CANADIAN PACIFIC

Brian Grassby
Senior Vice-President, Finance and Comptroller

Suite 500
Gulf Canada Square
401 - 9th Avenue S.W.
Calgary, Alberta T2P 4Z4

Tel: 403-319-7280
Fax: 403-205-9000

brian_grassby@cpr.ca

July 29, 2011

Office of the Chief Accountant
Division of Corporate Finance
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Dear Sirs,

Re: File Reference No. 4-600: Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation

Canadian Pacific ("CP" or we) appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "the Commission") on its Staff Paper exploring a possible method of incorporating International Financial Reporting Standards ("IFRS") into accounting principles generally accepted in the U.S. ("U.S. GAAP").

CP is a North American Class 1 transcontinental railway providing freight transportation services over a 14,700 mile network in Canada and the U.S. Midwest and Northeast regions. CP is a SEC registrant filing under the multi-jurisdictional system with annual information being filed on Form 40-F. CP currently reports its financial statements using U.S. GAAP.

We are pleased that the Commission is continuing to seek input from stakeholders as it considers whether and how to incorporate IFRS into U.S. GAAP. We are generally in agreement with the proposals outlined in the SEC Staff Paper: *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation.*

In particular, we are supportive of the five to seven year staged transition period during which IFRS would be progressively incorporated into U.S. GAAP. This will provide U.S. SEC registrants sufficient time to appropriately plan for and execute the implementation of IFRS including educating accounting and other company staff, building a knowledgeable implementation team, engaging external resources, making changes to accounting processes and financial systems and amending financial covenants and other contractual agreements. There will be significant challenges for many companies to address in adopting IFRS and a sufficient time-frame in which to meet these challenges in a well planned and thorough manner will increase the likelihood of a successful transition. In addition, a five to year transition period will overcome issues related to the availability of resources to assist companies with the transition. The experience of other countries that have adopted IFRS using a "big-bang" approach has been that external resources, such as companies' external auditors, IFRS implementation advisers or IT consultants, can become very sought after. This increases the risk that companies may be required to complete their adoption of IFRS without sufficient knowledgeable resources being readily available. A phased-in approach as suggested in the Staff Paper could help to alleviate this potential "resource crunch" which will benefit companies, the SEC and users of financial statements.

Moreover, following the proposed approach of incorporating IFRS through first the Memorandum of Understanding projects currently being worked on jointly by the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB"), second future new or changed IFRSs subject to IASB projects and thirdly other IFRSs not subject to future change through IASB projects also means that as companies have to deal with change, it is at a measured and therefore manageable pace. It also will hopefully provide companies with the ability to adopt IFRS from a steady platform, in other words, the last IFRSs to be adopted will be ones that have been unchanged for some time and therefore should be well understood. This eases the adoption process for companies and avoids, for example, the position European companies were in when adopting IFRS in 2005 when IFRSs were under significant change right up to the date of transition.

However, we do have some areas of concern with the proposals in the Staff Paper. The objective of incorporating IFRS into U.S. GAAP "would be that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB."

We agree with this objective. We also concur that where possible the application of IFRS on a prospective basis can provide a cost effective method of implementing new accounting standards. Therefore, we would encourage consideration of the IFRS standards for which prospective application would be appropriate. However, we feel that the option to apply IFRS on a retrospective basis, except where IFRS 1 expressly prevents such application through mandatory exceptions, should be maintained.

We are also concerned that once IFRS is incorporated into U.S. GAAP there may be certain restrictions applied to its application or interpretation. The Staff Paper states that "the FASB would retain the authority to modify or add to the requirements of the IFRSs incorporated into U.S. GAAP."

This could lead to IFRS in the U.S. being more restrictive than IFRS, as applied in other jurisdictions, by preventing alternative accounting policy choices available under IFRS from being chosen by U.S. issuers. For companies that operate globally it is important that they have a level playing field with their world wide peers and competitors. Restricting the policy choices available to such companies could be detrimental to their ability to compete globally and is contrary to the objective of having one single set of global accounting standards. While we appreciate that it may be necessary at times to provide specific local guidance or interpretation of IFRS, we would suggest that exceptions be minimized.

Our final comment is with respect to the example given to illustrate transition. The Staff Paper discusses a possible transition for IAS 16 Property, Plant and Equipment. The North American railroad industry is very capital intensive and any changes to the accounting for property, plant and equipment can have a very material impact to our financial position and operating results. In the example no mention was made of the application of IFRS 1 and the one-time policy choices that can be made for property, plant and equipment on adoption. It is important that in transitioning to IFRS the application of any IFRS is considered in

conjunction with IFRS 1 as this can significantly change the method of transition, which in itself can have a significant impact on future application of the IFRS.

The discussion in the Staff Paper does focus on componentization. In North America railroads follow the Group Accounting method for accounting for property assets, including their depreciation and ultimate retirement. The comprehensive nature of the grouping of homogeneous assets for the purposes of depreciation studies and ongoing group accounting results in North American railroads having a very robust and detailed level of componentization that is rigorously applied across all classes (groups) of assets in compliance with IAS 16 paragraphs 43 and 45. We therefore are of the view that when considering componentization it is important that group accounting, which is an acceptable method for accounting for property, plant and equipment under U.S. GAAP, continue to be an acceptable method of accounting under IFRS. Therefore, we recommend that prior to implementing IAS 16 there is an active deliberation related to the application of group accounting.

For your information, we have attached to this letter a paper prepared by Bill Stout of Gannett Fleming, which was originally submitted to the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants in 2002 that discusses Group Accounting in more detail.

We would be pleased to discuss any of our comments raised in this letter further with the staff of the SEC.

Yours truly,

Brian Grassby
Senior Vice-President Finance and Comptroller

Attachment 1

**A Comparison of Component and Group Depreciation
For Large Homogeneous Groups of Network Assets**

A Presentation to the Accounting Standards Executive Committee
of the American Institute of Certified Public Accountants
By William M. Stout, P.E.
President, Valuation and Rate Division
Gannett Fleming, Inc.

INTRODUCTION

Depreciation is the expense recognition of the cost of assets that provide an economic benefit over a period that is greater than a year. Depreciation represents a measure of the loss in this economic benefit or value of the asset in each year that it provides service. Under generally accepted accounting principles, depreciation accounting is "a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation."[1] Thus, rather than a determination in each year of the value that remains, the original cost less salvage is allocated to each year using a method of allocation, e.g. straight line.

The determination of depreciation expense for a single item, unit or component is a relatively straightforward process. (The terms unit and component depreciation are used interchangeably in this paper.) The cost of the item, less its estimated salvage value, is divided by its estimated service life. In the event the asset is retired prior to the estimated life, the book value remaining, after recognition of any salvage costs or recoveries, is charged as an expense in the year of retirement. If the asset remains in service beyond the estimated life, depreciation expense ceases inasmuch as the full cost of the asset has been recorded to expense.

The determination of depreciation expense for large homogeneous groups of assets such as the assets of railroads or public utilities is a more complex process. It is not possible to account for the depreciation expense of each and every asset required to provide railroad service over thousands of miles. Instead, the calculation of depreciation expense for such large groups of assets requires (1) the segregation of the assets into logical depreciable groups, e.g., ties, based on the function and nature of the assets, and (2) the use of averages: average salvage and average service life. Standard, or uniform, systems of accounts are used in many industries to classify or segregate the assets into homogeneous groups. Average values are required because not all of the assets in the groups of similar function and nature experience the same service life or realize the same

[1] Accounting Research Bulletins (ARB) No. 43, Chapter 9C, paragraph 5.

salvage value. That is, despite the fact that the assets in the group are homogeneous, they experience lives and salvage values that are dispersed over a wide range. Generalized survivor curves are used to describe the dispersion of lives over time.

SYSTEMS OF ACCOUNTS

Most, if not all, capital-intensive regulated industries classify their assets in accordance with a uniform system of accounts (USOA) promulgated by their regulator, e.g., the Surface Transportation Board, the Federal Energy Regulatory Commission, the Federal Communications Commission, and so on. These systems of accounts prescribe the capital accounts to be used and the type of assets to be included in each account. For example, in the railroad industry, there are separate accounts for grading, ties, rail, ballast, signals, communications equipment, locomotives, freight-train cars, and so on.

Most ~~of these accounts~~ contain thousands or millions of like items that have been installed over a long period of time. Millions of like items because of the thousands of miles of network (rail lines, electric transmission lines, gas pipelines, etc.) with the same type of assets used in mile after mile. A long time, because most of the assets used by these industries in providing service to their customers are long-lived assets.

The uniform systems of accounts also set forth definitions of depreciation and the manner in which it is to be determined. All of the systems of accounts require the use of group straight-line depreciation.

GENERALIZED SURVIVOR CURVES

The dispersion of retirements experienced by railroad and public utility property groups is described using systems of generalized survivor curves. The most commonly used are the Iowa survivor curves. These curves were developed at Iowa State University during the 1920's and 1930's using statistical analyses of actual retirements of various types of industrial property including railroad ties.

The Iowa curves consist of four families of curves. There are a total of 22 generalized curves in these four families. The families are defined by the relationship of the mode of retirement, the age at which the largest percent of property is retired, to the mean or average life of the group. Curves in which the mode of retirement occurs prior to, or graphically to the left of, average life are known as left-mode or L type survivor curves. S type or symmetrical curves are those in which the mode and mean occur at the same age. R type or right-mode curves are those in which the mode occurs after the average life. O type curves are those in which the greatest frequency of retirement occurs immediately or at the origin. The curves within each family are distinguished by the height of the mode of the frequency curve. The variation in the height of the mode results in curves that have narrow dispersion and curves that have wide dispersion of retirements.

The Iowa curves have repeatedly passed tests of their ability to describe the dispersion of assets retired within groups of industrial property.

DEPRECIATION STUDIES

The same regulators that establish the USOAs for these industries also require the preparation of periodic depreciation studies. Such studies are submitted, reviewed and approved by the regulators. The regulators issue orders pursuant to these reviews that specify the annual depreciation accrual rates to be used by the company.

Depreciation studies conducted for railroads and public utilities consist of statistical analyses of historical retirements for each group of property, reviews of the operation and condition of the property, discussions with management regarding its outlook for the assets, and comparisons with the estimates made for the same asset group by other companies. The results of the statistical analyses are similar to those obtained by an actuary analyzing the mortality of human beings. The results are interpreted and extrapolated using generalized survivor curves such as the Iowa curves. Depreciation studies are usually conducted every three to six years in order to discern any changes in probable average service lives or net salvage values. Further, calculations of the theoretical accumulated provision for depreciation are compared with the actual accumulated provision on a more regular basis to ascertain the need for an updated study prior to its normal schedule.

The results of depreciation studies indicate service lives for the individual assets within the homogeneous groups analyzed that vary widely. That is, although the assets within the group are basically the same, a tie is a tie is a tie, the period of time during which they are in service can range from 1 year to 100 years or more. The forces of retirement that act on these assets are numerous and act in varying degrees on different assets. It is not possible when a group of assets is first installed to predict which specific assets will remain in service for 10 years, which will remain in service for 20 years, etc. However, the results of depreciation studies permit a statistical forecast of the portion of the group that will live to each age and, from that forecast, the ability to determine the overall average life of the group.

COMPONENT AND GROUP DEPRECIATION FOR A SINGLE VINTAGE

As noted previously, the networks of assets used to provide rail and utility services have been installed over a period of many years and experience relatively long lives. Within each group of like assets, the property added during a single year of installation is referred to as a vintage of assets.

The application of the component or unit method of depreciation and the group method of depreciation for a single vintage or installation year will be illustrated with an example as presented in the attached table. In the example, ties with a cost of $100,000 are added during the year. The ties survive in accordance with the Iowa 25-S2 survivor curve. The 25-S2 has a 25-year average life. The S2 survivor curve is a symmetrical curve with a

wide dispersion and is similar to the normal distribution. Salvage is ignored in order to simplify the example.

The cost of ties from this single vintage that survive at the beginning of each year, based on the 25-S2, is shown in column 2 of the table. The cost retired in each year is presented in column 4 and is the difference between succeeding amounts in column 2. The depreciation expense under group depreciation in column 3 is determined by applying the annual depreciation accrual rate of 4 percent to the surviving balance in column 2. The depreciation expense using the group concept is proportional to the property in service. That is, the amount of expense is proportional to the service being rendered, as represented by the property in service, and, therefore, to the benefit received.

The depreciation expense under unit or component depreciation, as shown in column 7 of the table, consists of two components. The first component is the depreciation expense based on group depreciation, column 3, and the second component is the loss on retired property, column 6. The loss on retired property is calculated by subtracting the accumulated depreciation related to the retired property, column 5, from the cost retired in column 4. The accumulated depreciation is the cost retired multiplied by the ratio of its age at retirement to its estimated life, 25 years. For example, the accumulated depreciation related to the $793 retired at age 10 is calculated by multiplying $793 by the ratio of 10 over 25 or 40 percent. Forty percent of $793 is $317, the amount shown in column 5 at age 10.

The second component, or the loss, is the presumed value of the retired asset that was not recorded to expense during its life. Under unit or component depreciation, this amount is also recorded as depreciation expense in the year of retirement. As a result, at age 25, the full cost of assets that did not live to the average life has been recorded as expense. Further, at age 25, the full cost of assets that will live beyond age 25 also has been recorded as expense. Thus, under component depreciation, there is no depreciation expense recorded for this vintage in years 26 through 50.

Both the component and group depreciation methods record the full cost of the vintage of ties to expense. The component method records all depreciation expense between the time the property is installed and the time the property attains an age equal to its average life. No depreciation expense is recorded subsequent to the average life, despite the fact that significant property continues to render service. The group method records depreciation expense throughout the life cycle of the vintage or installation year in proportion of the amount of property rendering service.

The group method better reflects a matching of the expense recorded with the benefit received from this group of ties. The bundle of services purchased with the investment of $100,000 is the dollar-years of service rendered by the group. In total, 2,500,000 dollar-years of service are purchased. The dollar-years of service are the investment of $100,000 multiplied by the average life of 25 years. The component method attributes greater service in each year to the assets that have lives that are shorter than the average life as compared to the assets that have lives that are longer than the average life. The

group method attributes equal service in each year to all assets. For example, in the first full year of service, there are 100,000 dollar-years of service rendered by the group and $4,000 of depreciation expense is recorded. In year 25, there are 50,000 dollar-years of service rendered and half as much depreciation expense, $2,000, is recorded. Group depreciation results in depreciation expense that is proportional to the service rendered.

VARIATIONS FROM ESTIMATED SURVIVOR CURVE

As demonstrated above, group depreciation provides for better matching of depreciation expense with the service rendered. Over a period of time, for multiple vintages, group depreciation results in annual depreciation expense that is the same as the depreciation expense that results from component depreciation.

In reality, the cost of ties and other assets do not survive exactly in accord with the estimated survivor curve. Minor variations tend to offset over time or, if there is a trend toward longer or shorter lives, periodic depreciation studies appropriately adjust the depreciation expense going forward. In the event that there is a substantial variation from the estimated survivor curve as a result of retirements in one year, group depreciation can and does accommodate expense recognition of the loss. Such recognition of extraordinary retirements as a loss is appropriate. Recognition of the typical variability of service lives within homogeneous asset groups as a loss, as is done under component depreciation, is inappropriate.

CONCLUSION

Railroad and public utility properties consist of large numbers of assets. These assets make up long-lived networks of many thousands of miles that are constantly being renewed. These assets are classified into homogeneous groups of similar function and nature based on systems of accounts promulgated by regulators. Periodic depreciation studies are conducted of these assets in order to insure that depreciation expense reflects the services rendered by the assets. Generalized survivor curves have proven effective in describing the life characteristics of such assets.

Unit or component depreciation is appropriate for single items of property. But, railroad and utility assets do not represent single items of property. They represent very large networks of assets. Group depreciation has been used for these assets for many years consistent with requirements of regulators and generally accepted accounting principles.

For long-lived network assets, component depreciation records the full cost of a vintage as expense by the time the vintage reaches its average life, leaving no expense to be recognized for the service rendered by assets that live beyond the average life. Group depreciation, in contrast, records the full cost of a vintage in proportion to the service rendered by the assets. For multiple vintages, as is the case for the typical group, the depreciation expense in any year becomes the same under component and group depreciation.

Component depreciation recognizes losses for every retirement that occurs prior to the average life of a group. Such recognition does not represent a true economic loss when viewed from the perspective of a large group of networked assets. Retirements from large groups of homogeneous assets will always be dispersed about an average with some retired prior to the average and others surviving beyond the average. If such retirements are substantial and deviate from the estimated survivor curve, a loss can and should be recognized under group depreciation. Otherwise, periodic depreciation studies should be relied on to ensure that the amount of depreciation expense recorded in each year, based on group depreciation, reflects the service rendered by the assets.

COMPARISON OF DEPRECIATION EXPENSE
USING UNIT AND GROUP METHODS FOR A SINGLE INSTALLATION YEAR
ACCOUNT 8, TIES, BASED ON A 25-S2 SURVIVOR CURVE

		Group	Retirement			Total
		Depreciation		Accumulated		Unit
Age	Survivors	Expense	Cost	Depreciation	Loss	Expense
(1)	(2)	(3)=(2)x0.04	(4)=(2)(i)-(2)(i-1)	(5)=(4)x(1)/25	(6)=(4)-(5)	(7)=(3)+(6)
0	100,000	2,000	-	-	-	2,000
1	100,000	4,000	-	-	-	4,000
2	99,998	4,000	2	0	2	4,002
3	99,987	3,999	11	1	10	4,009
4	99,953	3,998	34	5	29	4,027
5	99,876	3,995	77	15	62	4,057
6	99,726	3,989	150	36	114	4,103
7	99,471	3,979	255	71	184	4,162
8	99,075	3,963	396	127	269	4,232
9	98,500	3,940	575	207	368	4,308
10	97,707	3,908	793	317	476	4,384
11	96,660	3,866	1,047	461	586	4,453
12	95,329	3,813	1,331	639	692	4,505
13	93,685	3,747	1,644	855	789	4,537
14	91,707	3,668	1,978	1,108	870	4,539
15	89,384	3,575	2,323	1,394	929	4,505
16	86,708	3,468	2,676	1,713	963	4,432
17	83,684	3,347	3,024	2,056	968	4,315
18	80,324	3,213	3,360	2,419	941	4,154
19	76,648	3,066	3,676	2,794	882	3,948
20	72,684	2,907	3,964	3,171	793	3,700
21	68,468	2,739	4,216	3,541	675	3,413
22	64,042	2,562	4,426	3,895	531	3,093
23	59,454	2,378	4,588	4,221	367	2,745
24	54,755	2,190	4,699	4,511	188	2,378
25	50,000	2,000	4,755	4,755	-	2,000
26	45,245	1,810	4,755			
27	40,546	1,622	4,699			
28	35,958	1,438	4,588			
29	31,532	1,261	4,426			
30	27,316	1,093	4,216			
31	23,352	934	3,964			
32	19,676	787	3,676			
33	16,316	653	3,360			
34	13,292	532	3,024			
35	10,617	425	2,675			
36	8,293	332	2,324			
37	6,315	253	1,978			
38	4,671	187	1,644			
39	3,340	134	1,331			
40	2,293	92	1,047			
41	1,500	60	793			
42	925	37	575			
43	529	21	396			
44	274	11	255			
45	124	5	150			
46	47	2	77			
47	13	1	34			
48	2	0	11			
49	1	0	1			
50	-	-	1			
Total		100,000	100,000	38,313	11,687	100,000