7550 Ogden Dale Road SE
Calgary Alberta
Canada T2C 4X9 www.cpr.ca

May 2, 2016

Technical Director
File Reference No. 2016-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2016-200

Request for comments on Exposure Draft of Proposed Accounting Standards Update on Compensation – Retirement Benefits (Topic 715), or "the proposed update"

Dear Sir or Madam,

On January 26, 2016, the Financial Accounting Standards Board (FASB) published the proposed update. Canadian Pacific Railway Limited (CP) is pleased to submit its comments on the proposal in this letter.

CP operates a transcontinental railway in Canada and the United States and is listed on the Toronto and New York Stock Exchanges. CP's network extends approximately 12,500 miles from Montreal, Quebec to Vancouver, British Columbia and the U.S. Northeast and Midwest regions. CP reports its financial information using accounting principles generally accepted in the United States.

CP's management appreciates the opportunity to comment on the proposed update. Our responses to the questions posed are below the executive summary.

Executive Summary

CP is one of seven North American Class I railway companies; five being U.S. Companies and two being Canadian. U.S. analysts consider all seven companies in their analysis of the industry. As a result of regulatory differences between Canada and the United States, the Canadian railways are at a significant disadvantage as a result of this proposal as we have significant defined benefit pension plan requirements which our U.S. peers do not.
CP disagrees with the proposal to move all elements of net benefit cost outside of income from operations with the exception of service cost as this will not meet the FASB's concept principals of including in operating income those elements that are required for operations. The costs of running CP's defined benefit pension plans are required in order to provide our employees with appropriate retirement benefits as part of their compensation package

which is a cost of running our railway. This cost should be shown within income from operations as part of the true operating cost of our business.
We do not believe that the goal of added transparency is met through changes to presentation. Transparency is achieved through disclosures which will benefit users. We believe that the elements of net benefit cost are already clearly and adequately disclosed in the notes to the financial statements and a change to the presentation of the components of net periodic benefit cost will not better serve financial statement users.

As such, we urge the FASB to reconsider this proposal as it will not provide users with greater insight than they already have and will actually result in less comparability between some companies' financial statements and will certainly reduce the comparability between CP and its U.S. peers.

We appreciate the opportunity to comment and thank you for your consideration.

Sincerely,

Mark J. Erceg

Mark J. Erceg, CFA
Executive Vice-President and Chief Financial Officer

Question 1: Should the service cost component be reported in the income statement apart from the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 and be the only component eligible to be capitalized in assets? Why or Why not?

We do not believe that service cost should be separated from the other components of net benefit cost. CP does not believe that this change will reflect the substance of the cost of running a railway as it distorts the total cost of compensation. Employer payments made to defined contribution plans, federally administered pension plans (for example, the Railroad Retirement Board (RRB)) are included in operating expense and are costs of having employees and operating a railway. We do not see a difference in substance between contributions to defined contribution pension plans, federally administered pension plans and the total costs of a defined benefit pension plan. Segregation of the accounting elements of the defined benefit pension plan costs included in net benefit cost would significantly reduce visibility to the cost of running a business.

Canadian railways and their pension plans are subject to strict funding requirements that American railways are not as a result of U.S. federal government intervention during the Great Depression. The RRB was established in 1935 by the United States federal government to provide U.S. railway workers with retirement, unemployment and sickness benefits. As a result of the RRB, the need for defined benefit pension plans for our peer companies in the US is significantly reduced. The rail industry in the U.S. is the only industry excluded from federal social security as a result of the creation of the RRB. Costs associated with the RRB are recognized in operating expenses as they reflect costs of employing people in the U.S. To provide some context as to the size and impact of CP's defined benefit pension plan in relation to our US peer companies, CP's defined benefit pension plan has approximately 35,000 members and pension plan assets exceeded $12 billion dollars with a benefit obligation of $11.2 billion as at December 31, 2015. CP's revenue for the year ended December 31, 2015 was $6.5 billion. Union Pacific, a U.S. Class I railway, had $20.3 billion in revenue and pension plan assets of $3.5 billion and a pension obligation of $4 billion. Union Pacific had an average employee count of 47,457 for the year ended 2015 compared to CP's 12,943. Union Pacific's workforce is significantly larger than CP's but as a result of the RRB, Union Pacific's pension plan asset and obligation balances are significantly smaller. The total net benefit cost is representative of the cost of running a railway in Canada and should therefore be included in operating income, not just the current service cost. As CP was founded in 1886, we have a long history and a lot of employees and retirees served by our defined benefit plan. Many railways do not have the same long standing history or large defined benefit pension plan and therefore these proposals will affect CP significantly more than our U.S. peers.

CP supports the FASB's efforts to improve transparency and provide disclosure in financial reporting that enhances the users' understanding of the preparer's costs and business activities but we believe that the goal of transparency is not met through moving financial statement elements in or out of operating income but instead, through disclosure. All elements of net pension expense are currently identified in the robust requirements for note disclosure.

We are supportive of the FASB's efforts to provide clarity surrounding capitalization of pension expenses in order to reduce diversity in practice.

Question 2: Would it be useful to require presentation of the prior service cost or credit component separately from the other components? Should all of the components of net benefit cost other than the *service cost component (for example, the prior service cost or credit component) be presented outside a subtotal of income from operations. If one is presented? Why or why not?*

We do not believe disaggregating the prior service cost or credit component separately will provide additional value to users of financial statements as the proposed information is currently available in the extensive disclosures provided in the notes to the financial statements.

We do not believe that any components of net benefit cost should be presented outside of the subtotal of income from operations as the cost of defined benefit pension plans is part of CP's operations. CP's unionized employees are members of our defined benefit plan and CP could not be run without our union employees. CP has over very many years negotiated labour agreements with unions representing its workforce and as part of these negotiations has agreed to provide unionized employees with a defined benefit pension plan. As such, the cost is a true representation of what it costs to run a railway and should therefore be included as part of the income from operations subtotal. It is also a benefit provided to our employees that management cannot easily change or remove if the accounting treatment changes.

We believe disclosure would meet the FASB's goals of greater transparency. If some element of net benefit cost should be disaggregated, we believe interest cost, as it relates to financing activities, could be presented outside of operating expense to meet presentation and transparency objectives.

In addition, not all companies present an income statement that includes an operating income sub-total. As a result it would be likely that they will continue to present all components of net periodic benefit cost as a single cost item, hence the proposed update will not result in conformity in practice between different companies.

When reviewing the FASB Concepts Statement 6, CP noted that paragraph 86 discusses that some gains and losses can be described or classified as operating or non-operating depending on their relation to an entity's major ongoing or central operations. CP's defined benefit pension plan and the associated net benefit cost are reflective of major ongoing and central operations as they are benefits provided to our operations employees. CP cannot run its operations without our pension plans as they are an integral part of our labour agreements. The net costs incurred to manage those pension plans should be considered operating expense as they reflect the true labour cost associated with running a Canadian railway.

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 do not believe disaggregating the net amount of the interest component will provide additional value to users of financial statements as the proposed information is currently available in the extensive disclosures provided in the notes to the financial statements. The interest component could be disaggregated from net benefit cost and be presented with other financing activities as this would be reflective of the substance of this element of net benefit cost though the other elements reflect the cost of the pension plan itself and should continue to be included as operating expense.

These proposals benefit entities that have poorly managed defined benefit pension plans by moving amortization of losses and expected return on assets outside of operating income. Regardless of the effective or ineffective management of an entity's pension plan assets, the cost associated with management of the defined benefit plan relate to operating the entity itself and should be shown within operating income.

Question 4: Would the proposed amendments improve the usefulness of financial information provided to users? Why or why not?

We do not believe the financial statement users would be benefitted from changing the presentation on the financial statements as the information is currently available in the note disclosures and eXtensible Business Reporting Language allows easy identification and modelling of pension elements. A change in location of costs does not make them any more transparent. Moreover, as noted above, we are of the opinion that these costs are representative of our actual operations and should continue to be presented as a component of operating income.

Users of financial statements want to know the true cost of running a Canadian railway and that cost includes the pension plans including all of the elements of net benefit cost.

Question 5: Should the proposed amendments be different for rate-regulated entities? Why or why not?

We do not have an opinion on rate regulated entities.

Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that inter 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 do not have an opinion on the cost associated with adoption.

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?

We do not have an opinion on timing of adoption.

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?

If adopted, the proposed amendments should be applied prospectively for the capitalization of service cost and retrospectively for the presentation of the income statement.

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 do not believe it is necessary for entities to disclose the rationale behind FASB decision making and therefore believe that, should disclosure of the change be required, it should be limited to the impact on the financial statements on the current and previous period where applicable.