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Dear Technical Director:

TransCanada Corporation (TransCanada) is pleased to submit its comments in response to the Invitation to Comment on the Exposure Draft on Leases (Topic 842) – a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840), 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 oil pipelines, power generation and gas storage facilities. TransCanada operates a network of natural gas pipelines and extends more than 68,500 kilometers (42,500 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 approximately 400 billion cubic feet of storage capacity. A growing independent power producer, TransCanada owns, or has interests in over 11,800 megawatts of power generation in Canada and the United States. TransCanada is developing one of North America's largest oil delivery systems.

TransCanada supports the FASB's objective to develop a single set of lease accounting standards that are accepted and applied consistently as well as to develop a common standard for US GAAP and IFRS. While we support the objective of improving the usefulness of information provided in financial statements, we believe that the application of the proposed standards will continue to cause difficulty to users and preparers due to the following:

- The ambiguity of certain terms used in the proposals.
- The cost of implementing the proposed standards.
- The exclusion of certain concepts (i.e. leases of real estate assets).

In our response to select questions contained in the Exposure Draft, we have outlined some areas where we would like additional information or require more guidance. For questions that we have not addressed directly, we are in agreement with the proposals.

We also note that the Exposure Draft has addressed many of the concerns we had outlined in our response to the initial Exposure Draft on Leases (2010). This includes the following:

- Distinguishing between financing and other than financing arrangements,
- Excluding contingent payments in the calculation of a lease liability.
- Clarification on arrangements controlled by regulation,
- Adding guidance for short term leases.

We appreciate these changes and feel that our concerns were suitably addressed. As the proposed standards will likely have a significant impact on preparers, we suggest that the proposals be subject to field testing to ensure the standards can be applied in practice and that

the costs to preparers are worth the benefits to users. The FASB should consider both the results of this testing as well as comment letters received when formulating the final standard.

Question 1: Identifying a Lease

Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

We agree with the proposed definition of a lease and especially with the two dimensions to the definition (i.e. the fact that the definition is being tied to a specified asset that can be identified and the notion of controlling the use of that specified asset). We feel that taking the majority of output alone does not represent having 'control' of the asset. As such, the proposed definition that requires the ability to direct the asset's use and derive substantially all of the potential economic benefits throughout the term of the contract is a more logical representation of who controls the asset. Therefore, we feel that the combination of these two ideas more accurately determines if a party has control over an asset, which in turn determines if the contract represents a lease. This guidance on control is also consistent with the concept of control in other FASB proposals such as revenue recognition.

We believe that there are specific fact patterns where the proposed definition is difficult to apply. For example, in the construction of a pipeline, the customer may have been involved in designing the pipeline for its own use and in determining the terms and conditions of the contract. These terms often include the condition that daily operations are performed by the operator/seller. However, included in daily operations would be decisions on planned and unplanned maintenance, shutdowns, addition of shippers, etc. In this example, there are many significant decisions made by both parties but judgment would have to be used to determine which decisions are more significant and more heavily represent the ability to direct the use of the asset. This is an especially important issue in our industry where a pipeline may be built based on specific customer requirements, but the pipeline owner has the expertise and retains the risks and rewards of operating that pipeline.

We believe that more guidance is required as to how companies can actually distinguish the decisions that most significantly affect the economic benefits from other decisions in order to establish if it is the operator/seller or the customer that actually directs the use of the identified asset. We would also like clarification on the significance of decisions that are made before lease commencement and not during the lease term as well as decisions that are made jointly by the customer and operator/seller.

Question 2: Lessee Accounting

Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

We do agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should be based on the significance of the economic benefits of the underlying asset consumed by the lessee over the lease term. In our response to the 2010

Exposure Draft, we discussed the need to distinguish 'asset rental agreements' from asset ownership in relation to lease term (compared to economic life). As such, we believe that consumption is the key driver to determine the impact on the lessees' business (i.e.—more consumption, bigger impact). This also maintains some of the fundamentals from current guidance such that leases fall into two main categories in terms of their income statement impact.

We request clarification of the term "substantially all". Since this term is currently not defined in the Exposure Draft, clarification by the FASB would ensure that companies are consistent in their assessments and this would limit discrepancies as to how companies classify similar leases. Entities might consider "substantially all" to be the same as it is defined in current lease accounting guidance. As such, if this is not the intended definition, then clarification would be needed.

Although certain concepts from current guidance have remained intact, we do feel that the actual accounting and tracking of all leases will increase significantly and be more complex (i.e. right-of-use asset and lease liability determination and reassessment; interest and amortization expense; etc.). We anticipate that lessees will have to develop or acquire a system capable of tracking the right-of-use assets, lease liabilities, and expense amounts and would have to perform additional calculations to account for the change in those amounts in each period. Therefore, the implementation of the proposed standards will require extensive resources. In order to determine what the actual impact will be, we continue to suggest that the proposals be subject to field testing so all stakeholders can get a true sense of the complexities involved in implementing the proposed standards and the benefits of the changes.

Question 3: Lessor Accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

We agree with the proposals and to use different approaches to lessor classification of leases based on the consumption of an asset by a lessee. As noted in other responses, we would like further guidance on "insignificant portions of economic benefits" so as to accurately classify and account for leases by a lessor. This will also assist us in accurate transition of accounting for leases whose current classification may change due to the proposals.

As a lessor, we believe that leases of property are unique in that it is unlikely that the lessees will consume more than an insignificant portion of the underlying asset. However, we believe that this should be the *only criterion* used to assess property leases. Under the proposals, if the present value of the fixed lease payments account for substantially all of the fair value of the underlying property, these property leases would be Type A leases and treated as "asset sales". We feel that this does not represent the economics of the transaction because recovery of lessor's capital cost and a return is not representative of consuming a "significant portion of the economic benefits embedded in the underlying asset". We propose that the FASB retain existing guidance to ensure that the accounting treatment accurately represents the nature of the transaction.

Question 4: Classification of Leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

We agree with the proposals such that classification of a lease should be based on expected consumption as consumption is the key driver in determining the extent of use of an asset. However since the consumption test differs based on whether the asset is property or non-property, we feel that additional guidance on the definition of property is needed.

In particular, it is not clear whether the Boards intended to include integral equipment (as defined in current US GAAP), under the definition of property. Buildings fall under the definition of property in the proposed guidance; however, we believe that there is no substantive difference between integral equipment and buildings. Both items are so tied to the land that they are built on that they cannot be distinguished from that land. We believe that having "four walls and a roof" isn't a distinguishing characteristic between the two items. Therefore, we recommend that the FASB retain the current guidance around integral equipment in order to maintain the matching of economic reality and accounting presentation.

We agree with establishing criteria for classification; however, we feel that more guidance is required to identify property and non-property assets (as discussed above) as well as major and minor parts of economic life to ensure proper classification and treatment of existing and new leases

Question 5: Lease Term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

We agree with the proposals on lease term since a lessee would only renew a lease (or not renew a lease) if there was significant economic incentive to do so. Therefore, similar to the current definition where renewal options are those that are reasonably assured to be executed (most likely with economic incentive to do so), the proposed definition would capture all periods that a lease is likely to remain in place. We do, however, require clarification on "significant economic incentive" and its application. This clarification is required, in particular, for longer term agreements where renewals are more difficult to accurately predict. We also agree with reassessing the lease term if there is a change in relevant factors as outlined in the proposals.

Question 6: Variable Lease Payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

We agree with the proposals to include only variable lease payments that depend on an index or a rate and variable payments that are in substance fixed payments in the measurement of the lease liability. We also agree that the lease liability would be measured using the index or rate at the commencement date and would be reassessed at the end of each reporting period. This is

reasonable since these payments are considered unavoidable and should be captured in the lessee's lease liability. We also agree with excluding variable payments that are based on performance or usage of the underlying asset from lease payments as these payments could be avoidable and can be difficult to determine with certainty. These payments would be recognized in the income statement only when they are incurred or earned which is similar to current guidance. This was a concern we had outlined in our response to the 2010 Exposure Draft and this concern has been addressed in the proposals.

Question 7: Transition

Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the Boards should consider? If yes, what are they and why?

We agree with the transition proposals since the modified retrospective approach is intended to approximate a full retrospective approach but at a lower cost and with less complexity than full retrospective adoption.

Generally, entities will spend significant time and effort to gather all the relevant information and documentation for existing leases. As this exercise is already complex, we feel that using the modified approach on existing leases is a valid and cost effective method to ensure consistency between accounting for existing leases under new standards as well as applying the new standards to new leases.

We also agree with adjusting the balance sheet and each affected component of equity at the beginning of the earliest comparative period presented. The subsequent comparative periods presented would also be adjusted as if the entity had always applied the proposed guidance as this will keep all periods presented consistent in terms of financial statement impact of the proposed standards. We would, however, need the additional guidance and clarification of certain proposals (as we have noted in our responses above) to ensure we properly address and account for existing leases in accordance with the proposals. We would also require sufficient time to implement the proposals and request an effective date of at least three years after the final standard is issued.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

We agree with the qualitative and quantitative disclosure requirements as they provide useful information on a company's determination of arrangements that qualify as leases, assumptions made, information about a company's right-of-use assets and lease liabilities, and how those balances have changed each period. This will assist users in understanding the main concepts in the proposals and also facilitate the comparison of these concepts from company to

company. We also feel that the proposed disclosures would build on existing disclosure requirements for commitments such that all companies would provide a sufficient level of detail as to what commitments they have and how these contracts are treated.

We do not believe, however, that the same level of disclosure should be required for interim financial statements and annual financial statements. We would agree with the proposed interim disclosures only if a transaction entered into during the period is considered material, or if there is significant change related to a lease agreement or economic circumstances since the last audited financial statements were prepared. In other instances, we do not believe that including these disclosures at each interim period would provide users with any additional useful information.

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