April 25, 2016

Financial Accounting Standards Board
Technical Director
File Reference No. 2016-210
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
United States

Dear Sir/Madam:

Re: Comments on the Board’s Exposure Draft Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Hydro-Québec is a major North American producer, transmission provider and distributor of electricity, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government. In Québec, the transmission and distribution of electricity are regulated by the Régie de l’énergie, which sets rates on the basis of cost of service plus a reasonable return on the rate base.

On behalf of Hydro-Québec, I thank you for giving us the opportunity to comment on the Board’s Exposure Draft entitled Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

We do not support the Financial Accounting Standards Board’s amendments to disaggregate the service cost component from the other components of net benefit cost in the income statement and be the only component eligible to be capitalized in assets. Attached are our detailed responses to the questions in the exposure draft.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Lise Croteau, FCPA, FCA
Executive Vice President and Chief Financial Officer

Encl.
Proposed Accounting Standards Update
Compensation – Retirement Benefits (Topic 715)

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

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?

Presentation aspect

In our view, a defined benefit pension plan is globally managed and net benefit cost is the cost to provide such a plan to employees. In the long term, the real cost of the plan is made up of all its components.

However, each component reflects a certain aspect of net benefit cost. In particular, the expected return on plan assets is an investing component that is directly related to the defined benefit plan and not to the investing activities of the entity. The assets are segregated and restricted in a trust to provide for pension benefits.

The Board mentioned in BC13 that the interest cost component of net benefit cost reflects only the effects of the passage of time. In this context, we note that it could be viewed as an accretion expense. The accretion expense of an asset retirement obligation is classified as an operating item in the statement of income.

Furthermore, the cost of a defined benefit plan will not be comparable to the cost of other plans such as a defined contribution benefit plan, and it will add pressure to maintain defined benefit plans.

The FASB objective was to increase transparency of net benefit cost and provide financial statement users with additional disaggregated information to facilitate their analyses. This information is already provided in the notes to the financial statements. We do not think that a different presentation will enhance transparency.

Finally, we are of the opinion that preparers should be allowed to present net benefit cost in operating expenses and disclose in the notes where the cost is presented in the income statement.

Capitalization in assets

We do not believe that the service cost is the only component eligible to be capitalized in assets. The reasons are the same as for the presentation aspect, i.e. net benefit cost is the total cost for providing a defined benefit plan.

Limiting capitalization to the service cost component will result in a difference with IFRS. Under IAS 19, Employee Benefits (amended in 2011), all components can be capitalized in the cost of assets (IAS 19.120), if applicable.
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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?

Presentation of the prior service cost or credit component separately from the other components
No, we think that the prior service cost or credit should follow the service cost component because it represents a service cost (or credit).

Presentation outside a subtotal of income from operations
No, as we stated in our response to the first question, all the components are part of net benefit cost for the employer. We believe that the total cost is a compensation cost in order to provide this type of plan to employees and it should be presented in operating income.

Question 3: Would it be useful to require presentation of the net amount of the interest cost 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?

No, this net amount in IFRS is not calculated in the same manner as in US GAAP. Furthermore, these components are already disclosed in the notes to the financial statements.

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

We do not think that the proposed amendments would improve the usefulness of financial information for users. Information about components of net benefits cost is already disclosed.

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

Yes, they should be different for rate-regulated entities that recover their accounting net benefit cost. We recover it on a cost basis and capitalize a part of net benefit cost. If we cannot capitalize the other components and present them as operating cost, we may not be able to recover them or give them to customers.

As previously stated, defined benefit plans are globally managed and we believe that net periodic cost is the compensation cost to provide a defined benefit plan to employees. However, if the proposed amendments are retained, we suggest adding an option for rate-regulated entities to present net benefit cost in their operating expenses.

Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter 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?

Yes, they are operable without incurring significant incremental costs.
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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?

If the proposed amendments are applied retrospectively for the presentation and prospectively for capitalization, not much time will be required to implement them. Early adoption should be permitted.

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?

Yes, it should be applied prospectively for capitalization in assets in order to reduce complexity.

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?

Yes, such disclosures should be required in the first interim and annual reporting periods of adoption if the impact is material for the entity.