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AMERICAN SHORT LINE AND
REGIONAL RAILROAD ASSOCIATION

The Voice of America's Independent Railroads

Alice C. Saylor
Vice President & General Counsel



November 27, 2000
Via Messenger

Vernon A. Williams, Secretary
Surface Transportation Board
1925 K. Street, N.W.
Washington, D.C. 20423-0001

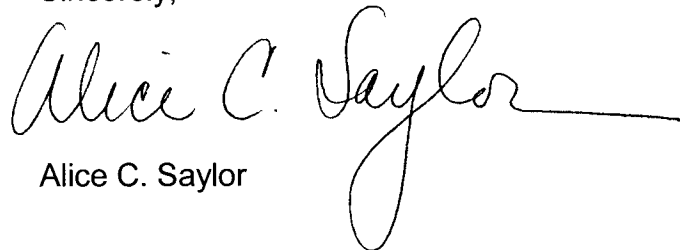
**Re: STB Ex Parte No. 634,
Consolidated Railroad Reporting**

Dear Secretary Williams:

Attached for filing with the Surface Transportation Board are the original and ten paper copies of the Comments of the American Short Line and Regional Railroad Association being submitted for filing in the above-captioned proceeding. A copy on diskette is also enclosed.

Please date-stamp the duplicate copy to indicate receipt and return it to the messenger. Thank you.

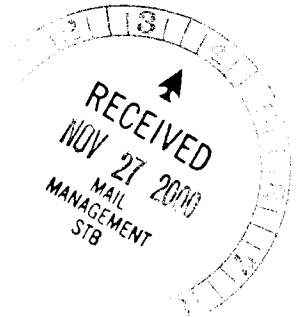
Sincerely,


Alice C. Saylor

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Before the
Surface Transportation Board
Washington, D.C.

STB Ex Parte No. 634,
Consolidated Railroad Reporting



**COMMENTS OF THE AMERICAN SHORT LINE
AND REGIONAL RAILROAD ASSOCIATION**

The American Short Line and Regional Railroad Association ("ASLRRA") is filing these comments in response to the proposal by the Surface Transportation Board ("STB" or "Board") to require consolidated financial reporting by commonly controlled railroads ("consolidated reporting proposal"). The STB initiated this proceeding (decision served September 25, 2000) and subsequently extended the due date for comments to November 27, 2000 (decision served October 20, 2000).

Introduction

ASLRRA is a non-profit trade association incorporated in the District of Columbia. ASLRRA represents the interests of its 418 short line and regional railroad members in legislative and regulatory matters. Short line and regional railroads are an important and growing component of the railroad industry. Today, they operate and maintain 29 percent of the American railroad industry's route mileage (approximately 50,000 miles of track), and account for ten percent of the rail industry's freight revenue and twelve percent of railroad employment (based on statistics for calendar year 1999).

ASLRRA is filing these comments to urge the STB not to implement this proposal to require consolidated financial reporting by commonly controlled railroads. There is no reason to make this proposed change. It would cause substantial problems and increase costs of regulatory compliance for small companies, and could have serious unintended consequences.

FASB No. 94

The Financial Accounting Standards Board ("FASB") issues statements of financial accounting standards that provide guidance on proper accounting procedures. In October 1987, FASB issued its Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-Owned Subsidiaries," effective for fiscal years ending after December 15, 1988. This statement amended an earlier statement to require consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner. FASB No. 94 requires consolidation of a majority-owned subsidiary even if it has "nonhomogeneous" operations, a large minority interest, or a foreign location.

The STB's consolidated reporting proposal refers to FASB No. 94 but does not propose to adopt it in the form issued by the Financial Accounting Standards Board. The STB's proposal would make significant changes, and would exclude subsidiaries with a non-U.S. location, would exclude subsidiaries with non-railroad related operations, and might exclude railroad subsidiaries with non-contiguous operations. These changes are so major that they diminish or eliminate the relevance of FASB No. 94 as justification for the STB's consolidated reporting proposal. It is also not clear exactly how the proposal would work. For instance, what if a commonly owned group of small U.S. railroads contains some that connect with each other and others that are free-standing?

STB's proposal differs from FASB No. 94 significantly. It would remove reporting requirements for entities over which STB has no jurisdiction, or entities without relevance for STB's regulatory purposes. In the process, STB's proposal guts the logic and intent of FASB No. 94. In its October, 1987 Statement announcing the adoption of FASB No. 94, the Accounting Principles Board explained the reason for changing the reporting requirements (FASB No. 94, Appendix B, paragraphs 25-44). Elimination of the "nonhomogeneity" exception to consolidated reporting was at the very heart of why FASB No. 94 was adopted in 1987. It makes no sense for the STB to propose to

“adopt” FASB No. 94, but with a nonhomogeneity exception. Removing the nonhomogeneity exception was why the Accounting Principles Board adopted FASB No. 94 in the first place! This points out how illogical FASB No. 94 is when applied to the railroad industry, and undercuts the argument behind the consolidated reporting proposal.

Impact on Small Railroads

A mandate by STB of consolidated financial reporting by commonly controlled railroads could cause some small railroads to fall into a higher classification category. For instance, if consolidated reporting were mandated by the STB, it could cause a group of commonly controlled small railroads that are all Class III carriers today to fall in the Class II category on a consolidated basis. Or, a group including a large Class II carrier could fall above the Class I threshold.

This could have far-reaching effects. In the case of Class III's transformed into a Class II, it could cause older boxcars with small railroads' marks to fall out of “grandfathered” status. It could cause a different level of statutorily mandated labor protection pursuant to 49 USC § 10902 to apply in a line acquisition by an affiliated non-carrier company. The privately negotiated Railroad Industry Agreement (“RIA”) between the Class I railroads and the Class II and III railroads contains different provisions and protections for small railroads depending on their classification status. These RIA protections could be affected by this proposed accounting change. No reason has been given to justify making a change that could have consequences of this magnitude.

STB's Accounting Rules

The STB has developed its own set of accounting rules that are appropriate for the railroad industry and the STB's particular regulatory responsibilities. The STB's accounting rules are found at 49 CFR 1201 et seq. While the STB may adopt “generally

accepted accounting principles" ("GAAP") if it decides they are appropriate for its purposes, it is not required to adopt GAAP and sometimes does not do so. In the case of FASB No. 94, for instance, the STB has not adopted it despite the fact that it has been in existence for more than a decade.

As the STB's September 25, 2000 decision explains, consolidated reporting is currently required by STB only for Class I railroads filing Annual Report Form R-1, Schedule 250, related to revenue adequacy filings, but not for any other purposes. This requirement was adopted in Ex Parte No. 393 (Sub-No. 2), Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes (Decision served November 17, 1988).

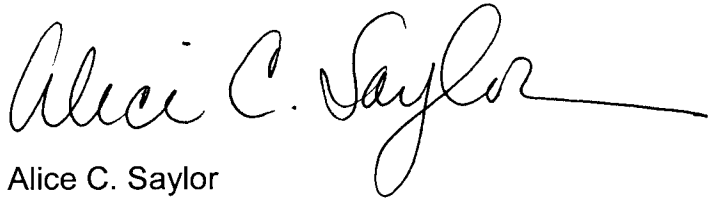
The proposal under consideration in this proceeding could require much broader reporting by more entities. For instance, small railroads that are owned or controlled by a Class I carrier might be required to add all of their financial information into the owning Class I's R-1 Annual Report. Also, a group including a large Class II that fell above the Class I threshold would be required to begin filing R-1 Annual Reports. This would be burdensome and expensive, since small railroads today generally do not keep their books and records in a form suitable for R-1 reporting. The additional information would not be significant enough to justify this added burden and expense. These smaller companies would not yield statistically significant information compared to the much larger Class I companies that are already reporting today. No compelling reason is given for making such a major change in the status quo.

* * * * *

The system today is working. It has been in place for many years without evident problems. There is no reason for the STB to mandate this change, which will be burdensome and costly and could have unintended consequences for small railroads. There is no compelling reason why the STB should adopt the more-than 12 year-old FASB No. 94 at this time. The exceptions make the proposal a hodge-podge, and

clarify what a poor fit FASB No. 94 is for the U.S. railroad industry. ASLRRRA urges the Board to reject the proposal to change its current practice regarding consolidated reporting by commonly controlled railroads, and discontinue this proceeding.

Respectfully submitted,

A handwritten signature in black ink, reading "Alice C. Saylor", followed by a long horizontal flourish line extending to the right.

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Date: November 27, 2000