January 28, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

International Accounting Standards Board
1st Floor, 30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Sirs:


Canadian Pacific ("CP" or "we") appreciates the opportunity to comment on the joint Financial Accounting Standards Board/International Accounting Standards Board (the "Boards") Discussion Paper, Proposed Effective Dates and Transition Methods (the "DP").

Our specific comments to the questions posed in the DP are as follows.

Question 1: Background
(a) Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.

As a Canadian incorporated public entity and SEC registrant, CP prepares and reports its financial statements in accordance with US GAAP.

(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.

CP is a North American Class I transcontinental railway providing freight transportation services over a 15,400 mile network in Canada and the U.S. Midwest and Northeast regions, with approximately 15,250 employees, generating approximately Cdn$5 billion in revenues during 2010. The Common Shares of CP are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol “CP”.

(c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.

Not applicable

(d) If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.

Not applicable

(e) Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).
The effect of each proposed standard, in which an exposure draft has been issued, in order of significance to our business is discussed as follows:

Leases

We have a significant number of leases, in excess of 10,000, where we are either the lessee or the lessor. The proposed changes will require significant analysis and revision to the current accounting for all currently classified operating leases. In addition, accounting for all currently classified capital leases will need to change to address measurement changes. This will be further compounded if short-term arrangements such as car-hire (refer to our comment letter on the leases exposure draft dated December 15, 2010) fall within the scope of the leases standard as these have not historically been considered leases.

These accounting changes will require significant process and system changes, potential changes to existing debt and credit arrangements, and increased testing by our external auditors to address the significant increase in the use of estimates. The system changes needed to track individual leases and update our records for changes in estimated amounts, based on changes in facts and circumstances, will take time to develop and implement.

Currently, it is unknown whether the Canadian Transportation Agency in Canada (“CTA”) and the Surface Transportation Board in the United States (“STB”) will revise the regulatory reporting requirements to be consistent with these changes; however, it is possible we will need to follow two accounting models (one for financial reporting and one for regulatory reporting). Having to manage two accounting systems would further increase the complexity and costs associated with the proposed lease standard.

In addition, costs will be incurred to ensure a strong outreach and communication program to educate the investment community including rating agencies and significant lenders. Subsequent to the initial implementation of the standard, additional personnel will be required to appropriately track and maintain the significantly greater amount of information that will be required by the proposed standard.

Revenue Recognition

As discussed in our comment letter on revenue recognition dated October 22, 2010, we believe that the proposed standard will not affect our current revenue recognition policy; however, it is unclear that this interpretation is consistent with the Board’s intent. We have requested that further clarification on the application of the standard to the provision of services be provided in the final standard in order to avoid ambiguity and inconsistent interpretation.

If the Board provides further clarification in the final standard which alters our initial interpretation, significant changes to our current revenue systems will be required for a minor dollar value change to revenue presented in the financial statements. The costs associated with changing our current revenue system will be significant. It should be noted that the current revenue system would also need to be retained in order to track and recognize revenue to comply with regulatory reporting requirements of the CTA and STB. Given that CP may have to report revenues using two revenue recognition models, costs associated with this change will increase in the areas of training, IT management, and external audit fees.

Financial Instruments and Comprehensive Income

The Accounting for financial instruments and revisions to the accounting for derivative instruments and hedging activities, including netting of financial instruments and the Comprehensive Income proposals are not expected to have a significant impact to our business. However, it will require personnel time in order to evaluate the changes and to modify our processes to comply with the new requirements. This time requirement should lessen after adoption. Time spent by both our personnel and our external auditors will increase during implementation to ensure the new standard is applied appropriately.
Question 2: Planning for the Transition
(a) How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?

The changes proposed in the recent exposure drafts are significant and will have far reaching effects. A significant time and resource commitment will be required in order to ensure compliance with the new standards. While we agree with principles based standards they do require companies to take more time to interpret, document and apply to company specific circumstances. This in turn requires more discussion with external auditors to ensure interpretations are supportable and appropriate.

Understanding the necessary changes to information systems and processes will also be time consuming as the changes will influence all steps of the recording process and not solely presentation matters. Incorporation of the changes into the internal control framework will also be an important part of the project. For leases alone, a formal project team with dedicated project manager and staff will need to be established to ensure successful implementation over a period of several years.

The magnitude of the changes will result in the need for extensive training throughout the company. In particular the increased use of estimates in both the revenue recognition and leases proposals makes initial recognition and subsequent measurement far more complex than before. This will require significant training at all levels and we may even require additional resources to deal with the new and complex requirements.

Training will not be limited to accounting staff, the changes to leases and revenue recognition will change how our contracts with our lessors, lessees and customers are written going forward and this will have a significant impact beyond the accounting department.

Education of the external users of our financial statements will also be needed. The investment community and rating agencies will need to understand how the new accounting standards have changed our financial results, financial position, cash flows and key financial metrics.

As discussed above, the projects that will require significant lead time for CP will be leases and potentially the revenue recognition proposal. Due to the magnitude of the changes that the leases proposal will have on our business, we would expect a period of at least five years from issuance of the final standard to the effective date, thereby permitting a minimum of two years between finalization of the standard and the transition date of the oldest comparative period in our first financial statements after adoption. Given the complexity of lease accounting it is important that we have sufficient time to develop and implement the necessary system changes prior to accounting for our first comparative period. Failure to do so would require manual tracking which tends to have an increased risk of misstatement.

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

While we do not at this point know how much the implementation of these standards will cost we would expect the following types of costs.

As discussed in Question 1 above, costs related to information system changes will be the most significant considering the need to modify the current system in order to meet the changes in the standards and the possibility of requiring parallel systems to track both leases and revenue using the current models required by industry regulators in addition to the new models proposed. This may include purchasing software packages in addition to the cost of internally developed software. We would expect that we will be reliant upon external consultants for much of the system modification and implementation work. Available skilled IT consulting resources are likely to be limited, and therefore charged at a premium, as all public companies will be required to adopt these new standards.

Secondly, the costs associated with training and maintaining the appropriate level of personnel in order to implement the proposed standards will be significant. The additional requirements and complexity for leases will
likely require additional personnel in future periods to ensure continued compliance with the proposed accounting treatment.

Third, professional fees associated with the evaluation of the new standards and increased external audit testing on adoption and continuing in future periods will also be significant.

**Question 3: Broader Implications**

Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Comments regarding the broader implications of the changes contained within these proposed standards are discussed within the response to Question 1.

**Question 4: Proposed Transition Methods**

In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

We agree with the Board’s proposed transition method of retrospective treatment for the revenue recognition, financial instruments and comprehensive income standards; however, for the leases standard a choice between full retrospective and simplified retrospective on a lease by lease basis should be allowable.

While we appreciate the Boards’ effort to simplify the adoption process we are concerned that the simplified retrospective method will lead to different results than the full retrospective approach. For some lease commitments, use of the simplified retrospective approach may not reflect the economics of those leases. This may have a significant impact on our results following adoption.

We are concerned that the impact of the simplified retrospective method could render our results unrepresentative with respect to our balance sheet and income statement. Therefore we believe the option to use full retrospective application should be available. While it may be difficult for some companies to go back to lease inception for all leases, especially for very old leases (such as property leases), or information may not be available due to system limitations, we support an option to use the proposed simplified retrospective method in such circumstances. However, where information is available to permit full retrospective adoption we feel this will provide a more accurate representation of our assets, liabilities, income and expenses following adoption.

**Question 5: Implementation Plan**

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

We recognize that both the single-date and the sequential approach have advantages and disadvantages. A sequential approach would allow us to stage the implementation of each standard; therefore internally, this approach makes project management more manageable. However, having to restate comparative results each year is very time consuming and cumbersome to track, adds complexity to internal and external reporting, increases the risk of material misstatement and can lead to confusion among users of financial statements.

During our transition to US GAAP from Canadian GAAP for financial reporting commencing January 1, 2010, we found that external parties using our financial statements appreciated the “all-at-once” approach and, therefore, we believe our investors will appreciate our preference to adopt the new standards on a single date in order to avoid the effects of constantly changing financial statements.
(b) Under a single date approach, what should the mandatory effective date be and why?

The transition date should be, at a minimum, two years subsequent to the issuance of the final standard for the first comparative period. For example, the issuance of the final standard for leases and revenue recognition is expected during the second quarter of 2011. The Board should then allow a minimum of two full years prior to requiring the transition date of the standard to be January 1, 2014. Therefore, with a three-year required comparative period, the effective date of adoption of the standards should be no earlier than fiscal periods ending on or after December 31, 2016.

This approach is preferred, as discussed above, and will allow sufficient time to plan, analyze and implement the changes, train appropriate personnel and allow sufficient time for our external auditors to audit the transition to the new standards, including the affects on our information systems, and audit our three-year comparative period financial statements.

Question 6: Early Adoption

Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

It is our belief that the education of external users of our financial statements will be easier if all companies adopt the new standards at the same time. It will also enhance the comparability of financial statements within and across industries. As such, our preference would be to not allow early adoption of the new standards prior to their mandatory effective date.

Question 8: Joint Project

Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

The same effective dates for both the FASB and the IASB standards should be issued. This will allow comparability across industries, geographical locations and financial information provided to exchanges. Shareholders, investors, analysts and rating agencies will be able to better understand the significant changes created by the new standards on a global basis.

We would be pleased to answer any questions that the Boards may have and discuss further any of the comments made in this letter.

Yours truly,

Brian Grassby
Senior Vice-President, Finance and Comptroller