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International Accounting Standards Board
30 Cannon Street
London, United Kingdom
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Dear Sir or Madam:

We appreciate the opportunity to respond to the Board's request for comment on the **Exposure Draft – Simplifying Earnings per Share (Proposed amendments to IAS 33)**.

TransAlta is a power generation and wholesale marketing company focused on creating long-term shareholder value. We maintain a low-risk profile by operating a highly contracted portfolio of assets in Canada, the United States, and Australia. Our focus is to efficiently operate our coal-fired, gas-fired, hydro and renewable facilities in order to provide our customers with a reliable, low-cost source of power. For nearly 100 years, we've been a responsible operator and a proud contributor to the communities where we work and live.

We provide our comments below for your consideration.

Question 1—Mandatorily convertible instruments and instruments issuable for little or no cash or other consideration

Paragraphs 18 and 19 of the exposure draft propose that the weighted average number of ordinary shares should include only instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period. If ordinary shares issuable for little or no cash or other consideration or mandatorily convertible instruments do not meet this condition, they will no longer affect basic EPS.

(a) Do you agree that the weighted average number of ordinary shares for basic EPS should include only instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period? Why or why not?

We agree with this principle as it provides a result that is better aligned with the objective of basic EPS as outlined in paragraph 10 of the proposed standard. However, it was not entirely clear that this was the intent after our initial reading of the proposed changes outlined in paragraphs 18 and 19 and it was only after reading paragraphs BC10 through BC16 that we more thoroughly understood the nature and intent of the proposed changes. We bring this to your attention so that the wording and references within the final standard are considered carefully and reflect clearly the intent of the changes.

(b) Does the exposure draft apply this principle correctly to mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration? Why or why not?

We believe the exposure draft applies the principle correctly to these types of instruments and ordinary shares. However, our agreement with this was only reached after reading the Basis for Conclusion paragraphs 10 through 16 and the Appendix A Application Guidance pertaining to the treatment of particular instruments outlined from paragraph A22 forward.. As such, we recommend that the Board reconsider the location of some of this explanatory and guidance material and evaluate whether it would add greater clarification if contained in the body of the standard.

Question 2—Gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable ordinary share

Paragraphs A31 and A32 of this exposure draft propose clarifying that an entity treats ordinary shares that are subject to a gross physically settled contract to repurchase its own shares as if the entity had already repurchased the shares. Therefore, the entity excludes those shares from the denominator of the EPS calculation. To calculate EPS, an entity allocates dividends to the financial liability relating to the present value of the redemption amount of the contract. Therefore, the liability is a participating instrument and the guidance in paragraphs A23–A28 applies to this instrument. However, such contracts sometimes require the holder to remit back to the entity any dividends paid on the shares to be repurchased. If that is the case, the liability is not a participating instrument. The Board proposes that the principles for contracts to repurchase an entity's own shares for cash or other financial assets should also apply to mandatorily redeemable ordinary shares. Do you agree with the proposed treatment of gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable shares? Why or why not?

As the corporation does not have any such arrangements or contracts on its own shares, we have had limited exposure regarding the effects on, and computation of, EPS for such instruments. However, we agree with the Board's views expressed in BC15 and therefore are of the view that until such contracts are settled, the holders of the underlying shares have a right to share in the profit or loss, and agree that consideration should be given to these instruments in the computation of EPS.

Question 3—Instruments that are measured at fair value through profit or loss

For an instrument (or the derivative component of a compound instrument) that is measured at fair value through profit or loss, paragraphs 26 and A28 propose that an entity should not:

- (a) adjust the diluted EPS calculation for the assumed exercise or conversion of that instrument; or
- (b) apply the guidance for participating instruments and two-class ordinary shares in paragraphs A23–A28.

Do you agree that the fair value changes sufficiently reflect the effect on ordinary equity holders of instruments measured at fair value through profit or loss and that recognising those changes in profit or loss eliminates the need for further adjustments to the calculation of EPS? Why or why not?

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Although it is not guaranteed that this proposed treatment would result in presentation of the maximum potential dilution to ordinary shareholders, we agree with these proposed recommendations as they do in fact contribute to a simplification of EPS.

Question 4—Options, warrants and their equivalents

For the calculation of diluted EPS, an entity assumes the exercise of dilutive options, warrants and their equivalents that are not measured at fair value through profit or loss. Similarly, paragraph 6 of this exposure draft proposes clarifying that to calculate diluted EPS an entity assumes the settlement of forward contracts to sell its own shares, unless the contract is measured at fair value through profit or loss. In addition, the boards propose that the ordinary shares arising from the assumed exercise or settlement of those potential ordinary shares should be regarded as issued at the end-of-period market price, rather than at their average market price during the period.

(a) Do you agree that to calculate diluted EPS an entity should assume the settlement of forward sale contracts on its own shares in the same way as options, warrants and their equivalents? Why or why not?

Yes, we agree that an entity should assume the settlement of forward sale contracts in the same way as options, etc., as the forward sale contracts represent a potential similar source of dilution.

(b) Do you agree that ordinary shares arising from the assumed exercise or settlement of options, warrants and their equivalents should be regarded as issued at the end-of-period market price? Why or why not?

We agree with the use of the end-of-period market price as this represents a significant simplification of the diluted EPS calculation.

Question 5—Participating instruments and two-class ordinary shares

Paragraph A23 proposes to extend the scope of the application guidance for participating instruments to include participating instruments that are classified as liabilities. In addition, the Board proposes to amend the application guidance for participating instruments and two-class ordinary shares. The proposed application guidance would introduce a test to determine whether a convertible financial instrument would have a more dilutive effect if the application guidance in paragraph A26 and A27 for participating instruments and two-class ordinary shares is applied or if conversion is assumed. The entity would assume the more dilutive treatment for diluted EPS. Also, the amended application guidance would require that, if the test causes an entity to assume conversion of dilutive convertible instruments, diluted EPS should reflect actual dividends for the period. In contrast, diluted EPS would not include dividends that might have been payable had conversion occurred at the beginning of the period. Do you agree with the proposed amendments to the application guidance for participating instruments and two-class ordinary shares? Why or why not?

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We agree with the proposed amendments to the application guidance as this would result in application of the most dilutive effects of these instruments. We agree that diluted EPS should reflect the actual dividends for the period as this reflects the facts and circumstances of what has occurred. Permitting an entity to utilize a dividend determined based on a what-if scenario, which may or may not represent actual dividends, would provide potential opportunities for an entity to influence the outcome of the EPS calculation.

Question 6—Disclosure requirements

The Board does not propose additional disclosures beyond those disclosures already required in IAS 33. Are additional disclosures needed? If so, what additional disclosures should be provided and why?

We believe it would be beneficial to require disclosure of the potential (number of) shares that might be issued as a result of exercise or conversion of instruments that are measured at fair value through profit or loss, and as a consequence of the proposed amendments, are not considered in the calculation of diluted EPS. The disclosure of this information would provide financial statement users with a better understanding of the potential dilutive instruments that have not been considered in the EPS calculations.

In conclusion, we thank you again for the opportunity to provide our views on this very important topic. Should you have any questions regarding our responses, we would be pleased to discuss them with you at your convenience.

Yours truly,

TRANSALTA CORPORATION



Kevin Morris, CMA
Director Financial Reporting & Accounting

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