

Via Electronic Mail

December 1, 2003

Major Projects and Technical Activities Director
Financial Accounting Standards Board
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Letter of Comment No: 90
File Reference: 1082-300
Date Received: 12/01/03

Re: Proposed Interpretation, Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46 ("FIN 46") (the "Proposal")

Ladies and Gentlemen:

Credit Suisse Group ("CSG") appreciates the opportunity to comment on the above- referenced proposed FASB Statement.

Overall Observations

We appreciate that the Board and the Staff have worked diligently to issue a modification to assist constituents in applying FIN 46. However, we are concerned that the modification did not address all of the significant issues that have been raised to the FASB through the comment letters on various FASB Staff Positions (FSPs)¹. We are also concerned that the rapid pace of issuing various FSPs, and the abbreviated due process, could potentially dilute the impact of constituency feedback. We say this because from a timing perspective, we believe it must be challenging for the Staff and the Board to completely address the varied comments letters on the numerous FSPs. Further, FSPs can and do undergo significant modifications without re-exposure. If the FSPs were merely clarifications of existing guidance, that might be appropriate. However, the potential significance of the FSPs that are anticipated to be issued, which some might view as part of the foundation of FIN 46, merits the Board's reconsideration as to whether substantially modified FSPs should be re-exposed for comment.

Given our above concerns about the abbreviated process, and the fact that expected future FSPs can have a significant impact in the application of FIN 46, we do not believe that the Proposal needs to be issued at this time. Instead, consistent with the concerns expressed by three Board members in the Alternative View, we recommend that the Board put the modification on hold until significant issues can be appropriately addressed. This would also alleviate the confusing maze of when and how certain guidance is to be applied.

¹ Please refer to CSG's October 6, 2003 comments on various FSPs, as well as a request for the FASB to address the misleading results that exist when consolidated variable interest entities create income and losses that will never be recognized or relevant for the reporting entity.

Comments on the Proposal

If the Board does elect to go forward with the Proposal at this time, CSG had several specific comments on the changes.

1. Scope Exception for Mutual Funds

The Board elected to exclude mutual funds in the form of trusts and trusts of a bank's trust department and similar arrangements that are organized and operated in a manner consistent with customary practices. We support this exclusion. However, we believe that this scope exception should be clarified to ensure that similar arrangements are also eligible for the exception. For example, in certain jurisdictions there are mutual funds that are not in the form of a trust nor provide investors with voting rights, but have the similar characteristics of the mutual funds in the form of a trust. We believe that these should also be eligible for the scope exception. It is clear that these entities are not set up for the primary benefit of the party managing the money. The fact that an entity is hired for their investment management expertise, and receives fees commensurate with services provided, should not lead to a requirement that the manager has to consolidate what are effectively the assets of the investors. We are not suggesting a list of types of entities that should be scoped out, but perhaps some indicators that would support a principle that certain entities should not be subject to FIN 46. For example, if a mutual fund is subject to significant regulation and there is evidence that the manager is merely acting in a fiduciary capacity for the benefit of third-party investors, these types of entities should not be subject to FIN 46, irrespective of the form of the fund.

2. Paragraph 5b – Controlling Financial Interest

It is our understanding that in the revised guidance related to paragraph 5b, the Board has concluded that control through arrangements other than through an equity interest should not be considered in determining if paragraph 5(b)(1) is met. However, this appears to be inconsistent with paragraph 5(b)(1) which states that decision-making can be provided through voting rights or similar rights. It appears that one cannot look to relationships other than its equity investment at risk when determining decision-making for a voting interest entity is present. Therefore, we recommend that the FASB clarify the meaning of the phrase "or similar rights" in the context of paragraph 5(b)(1).

In addition, the new footnote states that unless one party has both the equity at risk and decision-making, that entity cannot be a voting interest entity. However, there could be situations where one party controls by contract and its affiliate has equity at risk. Rather than an absolute requirement that a voting interest entity must always have one party with both control and a financial equity investment, we recommend that the Board recognize that there may be circumstances that justify combining affiliate interests if, in substance, that consolidated entity has a financial interest with decision-making ability, consistent with a voting interest entity.

3. Reconsideration Events – Paragraphs 7 and 15

Overall, we found it difficult to ascertain the practical impact of these changes. However, we are concerned that the proposed changes can have the unintended consequence of requiring a reassessment based purely on the actions of third parties – a trigger event that is operationally very difficult to implement and was rejected in the deliberations leading to FIN 46. We are

particularly concerned about the reconsideration events in paragraph 15b-d. One possible interpretation of these conditions is that any time these events occur, even if the party is not the entity selling or purchasing any interests, all holders must reassess whether they are the primary beneficiary. We recommend that the Board retain the original language in FIN 46, with clarification that any purchases or increases in variable interests, whether or not purchased from the primary beneficiary, require a new assessment for the entity. We believe this to be more straightforward than the extended changes proposed in paragraph 15.

4. Elimination of Appendix B

We have concerns with respect to the Board's decision to eliminate Appendix B. While the Board might believe that certain provisions require clarification or elimination, constituents have been using parts of this Appendix as guidance for implementing FIN 46. Further, we are concerned about unexpected changes that could arise from application of the guidance in the Appendix, which will be issued as an FSP rather than a component of FIN 46. Therefore, since the "new Appendix B" can have a significant impact on interpretations of FIN 46, we believe that such guidance belongs in the actual standard, and should not be addressed by a separate FSP. This supports our view above that the FASB should not issue the Proposal at this time and instead regroup and issue a comprehensive revised FIN 46.

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We appreciate the opportunity to provide the Board with our comments. Please do not hesitate to contact Julie Roth at (212) 538-4847 or Todd Runyan in Zurich at +41-1-334-80 63 with questions or comments.

Sincerely,

Rudolf Bless
Managing Director, Group Chief Accounting Officer

Julie Roth
Vice President, Group Accounting Policies