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Via Electronic Mail and FEDEX

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Major Projects and Technical Activities Director
Financial Accounting Standards Board
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Re: File Reference No. 1200-001, Exposure Draft, Qualifying Special-Purpose Entities and Isolation of Transferred Assets, an amendment of FASB Statement No. 140

Ladies and Gentlemen:

Credit Suisse Group "CSG," appreciates the opportunity to provide comments on the above-referenced Exposure Draft (the "Proposal"). CSG transfers assets to QSPEs in various proprietary and client transactions, primarily for traditional securitizations, including the securitization of residential mortgage loans and commercial loans. We believe the control based financial-components accounting model of Statement No. 140 ("Statement 140"), along with its disclosures, provides a relevant and complete picture of these activities. We are concerned that the FASB is proposing changes that are inconsistent with the framework of Statement 140, and we do not believe that these changes should be made without further debate.

Our most significant concern with the Proposal relates to the way the proposed changes result in a fundamental shift in the conceptual basis of Statement 140. Specifically, we believe that the proposed changes relating to the transferor's retention of risks and rewards are a dramatic departure from the control model of Statement 140. As more clearly stated in Appendix C than in the text of the changes, the Proposal would "prohibit an entity from being a QSPE if it enters into an agreement with the transferor that transfers some or all of the risks inherent in the transferred assets back to the transferor."

In developing the approach in the Proposal, we do not believe that the Board has appropriately weighed the history and development of the Statement 140 model for derecognition. Statement 140, including its implementation guidance, clearly contemplates various forms of transferor continuing involvement, including recourse and derivative transactions. In fact, the Board, in deliberations that led to FASB Statement No. 125, rejected a risks and rewards approach since it would be difficult to choose which risks and rewards are most critical and whether all or some major portion of those

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risks and rewards must be surrendered to allow dercognition.[1] We would understand that the Board would want to revise the current rules to eliminate transactions where the transferor still has effective control, but we believe the changes add tests that are solely based on risks and rewards. We believe the broader impact of these changes requires further consideration.

In our view, the current Statement 140 approach, one that bases derecognition primarily on control, has been well thought out, debated and refined, and at this point in time has been well tested and interpreted by market participants. While we believe it is appropriate for the Board to address issues that will clarify the activities of a QSPE, we do not believe this Proposal is the correct venue to readdress the conceptual foundation of Statement 140. If the Board wants to implement such a significant change, it should consider this through a separate project where it can once again elect whether control or risks and rewards is the appropriate basis for derecognition of financial assets. Further, since the remainder of the Statement 140 derecognition criteria are primarily based on control, the proposed changes would preclude derecognition of assets, even if the transferor only holds a nominal interest that does not in any way provide it with control. This is an example of an unintended consequence that should be considered before the Board pursues with these changes. A simplified example of this potential result is described later on our letter.

Following are our additional comments on the proposed changes.

Bans on transferor involvement

The Proposal states that a transferor cannot provide a liquidity commitment, a financial guarantee or other commitment to deliver additional cash or other assets to the SPE or other beneficial interest holders to fulfill the SPE's obligations to the beneficial interest holders.

The Board indicates that these changes are required since they "would prevent derecognition by transferors that may continue to retain effective control of transferred assets by providing financial support other than a subordinated retained interest." While we agree with the concept that the transferor should not maintain control, as previously noted we think this concept has been appropriately considered in the current guidance. Further, the last sentence that precludes "other commitments to deliver additional cash or other assets" is very broad, and we are concerned it can be interpreted to include even the most remote contingent obligations, such as certain representations and warrantees on the characteristics of assets sold.[2]

As noted previously, we believe this risks and rewards approach fundamentally is in conflict with the basis of Statement 140. Statement 140 was intended to resolve issues

[1] Paragraph 132, Basis for Conclusions, Statement 140

[2] We refer the Board to the ASF/BMA comment letter for details on the unintended consequences of these changes. CSG participated in preparing this comment letter.

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about whether or not transferor involvement should preclude sale accounting. The Board decided to adopt as the basis for this Statement a financial-components approach that focuses on control and recognizes that financial assets and liabilities can be divided into a variety of components.

We are especially concerned with the Board's decision that a transferor cannot enter into any derivative with the QSPE.[3] We understand the Board was concerned with specific derivative transactions, such as total return swaps. While we understand that concern and appreciate that this is one of the byproducts of a control-based model that relies, in part, on legal standards, this does not justify a complete prohibition on any derivative with the transferor to the QSPE. We believe that this will result in situations where an asset cannot be derecognized, even though it is clear that control has been surrendered. Based on our observations of the Board meeting where this was discussed, we do not think there was enough debate to challenge the Staff that suggested this change, and suggest that this be discussed further.

The following example demonstrates our concerns:

A transferor sells 30 bonds, with a par value of approximately $300 million, to an SPE. Two of those bonds, with a combined par of $15 million, have a fixed rate of interest. The SPE will fund itself by issuing term, floating liabilities. This necessitates the need for an interest rate swap, where the SPE pays the fixed rate and receives floating. The transferor's derivatives desk provides this swap. The transferor has no other continuing involvement with the entity. The entity cannot freely pledge or exchange the assets.

Accounting conclusions:

Current Statement 140 guidance: The entity can be designated a QSPE and derecognition is appropriate. The interest rate swap does not provide the transferor with control, legal or otherwise, over the transferred assets.

Proposed guidance: The control and economics are exactly the same. Under the Proposal, however, the transferor's interest rate swap is a prohibited activity for a QSPE, even though it does provide the transferor with control over the transferred asset. Since the SPE therefore could not be considered a QSPE, derecognition would be precluded pursuant to 9b. The transferor would be required to retain the entire $300 million on balance sheet, rather than only its relevant transaction.

The above example, while simplified, demonstrates a situation where sale accounting would be precluded, even though the transferor has absolutely no control over the transferred assets. This is an inappropriate result in a control-based model. Even under a true risks and rewards model, where there would at least be some threshold of risks and rewards that would not preclude drecognition, we do not believe that the interest rate

[3]Revised paragraph 35(c)2

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swap retained by the transferor would preclude derecognition. We urge the Board to consider these results and to ensure that this is what they intended or expected.

Limits on SPEs that reissue beneficial interest
Issues relating to this scenario were the impetus for the Proposal since the issue did not get resolved through discussions on EITF Issue 02-12. We agree that determining whether any party has control over the issuance of liabilities of a QSPE is a valid question to address.

In the Proposal, the Board states that the rules proposed would help ensure that SPEs would not qualify for the exception in FIN 46 if any party involved is in a position to enhance or protect the value of its own subordinated interest by providing financial support for or making decisions about reissuing beneficial interests. We do not think the Staff or the Board have demonstrated why the combinations or limits they propose are relevant to the above stated goal.

For example, the first outright prohibition is that an SPE that reissues interest cannot receive any liquidity, guarantee, or other commitment, from only one provider. There must be at least two parties that provide these commitments. If the party providing such a commitment has no control over the assets, we do not see the conceptual basis for this split. Further, we are concerned that this could be extended to even one interest rate swap with the QSPE.

Further, the proposed changes are intended to prohibit certain specified rights and obligations that facilitate concentrations of risks or concentration of risks combined with decision-making. We believe the proposed changes can preclude combinations of relationships that do not have any important combination of risks or decision-making that should preclude QSPE status or dercognition for the transferor.

Consider the following situations that would be precluded by the proposed changes. Assume the entity has no ability to influence the terms of the new beneficial interests.
An entity provides:

- A guarantee on the senior notes and a holds a trading position in a subordinated note.
- A liquidity commitment (provider cannot control when this is triggered) and a holds a trading position in a subordinated note.
- A guarantee on the senior notes and is the counterparty for a market interest rate swap on one asset held by the QSPE. Assume the interest rate swap is "other than the most senior" in the waterfall.

Large, global firms such as CSG, invariably, and incidentally, can easily run afoul of the above limitations. For example, if CSG provides liquidity to an SPE, it is possible they are also a market-maker in the SPE's securities. The liquidity provider will receive a fee for services and the investor will have risk sand rewards from its investment. These economics are the motivation for their involvement – and not the ability to make decisions relating to the SPE or to protect its investments.

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Further, the combination of interests that any party with a relationship with a QSPE has can change. For example, if a third party that provides protection or a "wrap" on the senior bonds separately decides it would like to trade in some of the mezzanine debt, under the proposed framework this action would trigger a "dequalification" event that would prevent the SPE from being a QSPE. The first concern with this approach is that the transferor would likely not know of the trading decisions of its service providers. Secondly, a market purchase of already issued notes did not change the transferor's position or control, and therefore we believe that a change in QSPE status would be inappropriate. The transferor would consolidate, deconsolidate, and reconsolidate when the positions are purchased and sold by third parties, among other scenarios we are sure would arise. We do not believe this is an appropriate model.

Instead of the proposed approach, we recommend that the FASB provide a conceptual basis for when routine activities relating to the rolling of liabilities are not decisions that should preclude an SPE from being a QSPE. We disagree with the Board's statement in the Proposal that these structures are not passive, pass-through arrangements. If an SPE is a QSPE it cannot have any discretion in selling the assets. Having a party facilitate the issuance of short-term funding, for example, rolling CP does not provide the transferor or any party with control over those assets. Most importantly, the ongoing funding levels of the short-term paper are not the driving forces of the transaction, primarily because the demand of investors dictates the terms of issuance. In other words, the terms of reissuance is not something that can truly be controlled by any party (except the markets). Therefore, provided the rolling of interests require routine decisions do not have a material impact to the economics of the transaction, we believe that it is appropriate for a party to facilitate rolling of liabilities in securitization transactions where long-term assets are funded by short-term liabilities.

If the Board does go ahead with the proposed changes, it should focus on the exceptions to FIN 46, rather than whether or not the combination of relationships impacts QSPE status. For example, if a party has any combination of certain interests, the scope exception does not apply.

Rules on Two-Step "Transactions"

Our observation is that there is not a clear understanding or consensus on the purpose or potential impact of these changes. CSG believes that if a two-step transaction involved a sale of the whole asset to the second SPE, the second need not be a QSPE because the SPE could have the ability to pledge or exchange the assets. Others do not have the same interpretation, and believe that, in order for derecognition to be achieved, the second entity would still have to be a QSPE because it resulted in the issuance of beneficial interests. It is also unclear why the Board decided to change the terminology from securitization to transaction, which we believe has further contributed to confusion on the impact of these changes. We recommend that the Board clarify the intent, provide an example, and re-expose this area to ensure that constituents are able to comment on the impact once they are able to better understand the proposed rule.

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Paragraph 9b
The Board is introducing significant risks and rewards elements to a control-based model. Since the remaining rules for derecognition are primarily control based, this will provide further conflicts. We are concerned that any risks and rewards retained, other than a subordinated interest, would force consolidation (or preclude derecognition) because often the entities in question will not be permitted to freely pledge or exchange their assets. The Board should consider the impact of the changes, and whether or not that was the intended result. In our view, this is further evidence of why the risks and rewards approach should not be interspersed any further into Statement 140.

* * * *

CSG strongly supports any rules or clarifications that improve the information that is reported to the users of our financial statements. It is our view that the information currently being provided under Statement 140, including the disclosures, provides a meaningful and useful description of our QSPE transactions. Accordingly, we do not believe a significant change in Statement 140 is merited at this time.

If the Board does go forward with the significant changes proposed, we request that they not be effective until quarters beginning after June 15, 2004 (assuming this is issued by the fourth quarter of 2003). As evidenced by the short implementation period provided in FIN 46, a five-month implementation time period is too condensed. We strongly believe that a longer implementation period is necessary to permit a more orderly, thorough transition.

We appreciate the Board's attention to our comments. For further clarification, contact Julie Roth in New York (1-212-538-4847) or Todd Runyan in Zurich (+41-1-334-8063). We also request to be a participant at the roundtable discussion that is scheduled for August 28, 2003.

Sincerely,

Rudolf Bless
Managing Director, Chief Accounting Officer

Julie Roth
Vice President, Group Accounting Policies