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Via Electronic Mail

October 6, 2003

Major Projects and Technical Activities Director
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
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director @fasb.org

Re: Proposed FASB Staff Positions FIN 46-a, FIN 46-b, FIN 46-c

Ladies and Gentlemen:

Credit Suisse Group ("CSG") appreciates the opportunity to comment on the above-referenced FASB Staff Positions ("FSP"). We provide our comments on the specific FSPs after an overall discussion on the impact of consolidating variable interest entities ("VIEs").

Overall, implementation of FIN 46 has and continues to be a very challenging exercise with numerous implementation issues. One area of concern relates to how to reflect the results of consolidated VIEs. FIN 46 guidance provides that a primary beneficiary should consolidate a VIE as if it were any other subsidiary. This guidance, or lack thereof, is inadequate for certain VIEs, since it does not address how to account for the "noncontrolling" interests of the consolidated VIE. In particular, the potential for asymmetrical accounting for the assets and liabilities can give the appearance that the reporting entity has realized gains and incurred losses, when in reality these amounts (barring any interests and fees actually held by the entity) will never be realized by the primary beneficiary. For example, this circumstance exists when the reason for consolidation is not because the primary beneficiary has any obligation to support the entity, but merely because it receives fees for managing assets. The investors in these VIEs, knowingly and willingly, will suffer the ultimate losses or receive the appreciation through their returns.

For traditional voting interest entities, consolidation procedures adjust the parent's income statement for noncontrolling interests through minority interest. No matter what the legal form or accounting status of a consolidated entity, the reported results should be the same – the reporting entity should only reflect gains and losses that it is economically entitled to. Therefore, we recommend that the Board address the unique accounting issues that arise when an entity is required to consolidate a VIE and the gains or losses of the VIE could never be realized by the reporting entity. We believe the FASB should develop circumstances where, if consolidation of a VIE is required, the accounting for the liabilities is symmetrical with the accounting for the assets to mitigate the potential misleading income statement results. In other words, the liabilities are adjusted to reflect the true economic position of the reporting entity.

Additionally, we believe our recommendations below relating to FIN 46-b and FIN 46-c below could help alleviate some of the burdens that FIN 46 imposes on asset managers.

FIN 46-b
Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest entities, for Decision Makers

While not directly addressed in this FSP, we would like to briefly provide our observations and concerns on the impact of the paragraph 8 calclulation to decision-makers. These points have been previously raised to the Board shortly before FIN 46 was issued, but we believe it is necessary to reiterate the concerns. We are concerned with the bias in paragraph 8(c) that renders the party that receives fees for managing assets in a VIE a likely candidate for consolidation. While gains are a factor one must consider, the calculation of paragraph 8 places an undue stress on an asset management fees, and thus when compared to the variability of other returns, the asset manager is often the party that has the majority of expected gains, even if they have zero or minimal exposure to losses.

We believe that the exposure to losses, or the requirement to support a VIE, are the most important factors to identify a primary beneficiary. When this test does not identify a candidate for consolidation because the risks are dispersed, we can understand wanting to consider the benefits of the variable interest holders. However, the paragraph 8 calculation is geared to tag consolidation on asset managers, even if they hold little or zero interests in the VIE and have no obligation to support the entity. This is an inappropriate result that impacts collateralized debt obligations "CDOs," but the impact can extend to other circumstances.

We recommend that the FASB revisit the paragraph 8 calculation to assess if it can find an alternative approach that mitigates the bias that asset managers are primary beneficiaries. One alternative is to include fees, whether to a decision-maker or otherwise, in the FIN 46 caclulation on a variable basis to ensure the analysis is an "apples to apples" analysis. Another possible solution is to further define "decision-maker" so it excludes parties that clearly are only managing money pursuant to predefined parameters, do not provide financial support for the performance of the entity, and have no discretion in changing the governing documents or the purpose of the entity.

We also note that whether that party can be removed, as discussed below, is a factor that can provide evidence the party is not a decision-maker.

With respect to the particular deferral proposed in this FSP, we recommend that the FASB clarify that fixed fees are not only fees such as $1,000 per month but can include fees that are fixed in terms of a set percentage of the assets value. Arguably, if there is a higher asset balance there is more for the decision-maker to monitor, so an increased fee is appropriate.

FIN 46-c
Impact of Kick-Out Rights Associated with the Decision Maker on the Computation of Expected Residual Returns under Paragraph 8(c) of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*

Since the FSP does not provide any basis for its conclusion, we do not understand why the FASB has concluded that the investors' right to remove an asset manager is not a right that should be considered to mitigate the "decision-making" ability of an asset manager. We believe that investors do place a premium on these rights, and recently have seen the demand for these rights increase. Further, providing the investors a right to remove the asset manager is further evidence that supports an overall assertion that the manager is effectively hired by investors to perform a service they have the expertise to perform.

For your information, the following are some of the principal reasons that investors would value the right to replace the asset manager:

- A change in the portfolio management team. Investors are often investing not only in the company name but based on the track record of specific individuals. If these managers were to leave or change responsibilities, the investors could decide they are not as comfortable with the new parties and elect to replace them.
- Poor performance.
- Adverse change in strategy or business model.
- Financial distress at company.
- Change in control of the company.

To date, we are not aware of a significant amount of non-cause removals (note that many transactions, especially older transactions, do not contain "no-cause" removal provisions so, for example, poor performance would not be sufficient grounds to terminate), but if the existence of these rights increase we expect a corresponding increase in situations when the asset manager is in fact removed.

We believe that if an asset manager can be terminated at any time (not merely for "cause") then they are not the decision-maker. If the investors have the free option to remove that manager, then the manager's ongoing ability to benefit from the transaction (by receiving market-based fees) is effectively based on the continued approval of the investors.

FIN 46-a
Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, for Nonregistered Investment Companies

CSG supports the proposal to delay the effective date of FIN 46 to non-registered investment companies that currently follow the AICPA Audit and Accounting Guide, Audits of Investment Companies (the "Guide"). Since the AICPA is close to a final document on the clarification of the scope of the Guide, we think it is appropriate to defer application to avoid situations where an investment company has to apply FIN 46 today, only to conclude that it can revert to fair value accounting under the newly issued Guide. We also request that the FASB clarify that this exception would apply to investment companies even if they invest in other investment companies, such as fund of funds transactions.

We thank the Board for their attention to our comments. We are available to further discuss these points. Please contact Julie Roth at (212) 538-4847 or Todd Runyan at (+41-1-334-8063).

Sincerely,

Rudolf Bless
Managing Director, Chief Accounting Officer

Julie Roth
Vice President, Group Accounting Policies