revising the audit report to include a full description of the scope and results of what is already being done in the audit. The audit report should not be the original source for disclosures about the entity and the scope of the audit should not be expanded

c. Should the Board consider expanding the auditor's role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?

Response: As noted in the attached letter, we do not believe the scope of the audit should be expanded to include information outside of the financial statements. However, if warranted we believe it may make sense to consider expanding the audit report to include a full description of the scope and results of what is already being done in the audit. The PCAOB Concept Release states on page 23:

“Current auditing standards describe the auditor's responsibilities regarding other information outside the financial statements in documents containing audited financial statements (e.g., MD&A). These responsibilities include reading and considering whether such information or the manner of its presentation is materially inconsistent with the financial statements or represents a material misstatement of fact.”

We believe it may make sense to incorporate this thought within the standard audit report in an appropriate manner. Although we make no judgments on the adequacy of current guidance in this area, if the PCAOB concludes there needs to be additional guidance to auditors in this regard, such standards can easily be promulgated. For example, in such additional guidance, the PCAOB may want to specifically require the auditors to read the reporting entity's critical accounting policies and/or risk factors and express their agreement, or include an emphasis paragraph if it not appropriate or complete. Because auditor's already do this, we do not believe there needs to be an increase in the audit scope to accomplish the goal or in the reporting if the entity's disclosures are appropriate.

2. The standard auditor's report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach to the opinion is sometimes referred to as a "pass/fail model."

a. Should the auditor's report retain the pass/fail model? If so, why?

Response: Yes. The purpose of an audit is to do exactly this and the "pass/fail" model presents a clear conclusion that is well understood. If the Board believes certain terms need to be better defined (e.g., material), this should be done outside of the auditor's report (e.g., by a website link to the literature that provides the appropriate definitions).

b. If not, why not, and what changes are needed?

Response: See response to a.

c. If the pass/fail model were retained, are there changes to the report or supplemental reporting that would be beneficial? If so, describe such changes or supplemental reporting.

Response: See response to items 1. And 2.a. above.

3. Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g., management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.

Response: Management. As noted in the attached letter, we believe management of an entity, with close oversight by its Board of Directors and Committees (e.g., Audit Committee), is and should be responsible for assuring the fair presentation of the company's financial statements, the maintenance of effective internal controls over financial reporting, and the adequacy of disclosure relating to other required information (e.g., Business Description, Risk Factors,

and MD&A among much more). Although it is true that auditors, as a result of their audit process, should have “significant insight into the company” we do not believe that it is or should be the auditor’s responsibility to communicate his or her observations and/or beliefs in this regard, many of which are necessarily of a subjective nature, to the general public. This is the responsibility of management.

4. Some changes to the standard auditor's report could result in the need for amendments to the report on internal control over financial reporting, as required by Auditing Standard No. 5. If amendments were made to the auditor's report on internal control over financial reporting, what should they be, and why are they necessary?

Response: Amendments are not necessary. The current reporting is clear and well understood and does not need to be changed again.

A. Auditor's Discussion and Analysis

5. Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?

Response: No. We do not support an AD&A. See attached letter.

b. Do you think an AD&A should comment on the audit, the company's financial statements or both? Provide an explanation as to why. Should the AD&A comment about any other information?

Response: We do not support an AD&A. However, if the Board continued with the AD&A concept it should definitely be limited to the audit and not include the financial statements.

e. Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?

Response: As described in the attached letter, there is no need for the auditor to provide “supplementary comments” on the audit or the company’s financial statements beyond expressing their required opinions and other disclosures that are already part of the reporting framework. There is no need for subjective comments, judgments, interpretations etc. as discussed in the Concept Release.

6. What types of information should an AD&A include about the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., audit risk, audit procedures and results, and auditor independence)?

Response: For the reasons stated in the attached letter, we do not support the need for an AD&A. Also, see our response to Question 1. C.

7. *What types of information should an AD&A include about the auditor's views on the company's financial statements based on the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls")?*

Response: For the reasons stated in the attached letter, we do not support the need for an AD&A or the requirement for an auditor to discuss any of these subjective matters. There should be no AD&A.

The auditor should not be required to discuss its "views" on the company's financial statements except to provide the required opinions. Nor should the auditor be required to discuss management judgments and estimates, accounting policies, and difficult or contentious issues, including close calls.

If implemented, there would also be significant negative consequences, many of which are identified in the Concept Release. The stifling of auditor communications would be a step backward again. Companies need to have open communications with their auditors – it is good for the company and it promotes an effective audit. We all remember the unintended consequences of the initial AS2/SOX 404 requirements which had the effect of stifling communications between the auditor and the company until later corrected by AS5. None of us want to live through that again. Also, there would be significant costs associated with the preparation of such information, without the commensurate benefit.

8. *Should a standard format be required for an AD&A? Why or why not?*

Response: For the reasons stated in the attached letter, we do not support the need for an AD&A. Also as stated in the attached letter, we believe the Board should continue to require a standard audit report.

9. *Some investors suggested that, in addition to audit risk, an AD&A should include a discussion of other risks, such as business risks, strategic risks, or operational risks. Discussion of risks other than audit risk would require an expansion of the auditor's current responsibilities. What are the potential benefits and shortcomings of including such risks in an AD&A?*

Response: Such risks should not be included in any standard auditor reporting. Communications about the entity (e.g., business risks, strategic risks, operational risks, etc) are the responsibility of the reporting entity, and its management and Board of Directors. Auditors should audit and communicate the results of their audit in a standard, and therefore, understandable way.

10. *How can boilerplate language be avoided in an AD&A while providing consistency among such reports?*

Response: For the reasons stated in the attached letter, we do not support the need for an AD&A. However, we believe boilerplate language would be almost impossible to avoid.

11. *What are the potential benefits and shortcomings of implementing an AD&A?*

Response: See attached letter.

12. *What are your views regarding the potential for an AD&A to present inconsistent or competing information between the auditor and management? What effect will this have on management's financial statement presentation?*

Response: For the reasons stated in the attached letter, we do not support the need for an AD&A. There should be no AD&A.

However, in a hypothetical world, we believe as a practical matter the potential for inconsistent or competing information is extremely low. The auditor is already required to read information that is disclosed outside the financial statements to be sure that it is consistent with the financial statements. This includes the business section, risk factors, the MD&A (including critical accounting policies), and much more. Through this process, entity management already has the benefit of the auditor's comments. Therefore, we do not believe management's disclosures would change significantly and I do not believe the auditor's would add anything new.

In part, this process is precisely why an AD&A is not needed.