15 December 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
USA
director@fasb.org

File Reference No. 1850-100

Dear Sir or Madam:

Credit Suisse Group ("CSG") welcomes the opportunity to comment on the Financial Accounting Standards Board’s ("FASB") proposed Accounting Standards Update ("ASU") Leases (Topic 840). 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").

The proposed ASU further refines the lease accounting model as originally discussed in the March 2009 discussion paper ("DP"), Leases: Preliminary Views. CSG sent a comment letter in response to the March 2009 DP wherein we supported the joint FASB and IASB efforts to reduce the complexity found within IAS 17, Leases and FASB Statement No. 13, Accounting for Leases. CSG continues to recognize the importance of addressing the existing standards both for lessee and lessor accounting and in doing so supports the Boards’ efforts toward convergence in this area of guidance.

In drafting this comment letter, we have considered learnings from the recent lessee workshop held in Norwalk, CT and appreciate the opportunity to have provided our views and perspectives as a participant to the workshop. We encourage continued use of such workshop sessions for future proposed ASUs.

The following comments are provided in context of each question posed in the proposed ASU. Where appropriate, we have offered perspectives where we believe implementation of this proposed ASU will prove challenging to our operations or within the banking industry at large.
Lessee

Question 1(a) – Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments?

Similar to the position we noted in our comment letter in response to the March 2009 DP, we agree that the proposed approach to recognize a right-of-use asset and a liability is aimed at ensuring consistent accounting for lease arrangements throughout all industries. We understand the drive within the standard setting agenda to ensure that operating leases no longer remain ‘off balance sheet’ and rental expense would no longer be straight-lined over the lease term.

However, as a constituent that is also greatly impacted by capital and regulatory related requirements, we are sensitive to the fact that this standard will result in bringing large amounts of assets and liabilities back onto banks’ balance sheets at a time when the banking industry is still recovering from the financial crisis. As a result, we believe that the regulators should consider ‘looking through’ the balance sheet impact of these right-of-use assets. Some may perceive that a bank’s capital position would have deteriorated as a result of this new guidance, but in reality there has been no economic impact as these assets do not represent assets with credit or market risk.

Question 1(b) – Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments?

We agree that a right-of-use asset closely resembles the characteristics of a purchased asset which is currently subsequently measured using an amortised cost-based approach.

We are concerned that the additional interest method charge related to the liability will lead to higher expenses during the early part of the lease term and lower expenses during the latter part of the lease term. We acknowledge that this concept is consistent with current accounting for financed purchases of property, plant and equipment assets and the front loading of expenses caused by the interest expense aligns to a pattern seen when amortizing financial liabilities, but we question whether that is a true economic reflection of the lease arrangement terms.

Lessor

Question 2(a) – Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise?
Practically speaking, we do not believe there is a need to offer two approaches for lessor accounting as it introduces a level of complexity that provides little value to users versus the cost of administering the application of the standard.

We are also concerned that the subjective nature of determining whether the lessor has retained ‘significant risks or benefits’ will lead to divergent practices and more specifically is a model that no longer aligns to the ‘control’ model which seems to be more prominent in other recent FASB and IASB Memorandum of Understanding (‘MOU’) projects (e.g. revenue recognition, consolidation). Further, we contend that under the performance obligation approach the statement of financial position is inflated with no economic support.

We therefore suggest moving forward with the derecognition method only as it will ensure comparability among reporting entities and result in a more symmetrical accounting model between the lessee and lessor.

**Question 2(b) – Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting?**

Although we support the derecognition approach, there are various aspects of the model that require further discussion.

**Residual value guarantee:**

According to par. 52(b) a residual value guarantee from a third party is not included in the lease payments under the derecognition approach. In contrast however, a residual value guarantee is part of the lease calculation under current US GAAP (part of the gross investment). We do not believe that the derecognition approach gives a true economic representation of the lease arrangement in the case where a third party residual value guarantee is excluded. We request that the Boards’ revisit this exclusion and consider including third party residual value guarantees in the lease payment calculation under the derecognition model.

**Residual asset:**

Par. 50 requires that a lessor calculate the residual asset by allocating the carrying amount of the underlying asset at the date of inception of the lease in proportion to the fair value of the rights that have been transferred and the fair value of the rights that have been retained by the lessor.

We agree that in theory the use of fair value may provide information that is more relevant to users, however the additional costs to lessors outweighs that argument. Practically speaking, these fair values will not be readily obtainable and are highly subjective due to their illiquid nature with no evidence that the results will be
materially different having simply used an allocation of the carrying amounts which are readily available.

Question 2(c) – Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP?

As proponents of full convergence with IFRS, we support the removal of the current distinction for leveraged leases. We do believe however that leveraged leases have a different economic intent than standard lease arrangements, but recognize that under IFRS there is no separate and distinct guidance for leveraged leases. As a result we believe that users of financial statements will be better served by convergence in this area.

**Short-term leases**

Question 3 – Do you agree that a lessee and a lessor should account for short-term leases in the way proposed (i.e. undiscounted amount of the lease payments)?

We acknowledge the proposed simplified approach for short term leases and recognize the benefit to constituents in allowing for an undiscounted calculation model. However, we strongly believe that eliminating short term leases from the scope of the ASU altogether would result in a more practical and less costly way of handling this class of lease transactions.

**Definition of a lease**

Question 4(a) – Do you agree that a lease is defined appropriately?

Conceptually, we agree with the definition of a lease which is essentially aligned to both existing US GAAP and IFRS standards and will facilitate implementation of the new proposed accounting models.

Question 4(b) – Do you agree with the criteria in par. B9 – B10 for distinguishing a lease from a contract that represents a purchase or sale?

We request that the Boards consider expanding upon the meaning of ‘trivial’ in the context of relinquishing control of an underlying asset. Specifically, the Boards should consider providing further clarification as to whether the term ‘trivial’ is less than or equivalent to the term ‘not significant’ in the spectrum of the meaning of what is considered significant.

Question 4(c) – Do you think that the guidance in par. B1-B4 for distinguishing leases from service contracts is sufficient?

We are unsure how to interpret the application guidance provided in par. B2 and B3 whereby it is stated that an asset is implicitly specified if a lessor can substitute
another asset for it but rarely does so in practice. While the likelihood that the lessor will exercise a substitution right is not a required consideration under current US GAAP, it is occasionally considered in practice. Therefore, we believe that this application guidance may result in more arrangements being considered leases than what may have originally been intended by the Boards.

We therefore request that the Boards redeliberate the intent behind par. B2 & B3 and clarify the guidance accordingly.

Scope

Question 5 – Do you agree with the proposed scope of the proposed guidance?

Except as noted above in this comment letter, we agree with the proposed scope of the proposed guidance.

However, we do expect that policies will need to be developed by constituents to allow for the practicability of this new standard. For example, small equipment leases where values are minimal may be considered a period expense not unlike some of the current policies for purchased property, plant & equipment. In other words, capitalization policy practices will need to be revisited as to their applicability to right-of-use assets.

Contract that contain service components and lease components

Question 6(a) – The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract where the service component is not distinct?

We do not agree with applying the lease accounting requirements to the combined contract where the service component is not distinct as we believe the resulting value does not accurately reflect the economics of the right-of-use asset.

Under current guidance for operating leases, there would have been less focus during the contract negotiating process on ensuring that the service element was separately identifiable as all rental payments would have impacted the income statement in a similar fashion and on a similar timeline. However, under the proposed guidance the service element may impact the measurement of the right-of-use asset and corresponding liability if it cannot be carved out, which may result in an overstated balance sheet not reflective of the true economic value of the asset and liability.

Rather we would propose a model that would allow constituents to estimate a reasonable allotted amount for the service component based on available data sources, if any, for other similar service component arrangements. More specifically, the leases guidance could refer to the guidance proposed in par. 50-52 of the new revenue recognition model.
Finally, we propose that the Boards’ consider excluding certain types of ancillary costs (i.e. real estate taxes and insurance) typically included in certain lease arrangement.

Question 6(b) – The IASB proposed a slightly different approach when the service component is not distinct – do you agree with their proposal?

Similarly to the position we have provided to Question 6(a) above, we would prefer to see an option to allow for an estimate of the service component to be carved out of the lease measurement model.

Purchase options

Question 7 – Do you agree that a lessee and lessor should account for purchase options only when they are exercised?

We agree that purchase options should only be considered when they are exercised. This is consistent with the concept that a purchase option does not typically meet the definition of a liability.

Measurement: lease term

Question 8 – Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease?

We understand the reasons for the Boards’ proposal to set the lease term as the longest possible term that is more likely than not to occur. The underpinning logic to this proposal is both to ensure that the obligation economically represents the value of the expected cash flows and also to ensure there is minimal ability to structure leases to short cycle base terms (note par. B16 reference to consider both explicit and implicit options related to the lease arrangement).

We do however expect constituents to struggle with practically applying this guidance as there will likely be wide ranges of interpretation and understanding of how to ‘predict’ the longest possible term. In fact, the proposed model will lead to greater reliance on management judgment.

Further, the cost of maintaining a probability monitoring model, particularly where constituents are party to thousands of lease arrangements, even when leasing is not a core business, will rise significantly.

In addition, including renewal options in the lease obligation appears to conflict with the definition of a liability as defined in the FASB Concept Statement 6, IFRS framework and IAS 37, as an option to renew a contract neither constitutes a legal obligation nor gives rise to a constructive obligation.
Therefore, due to practical complexities in implementing a model that considers assigning probabilities to each renewal options at lease inception, we would prefer to see a 'probable' model. Such a model would require reporting entities to consider the existence of reasonably estimable obligations while at the same time eliminating the need to forecast the probability of exercising a renewal option.

**Measurement: lease payments**

**Question 9(a)** – Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique?

We are not opposed to including contingent rentals and other expected payments as specified in the lease arrangement in the measurement of assets and liabilities. However, we believe they should not be required to form part of the lease payment calculations for lessees if they are not readily determinable or estimable similar to the exception provided to lessors. Specifically, many contingent rent clauses we see in the real estate market are based on future index levels and on future open market rents which are not readily determinable or estimable at the inception of the lease.

It appears, as outlined in par. BC131 that the Boards’ likely intended to exclude forecasting contingencies on the basis of changes in an index. We would like to obtain clarification as to whether this exclusion was meant to ignore increases in future rents altogether or whether the future rate should be forecasted by using current prevailing rates or indices.

Further and from an operational perspective, the expected outcome approach will require significant incremental costs to implement. Current guidance does not require tracking the details of contingent rent clauses and residual value guarantees for purposes of performing calculations. As a result, lease tracking systems will need to be modified in order to accommodate this requirement. We expect large initial outlays of system costs and man hours to capture the required source data and to model the multiple possible outcomes for each and every lease arrangement.

Audit costs will also increase for most constituents as performing audits on a probability weighted model will require more analysis and review and further runs the risk of auditors applying 20/20 hindsight when performing their audits.

**Question 9(b)** – Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be readily measured?

Other than expanding this exception to lessees fully, we have no further comment on this subject.
Measurement: reassessments

Question 10 – Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments since the previous reporting period?

We theoretically agree with the Boards’ view that assets and liabilities arising under the lease should be remeasured where facts and circumstances indicate that there has been a significant change to the lease payments.

However, we disagree with the Boards’ view as expressed in par. BC134 of the ED, that the costs of performing the reassessments will be outweighed by the benefits to the users of the financial statements. As mentioned above, CSG has a large global lease portfolio (approximately 1,600 lease arrangement where CSG is the lessee) and complying with the requirement in par. 18 of the ED will require both a quantitative and qualitative assessment of the significance of potential changes to the lease term. In order to perform the quantitative test each lease will have to be individually recalculated on a recurring basis to determine how significant any changes would be. Needless to say implementing and performing this process on a quarterly basis would be very costly both from a system modification and man hour perspective.

As a result of this concern, we would rather see a reassessment approach that would allow for constituents to apply professional judgment as to the type of change in fact or circumstance that would result in a significant change to the asset and liability. The Boards should consider providing guidance (e.g. qualitative factors) that would assist constituents in identifying key events that would indicate a likely significant change to the assets and liabilities as originally measured.

Finally, recognizing both the need to remeasure a significantly changed asset and liability and the costs of performing such re-measurements (if the approach remains quantitative in nature), we would recommend that such reassessments only be required on an annual basis.

Measurement: sales leaseback

Question 11 – Do you agree with the criteria for classification as a sale and leaseback transaction?

We agree with the criteria for classification as a sale and leaseback transaction. Conceptually, as there no longer is an option to account for the leaseback leg of the transaction as an operating lease and to the extent that the lease term closely approximates the useful life of the underlying asset, then whether accounted for as a
sale leaseback transaction or a financing transaction, there is little difference to the statement of financial position for the seller/lessee.

**Statement of financial position**

**Question 12(a)** - Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease?

We do not oppose this proposed presentation.

**Question 12(b)** - Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability?

As noted in question 2a) above, we are not supportive of the performance obligation approach and as a result we do not support this proposed presentation.

**Question 12(c)** - Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment?

We do not oppose this proposed presentation.

**Income statement**

**Question 13** - Do you think that lessees and lessors present lease income and lease expense separately from other income and expense in the income statement?

We do not oppose this proposed presentation.

**Statement of cash flows**

**Question 14** - Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows?

We prefer to see the interest portion of lease payments reported as an operating activity and the principal portion as a financing activity to align with the concept that leasing is an important source of financing.

We disagree with presenting the lease payments differently from other sources of financing within the statement of cash flows.
Disclosure

Question 15(a) – Do you agree that lessees and lessors should disclose quantitative and qualitative information that identifies and explains the amounts recognized in the financial statements arising from leases?

We believe that some of the proposed disclosure requirements are onerous and may not provide useful information to the users of the financial statements. We believe there is a risk that the extent of information required to be disclosed will be overly detailed and lead to confusion.

For example, the requirements of par. 73 are not conducive to a constituent that engages in thousands of lease arrangements spanning a global portfolio. Specifically, lease arrangement clauses can vary greatly from country to country, product and intended use. As a result, attempting to succinctly describe the nature of lease arrangements will be challenging and difficult to present in a meaningful manner.

Another example is the requirement of par. 76 whereby a lessee shall disclose the terms and conditions of its sales leaseback transactions. To the extent that such terms and conditions are not uniform across the portfolio, useful disclosure will be challenging to achieve. Therefore, we would prefer to provide a general policy outline describing the approach used in determining lease term and lease payments.

Further, to be fully compliant with the proposed disclosure requirements will necessitate even further modifications to lease arrangement tracking systems beyond what is needed to be able to calculate the lease payments as discussed above in our answer to Questions 9(a) and 10.

We therefore request that the Boards’ revisit the usefulness of the requirements as set out in par. 77 and 80 related to reconciliation of lease assets and liabilities and par. 85-86 related to maturity analysis. In particular the latter disclosure is inconsistent with the disclosure requirements related to other financial assets.

Question 15(b) – Do you agree that lessees and lessors should disclose quantitative and qualitative information that describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows?

We do not oppose this proposed disclosure requirement as it closely resembles the current requirement under current guidance.

Transition

Question 16(a) – This ED proposed that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach. Are these proposals appropriate?
We are supportive of the proposed simplified retrospective approach. It is a practical solution that we believe addresses the challenge of having to recreate historical values under a full retrospective approach yet achieves a reasonable representation of assets and liabilities as at the transition date.

**Question 16(b) – Do you think that full retrospective application of lease accounting requirements should be permitted?**

We are indifferent to the idea that the Boards’ would permit full retrospective application. We believe that very few constituents will consider the option.

**Question 16(c) – Are there any additional transitional issues the boards need to consider?**

We have noted that the Boards’ do not address the issue of leasehold improvements and whether upon transition the measurement of those assets should be reviewed. We believe such assets should be distinct and separate from the considerations of this proposed guidance, but would look to the Boards’ to confirm their intent to exclude leasehold improvement asset from transitional considerations.

**Benefits and costs**

**Question 17 – Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs of implementation of this guidance?**

We recognize the efforts of the Boards’ to consider options that reduce or limit the cost of implementing this new guidance. The proposed simplified accounting for short term leases, reassessment of lease term only when there is indication of a significant impact to the lease asset or liability and finally with the proposed simplified retrospective approach upon transition are notable examples of those efforts.

However, beyond the operational costs related to tracking lease arrangement details as noted in many of our responses above, we foresee significant costs resulting from this standard.

Further, we foresee the leasing industry entering into a period of uncertainty and driving costs up as a result of this proposed ASU. For example, we expect parties to lease arrangements (in particular longer lease term arrangements with extensive contingent rent clauses and low base rents) to incur costs to break their contracts to allow for renegotiation of key clauses impacting the lease term and lease payment calculations prior to the effective date of the proposed guidance.

We also foresee the deterioration of leverage ratios even though there has been no economic or operational change to the business. In today’s sensitive lending market, lessees’ loan covenants and financing arrangements will likely be called. Lessees will be forced to incur real costs to reset financing arrangements accordingly. We do not
believe that the Boards’ intended for this potential consequence. However, we do believe it is a consequence that the market will be forced to bear.

As a result of these unintended consequences, we strongly urge the Boards’ to consider an effective date far into the future to allow for constituents to rework their business models, systems, financial arrangements in order to be better prepared for the economic impact of this new standard. Further, we would recommend that the Boards’ conduct field tests to get an economic measure of the impact this proposed guidance is likely to have on the leasing industry and other industries where leasing is not a core business, in particular the financial services industry, prior to issuance of the final standard.

Other comments
Question 18—Do you have any other comments on the proposals?

We request guidance clarification for the following areas:

- The proposed ASU does not address the impact of lease incentives on the initial measurement of the right-of-use asset and lease liability—we expect that lease incentives such as rent-free periods or leasehold improvement inducements are to be considered in determining the lease payments but would look to the new guidance to address this topic directly.
- The proposed ASU also does not address situations in which the underlying asset to be leased has not yet been constructed (e.g. build-to-suit leases)—specifically there may be instances where the factors to consider in setting the lease payments (e.g. incremental borrowing rate) are set as of the lease inception date. However the right-of-use asset is not put into use until some time much later.

Should 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 Joanne M. Phillips in Raleigh on (919) 994-6555.

Sincerely,

Rudolf Bless
Managing Director
Deputy CFO

Joanne M. Phillips
Vice-President
Accounting Policy Group