November 2, 2005

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
United States

Sent via post and email to director@fasb.org

Re: File Reference No. 1204-001, Proposed Statement of Financial Accounting Standards, Business Combinations, a replacement of FASB Statement No. 141, and


Ladies and Gentlemen:

Credit Suisse Group appreciates the opportunity to comment on the Financial Accounting Standards Board’s proposed Exposure Drafts, Business Combinations, a replacement of FASB Statement No. 141 (referred to subsequently as the Business Combinations ED), and Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB No. 51 (referred to subsequently as the NCI ED). Credit Suisse Group is registered as a foreign private issuer with the Securities and Exchange Commission and prepares annual and quarterly US GAAP financial statements. Certain subsidiaries of Credit Suisse Group also file financial statements prepared in accordance with International Financial Reporting Standards (IFRS) in various jurisdictions.

We appreciate the efforts of the FASB and the IASB to improve and converge accounting standards in these complex areas. We particularly commend the two Boards on their efforts to achieve global consistency in the accounting for business combinations and noncontrolling interests in subsidiaries.

While we generally agree with the proposed requirements in the Business Combinations ED, we do have concerns with the requirement to fair value 100 percent of the assets acquired and liabilities assumed in a partial acquisition. We also have concerns with the requirement to subsequently recognize at fair value contingent consideration and accounting contingencies. With regard to the NCI ED we are concerned with the operational burden required by the proposed attribution of various components of net income and comprehensive income. We are also concerned that the interaction with FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, has not been addressed. We believe FIN 46(R) has created a significant number of noncontrolling interests, and not addressing all aspects of how the NCI ED would apply to such interests is not appropriate. We believe the Board should not finalize the
NCI ED until issues identified in footnote 6 and the project referenced in paragraph B19 are complete.

The attached appendix represents our responses to the questions raised in the notice for recipients of the exposure drafts.

We thank the Boards for their attention to our comments. Please contact Eric Smith (212) 538-5984 if you would like to further discuss these points.

Sincerely,

Rudolf Bless  
Managing Director, Chief Accounting Officer

Eric Smith  
Director, Accounting Policy Group
APPENDIX

Business Combinations ED

Question 1 – Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

In general, we agree with the objectives underlying the four steps to applying the acquisition method. Specifically, we believe that transactions should be accounted for at fair value rather than based on a cost accumulation model. However, we believe determining what is acquired is subject to debate. While we believe the means of obtaining control and thus the definition of a business combination, may lead to some anomalous accounting results (for example, those resulting without the transfer of consideration or without a transaction involving the acquirer), we believe the definition of a business combination is conceptually grounded.

Question 2 – Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance.

We do not believe the definition of a business is sufficient. We believe that the definition will lead to what otherwise would be considered an asset acquisition to be accounted for as a business combination. Under the definition in paragraph 3, it could be argued that qualifying special-purpose entities are businesses. We also do not understand the significance of the use of the word “proportionately” in the definition.

Question 3 – In a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the noncontrolling interest? If not, what alternative do you propose and why?

We disagree with the assertion that fair value of 100 percent of the acquired entity is the relevant measurement attribute. We believe that unbiased arguments for either partial fair value measurement or full fair value measurement can be made. We believe that if fair value measurement is the most appropriate measurement attribute it should be applied to both the acquirer and acquiree (that is, fresh start accounting) as the noncontrolling interests have ownership interests in the combined entity and not just the acquired entity and thus, if appropriately measured at fair value, should include the fair value of the acquirer resulting from the combination. The fair value attribute for the acquired entity continues to ignore the fair value of the acquirer.
Question 4 – Do paragraphs A8-A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

A full fair value basis for the business acquired results in difficulties when calculating the purchase price and the value that should be assigned to the noncontrolling interest. The presumption that the transaction price provides the best estimate of the value of the entity acquired is nearly impossible to support as in any transaction resulting in a change of control a "control premium" must be presumed to exist and this control premium should not apply to the noncontrolling interest. The transaction price presumption should only be considered in full business acquisitions (that is, in business combinations in which a noncontrolling interest is not present).

Question 5 – Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

We agree that the fair value of the consideration transferred in an exchange is the best evidence of fair value of the interest obtained. The question becomes what was the interest obtained. We do not believe this best evidence presumption can be applied to the value of the acquiree in total in partial acquisitions as discussed in our response to Question 4.

We believe the wording in the standard should be clarified to indicate that assumed debt is not part of the consideration transferred in an exchange. Debt assumed is another component of the net assets acquired and is fair valued to arrive at, ultimately, any goodwill to be recognized in a business combinations. While considering assumed debt as part of the consideration transferred may be a marketplace convention, it is not appropriate in financial accounting. Assumed debt is different than debt issued to consummate a transaction and this distinction should not be blurred in accounting terms though it may be by marketplace participants.

Question 6 – Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

We do not agree with subsequent measurement of contingent consideration at fair value. While we can support initial recognition of contingent consideration at fair value (as we do with recognition of all assets and liabilities assumed), we do not believe that the appropriate subsequent measurement attribute is fair value (just as we do not believe subsequent measurement at fair value is the appropriate attribute for fixed assets, loans and other financial statement elements that currently are not measured subsequently at fair value). Rather, we believe subsequent measurement should be recognized on a probable and reasonably estimable basis as set out in Statement on Financial Accounting Standards No. 5, Accounting for Contingencies, (FAS 5).
Question 7 – Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We believe that such costs do not meet the definition of an asset as set out in the Concept Statements and for that reason agree that direct costs of the acquisition, except for direct issuance costs for debt or equity instruments issued to effect the combination, should be expensed in the period incurred rather than capitalized as part of the consideration in a business combination.

Question 8 – Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changed do you believe are inappropriate, why, and what alternatives do you propose?

While we generally believe the requirements of the American Institute of Public Accountants Statement of Position No. 03-3, Accounting for Certain Purchased Loans, can result in misleading statistical analyses, we do not believe the Business Combinations ED should deviate from that guidance in its application to the purchase of receivables (including loans).

We generally do not believe it is appropriate to recognize accounting contingencies acquired at fair value. Consistent with our response to Question 6 above, if the Board were to require initial recognition at fair value, we do not believe that fair value is the appropriate subsequent measurement attribute. Requiring initial and subsequent fair value measurement of accounting contingencies can result in anomalous results. For example, consider two entities with the same accounting contingency. When one entity acquires the other the target’s accounting contingency will now be measured on a fair value basis while the same accounting contingency of the acquirer will continue to be accounted for under the FAS 5 methodology. We do not believe similar economic phenomenon should be accounted for differently depending on whether the activity was incurred or purchased.

We agree that restructuring or exit activities costs do not meet the definition of an asset in Concept Statement No. 6 and therefore agree with the requirement that such expenses be recognized in the period incurred rather than as part of a business combination. Likewise, we believe that in-process research and development costs do meet the definition of an asset, and therefore should not be written-off as expense immediately after a business combination as is currently required.
Question 9 – Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

We agree that assets held for sale should be recognized at fair value less cost to sell. We believe that this measurement attribute should not be limited to assets so designated by the acquiree prior to acquisition, but that any asset of the acquiree could be, as part of the business combination, designated as held for sale and measured consistent with this guidance as part of the business combination. We believe that paragraph 43 as written is not clear as to whether it is applicable to any of the acquiree’s assets or only to those designated as held for sale by the acquiree prior to the acquisition.

We agree that deferred taxes, operating leases (except leases with favorable or unfavorable terms relative to market terms), and employee benefit plans should not be measured at fair value. We also agree that goodwill is a residual and therefore it cannot be described as being measured at fair value.

Question 10 – Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

We believe that the only consistent way to apply the objectives of the Business Combinations ED will require gain or loss recognition for the difference between the fair value and the carrying value of any previously owned noncontrolling interest at the time control is obtained. While this accounting seems at odds with other gain or loss recognition standards (namely, that one does not normally recognize a gain on an asset one continues to retain), we believe it is the logical outcome of valuing the full amount of an entity acquired and recognizing at fair value the consideration transferred to obtain that controlling interest.

Question 11 – Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

We agree generally with the Business Combinations ED’s proposed accounting for a bargain purchase, however, we are confused as to what goodwill would be reduced to zero before recognizing any remaining excess of fair value of assets acquired and liabilities assumed as income. As a residual we believe that goodwill can only be created in situations in which the consideration exchanged is in excess of the fair value of assets acquired and liabilities assumed. Therefore, we do not see how goodwill is initially created and then subsequently reduced in a business combination. If the Board’s intention is that any previously recognized goodwill resulting from a partial acquisition recorded prior to the effective date of this Exposure Draft should be considered “goodwill related to that business combination,” the Board should clarify this. Otherwise, we believe the Board’s reference to reducing goodwill should be eliminated.
Question 12 – Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

We do not believe that an overpayment can be reliably measured. Rather, we believe there is a presumption that the amount paid in a business combination is fair value as the amount paid represents a negotiated amount between willing, unrelated, knowledgeable parties, and that overcoming that presumption requires subjective determinations that cannot be reliably measured in the absence of another business combination for the same interest. Unlike the reference market concept in the FASB’s proposed statement on Fair Value Measurement, we do not believe that there is more than one reference market for the two parties to a business combination to consider when attempting to overcome the transaction price presumption.

Question 13 – Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustment? If not, what alternative do you propose and why?

We agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments. We believe that this retrospective application of measurement period adjustments is consistent with the notion that such adjustments should result from obtaining information about the existence of conditions at the acquisition date and should not include effects of current period changes in values which rather should be recognized as current period income or expense.

Question 14 – Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

We do not believe the guidance provided is sufficient for making the assessment of whether any portion of the transaction price is not part of the exchange for the acquiree. We believe such a determination is very fact specific and would require assessments to be made that in many instances cannot be objectively determined. We believe that without additional, sufficient guidance, transactions will be structured to achieve desired accounting results and that it will be difficult, if not impossible, to challenge the outcome. We believe this is especially true as it relates to pre-existing legal contingencies between the acquirer and acquiree. Additionally, we believe that the attribution of gain or loss by an acquiree will not reflect an allocation of the purchase price to the pre-existing relationships/legal contingencies, etc. but will be reflected as gain/loss on sale of the entity and that therefore symmetrical accounting between the acquirer and acquiree will not be maintained. We believe instead that the Board should nullify the consensus reached in EITF 04-1 without including similar guidance in the Business Combinations ED.
Question 15 – Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

We believe that the disclosure of the primary reasons for the business combination, including a description of the factors that contributed to the recognition of goodwill, is a valueless disclosure that will be so vague as to render the disclosure meaningless. Additionally, we do not believe the requirement to disclose the amount of revenue and net income of the acquiree since the acquisition date included in the consolidated income statement for the reporting period is specific enough to have actual merit. What if the acquiree is immediately aggregated into the other businesses of the acquirer? How will the amounts for this disclosure be calculated? While the intentions of the Board are laudable (that is, to allow investors to determine the amount of growth from organic operations versus acquisitions) the ability to sufficiently separate revenue and net income that would have been recognized had the transaction not occurred from revenue and net income actually recognized is not operationally possible without significant assumptions. Even with a description of the assumptions used to arrive at such an amount, the representational faithfulness of such a disclosure could rarely be verified and therefore is of little value. Additionally, it is unclear what the objective is of disclosing the results of operation of the combined entity as though the acquisition date for the business combination occurred at the beginning of the annual reporting period. Undoubtedly transactions that were conducted while the acquirer and acquiree were separate would not have been conducted if the combination had occurred at the beginning of the period and vice versa. We believe this disclosure is of dubious value.

Question 16 – Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:

a. The intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability

b. Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

We do believe that intangible assets that are identifiable can be measured with sufficient reliability to be recognized separately from goodwill in a business combination. We do not have any examples responsive to the second half of this question.

Question 17 – Do you agree that any changes in acquirer’s deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

We do not disagree that any changes in an acquirer’s deferred tax benefits that become recognizable because of the business combinations are not part of the fair value of the acquiree and should be accounted for separately from the business combination.
**Question 18** — Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved.

While we are in favor of convergence, we understand that the differences are a result of broader differences between FASB and IFRS and do not believe these differences should be debated as part of this project. In that regard, we believe it is appropriate for the IASB and the FASB to retain those disclosure differences.

**Question 19** — Do you find stating the principles in bold type helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

We do not believe the distinction between bold type and plain type is helpful. In fact, as the Business Combinations ED states “all paragraphs have equal authority.” As such, we do not see the need to use bold type on any of the paragraphs.

**NCIED**

**Question 1** — Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?

We agree that the noncontrolling interest is part of equity. We believe this classification continues to clarify the FASB’s belief that there should be no mezzanine section between liabilities and equity in the balance sheet—a philosophy with which we agree.

**Question 2** — Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders’ equity? If not, what alternative do you propose and why?

We do not agree with the requirement to reflect noncontrolling interests as a separate component of equity, partly for the operational reasons expressed later, but also for the conceptual reason that an entity only has one equity account. While numerous owners may exist for an entity, their ownership interest is not distinguishable from another in the financial statement of the entity itself. For this reason, we believe that an entity’s equity (including a partially owned subsidiary) should not be separated between that of a controlling interest and a noncontrolling interest. Rather, disclosure should be made of the potential impact on cash flows if distributions were to be made indicating what cash flow distributions would be paid to third party owners outside of the controlling interest.

We believe this treatment of equity in an entity is consistent with the decision in the Business Combinations ED to fair value 100 percent of the acquiree’s assets even in partial acquisitions. For example, if a controlling interest in an asset is obtained through acquisition of the entity and personnel within the entity constituting a business, 100 percent of the asset is recognized and a corresponding equity (and/or liability) balance should be recognized. The control of the asset is with the acquiring company. The equity accounts should reflect this 100 percent control. What is important is not current or future attribution of ownership of control between the controlling and noncontrolling
interests but rather what will happen with cash flows provided by the asset. By viewing equity as equity rather than trying to attribute the equity between controlling and noncontrolling interests the potential deficits to be attributed to noncontrolling interests would be more representationally faithful of the true economics.

Question 3 – Do you agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests? If not, what alternative do you propose and why?

We do not agree that net income and other activity should be allocated between noncontrolling interests and controlling interest for the reasons stated in response to Question 2. We believe any such allocation is subjective in nature (even if it appears objective as a quantitative calculation) and is not a faithful representation of economic activity and ownership characteristics of the equity of an entity. We believe this is especially evident in the concept of allocating losses to noncontrolling interests in excess of their recorded balances as cash distributed would still be impacted (potentially) and under no circumstances are the noncontrolling interests under obligation to make further contributions to offset deficits.

Question 4 – Do you agree that changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as equity transactions? If not, what alternative do you propose and why?

We believe changes in ownership interests after control is obtained that do not result in a loss of control should be accounted for as equity transactions.

Question 5 – Do you agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period? If not, what alternative do you propose and why?

We do agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period. We believe that the change in character from a controlled entity to either an equity method investment or a cost method investment is sufficient to support recognition of a gain or loss.

Question 6 – Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?

We believe that expanding the guidance in Derivative Implementation Issue No. K-1 and effectively ratifying the nonconsensus of Emerging Issues Task Force Issue No. 02-2, "When Certain Contracts That Meet the Definition of Financial Instruments Should Be Combined for Accounting Purposes," in general is appropriate. However, the indicators included are difficult to apply in practice and will be analogized to in many ways. We believe the issue of combining multiple transactions into a single transaction for accounting purposes is an issue that warrants further consideration by the Board. However, we do not believe the appropriate place to debate this issue is as part of the NCI
ED and rather would recommend the FASB add a project to its agenda to address this issue in a broad and comprehensive manner.

Question 7 - Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?

Yes, we agree that earnings per share amounts should be calculated using only amounts attributable to controlling interests. In that regard, and consistent with our response to Question 2, we believe that amounts attributable to controlling interests are those amounts that could be monetized in the form of cash dividends to controlling interests and are not influenced by arbitrary ownership percentages and allocations except to the extent such percentages and allocations reflect amounts available for actual cash distributions.

Question 8 - Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why?

We do not agree with the proposed disclosure of total amounts of consolidated net income and consolidated comprehensive income attributable to the controlling and noncontrolling interests. Our objection is based on reasoning set out in our answer to Question 2 above. We are particularly troubled by the attribution of comprehensive income between controlling and noncontrolling interests. We do not believe the Board appreciates the amount of operational difficulty this requirement presents. For example, assume a controlling, but not 100 percent, acquisition of an acquiree is accomplished and the acquiree has an available for sale portfolio. We believe the disclosure requirement would necessitate that each and every available-for-sale position of the acquiree be flagged, and that the corresponding fair value at the date of acquisition be captured to facilitate subsequent attribution of realization to the noncontrolling interest. This analysis is further complicated when you factor in that the acquirer has an available for sale portfolio and many times this portfolio will hold the same positions as the acquiree. The complication is expounded when the acquirer and acquiree's systems are converged to combine the available for sale portfolios into one portfolio on one system. We question the benefits to financial reporting to be derived from such an attribution.

Question 9 - Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?

Further to our other responses regarding attribution of amounts between controlling and noncontrolling interests, we do not agree that meaningful information is obtained from attribution of the financial statement components identified (that is, for income from continuing operations, discontinued operations, extraordinary items, cumulative effect of changes in accounting principles, components of other comprehensive income).
Question 10 – Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? If not, why?

We do not agree with the requirement for a reconciliation of the changes in noncontrolling interests based on the reasons provided in response to Question 2.

Question 11 – Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.

As described in our response to Question 2 we do not agree with the conceptual need to attribute amounts between controlling and noncontrolling interests. However, if the Board continues with the attribution concept, we do believe that a schedule showing the effects of transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required.

Question 12 – Do you agree that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required? If not, why?

Consistent with our response to Question 5, we do agree that any gain or loss recognized on loss of control of a subsidiary should be recognized in income of the period and disclosed. We believe that the change in character from a controlled entity to either an equity method investment or a cost method investment is sufficient to support recognition of a gain or loss and disclosure.

Question 13 – Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?

We agree with the proposed transition requirements for the NCI ED.