

Via electronic mail

June 30, 2004

Letter of Comment No: 5797
File Reference: 1102-100

Ms. Suzanne O. Bielstein
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Re: File reference 1102-100
Exposure Draft of Proposed Statement of Financial Accounting Standards:
Share-Based Payment, an amendment of FASB Statements No. 123 and 95

Dear Ms. Bielstein:

Credit Suisse Group (CSG) appreciates the opportunity to comment on the Financial Accounting Standards Board's ("the Board") Exposure Draft of Proposed Statement of Financial Accounting Standards: Share-Based Payment, an amendment of FASB Statements No. 123 and 95 ("the Exposure Draft" or "ED"). 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.

Overall, we recognize the progress the Exposure Draft makes in requiring a fair value approach and developing the option based valuation to a market standard, as well as enhancing the reporting requirements for other share-based compensation plan attributes. CSG began fair value accounting for stock-based compensation with the adoption of FASB Statement No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure -- An Amendment of FASB Statement No. 123*, (SFAS 148) and agrees that fair value is a better measure of the compensation cost than intrinsic value for options awards. We also agree with the Board's conclusion that employee services received in exchange for equity instruments give rise to recognizable compensation cost that should be recorded in the financial statements as the services are used in the issuing entity's operations. We recognize that option pricing was once controversial and difficult for most companies to do, but believe the markets have matured sufficiently such that option pricing is not as obtuse as it once had been perceived and that there is a greater market for inputs to the models.

However, we have some concerns with the Exposure Draft, which are further addressed in our detailed responses below.

Our concerns and recommendations are summarized as follows:

- The proposed accounting for the deferred tax assets on vested awards, particularly the asymmetrical accounting for gains and losses upon exercise and the deferral of loss recognition until exercise, appears to contradict existing guidance and the underlying nature of the transactions.

CSG recommendation: All post-vesting tax flows should be recognized through equity and impairment accounting is applied to deferred tax assets.

- We agree that a binomial model represents a more conceptually accurate application of modern option valuation theory than is obtained using the Black-Scholes model, but are concerned the use of the lattice model as described is overly complex and does not justify the significant level of expertise required to implement and support such a model.

CSG recommendation: The new Standard does not specify the lattice model as the only acceptable model to be used, but rather requires disclosure of the models and method used to determine the expense.

- We do not agree with the Board's proposal to apply different methods of expense attribution for graded and cliff vested awards.

CSG recommendation: That the new Standard does not distinguish between cliff versus graded vesting in determining the expense recognition period, but rather maintains the attribution method according to market, performance, and/or service conditions, as discussed in the ED, when determining the expense period.

- The transition timeframe does not seem to provide adequate time to adopt this Standard given the potential system changes related to implementing a binomial/lattice model.

CSG recommendation: Defer application until January 1, 2006 with early adoption encouraged.

- The ED proposes disclosure requirements related to intrinsic values, though the Board notes in C22 "that use of the intrinsic value method has and would continue to impair not only the relevance and reliability, but also the credibility, of financial statements".

CSG recommendation: Remove the proposed disclosures related to intrinsic value.

Outlined below are our detailed observations and considerations.

Income Taxes

We strongly disagree with the Board's proposals regarding taxes on two points in particular: (i) the recognition of tax benefits through the income statement and (ii) the treatment of the deferred tax asset between vesting and exercise.

Under the ED, events that take place during the employee's vesting period relating to the service aspects of the award, such as employee forfeitures, result in adjustments being recorded through the income statement. Our understanding is that compensation cost is recognized only until the vesting date, because the employer's benefit does not extend beyond that date. Movements in the share price or other attributes of the award subsequent to the vesting date are not reflected in compensation cost since these are akin to capital, or equity, transactions of the company. Based on this logic, it must follow that movements in the deferred tax asset that take place subsequent to the vesting date of an award are also equity transactions and should not be recorded in the income statement. This is analogous to the applicable literature for own shares including SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, which require that movements related to qualifying transactions on own shares be recorded in equity. Further, to recognize realized gains through equity and realized losses through the income statement has no precedent in the literature. We also have a concern that the mapping of gains to equity and losses to the income statement will be operationally burdensome and unnecessarily confuse investors.

Secondly, we disagree with the result that the carrying of a deferred tax asset between the vesting and exercise dates is consciously valued improperly. The accounting treatment of the deferred tax asset should also be valued in a manner consistent with other GAAP literature. In particular, if it can be determined that the asset is impaired, the recognition of such an impairment should occur before it is realized. As we have agreed that option values can be obtained, it follows that the on going "value" of the deferred tax asset can be obtained. To defer the recognition of a loss until it is realized is not consistent with current treatment of assets. While we do not believe a fair value approach to valuing the deferred tax asset is consistent with the ED or SFAS 109, *Accounting for Income Taxes*, we disagree with the concept of deferring losses until realized. Consistent with our suggested treatment above, we believe any impairment taken on the deferred tax asset should be taken through equity.

Fair Value Measurement

We agree with the Board's arguments that intrinsic value is not a reliable measure of an option's value and that the use of such a valuation is not relevant in measuring the true compensation cost of an option based award. In addition, as noted in our

comment letter in response to SFAS 148, we agree that the Black/Scholes model does not adequately reflect the true economic cost for employee stock options.

For our disclosures under SFAS 123 and in adopting SFAS 148, we applied the Black-Scholes valuation model to determine the fair value of our option awards. While we agree with the Board's conclusion that a lattice model could offer greater flexibility to reflect the characteristics of employee share options and similar instruments, we do not believe that it should be the only acceptable option valuation tool. Our conclusion is based on the fact that lattice models for employee stock options are not readily available, concerns around the accuracy of some of the inputs and application of the model for all aspects, in particular as relates to expected term, and the on-going development of option theory.

We have concerns that the lattice model may be too complex for many companies to implement. We agree with the application of appropriate option valuation theory from a conceptual standpoint but also recognize that the impact to financial statements may not always warrant the added complexity.

In addition, the ED suggests that incorporating employee exercise behavior into the lattice model can derive the expected term. We believe the use of the lattice model in this manner may add to the difficulty and potential inaccuracy of the valuation. If the intention is that the binomial model attempts to correlate the term with a series of events and factors, then this seems unrealistic. Such a data analysis relies on a set of data points for which correlation in a market efficient manner cannot be assured. The analysis of historical data and the correlation of data inputs as performed in the capital markets assume the data is coming from an efficient market. In contrast, employee exercise patterns do not behave in a market efficient manner. Additionally, the capital markets, in utilizing such a model, would typically have access to more data points than companies do for exercise data, making the analysis more statistically sound. As such, the figures that are derived for analyzing employee data may be far less relevant and accurate than intended. This results in potential inaccuracy in correlation assessments, thus calling into question the reliability of the model. An alternative approach would be to use the lattice model to value options with various terms as would be done for an American option in the market place, without regard to employee exercise behavior. These values by term could then be weighted according to general exercise behavior to come up with an appropriate fair value for the option, without using the lattice model for the whole valuation. This would be a far less complex manner in which to derive the option value, is not likely result in a significant valuation difference, and eliminates any presumption about correlation of exercise behavior to other market factors. The ED does not contemplate the use of such alternatives. Thus most companies, regardless of size or number of options awarded, will be required to use a packaged lattice model to value their employee option awards.

Attribution of Compensation Cost

We agree with the Board's conclusion that compensation cost should be recognized in the financial statements over the requisite service period, which is the period over which employee services are provided in exchange for the employer's equity instruments. Vesting provisions are incorporated into awards to encourage employee retention and reflect compensation for future services to be rendered by the employee. Consistent with generally accepted accounting principles, we believe that the expense recognition should match the service period given that this period is measurable.

For the same reason, we disagree with the Board's proposal that graded vesting should be expensed in a different manner than cliff vested awards. Our view is that, where the service period is the attribute used to determine the period over which the expense is recognized, consideration of the manner in which the award vests is not relevant. In addition, the vesting period is already considered in the fair value of the option at grant date.

Finally, while the FIN 28 attribution model has been in existence for quite some time, many companies (with the consent of their auditors) have used a straight-line amortization method for graded vested awards. As this method has been applied in good faith, we believe it would be an unnecessary constraint of a long-standing practice.

Transition

We are concerned that the transition date is aggressive. As many companies will likely need to implement significant and costly system changes, we are concerned that an effective date of January 1, 2005 (for calendar year companies) will not provide sufficient time for the issuance of first quarter results. We suggest a transition date of January 1, 2006 with early adoption encouraged.

Disclosures

We agree with the Board's opinion as expressed in paragraph C22 that the use of intrinsic value impairs relevance and reliability of financial statements. However, we do not agree with the Board's proposal requiring disclosure of intrinsic values of awards. To continue to use this measure in disclosures is inconsistent with this view.

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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 at 41-1-334-8063 or Lou Fanzini at (212) 325-7365 in NY with any questions or comments.

Sincerely,

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