LETTER OF COMMENT NO. 61

LETTER OF COMMENT NO. 70

on; Mark
French; Meghan Clark; Peter Proestakes; Russell Golden; Vita Martin; Wade Fanning

Subject: FW: Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b; Proposed FASB Staff Position 157-e

-----Original Message-----
From: Emi Kanai [mailto:ekanai@fhb.com]
Sent: Wednesday, March 25, 2009 8:39 PM
To: Director - FASB
Subject: Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b; Proposed FASB Staff Position 157-e

Mr. Russell G. Golden
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Via email: director@fasb.org

File Reference: Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b; Proposed FASB Staff Position 157-e

Dear. Mr. Golden:

We appreciate the opportunity to comment on the proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments (hereinafter referred to as the proposed OTTI FSP) and the proposed FASB Staff Position 157-e, Determining Whether a Market is not Active and a Transaction is not Distressed (hereinafter referred to as proposed Fair Value FSP). We applaud the Financial Accounting Standards Board (FASB) for acting in an expeditious manner to reassess current impairment and fair-value accounting models, and we believe that the proposed OTTI FSP offers a significant improvement over the current accounting model. We focus this letter on a few aspects of the proposed FSPs that we ask the FASB to consider during its deliberations.

Proposed OTTI FSP
We believe the proposed OTTI FSP should not require that the non-credit impairment of held-to-maturity investment securities be recorded in accumulated other comprehensive income (AOCI). We agree with recording the non-credit impairment of available-for-sale securities to AOCI as such securities are always carried at fair value. For held-to-maturity securities, however, the fair value should be shown in the footnotes to the financial statements.

Additionally, the proposed OTTI FSP should be applied retrospectively, in accordance with SFAS No. 154, Accounting for Changes and Error Corrections. We believe that retrospective application is appropriate because during 2007 and 2008, a number of financial institutions recorded significant OTTI charges on held-to-maturity debt securities. Because these institutions have amortized and will continue to amortize significant non-credit impairments to interest income, failure to retrospectively apply the proposed OTTI FSP will distort their future net interest margins. Further, these institutions' retained earnings may include significant amounts of non-credit impairments. Failure to retrospectively apply the proposed OTTI FSP would make it difficult for investors in these institutions to compare key financial metrics (net interest margin and tangible common equity) before and after application of the OTTI FSP, as well as affect comparisons of financial institutions that have recorded significant OTTI charges with those that have not.

Finally, the FASB should consider removing the gross presentation in the income statement of impairment losses offset by non-credit impairment from the proposed OTTI FSP. We believe the proposed presentation is inconsistent with the loan accounting presentation for loans held for investment. In addition, we believe that this presentation confuses and complicates the face of the financial statements with information that is more appropriate for inclusion in footnote disclosures.

Proposed Fair Value FSP
We request that the FASB provide more explicit practical guidance on how to implement the proposed Fair Value FSP because we are concerned that the proposed Fair Value FSP, as written, will not meet its intended objectives. While the guidance to determine if a market is not active appears to be sufficient, the proposed Fair Value FSP lacks detailed and practical guidance for determining fair value based on appropriate market-based discount rates as of the measurement date in an orderly market. It may be difficult for independent public accountants and regulators to consistently apply this guidance without additional practical and specific guidance.

Further, the FASB should provide additional guidance in the proposed Fair Value FSP regarding the definition of a "quoted price." Financial institutions often obtain values for their investment securities from third-party sources, including, but not limited to: market transactions, broker quotes, and pricing services. It would be helpful if the FASB specifically defined "quoted price," and how third-party pricing sources, including their use of models, fit into that definition.

Our comments are meant to help clarify and improve certain aspects of the proposed FSPs, and we reiterate our overall support of these timely actions by the FASB.

Sincerely,

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