

Letter of Comment No: 56  
File Reference: 1082-154  
Date Received: 1/15/96

## TransCanada PipeLines

TRANSCANADA PIPELINES TOWER, 111 - FIFTH AVENUE S.W.  
P.O. BOX 1000, STATION M, CALGARY, ALBERTA T2P 4K5

**Ray T. Smith** C.A.  
Vice-President and Controller  
(403) 267-6160 Fax (403) 267-1074

January 11, 1996

Director of Research and Technical Activities  
File Reference No. 154-D  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
U.S.A.

Dear Sir:

TransCanada PipeLines Limited (TransCanada) is pleased to submit its comments in response to the Exposure Draft (ED) of the Proposed Statement of Financial Accounting Standards, *Consolidated Financial Statements: Policy and Procedures*, issued by the Financial Accounting Standards Board (FASB).

TransCanada is the largest transporter and marketer of natural gas in Canada and has investments in natural gas pipelines in the United States. TransCanada is an SEC registrant.

As we discussed in our response to the FASB's 1992 Discussion Memorandum and the 1994 Preliminary Views Document on this subject, TransCanada does not support the definition of control as proposed in the ED. We believe that control for a business enterprise can only be objectively determined by reference to legal control, as evidenced by majority ownership and related participation on the governing board.

TransCanada's specific comments with respect to the ED are detailed below.

### **Control of an Entity**

TransCanada does not believe that control alone is a sufficient and appropriate condition to require consolidation of a subsidiary's financial statements. In our opinion, control and a significant level of ownership (50 per cent or more) are two separate and necessary conditions for consolidation of an investee.

Control indicates that a parent-subsidiary relationship exists, while ownership gives the parent's shareholders a beneficial interest in the net assets of the subsidiary. TransCanada does not believe that effective control will provide consistent support for the existence of the availability of economic benefits to the parent company. The criterion of effective control will be difficult to apply in practice and the subsequent subjectivity may result in



Financial Accounting Standards Board  
January 11, 1996  
Page 2

inconsistent application of the standard. Further, even if an entity with a less than 50 per cent interest in a subsidiary could elect a majority of the members of the Board of Directors, it likely would not do so as a matter of responsible corporate governance. We also believe that consolidation of a less than 50 per cent owned subsidiary will be confusing to users of financial statements because they will not consider the ownership interest to be one of control.

### **Consolidation Procedures**

TransCanada believes that the parent company approach provides the best information to shareholders and creditors since the interests of minority shareholders are presented as being outside the proprietary interest of the parent. The acceptance of the parent company approach supports the following positions.

#### Elimination of Intercompany Transactions and Balances

TransCanada believes that only the portion of intercompany items attributable to the parent should be eliminated since the noncontrolling interest is viewed as a third party.

#### Reporting Noncontrolling Interest in Subsidiaries

We believe that minority interest is neither a liability nor equity of the parent company. The noncontrolling interest in subsidiaries should therefore continue to be displayed separately between liabilities and equity in the statement of financial position. If the minority interest is displayed as part of shareholders' equity, the implication is that this amount is available for distribution to shareholders which is misleading.

We hope our comments will be useful to the FASB in its continued discussions on this issue.

Yours very truly,

RTS:taf