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Technical Director – File Reference No. 1590-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 director@fasb.org



LETTER OF COMMENT NO. 95

Re: FASB Exposure Draft - Accounting for Hedging Activities, an amendment of FASB Statement No. 133

Dear Technical Director:

On behalf of BNSF Railway Company (BNSF), I would like to applaud the Board for its efforts to improve and simplify the current rules of Statement 133. BNSF recognizes the many improvements the Board's reconsideration of accounting for derivatives instruments and hedging activities may provide; however, we are concerned about several items included in the proposed amendment, and our concerns are discussed below.

Introduction of Corporate Credit into the hedging model

• The move to a "fair value" approach to hedging will require, in most instances, that the total change in cash flows or fair values be designated as the hedged risk for financial assets, liabilities and forecasted transactions. This will result in a company's own credit spread being recorded in earnings. It is important to note that the credit component cannot be hedged effectively, nor is it intended to be hedged. Thus the proposed amendment will produce volatility in earnings which is counter to the purpose of a hedge.

Loss of Bifurcation by Risk with respect to benchmark interest rate hedges

• The limitation of hedging the benchmark interest rate only for "at inception hedges" puts undue constraints on corporate risk management strategies which are used to evaluate and manage interest rate risk on an ongoing basis. The proposal will prevent some hedges (late hedges where fixed rate debt is swapped to floating) from qualifying for hedge accounting when effectiveness is compared not only to interest rate movements but also to credit spread changes. For those derivative transactions that do qualify for hedge

accounting, the ineffectiveness will produce significant earnings volatility primarily due to changing credit spreads even though intent of the risk management strategy was to hedge interest rate risk only.

• In addition, the ability to hedge the benchmark interest rate risk of a future debt issuance using treasury rate locks and forward starting swaps will be eliminated which will put pressure on a very common hedging strategy employed by Corporate Treasuries. As mentioned earlier, this aspect of the proposal will bring volatility to the income statement due to changes in credit spreads, a risk that is basically unhedgeable. In addition, if credit spreads become volatile, hedge accounting may not even be available because the interest rate hedge may not be reasonably effective against the entire change in the coupon from the inception of the hedge due to considering changes in rates, plus changes in credit spreads, plus the new issue premium.

Loss of the Shortcut and Critical Terms matching methodologies

- Both of these methodologies simplify hedge accounting and have worked well. It is not clear how removal of these heavily relied upon simplification provisions is consistent with the goal of simplification.
- The requirement to use "long haul" for fair value hedges (swaps of fixed rate debt to floating at inception or carryover late hedges entered into prior to the effective date of any new standard) will add unnecessary complexity and administrative burden when the objective of the hedge was to simply manage interest rate risk.

In conclusion, based on the reasons given above, BNSF considers the greatest benefit for the financial statement users to be continued bifurcation of interest rate risk and continued use of the short cut and critical terms matching methodologies.

Thank you for the opportunity to comment on this very important amendment. If you have questions on BNSF's comments, please feel free to call me at (817) 352-4830.

Sincerely,

Julie A. Piggott

Vice President - Finance and Treasurer

BNSF Railway Company