

September 28, 2010

Via e-mail

Mr. Russell Golden, Technical Director
Financial Accounting Standards Board
File Reference No. 1810-100, FASB
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: Southwest Airlines Co.
Comment on the Exposure Draft of the Proposed Accounting Standards Update on
Accounting for Financial Instruments and Revisions to the Accounting for
Derivative Instruments and Hedging Activities

Dear Mr. Golden,

We appreciate the opportunity to provide comments on the above-mentioned document recently issued by the FASB. Southwest Airlines Co. (the Company) is a major domestic airline that provides point-to-point, low-fare service. The Company has also been a significant user of derivative instruments in the past, primarily in attempting to hedge the price of jet fuel in its operations. The comments below relate to Questions #56, #59 and #63 from the Exposure Draft that was issued.

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

The Company agrees with the Board's proposal to change the effectiveness threshold from "highly effective" to "reasonably effective". Our belief is that the standard of "highly effective" that has been interpreted from the rules in place today are so restrictive that they have had the unintended effect of changing the behavior of entities that wish to enter into hedging relationships, but are not willing to go through the enormous administrative burden required to achieve hedge accounting under today's rules. Generally, we do not believe that accounting rules should drive behavior that is considered by many to be a necessity in running their businesses on a day-to-day basis.

Question 59: Do you believe that a hedge accounting model that recognizes in net income changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedging instrument provides decision-useful information? If yes, how would that information be used? If not, why?

We do not agree with the Board's proposal that changes in net income could result directly as a result of changes in the forecasted cash flows in a hedging relationship. Firstly, as a result of the tremendous volatility in the GAAP financial statement of the Company since the implementation of ASC 815, the airline analysts who follow the

Company primarily now rely on non-GAAP financial measures to analyze the performance and forecast future earnings for it and other large airlines. In the Company's opinion, this particular change proposed by the Board would create more ineffectiveness and more earnings volatility, the vast majority of which would be non-cash related, thus rendering the GAAP financial statements less useable by the analyst and investor community. Therefore, since analysts, investors, other users of the Company's financial statements, and the Company itself already exclude the impact of non-cash hedge ineffectiveness in the financial statements, this particular proposed change would just be another item that is eliminated in our presentation of non-GAAP financial measures used to judge the Company's financial performance each period.

Secondly, we do not believe that current period earnings should be impacted by the forecast of future cash flows, some of which can be several years into the future. Although Southwest hedges the forecasted purchase and consumption of jet fuel, the market for jet fuel derivatives is very thin. This forces the Company to utilize derivative instruments based on other commodities, such as crude oil, heating oil, and unleaded gasoline, in cases where it wants to hedge in time periods that are further into the future. Therefore, the Company's hedges will inherently be subject to ineffectiveness, which has created significant amounts of volatility in earnings in past periods under the current rules in accounting for derivative instruments and hedging. The current rules require any amounts involved with "overhedges" to be reflected in earnings. However, by creating the possibility that "underhedges" would also be reflected in earnings, this could again significantly increase the amount of volatility of earnings from period to period. Furthermore, this increase in earnings volatility would primarily be driven by forecasts of future cash flows that are several years away and how those forecasts change from period to period, versus the current rules in which ineffectiveness is primarily driven by changes in the actual fair value of the derivative instrument. We believe the current methodologies for measuring and recording ineffectiveness are preferable to those being proposed.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

In past practice the Company has utilized the ability to dedesignate certain of its cash flow hedges in limited circumstances. The Company has dedesignated hedges in situations in which it has entered into new derivatives that effectively offset the existing hedge, as the Company has wanted to reduce its overall hedge position. This might be done in situations where the Company has put on a significant hedge several years into the future, and as that period gets closer, the Company believes its risks have significantly changed due to external factors, and therefore wants to reduce its hedge position for that future period.

Additionally, the Company has dedesignated hedges in situations in which it has added derivative instruments to a previous hedge, so as to have the new hedge relationship start

“fresh” from that point forward, as the Company believes the new hedging relationship will be a better effective hedge than the original hedge. For example, the Company may enter into a hedging relationship utilizing a crude oil derivative, and may later wish to add a “basis” instrument, such as a “crack spread” to modify the original hedge and recast it as a hedge of heating oil. Therefore, the Company will dedesignate the original hedge and create a new hedge combining the original crude oil derivative and the new basis swap. Any accumulated amounts in other comprehensive income for the original hedge as of the dedesignation date would be “locked” and would remain there until the instruments are settled or expire. The new hedging relationship would be measured from the point of designation utilizing the combination of derivative instruments as a hedge of heating oil. In each of these situations, the Company has completed documentation to identify and explain its intent and to leave no doubt that the previous hedge had been discontinued and, if applicable, it had created a new hedge relationship prospectively. The Company would concur with the new proposed dedesignation rules if the listed exceptions allow it to continue to dedesignate hedges in the situations listed above and therefore seeks further clarification and on the listed exceptions.

Thank you for your consideration of these items. If you have any questions please contact me at 214-792-4459.

Sincerely,
/s/ Laura H. Wright
Laura H. Wright
Chief Financial Officer
laura.wright@wnco.com