



First Hawaiian, Inc.

P.O. Box 3200, Honolulu, Hawaii 96847

Letter of Comment No: 124
File Reference: 1082-154
Date Received: 1/22/96

Howard H. Karr
Executive Vice President
and Treasurer

January 12, 1996

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference 154-D

Dear Mr. Lucas:

I am pleased to submit comments on the FASB Exposure Draft, *Consolidated Financial Statements: Policy and Procedure* ("ED") on behalf of First Hawaiian, Inc., one of the 100 largest bank holding companies in the United States.

Based on our understanding of the ED, we are concerned that the ED will inappropriately alter the existing accounting for special-purpose entities ("SPEs") and particularly for leasing SPEs. Our concern stems both from apparent inconsistencies within the ED and from discussions we have had with our independent accountants as to the probable impact of adoption of the ED in its present form. We are further concerned about possible adverse regulatory consequences of such adoption, especially in connection with previously completed transactions involving SPEs.

Inconsistencies within the ED

Paragraph 14 of the ED lists six characteristics leading to the presumption of control. We would agree that these characteristics are indeed indicators of control, although we note that financial interest is not mentioned here or elsewhere in the ED as a determining factor in deciding whether consolidation is appropriate in any given case. Example 5 in Appendix B portrays a situation in which none of the characteristics of paragraph 14 appear to apply, for which a conclusion is nonetheless reached that control exists based on the test in paragraph 14(d). This conclusion does not appear justified by the application of the principles in the body of the ED.

Discussion with independent accountants

Because of the widespread use of SPEs for off-balance sheet leasing, there has been considerable discussion among members of the accounting profession about the impact of the ED on the accounting for such lease arrangements. Various members of Coopers & Lybrand, our independent

Mr. Timothy S. Lucas
January 12, 1996
Page 2

accountants, have served as members and observers of the Emerging Issues Task Force (the "EITF") and working groups thereof and have devoted considerable attention to the development and evolution of accounting standards in this area. Our accountants have advised us that they and their peers in other firms believe that the adoption of the ED in its present form will effectively put an end to off-balance sheet treatment of build-to-suit operating leases using SPEs. If such a result is the intention of the FASB, then we must take strong exception to those sections of the ED which lead to that result.

Existing accounting is not "broken"

Accounting for leases has been subject to extensive study and scrutiny over the years since the issuance of Statement of Financial Accounting Standards No. 13 ("SFAS No. 13"). As leasing practices have developed, so have the interpretations and additional pronouncements kept pace. Due consideration has been given to the issues surrounding SPE lessors by the EITF, and the resulting guidance is well understood by practitioners and industry. Financial statement treatment, therefore, is fairly consistent and disclosure adequate. Given that the ED does not even purport to amend SFAS No. 13 or any related pronouncements (ED paragraph 1 and Appendix C), we do not understand or see any benefit to the change in lease accounting which, it appears, the ED would bring about.

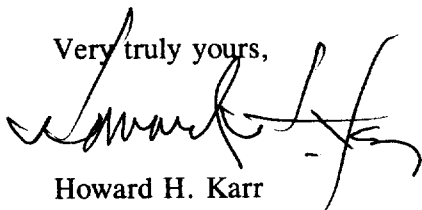
Adverse regulatory impact

Banks and bank holding companies are subject to a variety of federal and state regulations, among which are restrictions on the amount of real property they may own and minimum defined capital levels. Future consolidation of an SPE lessor in a previously transacted lease originally accounted for under existing lease accounting standards would adversely affect a financial institution's compliance with both of the aforementioned regulations. Given the adequacy of existing lease accounting and disclosure, we believe that the ED should, at a minimum, be amended to provide a grandfathered exception for pre-existing transactions entered into by regulated entities.

Further, since companies in many industries have spent considerable money and energy in structuring lease transactions to conform with existing accounting rules, and because those rules were developed with due process and have satisfied the needs of financial statement readers, we believe leasing SPEs should be completely excluded from the scope of the ED.

We appreciate the opportunity to provide our input on the ED. If you have any questions concerning our comments, please contact me at 808-525-8800.

Very truly yours,



Howard H. Karr

HHK/DH/jm
dh\c&l\ed_reply.196