



Via Electronic Mail and FEDEX

September 7, 2004

Technical Director
Financial Accounting Standards Board
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Letter of Comment No: 55
File Reference: 1201-100
Date Received: 9-8-04

Re: File Reference No. 1201-100 Exposure Draft of Proposed Statement of Financial Accounting Standards, Fair Value Measurements

Ladies and Gentlemen:

Credit Suisse Group ("CSG") appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's or Board's) above referenced Exposure Draft (the Exposure Draft or ED). CSG is responding to the Exposure Draft both as a preparer of U.S. GAAP financial statements and an intermediary in the financial markets, through its subsidiary Credit Suisse First Boston. CSG has extensive experience in applying fair value measurements for financial instruments – particularly in our capacity as a broker-dealer.

Summary Comments

CSG supports FASB's overall objective of developing guidance on fair value measurement as we believe that fair value is the most relevant measurement tool for risk management purposes as well as to report the results of operations in the financial statements. In addition, we believe that this additional guidance is warranted given that many financial instruments are recorded at fair value. We would, however, like to address certain areas for the Board's consideration in the Exposure Draft that would benefit from greater clarity when a final Standard is issued. Our comments below provide further details with respect to our view.

We appreciate the FASB Staff's consideration of our comments and recommendations. Please do not hesitate to contact Lou Fanzini at (212) 325-7365 in New York or Todd Runyan in Zurich at +41-1-334-8063 with any questions or comments.

Sincerely,



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Rudolf A. Bless Managing Director, Chief Accounting Officer

Louis Fanzini Director, Group Accounting Policies





EXHIBIT 1

Definition of Fair Value

Issue 1: This proposed Statement would define fair value as "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties" (paragraph 4). The objective of the measurement is to estimate the price for an asset or liability in the absence of an actual exchange transaction for that asset or liability. Will entities be able to consistently apply the fair value measurement objective using the guidance provided by this proposed Statement together with other applicable valuation standards and generally accepted valuation practices? If not, what additional guidance is needed? (Specific aspects of the guidance provided by this proposed Statement are considered below.)

CSG believes that the overall definition appears reasonable.

We believe that the changes we propose below in relation to Issue 5 would enable companies to apply this guidance more consistently.

Valuation Techniques

Issue 2: This proposed Statement would clarify and incorporate the guidance in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, for using present value techniques to estimate fair value (Appendix A). Is that guidance sufficient? If not, what additional guidance is needed?

CSG believes that principles based guidance on present value is useful, allowing for the development of improved valuation techniques. Additional guidance, if too prescriptive, could hinder the development of improved models as markets continue to evolve and as new sources of observable market information become available. Those that measure fair value must have the flexibility to use the best available valuation techniques and market data in models.

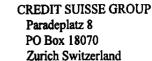
In this regard, we are concerned with the wording in the ED as it relates to consistency of the use of valuation techniques. Paragraph 8 of the ED states that valuation techniques "shall be consistently applied" and that "revisions resulting from a change in the valuation technique(s) used shall be accounted for ... as changes in accounting estimates..." The only example given of an appropriate change in valuation technique is if it results in a more "reliable estimate of fair value."

In certain instances, measurement may consider information available at the valuation date that provides the best estimate of fair value. At times, those techniques or model inputs may differ from one reporting period to another. For example, when valuing a private equity security an investor may only have access to annual financial information of the investee. As such, during interim reporting periods the investor may not have the ability to satisfactorily apply an income approach technique and may choose to use a market or cost approach until financial data on the investee becomes available. If other factors come to our attention that provide a more relevant fair value measurement, we would expect that we could adjust valuation techniques based on those more relevant factors. Therefore, we suggest that the Board clarify paragraph 8 to enable companies to apply judgment and allow for adjustment of the inputs in to a fair value model if more relevant information becomes available. In addition, we believe these adjustments can be made without recording a change in accounting estimate each time the model/valuation technique is revised.

Active Markets

Issue 3: This proposed Statement would clarify that valuation techniques used to estimate fair value should emphasize market inputs, including those derived from active markets. In this proposed Statement, active markets are those in which quoted prices are readily and regularly available; readily available means that pricing information is currently accessible and regularly available means that transactions occur with sufficient frequency to provide pricing information on an ongoing basis. Is that guidance sufficient? If not, what additional guidance is needed?

We believe the guidance is sufficient. However, we do have concerns related to the Level 1 reference market outlined below in our response to Issue 6.





Valuation Premise

Issue 4: This proposed Statement would provide general guidance for selecting the valuation premise that should be used for estimates of fair value. Appendix B illustrates the application of that guidance (Example 3). Is that guidance sufficient? If not, what additional guidance is needed?

As our primary focus is on financial instruments, we choose not to comment on this issue.

Fair Value Hierarchy

Issue 5: This proposed Statement would establish a hierarchy for selecting the inputs that should be used in valuation techniques used to estimate fair value. Those inputs differ depending on whether assets and liabilities are identical, similar, or otherwise comparable. Appendix B provides general guidance for making those assessments (Example 4). Is that guidance sufficient? If not, what additional guidance is needed?

Connotation of the hierarchy "levels"

CSG is concerned with the potential connotation of "levels" in the hierarchy. For example, we believe the ED could be interpreted by some that Level 3 financial instruments and the earnings related to them are of lower quality than those in Level 1.

CSG believes that earnings related to an instrument such as an interest rate swap, which trades in a liquid market but does not have a quoted price on an exchange, are of similar quality as earnings on say, an interest rate futures contract traded on an exchange. However, constituents' interpretation of the ED may classify the swap in Level 3, and the futures contract in Level 1. In addition, we are concerned that external users of financial statements (e.g., analysts, regulators, investors, rating agencies, etc.) would use these levels as a "shortcut" when analyzing the quality of a company's earnings and balance sheet.

As such, we recommend changing the title of each level to better reflect the instruments included on each level of the hierarchy. We suggest the following:

- 1. Cash Securities and Derivatives in Liquid Markets Traded on an Exchange
- Fair Value Estimates using quoted prices for similar assets or liabilities in active markets adjusted as appropriate for differences
- 3. Financial Instruments Valued with Models Using Either/Both Market and Entity Inputs

We believe that the above recommendation would enhance comparability of financial statements as well as provide clarity for external users of these financial statements.

Level 1 Estimates: Significant Events

We agree with the Board that each entity should establish policies for determining how significant events impact estimates of fair value. However, we are unclear on whether the Board intends for a global financial services company such as CSG to hold its books open until close of the New York markets. The guidance in paragraph 18 states that entities should establish policies on how to reflect significant events that occur after a market close but "before the end of the reporting period."

Therefore, we ask the Board to clarify this cutoff by defining it as "midnight on the last day of the reporting period in the location where the event occurred." This would ensure consistency, as we believe there are differing interpretations of paragraph 18.

Level 1 Reference Market

Issue 6: In this proposed Statement, the Level 1 reference market is the active market to which an entity has immediate access or, if the entity has immediate access to multiple active markets, the most advantageous market. Appendix B provides general guidance for selecting the appropriate reference market (Example 5). Is that guidance sufficient? If not, what additional guidance is needed?

We agree with the concept that when there is immediate access to multiple active markets, the most advantageous market is the one that would maximize the amount received if an asset and minimize the





amount owed if a liability. We are however, concerned with the wording in paragraph 16 that states that the costs to transact in these markets should not adjust the fair value.

Consider the following example in of Appendix B, illustrating this concept.

5b. If the entity has access to Markets A and B but not Market C (because the entity's assets do not make up a portfolio that could be traded in Market C), the Level 1 reference market would depend on which of those markets (Market A or B) is most advantageous. The price in Market A is \$25, and costs to transact in that market are \$5 (the net amount that would be received for the asset in that market is \$20). The price in Market B is \$35, and costs to transact in that market are \$20 (the net amount that would be received for the asset in that market is \$15). In that case, the most advantageous market is Market A. The estimate of fair value would be determined using the price in Market A (\$25). That price would not be adjusted for costs to transact in that market.

As a result of the above example, the entity would value its holding at \$25 - recording an immediate gain. When the transaction costs of \$5 are incurred (assume the next period), the entity would record a subsequent loss.

As such, we disagree with the exclusion of transaction costs in fair value measurement, as it would lead to misleading results at initial valuation vs. final settlement.

Pricing in Active Dealer Markets

Issue 7: This proposed Statement would require that the fair value of financial instruments traded in active dealer markets where bid and asked prices are more readily and regularly available than closing prices be estimated using bid prices for long positions (assets) and asked prices for short positions (liabilities), except as otherwise specified for offsetting positions. Do you agree? If not, what alternative approaches should the Board consider?

Bid/Ask Prices

CSG agrees that bid and asked prices should be used for instruments where most appropriate. As a dealer in the financial markets, CSFB stands ready to buy at the bid and sell at the ask price.

Mid-Market pricing for offsetting Level 1 positions

We note that the discussion of using mid-market pricing for offsetting positions is limited to Level 1 of the fair value hierarchy. We believe this concept should be broadened to cross all of the levels of the hierarchy when offsetting is consistent with the risk management objectives and strategies. One example where we think the mid-market would be appropriate relates to interest rate swaps and US Treasury notes. Assume we are long the interest rate swap and short the security. Based on our understanding of the ED, we believe the swaps would be included in Level 3 of the hierarchy while the Treasury notes would be included in Level 1. Given that the risks offset each other, and are conducted by the same business as part of a risk management strategy, we think that mid-market prices are the relevant reporting information for these positions. However, if the notional of the swap positions were \$100 and the notional on the Treasury notes were \$90, we would mark the non-offsetting position of \$10 at the appropriate bid price. This is consistent with risk management and pricing strategies of dealers and is the predominant industry practice. We believe it is also consistent with the approach in IAS 39 (as described in paragraph C53) that the FASB has adopted relating to net open positions. Accordingly, we recommend that the Board provide guidance that offsetting positions can occur across the levels of the hierarchy for net risk in similar, but not necessarily identical positions.

Measurement of Blocks *

Issue 8: For unrestricted securities with quoted prices in active markets, many FASB pronouncements (including FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments) require that fair value be estimated as the product of a quoted price for an individual trading unit times the quantity held. In all cases, the unit of account is the individual trading unit. For large positions of such securities (blocks) held by broker-dealers and certain investment companies, the AICPA Audit and Accounting Guides for those industries (the Guides) permit fair value to be estimated using blockage factors (adjustments to quoted prices) in limited circumstances. In those cases, the unit of account is a block.





The Board initially decided to address that inconsistency in this proposed Statement as it relates to broker-dealers and investment companies. The Board agreed that the threshold issue is one of determining the appropriate unit of account. However, the Board disagreed on whether the appropriate unit of account is the individual trading unit (requiring the use of quoted prices) or a block (permitting the use of blockage factors). The majority of the Board believes that the appropriate unit of account is a block. However, the Board was unable to define that unit or otherwise establish a threshold criterion for determining when a block exists as a basis for using a blockage factor. The Board subsequently decided that for measurement of blocks held by broker-dealers and certain investment companies, current practice as permitted under the Guides should remain unchanged until such time as the Board fully considers those issues. For those measurements, do you agree with the Board's decision? If applicable, what approaches should the Board consider for defining a block? What, if any, additional guidance is needed for measuring a block?

CSG supports the decision in the ED that a large position of securities (block) would be the unit of account for that position. As such, we believe applying a blockage factor is appropriate. Our experience has shown that the quoted price of a security on an exchange represents the level at which ancillary investors are willing to buy and sell. It does not take into account the value at which a large block would trade. It is our view that blockage factors must be taken into account when holding a position large enough such that any sale would be transacted at an amount lower than the market bid price for a single sale. We also note that block trades can be observed in the marketplace verifying the existence of a block discount applied by brokers on these positions.

Level 3 Estimates

Issue 9: This proposed Statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort (Level 3 estimates). Appendix B provides general guidance for applying multiple valuation techniques (Examples 6 & 8). Is that guidance sufficient? If not, what additional guidance is needed?

Multiple valuation techniques

Paragraph 21 requires the use of multiple valuation techniques for Level 3 estimates. Paragraph C57 states this a bit differently but requires that Level 3 estimates be "based on the results of multiple valuation techniques." Finally, paragraph C58 states that companies need to only "consider" multiple valuation techniques for all estimates of fair value for Level 3 estimates. We believe that the Board merely intended to illustrate that a company avail themselves to the most appropriate valuation technique—rather than attempt to use all three techniques. We ask the Board to clarify this point. Financial institutions create valuation models using market/entity inputs that are reviewed for appropriateness via a rigorous control process. Once that valuation model is in place for a particular instrument, the institution should not then be required to seek out other models. For example, an income approach may be used for interest rate swaps as the company may view that as the best estimate of fair value. The company should not, however, be required to consider if a cost approach would be appropriate and undergo the process of documenting why or why not additional approaches were (or were not) used.

In addition, we are concerned that a fair value approach driven by valuation models would be viewed as inferior to valuations using recent sales. This is because when the market is not active, recent market transactions could be stale or even a forced sale rather than one between a willing buyer and willing seller.

Therefore, we ask that the Board clarify that all three methods are not required to be actively considered for each Level 3 fair value measurement, rather that the most appropriate method be applied.

Restricted Securities

Issue 10: This proposed Statement would require that the fair value of restricted securities be estimated using the quoted price of an otherwise identical unrestricted security, adjusted for the effect of the restriction. Appendix B provides general guidance for developing those estimates, which incorporates the relevant guidance in SEC ASR No. 113, Statement Regarding "Restricted Securities." Is that guidance sufficient? If not, what additional guidance is needed?



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While we generally agree with this concept, we ask that the Board clarify that not all restricted securities are traded in active markets (e.g., SEC Rule 144 securities) as is implied in Appendix B.

Fair Value Disclosures

Issue 11: This proposed Statement would require expanded disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. Appendix B illustrates those disclosures. This proposed Statement also would encourage disclosures about other similar remeasurements that, like fair value, represent current amounts. The Board concluded that those disclosures would improve the quality of information provided to users of financial statements. Do you agree? If not, why not?

CSG supports the Board's goal of transparency in the financial statements when that information is relevant to the business of the financial statement issuer. However, we believe that the disclosures required in paragraph 25 and Appendix B of the ED do not provide relevant information to the users of our financial statements. In addition, we believe they would be operationally difficult to apply.

Relevancy

In general, the management of CSG does not necessarily distinguish unrealized gains and losses from realized gains and losses when assessing the profitability of each business segment. As such, we do not see why it would be relevant for external users when evaluating the performance of CSG. We also note that CSG, as well as many other Fortune 500 financial institutions, provide qualitative information in their Management's Discussion and Analysis section that discuss the application of fair value measurements to internal risk management procedures. We believe these disclosures provide external users with relevant information related to fair value measurements.

Operational difficulty

Should the Board choose to retain the requirements as currently drafted in the ED, since, as noted above, this information is not used for management purposes, we would like the Board to recognize that financial institutions such as CSG do not currently retain this information. CSFB, in its capacity as a broker-dealer does not calculate unrealized gains or losses on our trading assets or liabilities due to tax law revisions included in the "Ominbus Budget Reconciliation Act of 1993". As such, this would require significant system enhancements to comply with the disclosure requirements of the ED. Given our views on relevancy of this information above, we believe the costs associated with this system enhancement would produce little benefit if the Board requires these disclosures.

Effective Date

Issue 12: This proposed Statement would be effective for financial statements issued for fiscal years beginning after June 15, 2005, and interim periods within those fiscal years. The Board believes that the effective date provides sufficient time for entities to make the changes necessary to implement this proposed Statement. Do you agree? If not, please explain the types of changes that would be required and indicate the additional time that would be needed to make those changes.

If the disclosure requirements remain unchanged in a final standard, CSG would need to significantly enhance its systems to comply with the disclosure requirements. In addition, the resources required to comply would be stretched thin given the workload related to Sarbanes-Oxley 404 compliance. As such, we request that FASB require a final standard to be effective for fiscal years beginning after June 15, 2006.

Other Issues

Issue 13: This proposed Statement represents the completion of the initial phase of this project. In subsequent phases, the Board expects to address other issues, including issues relating to the relevance and reliability of fair value measurements and the unit of account that should be used for those measurements. What, if any, other issues should the Board address? How should the Board prioritize those issues?



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While it is somewhat difficult to list all issues that could potentially arise in the future, following are some issues CSG recommends the Board should address in its next phase of this project:

Block Discounts

As discussed in our response to Issue 8, we strongly believe that the unit of account for a large position of securities is the block and, when appropriate, blockage factors should be applied in order to obtain the best estimate of fair value. Given our view (and the Board's view in footnote 5 of the ED), we also believe that the application of blockage factors should not be limited for entities applying the AICPA Audit and Accounting Guide Audits of Investment Companies that were created prior to May 31, 2000 (as discussed further in section 2.3, footnote 20 of the Guide) as this is inconsistent with the unit of account concept.

Fair Value Option

In working towards its long term objective of measuring all financial instruments at fair value, we believe that the Board should give high priority to a fair value option for issuers of liabilities with identifiable embedded derivatives (e.g., structured notes) as well as other liabilities as deemed appropriate (fair value election as originally adopted in IAS 39). CSG actively participated in the drafting of the March 11, 2004 letter sent to the Board by the ISDA Accounting Committee and also participated in discussions with the Board on this topic. We believe it is essential for the Board to address the liability side of the balance sheet when discussing fair value of financial instruments and believe these liabilities are the most appropriate first step.

EITF 02-03

We believe the Board should address the interface with the recognition principles of EITF Issue No. 02-3 Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities ("EITF 02-03") and the measurement guidance contained in the ED as it relates to Level 3 estimates.

Public Roundtable Meeting

Issue 14: The Board plans to hold a public roundtable meeting with respondents to the Exposure Draft on September 21, 2004, at the FASB offices in Norwalk. Please indicate whether you are interested in participating in the meeting. If so, comments should be submitted before that meeting.

CSG wishes to participate in the public roundtable meeting.