

Letter of Comment No: 14 File Reference: 1099-001



Via electronic mail

July 30, 2004

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
USA
director@fasb.org

Re: File reference 1099-001 Exposure Draft of Proposed Interpretation: Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statements No. 143

Dear Ms. Bielstein:

Credit Suisse Group (CSG) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's or Board's) Exposure Draft of Proposed Interpretation: Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statements No. 143 (the "Exposure Draft"). We are responding to the Board as preparers of financial statements in accordance with US GAAP, as well as financial intermediaries in the capital markets through our subsidiaries.

Though Asset Retirement Obligations (AROs) are not a significant issue within our company or industry, we wanted to comment on the implications to liability accounting in general presented in the Exposure Draft. In particular, we strongly disagree with the Board's conclusions on the interaction between SFAS 5, Accounting for Contingencies, (SFAS 5) and FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurement, (Con 7) and the resultant recognition of liabilities that are less than probable.

We agree with the use of Con 7 to weight the probability of expected cash flows when they are probable, such as the need to take into consideration the timing of such cash flows. However, we disagree with the use of Con 7 or fair valuation of a liability whose occurrence is less than probable, except in specific circumstances such as the valuation of derivative liabilities. As noted by the Board in the Exposure Draft, the second characteristic of a liability is that "the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid a future sacrifice." We believe this supports the SFAS 5 concept to not recognize a liability if it is not probable that it



will be incurred, rather than the Board's belief, as summarized in Issue 2, that the ability to indefinitely defer settlement of an ARO or sell the respective asset obligation does not relieve the entity of the obligation.

The discussion presented in paragraphs B12 and B13 of the ED further appears to result in accounting that bypasses the first step of SFAS 5, which is to assess whether or not to record a liability based on whether the nature and amount are both probable and estimable. The ED instead skips this assessment and moves directly to both accounting measurement and recognition using the Con 7 approach. We believe the issue of recognizing a contingent ARO would be better addressed when measuring the respective asset for impairment, rather than to recognize a liability for the amount. As noted above, we do not believe it is appropriate to value liabilities whose occurrence is less than probable and believe this sets dangerous precedent for accounting for other non-financial instrument liabilities on the balance sheet. In addition, with the exception of derivatives, we believe that the increased application of Con 7 and fair valuation has been limited to those situations where a liability is probable and thus valuation is a secondary consideration. Examples we have noted in current literature include:

- Stock compensation liabilities: Stock compensation liabilities, whether fair valued or not, only arise as such obligations are both probable and estimable in accordance with SFAS 5.
- Restructuring liabilities: Restructuring liabilities are only recorded when the restructuring plans have been clearly defined and communicated; i.e. are both probable and estimable.
- Guarantees: Though contingent guarantees are recognized on the balance sheet at inception, the initial valuation is based upon the fee received or the allocation of proceeds received in an overall transaction to that obligation. If no fee had been received in a stand-alone transaction then a liability would not be recognized. Con 7 would not be applied to generate a fair value if no consideration had been received.
- Impairment: The use of Con 7 for impairment assessment applies to assets, such as those covered under SFAS 144, to ensure that the value is not overstated. We believe extension of this concept to liabilities is not appropriate and to date has not been contemplated elsewhere in the literature for nonfinancial instruments liabilities.

As noted above, while this Exposure Draft addressed only valuation of AROs we believe there are implications to the accounting for other non-financial instrument liabilities. If this is the intention of the Board, we believe this will require a wider project scope and audience that is currently envisaged in the proposed changes to SFAS 143. We do not see how an analogy to legal contingencies can then be avoided, given that such liabilities are contingent upon a legal ruling and upon a certain ruling the legal obligations would be incurred. If SFAS 5 were essentially bypassed, then Con 7 would require the recognition of liabilities that are less than





probable. We believe that this would result in the requirement to "hunt" for contingent liabilities, in and out of the context of AROs, to determine the fair value measurement.

In addition, we believe the uncertainty that is required to measure less than probable AROs and the amount of management judgment involved would not improve financial reporting and could lead to earnings management. As such, we believe disclosure is the appropriate manner in which to present the issue of contingencies that are less than probable, subject to the requirements of SFAS 5.

We recommend that the Board reconsider their interpretation that contingent AROs are accounted for on balance sheet at fair value when the requirements of SFAS 5 have not been met.

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We thank the Board for their attention to our comments. We are available to further discuss these points. Please do not hesitate to contact Alanna Weifenbach at +411 332 2785 or Todd Runyan at +411 334 8063 in Zurich with any questions or comments.

Sincerely,

Rudolf Bless Managing Director, Chief Accounting Officer

Alanna Weifenbach Vice President, Group Accounting Policies