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Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

File Reference No. 1710-100 – Improving Disclosures about Fair Value Measurement

Dear Mr. Golden:

Credit Suisse Group ("CSG") welcomes the opportunity to comment on the Financial Accounting Standards Board's ("FASB") proposed Accounting Standards Update – *Improving Disclosures about Fair Value Measurements* (the "Exposure Draft"). CSG is registered as a foreign private issuer with the Securities and Exchange Commission and its consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

In general, CSG supports convergence of US GAAP with International Financial Reporting Standards ("IFRS"). However, CSG does not support this proposed Exposure Draft to amend FASB Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("Topic 820") in its current form. We believe the Exposure Draft can be improved to ensure enhanced convergence with IFRS and find a better balance between quality and volume of information. Please find detailed responses to the above comments and to the specific questions set out in the Exposure Draft in the Appendix to this letter.

We would welcome the opportunity to further elaborate on these issues and concerns should you wish. In the meantime, if you have any questions or would like any additional information on the comments we have provided herein, please do not hesitate to contact Todd Runyan in Zurich on +41 44 334 8063 or Eric Smith on (212) 538-5984 and Patrick Ackerman on (212) 325-2051 in New York.

Sincerely,

Rudolf Bless Managing Director Chief Accounting Officer Patrick Ackerman
Director
Accounting Policy and Assurance Group

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from:

- 1. Financial statement preparers about their operationality and costs,
- 2. IFRS financial statement prepares about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7,
- 3. Financial statement users about their usefulness more specifically, a discussion on how they would benefit from, and use, such disclosures.

Although we fully support the convergence between US GAAP and IFRS, we feel that the FASB has created a more onerous burden for US GAAP filers by expanding the scope of disclosures beyond that currently required by IFRS 7, *Financial Instruments: Disclosures*. Additional requirements proposed under the Exposure Draft include a) the consideration of the expected effects of correlation among the changes in significant inputs if estimating the effect of more than one reasonably possible change and b) disclosures of quantitative information about significant inputs used and reasonably possible alternative inputs for each class of fair value measurement that uses significant unobservable inputs (Level 3). We believe that correlation cannot be reasonably captured in the calculation of sensitivity. This is consistent with other US GAAP guidance in ASC Topic 860-20-50-4, *Transfers and Servicing, Sales of Financial Assets – Disclosures*. That disclosure requires a sensitivity analysis specifying two or more unfavorable variations from expected levels, as opposed to reasonably possibly alternative inputs, and specifically excludes the effect of correlation.

We believe that the FASB and the IASB should coordinate their efforts to create consistent and holistic disclosures concerning financial instruments to not only relieve the efforts of preparing similar yet varying disclosures for financial instruments, but also be reflective of the tools already used to manage the risk of the business, such as value-at-risk calculations. As value-at-risk measures risk on a net basis, risk management does not analyse gross positions of assets and liabilities, nor do they differentiate between the levels of the fair value hierarchy in which the instruments fall. Many Level 3 instruments are economically hedged by instruments that are classified in Levels 1 and 2. A sensitivity analysis performed at a class of instrument level, and limited to only Level 3 instruments will create an enormous task, requiring additional personnel and significant capital expenditures. The benefit certainly does not justify the cost, since the infrastructure will be created only for disclosure purposes and will not assist in the firm's risk management process.

The proposed sensitivity disclosures will create a quantitative range of uncertainty surrounding the value of Level 3 instruments, resulting in additional subjectivity to an already subjective valuation. Valuations of Level 3 instruments are performed using the firm's best estimates of inputs and models, and estimation error is mitigated through the firm's internal control structure. Current disclosures should be sufficient to reflect the realized and unrealized impact of Level 3 instruments included in the firm's financial statements. A qualitative disclosure of valuation methodologies and associated inputs should be sufficient for users to understand the subjectivity inherent in Level 3 instruments. The FASB and IASB should consider a different approach to the type of disclosures that will facilitate the usefulness and comparability for financial statement users to understand the management of risk of the overall balance sheet.

In addition, the expanded scope of the Exposure Draft over IFRS 7 to require additional disclosures on inputs is overwhelmingly burdensome for US GAAP filers. It will require a voluminous amount of verbiage and quantitative information in tabular formats if done at the class of instrument where there is a similar valuation methodology. The proposed disclosures are required for each class of financial instrument based on the nature and risks of the instruments and their classification in the fair value hierarchy. While management's judgment can establish a class of financial instrument under the major principle, the disclosure requirements create rules that are impractical to follow. For example, the compilation of detailed inputs related to hundreds of various models from various regions around the globe creates thousands of permutations of potential input disclosure items. Calculating a meaningful weighted-average input would be impractical, and the disclosure of a range of values of the input is not meaningful to the user. This issue was recently discussed in the FASB's Valuation Resource Group meeting, where it was mentioned by a FASB member that the class of financial instrument should therefore be defined at a lower level. This is still an impractical approach, and would create a voluminous amount of disclosures with minimal benefit to the user. As a result, we ask that the FASB exclude the additional input disclosure requirements included in the Exposure Draft to be consistent with the IFRS 7 requirements.

Issue 2: With respect to the reconciliation (sometimes referred to as a rollforward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

We do not believe that the segregation of purchases, sales, issuances and settlements within the Level 3 rollforward is a useful or cost beneficial addition to the rollforward. Over the past few years that the Level 3 rollforward has been disclosed, we have had no queries from investors or analysts and do not feel that the segregation will be beneficial to them. For example, in an investment banking environment, purchases and sales are voluminous in nature for both cash securities and derivative contracts. The majority of Level 3 instruments fall into trading assets and liabilities, and therefore, reflecting the gross amounts for purchases and sales will not be meaningful. This concept is evident in other US GAAP guidelines where there is a specific exemption from reporting gross cash flows in the Statement of Cash Flows, i.e., net cash flow reporting is currently allowable for trading assets and liabilities as an adjustment to reconcile net income to net cash provided by operating activities of continuing operations. ASC Topic 230-10, Statement of Cash Flows, states:

...when the turnover in an item is quick, the amounts are large, and the maturities are short, only the net change during the period is required to be disclosed. Items qualifying for this net reporting include investments (other than cash equivalents), loans receivable, and short-term debt with an original maturity of three months or less. Financial institutions are allowed to present net amounts of cash receipts and payments for deposits placed with other financial institutions and withdrawals of deposits, time deposits accepted and repayments of deposits, and loans made to customers and principal collections of loans.

As such, we believe that gross reporting of cash flows in the Level 3 rollforward should not be required or, at a minimum, have the same exemptions as that specified under ASC Topic 230-10.

The segregation of purchases, sales, issuances and settlements within the Level 3 rollforward is not operational for many instruments on the balance sheet of a financial institution, since this information is heavily dependent on cash settlement information systems that are not necessarily linked to the financial accounting systems. One example where cash flow details are not readily available would be for trading assets and liabilities as reporting in the Statement of Cash Flows, as noted above. Significant systems reconfiguration would need to be completed to fulfill this requirement. This is complicated by the numerous cash settlement and valuation systems associated with various products, lines of business, as well as differences in system configurations in the various geographic regions of a global firm. In addition, US GAAP will be applicable to some stand-alone financial statements, whereby all intercompany transactions will need to be included in the analysis, compounding the volume of transactions in scope of the systems review. As such, the proposed effective date is unreasonable and operationally a significant challenge at this late date in the year.

It is also unclear the reasoning behind the segregation of purchases, sales, issuances and settlements as it is rare that any one instrument could have all four potential transactions. Operationally, this is difficult as cash settlement systems do not differentiate the type of transactions, i.e., purchase vs. issuance or sale vs. settlement, and only include generic cash inflows or outflows. For most instruments the increases and decreases in their balance are intuitive to the type of instrument. Instruments such as trading assets or liabilities can be purchased and sold and would not be considered issued or settled. Exchange-traded derivatives can be purchased and sold, but would not be part of the Level 3 rollforward due to their observable nature. Over-the-counter derivatives may fall into Level 3 due to potential unobservability, but due to their bespoke nature would be considered issued and settled directly with the counterparty and not sold to another market participant. Similarly, liabilities, other than trading instruments, would be considered issued and settled, since a firm's liabilities are settled with the counterparty and rarely sold to another market participant. The only instruments that may have all four types of transactions would be loans or commitments to lend. Loan balances can increase as a result of purchases or originations, and the balance can decrease a result of sales or settlements through repayments either throughout the life or at maturity. Commitments to lend are similar in that they can be originated, purchased, sold, or settled through the funding of the loan. As a result, for most products a generic increase or decrease could suffice, and the differentiation into the four specific types is not useful information. Therefore, we recommend that if the Board continues to believe that gross reporting of these amounts are necessary, there should only be a gross increase and gross decrease in the Level 3 rollforward.

In addition, given that the Exposure Draft also defines that gross transfers in and out of Level 3 should be at the beginning of the period, cash flow information needs to be obtained for all prior quarterly periods of 2009 for restatement purposes. As this is a quarterly and year-to-date rollforward, we would propose starting any new methodology in an entity's new fiscal year in order to not require prior period restatements. Therefore, if the Board continues to believe that this disclosure is appropriate, we propose that an effective date should be for an entity's fiscal year beginning AFTER December 15, 2010.

Issue 3: Is the proposed effective date operational? In particular:

- 1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?
- 2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?

As mentioned in our response to the previous issues, the operationality of the proposed disclosures is a tremendous challenge given the proposed effective date. US GAAP filers are already overburdened with major implementation tasks related to recently issued standards, FASB Staff Positions and ASUs, including the proposed ASU, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*; SFAS 166, *Accounting for Transfers of Financial Assets - an Amendment to FASB Statement No. 140*; SFAS 167, *Amendments to FASB Interpretation No. 46(R)*; ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share*; and most notably, the unrelated fair value disclosures required by FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly*.

Other Issues

Valuation Technique

Paragraph 820-10-50-2e of the Exposure Draft states:

e. For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), the valuation techniques and inputs used in determining the fair values of each class of financial instrument. If there has been a change in the valuation technique (for example, changing from a market approach to an income approach), the reporting entity shall disclose that change and the reason for making it.

Valuation techniques have been defined in ASC 820-10-35-28 as a Market, Income, or Cost Approach. We believe the terminology in the text of the Exposure Draft does not agree with the examples, i.e., terminology such as "Industry Standard Model", "Proprietary Model", "Net Asset Value per Share", etc. We feel that these are a subset of valuation techniques and should be defined with terminology such as "valuation methodologies". The proposed requirement is to disclose changes in valuation techniques, specifically defined parenthetically as market vs. income approach. We feel the FASB should clarify its terminology and the disclosures it is requiring in regards to the level of granularity of discussion of valuation techniques versus specific methodologies used, as well as changes in those techniques.

Level of Disaggregation of Categories of Assets and Liabilities

In the original issuance of the fair value measurement standard in 2006, disclosures were to be segregated for each major category of assets and liabilities measured at fair value. Major category was never defined by the FASB and was generally applied at the level of balance sheet line item. The level of disaggregation for the fair value measurement disclosures was changed by the issuance of FSP FAS 157-4 to match the disclosures of debt and equity securities as required under ASC Topic 320-10-50-1B. The current Exposure Draft increases the disaggregation to include all instruments measured at fair value. Significant system changes are needed to collect the detail necessary to fulfill the fair value level hierarchy information and the Level 3 rollforward.

Similarly, the additional details necessary to reflect transfers between Level 1 and 2 will have to be developed. This is potentially not a material amount, since transfers between these levels are not perceived to be material or frequent. Regardless, a system solution must be implemented to determine if there are material transfers and to what products they relate, e.g., long-dated, exchange-traded options which are less liquid, are classified in Level 2 at inception with a liquidity reserve applied against the exchange price. They are transferred to Level 1 as they become more actively traded at their exchange price as they near their maturity. As there is not clear guidance on the definition of actively traded instruments, we request that additional guidance be provided on instruments such as long-dated, exchange-traded options and whether they should be included in Level 1, even though the exchange-traded price may not be an executable price at the measurement date due to inactivity of the individual instrument.

General

In summary, we believe that the FASB is rushing into piecemeal disclosure requirements with unreasonable effective dates without taking into consideration the financial impact or resource requirements necessary to implement the changes to systems and internal control structures of a firm in a Sarbanes-Oxley compliant manner. Disclosures should reflect how a firm manages risk, which may not be reconcilable to individual balance sheet line items, the level of disaggregation as proposed, or the level of the fair value hierarchy in which the instrument falls. In this manner, users of financial statements can compare risk management strategies as opposed to quantitative, albeit subjective, ranges of uncertainty on specific assets or liabilities that fall into Level 3 that are most likely hedged with other instruments in other line items of the balance sheet or other levels of the fair value hierarchy.