

30 November 2005

Mr. Lawrence W. Smith
Director of Technical Applications and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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Re: Proposed FASB Staff Position FIN 46R-c: “Determining the Variability to be Considered When Applying FASB Interpretation No. 46(R)”

Dear Mr. Smith:

Credit Suisse Group (“CSG”) appreciates the opportunity to express our views on the Financial Accounting Standard Board’s (“FASB”) proposed FASB Staff Position (the “FSP”) FIN 46R-c: “*Determining the Variability to be Considered When Applying FASB Interpretation No. 46(R)*” as posted to the FASB’s website. CSG’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”).

As a global financial institution, consideration of the accounting guidance in FIN 46(R) “Consolidation of Variable Interest Entities” is frequently required of us. We followed with interest the deliberations of the EITF regarding the cash flow versus fair value approach of FIN 46(R) and we find it appropriate that this complex issue was elevated to the FASB Staff, and ultimately the Board, for resolution.

Overall, we support the Staff’s attempt to outline a process for analyzing the design of a Variable Interest Entity (“VIE”) to determine the purpose of the entity and the risks and variability the entity was designed to create and pass along to its interest holders (“the by-design approach”). We believe the proposed guidance is fundamentally sound and places the correct emphasis on the role of qualitative analysis rather than quantitative analysis. Nevertheless, we have some specific concerns about the FSP as currently written with regards to its application.

We believe the beneficial impact of the examples included in the guidance is diluted to some degree insofar as they do not conclusively identify the Primary Beneficiaries of the VIE’s. In discussing the FSP with knowledgeable interested parties, we have noted that in the absence of such conclusions there is little consensus as to the thought process and analysis path the FSP intends reporting enterprises to apply when assessing VIE’s. We are concerned that any lack of clarity in application of the FSP may still lead to situations where different parties might arrive at different

consolidation conclusions for the same transaction, which at times is currently the situation with regards to the cash flow/fair value question. We urge the Staff to “complete the picture” by expanding the examples to include identification of the Primary Beneficiary and a more explicit basis for conclusions.

In Footnote 5 of the FSP, the proposed guidance apparently foresees situations where a standard interest rate or foreign exchange swap may be excluded from the variability to be considered if the reporting enterprise determines that the entity was not designed to create and pass along interest rate or foreign exchange risk to its interest holders (provided that the maturities of the assets of the entity effectively match the maturity of the beneficial interests issued). If this is the intent of the FSP, we would tend to support it. We are of the view for many transactions involving VIE’s that there are interests that “create” variability, others that “absorb” variability and a third category of “transformers” that serve to modify the cash flows to match the assets with liabilities of the entity. While such “transforming” interests are certainly part of the design of the entity, they usually exist to the benefit of the investors insofar as they provide for the cash flow exposure that the investors desire.

Footnote 8 and Example 1(b) of the FSP indicate that a standard senior swap with a VIE is a “creator” of variability, but that if the swap counterparty also held a debt or equity interest in the entity, analysis of the design of the entity may lead to a conclusion that the swap counterparty was designed to absorb variability that otherwise would have been absorbed by the investors, absent the swap transaction. In our view, neither the substance of the transaction nor the design of the entity should change based on changes of the ownership of the “absorbing” variable interests (i.e. the debt and equity investors). Additionally, this principle is impractical to apply in cases where the swap counterparty may act as a market maker in a transaction – a reassessment for consolidation would be required and in so doing the market maker/swap counterparty would have to determine if its purchase had changed the design of the entity. We suggest deletion of Footnote 8 from the FSP.

Paragraph 13 of the FSP states that in cases where an entity has issued both senior interests and subordinated interests and that subordination is substantive, “the uncertainty that is absorbed by the subordinated interest is strongly indicated as a variability that is created by the design of the entity.” Together with Footnote 7 in this paragraph that in turn references paragraph B8 of FIN 46(R), the impression is left that the FSP is emphasizing that credit risk be given a higher assessment weighting than other risks created by the design of the entity. For example, prepayment risks on highly rated assets create substantial cash flow variability for senior beneficial interest holders and are an element of the transaction expressly marketed as a risk to investors. We believe that the FSP should make clear that subordination alone is not necessarily the predominant determinant of the risks the entity was designed to pass on to investors.

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If you have any questions or would like any additional information on the comments we have provided, please do not hesitate to contact Eric Smith in New York on 1-212-538-5984 or Christopher Harris in Zurich on (+41)-1-333-8395.

Sincerely,

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