

Via Electronic Mail and FEDEX

October 29, 2004

Letter of Comment No: 168
File Reference: EITF03-1A

Mr. Lawrence W. Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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Re: File Reference No. EITF 03-1-a
Proposed FASB Staff Position EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

Credit Suisse Group ("CSG") appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's or Board's) above referenced FASB Staff Position ("FSP"). CSG is responding to the FSP both as a preparer of U.S. GAAP financial statements and as a direct insurer through our subsidiary: Winterthur Swiss Insurance Company ("Winterthur"). Winterthur invests approximately 70% of its investments in debt securities of which the majority (approximately USD 57 billion) is classified as available for sale. More than 95% of its investments are in investment grade securities. As such, the application of EITF 03-01 ("03-01") would impact us significantly.

CSG commends the Board for acting quickly on the banking and insurance industry's concerns related to the various interpretations of the application of 03-01.

Executive Summary

While we support the disclosure provisions we believe that 03-1 is far more overreaching than should be required for impairment write-downs.

The proposed guidance is tantamount to an amendment of FAS 115 as it effectively creates a new classification of "held to recovery" securities by requiring assertion of the ability and intent to hold securities for a specified period of time. Similar to other US GAAP reporters, CSG's impairment analysis for debt securities currently focuses on credit and liquidity factors. As elaborated further in Question 2 below, we do not believe that changes in the value of a security due to interest rate movements beyond a certain threshold should be the sole factor of assessing whether an other-than-temporary impairment exists. We believe that current practice, coupled with the additional disclosures, will provide an appropriate representation of our portfolio and risks and adequately address implementation issues.

In addition, the guidance in the FSP is in our opinion inconsistent with prudent portfolio management activities as it relates to sales of underwater securities. As such, companies may feel compelled to hold securities that would otherwise be sold under internal portfolio management policies.

Finally, we are concerned with the operational burden related to supporting the assertion of having both the "ability and intent" to hold impacted securities to recovery. Significant systems enhancements would be required to track and document this on a security-by-security basis – a challenging task for a portfolio with thousands of securities.

Question 1: At what unit of account should an investor assert its ability and intent to hold to a forecasted recovery?

We agree with the conclusion in the FSP that the assertion should be at the individual security level as this is consistent with FAS 115.

Question 2: Although Issue 03-1 states that an investment is impaired if the fair value of the investment is less than its cost, paragraph 16 does not refer to the severity of the impairment. Is there a level of impairment that can be considered temporary that would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery?

We do not support prescribing a bright line threshold, as it is impractical and not appropriate for all securities. As such, a "one size fits all" approach does not capture the differences in duration and currency for securities in a portfolio.

For example, not all securities react the same to increases in interest rates. The percentage change in value of a government security resulting from a 100 basis point (bp) increase in interest rates can be expected to differ from the percentage change in value of an interest-only strip.

Using a 5 percent bright line could result in frequent crossing of the threshold given normal market movements, in, for example, interest rates on a mortgage back security, thus triggering the need to document intent and recovery periods.

While we generally disagree with prescribing a numerical threshold, the annotation of the magnitude of 5 percent as a quantification of "minor" appears too small from a practical perspective. Even if the final FSP does not express a numerical threshold, we suggest removing any reference to 5 percent. This clarification would allow companies to apply a more appropriate threshold based on their portfolio structure.

Furthermore we refer to the recently pronounced conceptual principle of the SEC and the FASB to avoid numerical threshold in future accounting literature. This mindset was pronounced in the context of studies undertaken by both institutions in response to section 108(d) of the Sarbanes-Oxley Act of 2002 on "The adoption by the U.S. Financial Reporting System of a Principles-Based Accounting System".

As such, we recommend that guidance be included that would require the need for an assertion regarding the ability and intent to hold to recovery investments that are significantly below cost for an extended period of time. While "significant" and "extended period" do not have a hard definition, we believe it is appropriate under a principles-based model and judgment should be allowed – similar to FAS 115. We determine other-than-temporary impairment based on many factors, including declines resulting from deterioration of creditworthiness related to significant declines in credit rating, significant increases in interest rates and highly inflationary currency of a given bond issuer.

An impairment model focused on declines in value related to merely one aspect of the aforementioned, such as interest rates, ignores the many factors related to prudent impairment analysis.

Question 3(a): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, when is the impairment considered other than temporary?

An investor's ability and intent is addressed sufficiently in EITF Topic D-44 which states the following, "...when an entity has decided to sell an available-for-sale security whose fair value is less than its cost basis and the entity does not expect the fair value of the security to recover prior to the expected time of sale, a write-down for other-than-temporary impairment should be recognized in earnings in the period in which the decision to sell is made".

In line with D-44, we currently recognize unrealized losses, at the latest, when a decision has been taken to sell a security.

Question 3(b): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, are there circumstances for such a change in ability or intent that would not necessarily call into question the investor's ability or intent to hold other securities to recovery?

Our insurance operations purchase and hold securities to match the long-term nature of their liabilities. Due to the strict selling requirements for a held-to-maturity classification and the corresponding accounting consequences, the majority of securities, in particular on the life insurance segment of the business, are classified in the available-for-sale category allowing for more flexibility to address interest changes, liquidity needs, etc.

While we believe that the ability can generally easily be demonstrated, we also believe that the documentation around the forecasted recovery period can give raise to extensive discussions with external auditors, as it is rather judgmental. Generally, we have the intent to hold securities trading below book value until they have recovered, i.e., to avoid realizing losses. However, it is vital for us to be able to sell securities to protect our financial situation if:

- a) There are indications that the value of a security is likely to fall; or
- b) Securities should be sold for asset/liability management reasons.

We therefore believe that the FSP paragraph. 7(a) should be revised/clarified to allow for re-balancing of investment portfolios without accounting impact in certain circumstances.

Furthermore it seems to be appropriate to relieve the application of the three criteria mentioned in paragraph 7(b) of the FSP by replacing "and" with "or". The conditions should not need to be fulfilled cumulatively.

Effective Dates

Assuming that the guidance will be finalized by the end of this year, we believe a reasonable implementation date would be the 2nd quarter of 2005. This will allow companies to understand any systems and other issues related to implementation that might require additional attention in an organization that is active in a great variety of regulatory frameworks, fixed income products and market practices.

We appreciate the FASB Staff's consideration of our comments and recommendations. Please do not hesitate to contact Lou Fanzini at (212) 325-7365 in New York or Todd Runyan in Zurich at +41-1-334-8063 with any questions or comments.

Sincerely,

Rudolf A. Bless
Managing Director, Chief Accounting Officer

Louis Fanzini
Director, Group Accounting Policies