HAWAIIAN ELECTRIC INDUSTRIES, INC. · PO BOX 730 · HONOLULU, HI 96808-0730

Constance H. Lau
President and CEO

September 30, 2013

Via Electronic Mail

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

RE: Docket No. OP–1461 - Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion

Dear Mr. deV. Frierson:

Hawaiian Electric Industries, Inc. ("HEI") appreciates the opportunity to comment on the Federal Reserve Board's ("Board") proposed interagency supervisory guidance, *"Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations With Total Consolidated Assets of More Than $10 Billion But Less Than $50 billion"* ("Proposed Guidance"). HEI understands that the Board's objective of this Proposed Guidance is to outline the principles for implementation of section 165(i)(2) of the Dodd-Frank Act Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") stress tests, applicable to all banking organizations, including savings-and-loan holding companies ("SLHCs"), with more than $10 billion but less than $50 billion in total consolidated assets[1].

As discussed in HEI's comments below, HEI believes that the Proposed Guidance (as well as the Dodd-Frank Act stress test requirements) should not apply to grandfathered unitary SLHCs where the assets of its savings bank and its other financial activities are less than $10 billion. However, even if a grandfathered unitary SLHCs' non-banking assets are included in calculating total consolidated assets under the stress tests rules, HEI does not believe that the Proposed Guidance will prove meaningful in understanding the risks and impact associated with HEI's non-banking business activities. HEI's

[1] "Annual Company-Run Stress Test Requirements for Banking Organizations With Total Consolidated Assets Over $10 Billion Other Than Covered Companies" (October 9, 2012).

comments are specific to the unique aspects of its organization and are not intended to apply broadly to other SLHCs, particularly those that engage in other substantial financial services activities.

The Proposed Guidance and Dodd-Frank Act Stress Test Requirements Should Not Apply to Certain Grandfathered Unitary SLHCs, Including HEI

HEI is a grandfathered unitary SLHC subject to supervision by the Board and is permitted to engage in commercial activities under the governing statute for SLHCs, the Home Owners' Loan Act ("HOLA"). The Board became the federal regulator for HEI on July 21, 2011, when authority over SLHCs was transferred to the Board from the Office of Thrift Supervision. HEI's two principal business segments operate exclusively in the State of Hawaii and include American Savings Bank F.S.B, a federally-chartered savings bank ("ASB" - total assets of $5.069 billion as of June 30, 2013) and Hawaiian Electric Company, a rate regulated electric utility that provides electricity for approximately 95% of the population of Hawaii ("Hawaiian Electric" - total assets of $5.162 billion as of June 30, 2013). Hawaiian Electric is regulated under the exclusive jurisdiction of the Hawaii Public Utilities Commission ("PUC").

In HEI's opinion, in the case of grandfathered unitary SLHCs that engage in businesses that are entirely dissimilar to traditional banking organizations (e.g., in HEI's case, an electric utility business), application of the Dodd-Frank stress tests on a consolidated basis will not provide meaningful information that can be readily comparable to other more traditional banking organizations. The Board recently acknowledged the uniqueness of grandfathered unitary SLHCs and treated such SLHCs differently than traditional SLHCs in its recent final rule implementing the Basel III regulatory capital framework[2] ("Final Capital Rule"). In the Final Capital Rule, the Board temporarily exempted SLHCs substantially engaged in commercial activities while it considers a proposal relating to capital and other requirements for SLHC intermediate holding companies. Under the Final Capital Rule, HEI currently meets the requirements of the exemption as a top-tier grandfathered unitary SLHC that derived, as of June 30 of the previous calendar year, either 50% or more of its total consolidated assets or 50% or more of its total revenues on an enterprise-wide basis (calculated under GAAP) from activities that are not financial in nature pursuant to Section 4(k) of the Bank Holding Company Act. According to the preamble of the Final Capital Rule, the Board anticipates that it will release a proposal on intermediate holding companies in the near term that would specify the criteria for establishing and transferring activities to intermediate holding companies and propose to apply the Board's capital requirements to such intermediate holding companies. HEI awaits the upcoming intermediate holding company proposal and looks forward to the opportunity to comment. HEI believes that the Board is correct in recognizing the view that for many regulatory purposes, exclusion of the non-banking business(es) of grandfathered unitary SLHCs is appropriate and aptly focuses oversight to the banking business.

HEI's total consolidated revenues for the six months ended June 30, 2013 were $1.581 billion, with only 8.3% of its revenues, or $130.783 million, attributed to banking and other financial activities performed through ASB. The remaining 91.7% of its revenues, or $1.450 billion, is attributed to HEI's utility

[2] "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule" (July 2, 2013).

business performed through Hawaiian Electric. HEI's total consolidated assets as of June 30, 2013 were $10.238 billion, slightly exceeding the $10 billion threshold under the stress test rules, with slightly less than 50% of its assets, or $5 billion, attributed to banking and other financial activities performed through ASB. Without an exception for grandfathered unitary SLHCs, a peculiar result may arise where HEI would be required to conduct consolidated Dodd-Frank stress tests for its $5 billion savings bank and its separate and distinct $5 billion utility, while another holding company with a much larger bank having just under $10 billion in assets and no other businesses would not be required to conduct consolidated Dodd-Frank stress tests.

HEI respectfully submits for the Board's consideration that the Dodd-Frank stress tests should not apply to a grandfathered unitary SLHC, unless such grandfathered unitary SLHC's sole banking institution and other financial activities comprise assets of over $10 billion.

<u>What additional clarity might be needed regarding the appropriate use of historical experience in the loss, revenue, balance sheet, and risk-weighted asset estimation process? (Question 2)</u>

To the extent that certain grandfathered unitary SLHCs are not excluded for purposes of the Dodd Frank stress test rules, as described above, and HEI is subsequently subject to the stress test rules, HEI believes a more tailored approach is necessary and seeks clarification and guidance with respect to incorporating Hawaiian Electric's rate-based utility business model with ASB's traditional banking business model for purposes of conducting the stress tests such that the results will be useful to HEI, the Board and the general public.

Hawaiian Electric's utility business model does not readily lend itself to the type of banking-oriented stress tests contemplated by the Dodd-Frank stress test rules. Hawaiian Electric (and its electric utility subsidiaries) is exclusively regulated by the PUC, which regulates the rates, issuance of securities, accounting and many other aspects of Hawaiian Electric's operations. Hawaiian Electric is the monopoly provider under its franchise for 95% of the electric service provided to all classes of customers in the state of Hawaii. Under the rate-based regulatory model, HEI believes that Hawaiian Electric's business is generally insulated against the type of macroeconomic stress factors contemplated by the scenarios under the stress test rules. For example, factors such as GDP, unemployment rates, customer credit quality, treasury yields, mortgage rates, housing prices, etc. do not generally impact the financial condition of Hawaiian Electric and its utility subsidiaries under the rate-based utility regulatory model.

To further illustrate, Hawaiian Electric's consolidated income statement consists of revenues, which are delinked from sales, and operating expenses related to the delivery of electricity. The income statement also does not include interest income, interest expense (other than for long term debt and short term commercial paper), provision for loan losses and other categories germane to a banking organization. Similarly, Hawaiian Electric's balance sheet consists primarily of fixed assets (e.g., electric power generation plants and transmission and distribution lines), customer accounts receivable, debt and specialized regulatory assets/liabilities that are unique to rate regulated utility businesses. Further, the balance sheet also does not include securities, deposit liabilities, loan and lease receivables and other similar types of entries commonly associated with banking organizations. Regulated utilities such as Hawaiian Electric in the United States have much higher capital levels allowed in state regulation for which its regulator allows a return on and of capital invested, as compared to banking organizations. For example, Hawaiian Electric has common equity capitalization of approximately 56%---a multiple of about 6 times most banking organizations. In short, the traditional financial performance indicators for banking organizations are simply not relevant to Hawaiian Electric's utility business. As to asset types, the majority of Hawaiian Electric's assets are illiquid, fixed assets such as electric power generation plants and related equipment, making it difficult to compute risk-weighted asset projections over any planning horizon.

For the foregoing reasons, HEI does not believe that the inclusion of Hawaiian Electric and its utility subsidiaries in HEI's Dodd-Frank stress tests would provide any meaningful data for HEI, the Board or the general public. Accordingly, to the extent HEI is deemed subject to the Dodd-Frank stress tests in the first instance, HEI believes that a more tailored approach is necessary and seeks clarification and guidance with respect to conducting the stress tests, such that the stress tests provide meaningful results and information. We would be pleased to meet with the Board's staff to discuss these issues further.

HEI appreciates the Board's consideration of its comments on the Proposed Guidance. Please contact James A. Ajello, EVP & Chief Financial Officer, Hawaiian Electric Industries, Inc., at (808) 543-7750 (e-mail: jajello@hei.com), with any questions about HEI's comments.

Very truly yours,

Constance H. Lau