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Technical Director
International Accounting Standards Board
30 Cannon Street
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Dear Sir or Madam:

TransCanada Corporation (TransCanada) is pleased to submit its comments in response to the Invitation to Comment on the Exposure Draft on *Additional Exemptions for First-time Adopters, Proposed amendments to IFRS 1* as issued by the International Accounting Standards Board (IASB).

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure, including natural gas pipelines, power generation, gas storage facilities and projects related to oil pipelines and power facilities.

TransCanada supports the goal of a single set of high-quality accounting standards that are accepted and applied globally. We are highly supportive of the IASB's proposal to provide transition relief under IFRS 1 to entities with operations subject to rate regulation. We would like to thank the IASB for the time and resources it has committed to understand the issues faced by rate regulated entities. We highly commend the IASB on its recent decision to add the issue of regulatory assets and liabilities to its research agenda.

As outlined in our responses herein we are concerned that:

1) The proposed wording of the IFRS 1 election is not workable in practice and does not appear to be in line with the original intent by which the election was drafted.
2) The concept of impracticability as currently utilized in this election will severely limit the ability of rate regulated entities to use this election on transition to IFRS.
3) Reference to testing on an item by item basis for impairment in accordance with IAS 36 is not attainable in a rate regulated environment as our assets do not operate as individual assets but rather as systems of assets.

We request that the IASB revise the election for rate regulated entities to be similar in scope and applicability to that offered to first time adopters using full cost accounting to measure oil and gas assets. The IASB should focus the election on balancing the cost and effort of total compliance on adoption of IFRS with the benefits of such presentation to financial statement users.

Question 1
Do you agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP? Why or why not? If not, what alterative do you propose and why?

We have no comments on this issue.

Question 2
Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?

We have no comments on this issue.

Question 3
Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?

We acknowledge and support the work the IASB has performed with the Canadian Accounting Standards Board (AcSB) and the Canadian rate regulated industry to understand and address the challenges associated with the industry's transition to IFRS. We are very supportive of changes to IFRS 1 to address such challenges. However, we are concerned that the proposed wording of the election is not workable in practice and does not appear to be in line with the original intent by which the election was drafted. We believe that the IASB needs to revise the wording of the election. Our specific comments are outlined as follows:

a) Balancing cost and effort with total compliance

The proposed Basis of Conclusions paragraph 12 describes the Board's conclusions with regards to the cost and effort of total compliance versus the objective of providing a suitable starting point for accounting under IFRSs. The proposed election for operations subject to rate regulation is intended to address the cost and effort associated with total compliance. However, we are concerned that by introducing the concept of impracticability to this election, the IASB has overlooked the objective of balancing cost and effort. Irrespective of whether the impracticability criterion can be demonstrated in practice, the cost of total compliance may far outweigh any benefits of such application of IFRS for users of financial statements.

We note that the challenges faced by regulated entities in establishing opening balances under IFRS for property, plant and equipment may not be unlike many of the challenges faced by entities that use full cost accounting in the oil and gas industry. In particular, for many regulated entities, information related to older assets may not be available. Establishing the fair value of regulated assets could also be challenging given the monopolistic nature of these assets and the difficulty associated with securing qualified experts to value the required number of capital-intensive operations all within a short period of time. Establishing opening balances for regulated entities property, plant and equipment under IFRS is likely to be excessively costly.

The requirement to demonstrate impracticability in order to utilize the proposed deemed cost option for entities with operations subject to rate regulation appears highly inconsistent with requirements of other IFRS 1 elections. We note that no other IFRS 1 election, or any other IFRS standard, with the exception of IAS 8, require an entity demonstrate impracticability. The IFRS 1 election as currently proposed for oil and gas assets does not have a similar impracticability test. Yet we believe that the underlying rationale and objectives of the elections proposed for oil and gas assets and operations subject to rate regulation are similar.

We request that the IASB remove the concept of impracticability from this election. The IASB should balance the effort and cost associated with developing the opening balances at the date of transition with the objective of providing a suitable starting point for accounting under IFRS.

We strongly feel that the concept of impracticability should be removed from this election. However, if the IASB should choose not to remove this concept it is imperative that the IASB include in the IFRS 1 Basis of Conclusions examples of how the impracticability test should be applied. Without such guidance we believe in practice the application of the concept of impracticability as related to this election may be applied far more strictly than that intended by the IASB. As a result, the election may not be available to many entities for which the election was intended to apply.

b) Testing for impairment

Paragraph 19B states that "at the date of transition to IFRS, an entity shall test each item for which this exemption is used for impairment in accordance with IAS 36, and if necessary, reduce the carrying amount". We believe that the reference to an "item" could make application of this election practically unachievable for regulated entities because IAS 36 cannot reasonably be applied on an item by item basis.

The concept of an "item" is not defined under IFRS. However, if analogy was to be drawn to the concept of an item of property, plant and equipment in IAS 16, an item could be determined at a rather low level. Such a level would be expected to be significantly below that of a cash generating unit (CGU) or an asset. We note that the requirement to test for impairment on an item by item basis as outlined in this proposed election is significantly more extensive than IAS 36 which requires that an entity assess at the end of each reporting period whether there is any indication that an asset (an individual asset or CGU) may be impaired. Conceptually, we believe the requirement to apply IAS 36 on an item basis significantly deviates from the requirements of other IFRSs.

Furthermore, we believe that applying IAS 36 impairment testing on an item by item basis may not be possible and, even if possible, immensely costly. Testing on an item by item basis for impairment is not attainable in a rate regulated environment as our assets do not operate as individual assets, but rather as systems of assets which operate as cash generating units. Information would not be available in rate regulated entities to assess items of property, plant and equipment for impairment indicators, rather such items would need to be assessed as part of the asset or CGU to which they belong. Additionally, in a case where impairment indicators could be assessed and identified on an item basis, an estimate of the recoverable amount of the item would be extremely challenging without combining the item with the asset or CGU to which it belongs.

We also find the proposed wording stating that "an entity shall test each item.....for impairment in accordance with IAS 36...." confusing as we do not understand what is meant by "testing in accordance with IAS 36". IAS 36 requires an entity to assess an asset for impairment indicators and, where such indicators are present, estimate the recoverable amount. We believe the Board could better describe this by stating "an entity shall apply IAS 36", rather than making reference to the concept of testing for impairment.

The election will not be workable in practice for rate regulated entities unless the IASB removes the requirement to test for impairment in accordance with IAS 36 on an item by item basis. We note that, at the date of transition to IFRS, an entity is required to apply IAS 36 which inherently would require that an entity examine its assets and CGUs for indicators of impairment and, where present, proceed to estimate the recoverable amount of the asset or CGU. We request that the IASB remove the reference to testing "items" in accordance with IAS 36 from this election.

c) **Requirements of IFRS 1** (should the concept of impracticability not be removed as requested in a) above)

As we have outlined in point (a) above, we believe the concept of demonstrating the impracticability of performing retrospective restatement and of utilizing fair value as deemed cost should be removed from this proposed standard. As related to demonstrating the impracticability of utilizing fair value as deemed cost, we note that our property, plant and equipment is based on historic cost. Fair value is not relevant in the rate regulated environment. However, the Board's current wording in the election as related to this requirement is currently inconsistent as outlined below.

Based on the preamble to Question 3 contained in the IFRS 1 Exposure Draft (and also included in the Basis for Conclusions paragraphs 10 and 11), it appears it was the intent of the IASB to require that the election in 19B be available for use only when an entity can demonstrate that both retrospective restatement and fair value as deemed cost are impracticable. However, the current wording of 19B does not communicate this requirement.

The proposed wording of paragraph 19B indicates that the election may be utilized when "it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS." We find this statement confusing as it is unclear what is intended by the reference to "requirements of this IFRS". IFRS 1 requires that on transition to IFRS an entity apply each IFRS effective at the end of its first IFRS reporting period. We interpret the proposed wording of the election to indicate that in order to utilize the election a regulated entity is required to demonstrate the impracticability of applying retrospective restatement as required in accordance with IAS 16 – *Property, Plant and Equipment*. However, IFRS 1 paragraph 16, which contains the fair value as deemed cost election, is not a requirement of IFRS 1 but rather an election available under it. We believe the election as proposed would not require the impracticability of applying IFRS 1 paragraph 16 (the fair value as deemed cost election) be demonstrated.

d) Description of entities subject to rate regulation

Our understanding is that it was the intent of the IASB to develop this proposed election for the use of entities transitioning to IFRS who followed rate regulated accounting under their previous GAAP. In our view, the definition of rate regulated entities as outlined in paragraph 19B may not appropriately identify all such entities. Rather, as this is a transitional election, we would suggest the IASB consider outlining in the proposed election that it applies to all entities who applied rate regulated accounting under their previous GAAP.

e) Basis of Conclusions

We note that paragraph 9 of the proposed Basis of Conclusions states that "the inclusion of an imputed cost of equity in property, plant and equipment is not in accordance with IAS 23 *Borrowing Costs* and IAS 16 *Property, Plant and Equipment*". IAS 23 paragraph 3 states that "the Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability." We believe it is unnecessary for the Basis of Conclusions in IFRS 1 to state that imputed cost of equity is not in accordance with IAS 23. In fact, IAS 23 does not deal with such a concept.

f) Interaction with optional exemption for borrowing costs

The IASB has specifically addressed the interaction between the proposed IFRS 1 exemption for operations subject to rate regulation and IFRS 1 paragraph 25E as related to decommissioning, restoration and similar liabilities. We recommend the IASB also clarify the interaction between the proposed IFRS 1 exemption for operations subject to rate regulation and IFRS 1 paragraph 25I as it relates to borrowing costs. We believe that the proposed IFRS 1 exemption for operations subject to rate regulation should trump the optional exemption for borrowing costs, thereby effectively grandfathering borrowing costs capitalized under previous GAAP as they form part of the carrying amount of property, plant and equipment at the transition date. However, it would be helpful for the IASB to provide clarification.

g) Items not classified as property, plant and equipment

The proposed IFRS 1 exemption for operations subject to rate regulation is worded such that it appears to apply only to "items of property, plant and equipment". We note that many regulated entities may have included in intangible assets certain items in accordance with the entities previous GAAP. Such items may include certain costs such as an imputed cost of equity which may not otherwise qualify for cost recognition under IFRS. For example, certain costs related to items such as land rights may be included in intangible assets along with their related imputed cost of equity. We request that the IASB consider amending the exemption to acknowledge that similar costs may be included in other categories besides property, plant and equipment such as intangible assets.

Question 4
Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?

We agree conceptually with the proposal to amend the election for leases in IFRS 1 paragraph 25F. However, the wording of the proposed election and its accompanying guidance requires further consideration by the IASB. As currently written, the proposed amendment appears to preclude entities in countries with previous GAAP identical to IFRIC 4 (except for their transitional provisions) from being able to utilize the proposed election. For example, Canadian GAAP includes EIC 150 – *Determining Whether an Arrangement Contains a Lease*. EIC 150 is substantially the same as IFRIC 4 except that it includes different transitional provisions. As such, as currently written it appears that companies following EIC 150 would not be able to avail themselves of the relief otherwise provided by this election. We believe restricting use of the election to entities with previous GAAP with identical transitional provisions is unnecessary. We request that the IASB consider permitting entities in cases such as this to apply the election to retain assessments on contracts already performed under previous GAAP. The extent of relief provided by this proposed election to first time adopters of IFRS could be enhanced if the requirement for identical transitional provisions was removed.

We also express concern with the wording proposed in the basis of conclusions paragraph 14 which states that "the Board noted that any such proposal must apply to identical, rather than similar accounting". We understand the Board's dilemma with regard to enforcing what constitutes a sufficient degree of similarity; however we feel that the use of the word "identical" may be too restrictive and therefore prohibitively exclusive. Some users may interpret the word identical in an extreme manner, expecting that, in order to meet this requirement, every word of the previous GAAP must match IFRIC 4 exactly. We believe this was not likely the intent of the Board and as such would suggest the Board consider replacing the word "identical" with "substantially similar". Alternatively, the Board could consider wording such as "GAAP that would come to the same conclusion" or the Board could consider specifying the paragraphs of the standard that need to be identical, versus those where some deviation may be acceptable.

Question 5
Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

We have no comments on this issue.

Other items

In order to maximize the relief which may be provided to entities considering elections being proposed under this exposure draft, we request that the IASB issue the final wording of amended IFRS 1 as soon as possible. Entities converting to IFRS for 2011 will be required to select their IFRS 1 elections and prepare their opening balance sheet by December 31, 2009. If entities do not know the final wording of the standard until late 2009 they may be forced to do more work and thus incur more costs than that which would have otherwise been necessary had the final wording of the standard been known earlier. In particular, as related to the election for rate regulated entities we believe significant revision to the wording of the election is required. As such, in order to maximize efficiencies and reduce the costs of the conversion process wherever possible, we request the IASB expedite its issuance of IFRS 1 in its final form and issue the final standard no later than mid 2009.

TransCanada hopes that its comments will be useful to the IASB in its deliberations. If you have any questions or would like to discuss any of these matters, please do not hesitate to contact us.

Yours very truly,

Glenn Menuz, C.A.
Vice-President and Controller
TransCanada Corporation

Copy: Mr. Peter Martin, Accounting Standards Board (Canada)