

October 10, 2005

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

Letter of Comment No: 19
File Reference: 1210-001

Sent via post and email to director@fasb.org

Re: File Reference No. 1225-001, Proposed Statement of Financial Accounting Standards, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*, File Reference No. 1210-001, Proposed Statement of Financial Accounting Standards, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*, and File Reference No.1220-001, Proposed Statement of Financial Accounting Standards, *Accounting for Servicing of Financial Assets an amendment of Statement No. 140*

Ladies and Gentlemen:

Credit Suisse Group appreciates the opportunity to comment on the Financial Accounting Standards Board's proposed Exposure Drafts, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (the "Transfers Exposure Draft" or the "proposed Statement" or the "Standard"), Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140 (the "Servicing Exposure Draft"), and Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (the "Hybrid Exposure Draft"). Credit Suisse Group is registered as a foreign private issuer with the Securities and Exchange Commission and prepares annual US GAAP financial statements. Note that Credit Suisse Group participated in the American Securitization Forum's ("ASF") response to the Transfers Exposure Draft and the International Swaps and Derivatives Association's response to the Hybrid Exposure Draft, and we concur with the points raised in those letters.

Overall, we appreciate the Board's efforts to improve the accounting in these complex areas. In particular, with respect to the Servicing and Hybrid Exposure Drafts, we support the Board's move to reduce the accounting complexities for these two areas of accounting. However, we have significant concerns with respect to the Transfers Exposure Draft. With the exception of the proposed changes to paragraphs 35 and 40, we believe the additional complexities presented in the Transfers Exposure Draft are not warranted. We do not believe the continued amendments to the current guidance are an efficient way to improve Statement 140. We believe that much of the amendment is effectively reversing the prior understanding and application of Statement 140. If the Board wishes to revisit the conceptual basis of Statement 140, we believe the better approach is to do so in the broader context of assessing the appropriate guidance to be applied to derecognition of financial assets. We believe these efforts should be made in conjunction with international standard setters. Therefore, until the Board elects to consider replacing the conceptual framework of Statement 140, we recommend that the

Board not issue the final Transfers Exposure Draft. We believe the changes proposed to paragraphs 35 and 40 should be retained in conjunction with the Hybrid Exposure Draft.

This letter discusses our concerns relating to the Transfers Exposure Draft, the Hybrid Exposure Draft, and in Appendix A we provide additional comments on specific paragraphs of Appendix C. We do not express any concerns relating to the Servicing Exposure Draft.

Transfers Exposure Draft

Our comments on the Transfers Exposure Draft are focused on the new guidance presented in paragraph 8A, as well as revisions to the definition of beneficial interests.

Paragraph 8A

We are concerned about the complexity being introduced by this significant change to Statement 140. We are not certain such changes are warranted as we believe sales of portions of financial assets should follow the same conceptual derecognition model as transfers of entire financial assets. Paragraph 8A would introduce a new set of rules that effectively provide an exception to a view that one cannot derecognize a sale of a portion of an assets. There are many, including Credit Suisse Group, who believe the financial-components approach of Statement 140 was intended to permit the sale of portions of assets. We are aware that there are differing views on this issue. However, rather than introduce this new model at this time, we believe the Board should maintain the status quo until they elect to develop a replacement for the guidance and concepts of Statement 140. Ideally, these efforts would be completed in conjunction with efforts to reach international convergence for derecognition and consolidation. In the interim, we believe that the current guidance, including paragraph 9, provides sufficient guidance for the accounting for sales of portions of financial assets, including loan participations.

If the Board proceeds with issuing the new guidance, we note that the Transfers Exposure Draft does not adequately define the guidance that applies for sales of portions of financial assets that do not meet the paragraph 8A criteria to qualify as a participating interest. Paragraphs 8A and 9 apply to “transfers of individual financial assets in their entirety, transfers of groups of financial assets in their entirety, and transfers of participating interests in individual financial assets (which are referred to collectively in this Statement as transferred financial assets).” If it is the Board’s intent, notwithstanding the guidance discussed below, that sales of portions of financial assets that are not participating interests would not be permitted to be accounted for as sales, then this should be explicitly stated.

Further, the Transfers Exposure Draft does not adequately describe the framework for how derecognition could be achieved for sales of portions of financial assets that are not participating interests, as defined in paragraph 8A. In the summary, it states in paragraph d(2) that sale accounting can be achieved “only by transferring an entire financial asset or group of financial assets to a qualifying SPE or other entity that is not consolidated with the transferor and the entire transferred financial asset(s) must meet the conditions of paragraph 9 of Statement 140 as amended.” Further, paragraph A23 states that “the

Board decided to require that the original financial asset first be segregated in a qualifying SPE unless the portions transferred meet the definition of a participating interests (as described in paragraph 8A of Statement 140, as amended by this Statement). However, these concepts are not present in the Standard itself. We believe they should be clarified in the Standard.

The following paragraphs represent our understanding of the Board's intent.

Assume that a transaction was originally contemplated as a sale of a portion of an asset, but the transfer did not meet all of the paragraph 8A criteria for a participating interest. It is our understanding that sale accounting could be achieved if the entire asset was transferred to a QSPE or other entity that was not consolidated, provided the criteria of paragraph 9 were met. The Board should explicitly include this as guidance on what is required to sell a "non-participating" portion of an asset in paragraphs 8A and 9 of the Standard itself. Further, the Standard should clarify that not every non-participating transfer would require a QSPE, which is implied in paragraph A23.

It is also our understanding that if a transfer always involved the sale of an entire financial asset, paragraph 8A would not apply, irrespective of whether or not the securitization structure tranches the risk of that asset and whether the transferor retains an interest in the entity. In other words, the guidance relating to the sale of a portion of a financial asset would not include sales of assets where the transferor has an investment in the entity to which the asset was sold. The lack of clarity of the paragraph 8A guidance, combined with the change to the definition of beneficial interests as limited only to QSPEs, create the possibility that some could interpret the guidance as always requiring a QSPE when a transferor retains an interest. However, paragraph 11 indicates that there might be "other interests" that a transferor may hold, which we assume would include interests in variable interest entities ("VIEs") that are subject to FIN 46R, Consolidation of Variable Interest Entities ("FIN 46R"). We recommend that the Board modify the guidance to clearly state that if an entire asset is being transferred, paragraph 8A would not apply and the transfer would be analyzed under paragraph 9. If this were not the Board's intent, this would be a significant issue for securitization transactions that do not meet the QSPE rules and, instead, are analyzed for consolidation under FIN 46R. This conclusion would also be inconsistent with the overall derecognition model of Statement 140 which contemplates sales of financial assets with transferor continuing involvement.

New Definition for Beneficial Interests

The Transfers Exposure Draft proposes to limit the definition of beneficial interests to only include rights to cash flows from QSPEs. We do not believe this change is appropriate. Beneficial interests is a term that is commonly used to refer to interests in any SPE, irrespective of whether or not the SPE meets the conditions to be a QSPE. The limitation in the definition also implies that certain guidance only applies to interests in QSPEs and it would not apply to interests in variable interest entities ("VIEs"). For example, the disclosure requirements in paragraph 17g and 17h of Statement 140 are only applicable to beneficial interests. Further, the requirement to initially fair value an interest is only applicable to beneficial interests in QSPEs. Does the Board believe that an interest in a non-consolidated VIE should not always initially be accounted for at fair

value? We are unclear on the Board's intent. The Board should clarify whether it intends to have any difference in the accounting and disclosures for interests in QSPEs as compared to VIEs, other than those already highlighted in FIN 46R. To minimize confusion, we also believe that the Board should retain the current definition of beneficial interest, without limiting its scope to QSPEs, and if it wishes to limit certain of the Transfer Exposure Draft's provisions to only interests in QSPEs, it should do so separately and clarify the reasoning behind any such conclusions.

Hybrid Exposure Draft

We reiterate our support for the Board's efforts to increase the ability for entities to apply fair value to these financial instruments. Not only do we believe it provides an accurate picture of economic interests, but it greatly reduces the operational and accounting complexity that currently exists within the Statement 133 bifurcation rules. We have provided recommendations on two areas of the Hybrid Exposure Draft; the effective date and the impact on QSPEs in Statement 140.

Effective Date

The proposed guidance does not permit application to instruments that exist at issuance of the final Statement. We believe that the benefits of this guidance should be extended to existing instruments that are already bifurcated under Statement 133. We have many bifurcated transactions where we would have to continue to deal with the related operational difficulties for a number of years if we are unable to avail ourselves of the fair value option for existing positions. Further, providing the option to elect to apply fair value to the historic population increases the consistency of reporting similar instruments.

Accordingly, we recommend that the Board provide entities a one-time election, at adoption of the final Hybrid statement, to apply fair value accounting to all hybrid instruments that have been bifurcated under Statement 133.

Interaction with QSPE Analysis

As previously noted, the ability to apply fair value to a bifurcable hybrid instrument, rather than separate accounting for the parts, greatly reduces complexity in both the accounting analysis and in the ongoing support for these transactions. Firstly, it is often difficult to determine what the embedded derivative is, and, once identified, it is a further challenge to determine the nature of the remaining host instrument. These complexities still exist today in applying the Statement 133 guidance to "traditional" structured notes or similar transactions.

Determining whether a beneficial interest in an SPE contains an embedded derivative has not been given much consideration as a result of the relief provided by Derivatives Implementation Group Issue D1, Recognition and Measurement of Derivatives: Application of Statement 133 to Beneficial Interests in Securitized Financial Assets ("DIG Issue D1"). As the Board notes in paragraph A17 of the Hybrid Exposure Draft, there could be varied levels of complexity involved in understanding the terms of an instrument and whether there are embedded derivatives. We agree that residual interests will pose particularly

significant challenges. Accordingly, we are concerned that including this requirement in the analysis of QSPEs imposes a significant burden. We are also not clear on what situations would indicate that a structure is not a QSPE.

Our view is that the removal of the guidance in DIG Issue DI, should appropriately address the Board's original concerns that QSPEs could be used to hide exposure to derivatives. In conjunction with this view, we no longer see the purpose of paragraphs 40b and 40c as "anti-abuse" provisions, and, therefore, recommend that the Board eliminate both paragraph 40b and 40c in the Transfers statement. If the Board decides to retain this guidance, the Board should be aware that the complexities that could arise from attempting to apply this guidance could be extensive. We do not believe the Board has adequately demonstrated the benefit of retaining these complexities.

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We thank the Board for their attention to our comments. Please contact Eric Smith (212) 538-5984 or Julie Roth (212) 538-4847 if you would like to further discuss these points.

Sincerely,

Rudolf Bless
Managing Director, Chief Accounting Officer

Julie Roth
Director, Accounting Policy Group

**Appendix A
Additional Comments on Paragraphs in Appendix C**Paragraph 8A

As noted above, the requirements of the proposed Statement do not include sales of portions of financial assets that are not participating interests. This should be modified to clarify the Board's intent.

Paragraph 8Ab

In order to meet the definition of a participating interest, servicing fees may be paid provided they are adequate compensation. Our concerns include requiring a transaction to pay a servicer adequate compensation appears onerous and may not reflect market dynamics. Therefore, the standard should be a market rate, which can include amounts in excess (or below) adequate compensation, which would give rise to either a servicing asset or liability. Further, if a transferor is not the servicer, we question whether it is a necessary exercise for them to determine if the servicing is adequate. We believe that since a third-party is being paid for servicing, from the transferor's perspective they should be able to conclude that servicing is adequate without further detailed analysis.

The last sentence of this paragraph could be read to imply that the owners of the participating interests must remain constant over the life of the original financial asset. We do not believe that was the Board's intent and that subsequent transfers of the participating interest would be subject to paragraph 9. We recommend that the Board eliminate this sentence or replace it with guidance that better states the scenario this was intended to address.

Paragraph 8Ac

Recourse is defined as including adjustments resulting from defects in the eligibility of the transferred receivables. We do not believe standard representations and warranties should impact whether an interest qualifies as a participating interest. The Board should clarify that the notion of recourse in this paragraph relates to protection for deterioration in the value of the underlying asset.

Paragraph 9

As we have previously noted, paragraph 9 does not explicitly indicate whether it applies to transfers of portions of assets that do not meet the paragraph 8A conditions for a participating interest. The Board should clarify the appropriate guidance for these transactions.

Paragraph 9b

Paragraph 9b has a new requirement that any beneficial interest held by the transferor in a QSPE must meet paragraph 9b. In effect, this implies that the transferor is selling an interest to itself. Conceptually, we question whether this change is consistent with paragraph 9, which was intended to cover how to account for transfers between a transferor and another party. The proposed Statement did not provide any clear rationale for this change. We recommend that the Board revisit this change to clarify the purpose and the impact of this change.

The Board added the last sentence that states, “If a transaction involves a series of steps designed to isolate the transferred financial assets (as described in paragraph 83), each entity that receives the transferred financial assets is a transferee, and each transfer must meet this condition.” It is not clear what the Board intended with this condition. The understanding in a typical “two step” transaction is that the first SPE (usually a wholly-owned bankruptcy remote entity used to obtain a true sale at law opinion) is consolidated, so in our view the sale accounting is really only relevant when the transaction is taken as a whole with consideration of the two-steps. The transfer to the first bankruptcy-remote entity is done in contemplation of the sale to a second entity, so if this provision remains we assume the Board will conclude that this sale in and of itself would meet paragraph 9b.

Paragraph 9e

We believe this guidance would also be applicable to transfers to SPEs that are not qualifying SPEs. This highlights one of the confusing results of the Exposure Draft’s attempt to define beneficial interests only as interests in qualifying SPEs. We refer the Board to the ASF’s letter for further comments relating to legal isolation.

Paragraph 60

The Example indicates that if a transfer is a participating interest the retained interest is a participating interest rather than its previous classification. We do not believe this is required. If an interest is participating, this indicates that only a portion of the original asset has been sold, and, therefore, the remaining interest should remain classified as it was before the transfer.