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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 discussion paper on *Preliminary Views Revenue Recognition in Contracts with Customers* as issued by the International Accounting Standards Board (IASB) and the U.S. financial Accounting Standards Board (FASB).

TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure, including natural gas pipelines, power generation, gas storage facilities and projects related to oil pipelines and power facilities.

TransCanada is supportive of the development of a principles-based revenue recognition model that will allow for increased comparability across entities and industries. We appreciate the Boards' efforts in developing a model that can be consistently applied to contracts with customers. In general, we agree with the theory underlying the principles proposed by the Boards. However, we believe that clarification of certain areas in the proposed model is required to ensure consistent application. We believe that the concept of "control" needs to be further deliberated and refined to ensure that it can be applied consistently across transactions. We would also encourage the Boards to clarify the concept of a continuous transfer of assets (such is the case for construction contracts whereby customers can take possession of a partially completed asset). Our responses to the selected questions below will further explain areas for which we have concerns

TransCanada hopes that its comments will be useful to the IASB in its 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

## Question 1

Do you agree with the Boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We agree with the Boards' proposal to create a revenue recognition principle based on net changes to an entity's contract position. Such a principle can be applied across different industries and will facilitate comparability of financial statements among entities.

# Question 2

Are there any types of contracts for which the Boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

We do not believe that the proposed model would provide decision-useful information for contracts measured at fair value, such as financial instrument contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, as any changes that affect the fair value would be recognized in the period in which they arise. Therefore, we encourage the Boards to consider scoping such contracts out of the proposed standard.

We also agree with the Boards that insurance contracts within the scope of IFRS 4 *Insurance Contracts*, and leasing contracts within the scope of IAS 17 *Leases* should be excluded from the proposed model. However, we encourage the Boards to review these areas in light of the proposed revenue recognition model prior to the finalization of a standard to ensure that there are no conflicts between the proposed and existing guidance.

#### Question 3

Do you agree with the Boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We agree with Boards' definition of a contract. It is consistent with the legal definition of a contract, which will assist in its application in practice, as well as help users of the financial statements with understanding the concept.

# Question 4

Do you think the Boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We agree that the proposed definition of a performance obligation will help entities identify the deliverables in a contract. However, we believe that further clarification is needed for certain elements of the definition to ensure consistent application, particularly in determining when a performance obligation is satisfied – please see our response to question 8.

#### Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

A performance obligation is generally satisfied when an entity transfers the promised good or service to the customer. Therefore, we agree that this is a logical and appropriate basis on which to separate performance obligations in a contract. We also agree that transfers of a bundle of goods or services at the same time should be accounted for as a single performance obligation, as there appears to be no benefit to treating these promises as separate performance obligations.

### Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

No response.

#### Question 7

Do you think that sales incentives (for example, discounts on future sales, customer loyalty points, and "free" goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

No response.

# Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We agree with the principle that an asset transfers to a customer when the customer controls the promised good or when the customer receives the promised service. However, we believe that certain elements of this principle should be clarified.

In the proposed model, revenue recognition reflects the *transfer* of promised goods and services to customers and not the *activities* of the entity in producing those goods and services. For certain circumstances, such as in long-term contracts, we find it difficult to distinguish between the activities that satisfy a performance obligation (where revenue can be recognized) and the activities in producing goods and services (where no revenue can be recognized). Therefore, additional guidance is needed in differentiating these situations to ensure that similar transactions are not being accounted for differently across entities when, in substance, the same activity is occurring.

The discussion paper makes a clear distinction between control of an asset, and the risk and rewards concept that is currently used. We believe that having significant risks and rewards is an indicator of control and should be incorporated into the guidance.

## **Question 9**

The Boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

Please refer to our response to Question 2.

#### Question 10

In the Boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

We agree that performance obligations should be measured initially at the transaction price. The transaction price model is consistent with the principle of recognizing revenue when goods or services are transferred to the customer. In addition, the transaction price is typically readily available and straightforward to measure.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

We agree that if an entity's expected costs to satisfy the performance obligations in a contract exceed the carrying amount of the obligations, then the measurement of the performance obligation should be increased to an amount greater than the transaction price with the corresponding entry recognized as a contract loss. We believe that remeasurement is required in order to provide a useful depiction of the entity's obligations under the contract.

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

Although we agree that remeasurement would provide a useful depiction of the entity's liabilities, we do not believe that remeasurement is necessary at each financial statement date. Such a requirement would be burdensome and may not provide users of the financial statements with useful information, particularly when

there were no factors to indicate that the performance obligation has changed. We believe that it would be more appropriate for entities to remeasure its performance obligations when there are factors present to indicate that the cost of fulfilling the obligation is greater than its carrying value (i.e. the performance obligation has become onerous); this methodology should be analogous to the indicators of asset impairment guidance provided in IAS 36 *Impairment of Assets*.

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

No response.

# **Question 11**

The Boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (for example, selling costs) are included in the initial measurement of the performance obligations. The Boards propose that an entity should recognize those costs as expenses unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

We agree that any amounts an entity charges to a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligation, as this is the amount that the entity has calculated as the item's transaction price.

(b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

We support the recognition of contract origination costs as expenses as they are incurred unless they qualify for recognition as an asset in accordance with other standards.

## Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's standalone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We agree that the transaction price should be allocated to the performance obligations on the basis of the entity's standalone selling prices of the assets underlying those performance obligations. The standalone selling prices are the most readily-available and objective measure of the performance obligations.

# **Question 13**

Do you agree that if an entity does not sell a good or service separately, it should estimate the standalone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

We agree that, even if an entity does not sell a good or service separately, it should still estimate the standalone selling price of that asset for purposes of allocating the transaction price. The good or service represents an asset to be transferred, and the allocation of the transaction price will allow the entity to recognize a portion of revenue when the obligation has been satisfied, providing a better depiction of the entity's financial performance.