TransCanada
In business to deliver

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Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
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File Reference No. 2015-280

Dear Technical Director:

TransCanada Corporation (TransCanada) is pleased to submit its comments in response to the Invitation to Comment on the Exposure Draft on *Investments—Equity Method and Joint Ventures (Topic 323) – Simplifying the Equity Method of Accounting* as issued by the Financial Accounting Standards Board (FASB).

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and liquids pipelines, power generation and gas storage facilities. TransCanada operates a network of natural gas pipelines that extends more than 68,000 kilometres (42,100 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 368 billion cubic feet of storage capacity. A growing independent power producer, TransCanada owns or has interests in over 10,900 megawatts of power generation in Canada and the United States. TransCanada is developing one of North America's largest liquids delivery systems.

TransCanada supports the FASB's proposal to simplify the equity method of accounting as part of its initiative to reduce complexity in accounting standards. Our specific views are outlined below in our responses to questions contained in the Exposure Draft:

Question 1:

Should accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary be eliminated? Why or why not? Would amortization of the entire basis difference through equity method earnings be preferable? If so, what would be the suggested amortization period?

TransCanada supports the Board's effort to simplify the accounting for basis differences of equity method investments, however we feel that eliminating the amortization of basis differences increases the risk of impairment since the carrying value of the investments would be higher. Therefore, we prefer a simplified approach whereby the entire basis difference is amortized through equity method earnings over time versus the current approach whereby basis differences are amortized into income over different periods. This would also mitigate the increased risk of recording periodic impairments.

Overall, we feel that simplifying the accounting for basis differences would reduce the complexity of equity accounting as well as reduce costs, and would not add any significant impairment risks that are not already being considered.

Question 2:

Should the accounting for capitalized interest, which adds to the basis of an entity's equity method investment and is amortized, also be eliminated for equity method investments? Why or why not?

TransCanada strongly believes that the accounting for capitalized interest for equity investments should not be eliminated. As per US GAAP, 'the objective of capitalizing interest is to obtain a measure of acquisition cost that more closely reflects an entity's total investment in the asset and to charge a cost that relates to the acquisition of a resource that will benefit future periods against the revenues of the periods benefited'. If the accounting for capitalized interest is eliminated for equity investments, the acquisition cost may not reflect the total investment in the asset. This would contradict the objective of capitalizing interest and also eliminates the notion that the incurrence of interest cost is a direct cost of acquiring the asset. Furthermore, determination of the interest cost and the amortization period over which to amortize the interest is straightforward and does not add any complexity to accounting for the equity investment.

Question 3:

Should an entity be required to apply the proposed amendments related to accounting for the basis difference on a modified prospective basis as of the effective date? Why or why not?

TransCanada agrees that an entity should apply the proposed amendments related to accounting for the basis differences on a modified prospective approach as of the effective date. This approach seems straightforward and simple to implement as opposed to going back to the original acquisition date and making amendments and cumulative adjustments. This modified prospective approach would align all entities and users would not have to gain an understanding of any complex adjustments to prior periods or prior period restatements.

Question 4:

Should an entity no longer be required to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest? Why or why not?

TransCanada agrees that an entity should no longer be required to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest. The requirement under current GAAP to adjust the investment, results of operations, and retained earnings retroactively as if the equity method had been applied during all previous periods in which the investment was held is complex and results in adjusting prior period financial statements. Furthermore, to achieve the restatement, the investor needs to retroactively perform a fair value allocation as of the initial acquisition date, which is time consuming and requires information that may not be readily available. Under the proposed ASU, this retroactive application would be eliminated and the investor would add the incremental cost to its existing investment basis and account for the investment under the revised equity method prospectively. The proposed guidance is simple and more reflective of the business transaction such that the investor attained significant influence over the investment at that point in time and not prior.

Question 5:

Should the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting be applied prospectively? Why or why not?

TransCanada agrees that the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting be applied prospectively as of the effective date. As a result of eliminating the requirement, an entity will no longer have to restate prior period financial statements as if the investment were always accounted for using the equity method and will no longer deal with the complexities of determining historical fair values. Simply adding the cost of the additional investment to the carrying value of the investor's previously held interest is a more straightforward and simple approach.

Question 6:

How much time will be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

The implementation of these proposals is straightforward and requires minimal disclosure. Since there is no accounting impact or adjustment to existing equity investment balances, it will take minimal time to apply the proposals. Furthermore, the accounting for any new equity investments will be simplified as the requirement to fair value all acquired assets and liabilities will be eliminated. For this reason, we think early adoption should be permitted as this would significantly simplify and reduce the resources required to account for existing equity investments as well as application of the equity method of accounting to potential acquisitions for the company. We would need some time to make the necessary changes to our accounting system and processes in order to stop accounting for any basis differences. As such, we recommend one year as sufficient time to adopt the amendments in the proposed update.

Question 7:

Would the proposed amendments meet the objective of the Simplification Initiative, which is to improve GAAP by reducing cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements? Why or why not?

TransCanada feels that the proposed amendments meet the objective of the Board's Simplification initiative. Simplifying the existing accounting complexities around equity investments will significantly reduce the use of resources as well as improve the usefulness and relevancy of the information provided to users of the financial statements.

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