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Technical Director
International Accounting Standards Board
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TransCanada

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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 *Hedge Accounting* as issued by the International Accounting Standards Board (Board).

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and oil pipelines, power generation and gas storage facilities. TransCanada's network of wholly owned natural gas pipelines extends more than 60,000 kilometres (37,000 miles), tapping into virtually all major gas supply basins in North America. TransCanada is one of the continent's largest providers of gas storage and related services with approximately 380 billion cubic feet of storage capacity. A growing independent power producer, TransCanada owns, or has interests in over 10,800 megawatts of power generation in Canada and the United States. TransCanada is developing one of North America's largest oil delivery systems.

TransCanada supports the Board goals to 1) develop a less complex hedge accounting standard and 2) change the objective of hedge accounting so as to represent, in the financial statements, the effect of an entity's risk management activities.

Our key concerns relating to lack of clarity, areas of disagreements and time allowed for implementation are summarized below and expanded upon in our response to selected questions.

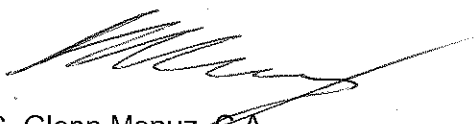
- 1) TransCanada has taken the opportunity to reach out to the International Accounting Standards Board staff members on the Hedge Accounting project. Through these discussions, TransCanada has achieved some clarification on the more complex areas such as hedge ratio and rebalancing. TransCanada strongly believes that the content within the Exposure Draft needs to be expanded in these areas to provide clarification to all preparers and ensure consistency of interpretation and application. Furthermore, the proposed transition timing requirements should be extended to provide sufficient time for implementation.
- 2) TransCanada strongly disagrees with the proposal for not permitting voluntary discontinuation of hedge accounting for a hedge relationship. Risk management objectives can be dynamic. As such, a designated hedge could meet the qualifying criteria for effectiveness without remaining optimal for a dynamic or evolving risk management strategy. In these situations, rebalancing of the hedge ratio may not be the best solution for risk

management. Rather the discontinuation of the existing hedge accounting and entering into a new hedge would better optimize the risk management strategy.

- 3) TransCanada strongly disagrees with the proposal to provide disclosure of the monetary amount or other quantity to which the entity is exposed for each particular risk. This is competitively sensitive information and may influence our company's decision to apply hedge accounting. Overall, TransCanada is concerned that the additional disclosure in the proposal will overload the users with the complexities of risk management strategies and hedging information while not enhancing (and likely diminishing) the understandability of the company's financial situation.
- 4) TransCanada strongly disagrees with the proposal that derivative accounting would apply for contracts that would otherwise meet the current 'own use' scope exemption only in instances where it is in accordance with the entity's fair value-based risk management strategy. The proposal appears to inappropriately favour entities that manage their entire business on a fair value basis. TransCanada agrees with the proposal to apply fair value accounting to 'own use' contracts, but we strongly encourage the Board to allow for flexibility to permit dynamic risk management strategies to be more accurately reflected from an accounting perspective.
- 5) TransCanada believes a final standard on hedge accounting should not be issued prior to the issuance of the Exposure Draft on open portfolio or macro hedging to ensure achievement of a consistent and comprehensive hedge accounting standard to be applied universally. As such and given the expectation that implementation will be complex and requires a significant amount of time, TransCanada disagrees with the proposed transition timing requirements and proposes prospective adoption no earlier than January 1, 2014 to provide sufficient time for implementation.

TransCanada hopes these comments will be useful to the Board in their 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,



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

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

TransCanada's responses to selected questions raised in the Exposure Draft are set out below.

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

TransCanada agrees with the proposed objective of hedge accounting.

TransCanada believes it is important for the Board to address open portfolio/macro hedging and closed portfolio hedging concurrently to achieve a consistent and comprehensive hedge accounting standard. Alternatively, the basis for conclusions paragraph BC21 should be expanded to clarify that open portfolio or macro hedging is a term utilized in the current IAS 39 standard for fair value hedge accounting for a portfolio of interest rate risks and that the new hedging Exposure Draft will also relate to a variety of dynamic hedge activities (cash flow and fair value hedges) such as those utilized in some non-financial hedge arrangements, if this is the Board's intent. TransCanada suggests the addition of a scope section within the Exposure Draft with definitions and examples (including examples for non-financial hedging arrangements) to provide more clarity with regards to the Board's intended distinction between open and closed portfolio hedges. When providing examples, the Board should clarify that they are not all encompassing guidelines, this will minimize 'bright line' interpretation.

Question 2

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

TransCanada has no comment on this question.

Question 3

Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?

TransCanada has no comment on this question.

Question 4

Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (ie a risk component), provided that the risk component is separately

identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

TransCanada supports the Board's approach of not limiting the eligibility of a risk component for designation as a hedge for financial and non-financial instruments. This approach provides appropriate accounting treatment for entities that manage risk components separately.

Question 5

- a) **Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?**

TransCanada agrees with this proposal as it will allow for a consistent link with the risk management strategies applied in practice.

- b) **Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?**

TransCanada has no comment on this question.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

TransCanada generally agrees with the proposed hedge effectiveness criteria in paragraph 19 of the Exposure Draft. However, the proposal may not be practical and is not clear as to how they should be implemented. The hedge effectiveness requirements of 'expected to achieve other than accidental offsetting' and 'minimize expected hedge effectiveness' are subject to interpretations. As such, we strongly encourage the Board to include additional guidance and examples on these requirements.

TransCanada agrees with the elimination of the 80%-125% 'bright line' requirements because it allows companies to hedge in accordance with their risk management objectives which may not have been possible under the current rules.

The Exposure Draft focuses on using a hedge ratio to minimize expected ineffectiveness but does not specify a method for assessing whether a hedging relationship meets the hedge effectiveness requirements, including determination of the hedge ratio. Although TransCanada agrees that an entity should use a method that captures the relevant characteristics of the hedging relationship as specified in the risk management objective, we feel that additional

guidance and examples should be provided in the Exposure Draft, particularly for non-financial hedging relationships where critical terms are not necessarily closely aligned and the ratio is other than 1:1. TransCanada supports the concept in theory, but at what level do you apply the hedge ratio? For example, is the ratio applied on the entire group portfolio, each layer of that portfolio, or based on each individual hedging instrument? If a quantitative analysis such as regression is used in the determination of the hedge ratio at inception, does the same quantitative analysis need to be performed at minimum each reporting date and how do the results of those regressions impact the hedge ratio going forward? Difficulties arise in the application of the hedge ratio concept including management tolerance levels for changes in the quantitative inputs used to determine the hedge ratio.

TransCanada believes that hedge effectiveness assessment should be tested at inception and subsequently only when there is a change in circumstances. As hedge accounting would be aligned with risk management objectives, qualitative analysis at each reporting date should be sufficient in assessing hedge effectiveness.

The Exposure Draft is unclear as to whether an entity is permitted to use a hedging instrument that does not provide the best possible offset to the hedged item and therefore the least amount of ineffectiveness. In some instances, particularly in non-financial hedging relationships, the instrument that provides the best offset is not always available due to market illiquidity and/or cost limitations. We would suggest that a better approach may be to permit entities to use the hedging instrument that aligns with their risk management policies, but also meets business objectives such as being cost effective, regardless if whether or not the instrument provides the best possible offset to the hedged item.

The Exposure Draft implies that an entity can rebalance at a date other than the reporting period if there is a significant change in circumstance affecting the hedge effectiveness requirements. It would be useful if additional clarification is provided on what constitutes a significant change in circumstance affecting the hedge effectiveness requirements. For example, would increased price volatility in a commodity market be a significant change? Under the current standard, increased volatility may result in failed regressions, which would require a discontinuation of specific hedging relationships. Would failed regressions always require a change in the hedge ratio and therefore rebalancing? TransCanada has interpreted the Exposure Draft such that hedge accounting can continue as long as the risk management objective is unchanged and the weakening of the regression is not a permanent change (ie. normal fluctuations) to the hedging relationship and therefore no change would be made to the hedge ratio and rebalancing would not be necessary. A further consideration is whether auditors would accept continued hedge treatment in a scenario where regressions showed that correlations have weakened, but the entity's risk management objectives are still being met by the hedge relationship.

TransCanada agrees that the hedge effectiveness assessment should be prospective and supports the removal of the retrospective assessment.

TransCanada appreciates that these changes to effectiveness requirements and the rebalancing requirement are fundamental and complex, and likely requires significant learning curve and implementation time. Accordingly, as stated in response to question 16 we urge the Board to allow for a longer transition period than is currently proposed in the Exposure Draft.

Question 7

- a) **Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?**

TransCanada supports this proposal. However, clarity should be provided on what constitutes a hedge relationship failure and when rebalancing is mandatory or voluntary. TransCanada believes that the need for rebalancing should be consistent with the risk management objectives, which may be dynamic therefore rebalancing should be neither mandatory nor restricted to adjustments that change the hedge ratio. Mandatory rebalancing has the potential to become unduly complex, especially in an environment where risk exposures constantly change.

TransCanada believes that there would be significant challenges for the preparers on when and how to rebalance and auditors may also be challenged in independently verifying the result. The Exposure Draft paragraphs B54-B58 provides an example of a commodity hedge but does not describe how one would adjust the hedged item or hedging instrument. If one is to adjust the hedge item, what exactly is being adjusted? Is rebalancing adjusting the forecast, the hypothetical or the numerator of the hedge ratio itself? If we are to adjust the hedged item, how does this affect the ineffectiveness calculation (using the dollar offset method) and the prospective testing? Decreasing the hedging instrument is likely an easier concept as a portion of the derivative can be de-designated but creates possible accounting system challenges in tracking the other comprehensive income balance. Increasing the hedging instrument may prove to be difficult depending on the market liquidity of the commodity and the prevailing market price at the time of rebalance. Therefore, in theory, providing the preparer options on how to rebalance seems desirable but may be misinterpreted in practice and potentially difficult to implement.

- b) **Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?**

TransCanada agrees with providing an entity the option of proactively rebalancing if it expects that a designated hedging relationship might cease to meet the qualifying criteria of hedge accounting in the future. TransCanada feels however, that additional clarification should be provided to avoid inconsistent interpretation/application by preparers regarding what constitutes a future failure. Furthermore, proactively rebalancing also changes the hedge ratio based on speculation of future events, which may be difficult to independently verify.

Question 8

- a) **Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?**

TransCanada agrees with this proposal as it is consistent with the implication in the Exposure Draft that hedge accounting is driven by the risk management objectives. Accordingly, changes in the risk management objective may cause discontinuation of hedge accounting. TransCanada also encourages the Board to permit voluntary discontinuation consistent with our response to 8(b).

- b) **Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?**

TransCanada strongly disagrees with the proposal to not permit voluntary discontinuation of hedge accounting for a hedge relationship as hedge accounting is voluntary, and management should have the ability to discontinue hedge accounting at any time if it constitutes a sound business decision.

Typically, risk management is not static but dynamic. Therefore, a designated hedge could meet the qualifying criteria of effectiveness without being optimal for the specific strategy. In these situations, rebalancing that hedge relationship might not be the best solution for risk managers. Instead, the risk manager could decide to enter into a new hedge in order to optimize the risk management strategy and designate the new hedge in a new relationship. We believe the proposal is too restrictive and does not align with risk management strategies.

An entity may also determine that the cost of maintaining evidence to support the assessment of ongoing hedge effectiveness may outweigh the benefits gained from the accounting treatment and entities should have the ability to discontinue hedge accounting in this instance.

Question 9

- a) **Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?**

TransCanada has no comment on this question.

- b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?**

TransCanada believes that the gains and losses should be included in the note disclosure rather than adding detail and 'clutter' to the primary financial statements. As an alternative, TransCanada proposes an option to provide this information on the statement of financial position if an entity believes that this information would be significant and useful to the readers.

- c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?**

TransCanada has no comment on this question.

Question 10

- a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (eg like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?**
- b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?**
- c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (ie the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?**

TransCanada has no comment on this question.

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?

TransCanada has no comment on this question.

Question 12

Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement (eg in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

TransCanada has no comment on this question.

Question 13

- a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?**

We do not agree with proposed disclosure requirements. TransCanada questions if the proposed disclosure will present more meaningful information for the users of the financial statements.

TransCanada believes that providing disclosure as stated in the Exposure Draft paragraphs 45-46 would be inappropriate. Providing the monetary amount or other quantity to which the entity is exposed for each particular risk is often competitively sensitive information and will influence a company's decision to apply hedge accounting. Additionally, the proposed disclosure in paragraph 45(c) is an example of disclosure that would not be meaningful to users and would be operationally difficult to obtain.

TransCanada notes that some respondents have requested specific disclosure on rebalancing in their comment letters. TransCanada does not feel further disclosure in this area is warranted as it adds additional complexity without adding necessary value to the users of the financial statements.

TransCanada also feels that the reconciliation of other comprehensive income as described in paragraph 52 should be included in the notes to the financial statements and not in the statement of changes in equity to avoid 'cluttering' of the statement.

The additional disclosure would also increase the complexity of an audit as auditors would need to gain comfort not only on the company's forecasting of its exposures, but also the systems and processes that are utilized in developing the disclosed amounts or quantities.

- b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?**

Overall, TransCanada does not believe that any additional disclosures would provide useful information to the user. TransCanada feels that financial statement users are already overloaded with the complexity of risk management and hedge information.

Question 14

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

TransCanada strongly disagrees with this proposal to account for 'own use' contracts as derivatives only in instances where it is in accordance with the entity's fair value-based risk management strategy. The reference to an entity's fair value-based risk model is unclear and specific guidance should be added to clarify whether the standard is implying that entire the business must be managed on a fair value basis in order to account for 'own use' contracts as derivatives. TransCanada suggest that the Board allows flexibility to best reflect dynamic risk management strategies whereby an entity elects to account for 'own use' contracts to be accounted for as derivatives if an entity can sufficiently demonstrate the election eliminates or significantly reduces accounting mismatch in accordance with an entity's risk management activities. Furthermore, the Exposure Draft has added the condition that the net exposure be maintained close to nil. TransCanada believes that having the net exposure near zero is unnecessary and requests that the Board allow for flexibility and permit a portion of 'own use' contracts to be treated as financial instruments in order to eliminate accounting mismatches that could occur if only a portion of the exposure was economically hedged but the entire own use portfolio was treated as a financial instrument. TransCanada feels it is important for the Board to allow flexibility by giving entities the option and not requiring them to account for 'own use' contracts as derivatives to ensure that the proposal is not 'all or nothing' and allows for dynamic risk management strategies for commodity purchase and sales contracts.

Question 15

- a) **Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?**
- b) **If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?**

TransCanada believes that in order to align with the objective of reflecting the risk management strategy of the entity, the hedge accounting model should provide the possibility to account for credit derivatives.

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

TransCanada disagrees with the proposed transition timing requirements and proposes prospective adoption no earlier than January 1, 2014 to provide sufficient time for implementation. In particular, complexity in application of the new rules such as rebalancing will require extensive changes to an entity's processes and systems. Early adoption should remain as an alternative.