



**Corporate Comptroller**

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Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2016-200**

**Re: Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost**

Dear Sir or Madam,

Canadian National Railway Company (CN) is a publicly held corporation with its common shares listed on the New York and the Toronto Stock Exchanges. The Company is engaged in the rail and related transportation business operating approximately 20,000 route miles of track in Canada and the U.S. CN prepares its financial information based on U.S. generally accepted accounting principles.

We appreciate the opportunity to comment on the Exposure Draft (ED) published by the Financial Accounting Standards Board (Board). Our review of the proposed standards, as well as the questions raised in the ED, has identified a number of concerns.

In summary, we believe that the proposed standard does not offer users incremental information beyond the existing disclosure requirements of Topic 715 and increases the complexity of financial statements without a corresponding benefit. We believe that the issues raised by the Board in the ED can be more effectively addressed with possible additional disclosure as shown in our response to question 4 rather than altering the presentation of existing information.

The following text is an analysis of our review.

Regards,

/s/ Ghislain Houle  
Vice-President Corporate Accounting and Corporate Comptroller

**Question 1:**

***Should the service cost component be reported in the income statement apart from the other components of the net periodic benefit cost as defined by paragraphs 715-30-35-4 and 715-60-35-9? Why or why not?***

We disagree that the service cost component of net periodic benefit cost be reported apart from the other components of net periodic benefit cost because service cost represents an incomplete measure of the cost of providing retirement benefits and lacks predictive value reported on a standalone basis.

Many significant risks (e.g. market, interest rate, and longevity) borne by retirement benefit plan sponsors are reflected in the components of net periodic benefit cost *other* than service cost. These risks have a material bearing on the cost of providing retirement benefits and ultimately affect the cash flows required to provide such benefits.

By presenting service cost separately and apart from the other components of net periodic benefit cost, users are not provided with a composite view of the cost of providing retirement benefits within operating income. For example, under the proposed standard, an unfunded plan would report the same net periodic benefit cost in operating income as a plan in surplus, even though the future cash flows required to provide these benefits differ significantly.

Although we agree that the components of net periodic benefit cost other than service cost reflect the result of financing decisions, investing decisions or are derived from recycled amounts (such as actuarial gains and losses), these costs should remain coupled with service cost because they arise directly from a compensation arrangement and over time, measure the ultimate cost of providing retirement benefits.

***Should the service cost component be the only component eligible to be capitalized in assets? Why or why not?***

We disagree that the service cost component of net periodic benefit cost should be the only component to be eligible to be capitalized in assets because service cost represents an incomplete measure of the continuing cost of providing retirement benefits and therefore, lacks predictive value on a standalone basis and does not measure the complete cost of providing retirement benefits.

**Question 2:**

***Would it be useful to require presentation of the prior service cost or credit separately from the other components?***

We agree that is not useful to require presentation of the prior service cost or credit separately from the other components of net periodic benefit cost.

***Should all of the components of net benefit cost other than the service component be presented outside a subtotal of income from operations, if one is presented? Why or why not?***

We disagree that the components of net benefit cost other than the service component be presented outside a subtotal of income from operations, if one is presented, because the components of net benefit cost other than the service component cannot be presumed to represent a non-operating item for all entities.

Statement of Financial Accounting Concepts No. 6 guides entities to classify items as operating or non-operating based on their relation to an entity's major ongoing or central operations. In our view, the components of net benefit cost (or a portion thereof), other than the service component, bear a significant relation to an entity's major ongoing or central operation. For example, a portion of the components of net periodic benefit cost other than service cost are directly attributable to active employees.

Further, we disagree that the components of net benefit cost other than the service component be presented outside a subtotal of income from operations because the proposed standard may have the unintended consequence of reducing comparability.

For firms that do not report income from operations, it is not clear that the proposed amendments would always result in changes to income statement presentation (compared to status quo) and, if changes do occur, they are likely to be applied irregularly as the Board has indicated that entities should use their discretion and report the other components of net periodic benefit cost "wherever it is appropriate". Also, for entities that report income from operations, the proposed amendments may result in reduced comparability in operating income where there are differences in benefit structure among them.

**Question 3:**

***Would it be useful to require presentation of the net amount of the interest component and expected return on plan assets separately from the other components of net benefit cost to improve convergence with International Financial Reporting Standards (IFRS) or for other purposes? Why or why not?***

We agree that "aggregating interest cost with expected return on plan assets could result in potentially misleading information about a plan's net financing cost or income" and agree that such presentation would not provide useful information to financial statement users because net financing cost or income lacks predictive value in a U.S. GAAP context as the expected rate of return on plan assets and the discount rate used to accrue interest cost are dissimilar.

**Question 4:**

***Would the proposed amendments improve the usefulness of financial information provided to users? Why or why not?***

We disagree that the proposed amendments would improve the usefulness of financial information provided to users as the proposed amendments do not enhance the transparency of the presentation of net periodic benefit cost compared to the existing disclosure requirements of Topic 715 and the proposed amendments do not effectively address certain concerns over disclosure identified in the ED.

Existing guidance under Topic 715 provides users with disclosure of each component of net periodic benefit cost. Although we agree that the “presentation of defined benefit cost on a net basis combines elements that are distinctly different in their predictive value”, existing guidance provides users with sufficient information to assess the predictive value of each component of net periodic benefit cost. Requiring entities to disaggregate the components of net periodic benefit for presentation purposes adds unnecessary complexity to the income statement and does not enhance or add to the information disclosed.

Notwithstanding the above, we agree that Topic 715 may be deficient by “not requiring entities to disclose by line item the amount of net benefit cost that is presented in the income statement or capitalized in assets” which reduces transparency and requires users to bear greater costs in analyzing financial statements. However, the proposed amendments do not effectively address this matter, as users would continue to lack the disclosure to determine, by line item, the amount of service cost that is presented in the income statement or capitalized in assets. We suggest that a more effective method of addressing this issue would be to require entities to disclose by line item (similar to current disclosures made regarding the amortization of net actuarial gains and losses) the amount of net benefit cost that is presented in the income statement or capitalized in assets.

**Question 5:**

***Should the proposed amendments be different for rate-regulated entities? Why or why not?***

We have no comment on this question.

**Question 6:**

***Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter into cost-plus contracts or government contracts including but not limited to contracts under Cost Accounting Standards Board regulations, and entities that allocate cost from cost pools)? Why or why not?***

We disagree that the benefits of the proposed amendments outweigh the costs based on our response to questions 1, 2 and 4. While many entities will not incur significant costs to apply the proposed amendments, the implementation costs will vary from company to company and in our view the changes provide little to no additional value to the users of the financial statements.

**Question 7:**

***How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted? Would 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? Why or why not?***

If adopted, a period of at least one year would be necessary to adopt the proposed amendments in order to perform the necessary system and process changes. Early adoption should be permitted to provide preparers with flexibility.

**Question 8:**

***Should the proposed amendments be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost in assets when applicable?***

We agree that the proposed amendments, if adopted, should be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement as retrospective application achieves comparability.

We agree that the proposed amendments, if adopted, should be applied prospectively for the capitalization of the service cost component of net benefit cost in assets, when applicable, as retrospective application would be burdensome and result in significant implementation costs.

**Question 9:**

***Should the disclosures of the nature of and reason for the change in accounting principle be required in the first interim and annual reporting periods of adoption? Why or why not?***

We agree that these disclosures should not be required on the basis that they do not provide significant relevant information to users.