



CREDIT SUISSE GROUP  
Paradeplatz 8  
PO Box 1  
8070 Zurich  
Switzerland

May 31, 2013

Ms. Susan M. Cospers  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
PB Box 5116  
Norwalk, CT 06856-5116  
[director@fasb.org](mailto:director@fasb.org)

**Re: File Reference No. 2012-260:  
Proposed Accounting Standards Update *Financial Instruments – Credit Losses*  
(Subtopic 825-15)**

Dear Ms. Cospers,

Credit Suisse Group ("CSG") welcomes the opportunity to comment on the proposed Accounting Standards Update, '*Financial Instruments – Credit Losses* (Subtopic 825-15)' (the "Proposed Update" or "ASU"). CSG is registered as a foreign private issuer with the U.S. Securities and Exchange Commission and its consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). In addition, a number of our subsidiaries are required to apply International Financial Reporting Standards ("IFRS") to their stand-alone financial statements.

We commend the Board on its efforts to develop an expected loss model that should be conceptually sound, understandable and operable. However, we do not support the "Current Expected Credit Losses ("CECL") model as described in the Proposed Update because we have the following key conceptual and operability concerns:

- Recognizing expected credit losses over the entire contractual term of the financial asset (825-15-25-3) under consideration of expected prepayments (BC18) at inception does not reflect the economic link between the pricing of a financial asset and the initial expectations of credit losses. The margin on a financial asset would generally be sufficient to cover the initial expected credit losses under the reasonable assumption that financial assets are fairly priced at origination. Therefore, the fair value at initial recognition would generally not cause a day 1 loss. However, recognizing life-of-financial asset expected credit losses may result in significant double-counting of expected credit losses that are priced into a financial asset and therefore in an earnings mismatch as interest revenue including margin is recognized only over time. Consequently, the CECL model would not lead to a faithful representation of an entity's loans and lending business and not result in a reliably decision-useful estimate of expected credit losses.
- Furthermore, under the proposed CECL model, it would be difficult to determine when there is a significant increase in credit risk due to a deterioration in the credit quality of a financial asset and therefore an economic loss would be expected. This would be especially true for a long-term financial asset, because the time period to estimate



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expected credit losses would not differ between a performing and non-performing financial asset.

- Additionally, we foresee significant operability concerns because of the need to estimate life-of-financial asset probability of default ("PD") and loss given default parameters if a PD method was used to estimate expected credit losses. Current credit risk methodologies, including the Basel regulatory framework, are mainly based on a shorter time horizon than the life-of-financial asset<sup>1</sup> and therefore life-of-financial asset parameters for a PD method are not currently available. Due to the above factors, we also expect significant diversity in practice, varying degrees of interpretation, therefore inhibited comparability among constituents and auditability, and less decision-useful financial information.

Instead of recognizing expected credit losses over the entire contractual term of the financial asset we strongly support limiting the estimate of expected credit losses for non-impaired financial assets to the foreseeable future of the financial asset.<sup>2</sup> We believe that a foreseeable future approach for non-impaired financial assets would provide users of financial statements with more reasonable and decision-useful financial information because the approach would rely on a "reliably estimable period" and more accurately reflect the economics of an entity's loans and lending business. The foreseeable future time horizon with no period specified should be determined by class of financial asset and separately disclosed in order to enhance comparability. If no time period was defined, it would enable entities to reflect expectations from regulators in each jurisdiction on the appropriate period of time to estimate expected credit losses. This alternative approach would allow entities to better align the expected credit loss model to be used under US-GAAP with the expected credit loss model applied for regulatory capital purposes and internal credit risk management.

Furthermore, a foreseeable future approach may also support the FASB's and IASB's review and deliberations on an expected credit loss model. We urge both Boards to avoid further divergence with regard to the accounting for credit losses and to work towards a fully converged impairment standard. We also understand that the avoidance of further divergence is also an utmost concern from different constituents, including the Basel Committee on Banking Supervision and the Financial Stability Board.

Both Board's primary objective should be to develop a conceptually sound expected credit loss model that does not disregard the underlying economics of the financial assets in scope and that harmonizes the US-GAAP and IFRS accounting. A secondary objective should be an alignment with the regulatory treatment for expected credit losses as much as reasonably possible. While we acknowledge that this objective is primarily centric to the banking industry, we urge the Boards to recognize it in their deliberations because of the significance of financial institutions for the global economy, amongst others their role as financial intermediaries in the loans and lending business.

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<sup>1</sup> Basel Committee on Banking Supervision, *International Convergence of Capital Measurement and Capital Standards*, June 2006, par. 447.

<sup>2</sup> Similar to the "FASB approach" as proposed in the Supplementary Document "Impairment", January 2011, section "Approaches developed by the IASB and FASB separately".



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Apart from our comments outlined above, we have the following specific recommendations:

- Scope: Short-dated and/or collateralized receivables subject to margining (e.g., reverse repurchase agreements or loans collateralized by securities) should be excluded from the scope of the Proposed Update and be subject to Subtopic 450-20, because credit losses would only be expected with a very low probability of occurring due to the margin requirement. Therefore, the application of the CECL model would not result in a significant increase in recognized reserves for these types of receivables and would not provide stakeholders with additional decision-useful information.
- Information Set to Consider: The Board should further clarify in the final standard how to consider forward looking information when estimating expected credit losses in line with the Board's response on question 13 in the recently issued Q&A document<sup>3</sup>;
- Time value of money ("TVM"): The Board should abandon the TVM principle when other methods than a discounted cash flow model (e.g., a PD method) are used to estimate expected credit losses in line with the clarification in the recently issued Q&A document.<sup>4</sup> As an example, if a PD method is applied, the expected credit losses will be estimated to the default date. Timing of expected credit losses is not straight-forward and may be highly subjective. Generally statistical measures (e.g., default probability) are most meaningful to estimate overall credit losses;
- Impairment for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income ("FV-OCI"): The current other-than-temporary impairment ("OTTI") model should be retained for financial instruments measured at FV-OCI because the OTTI model is well-understood and has been modified properly in April 2009 by issuing FASB Staff Position FAS 115-2 and FAS 124-2. If the Board disagrees with this suggestion, we request the Board to eliminate the first criterion of the practical expedient<sup>5</sup> because non-credit risk factors may determine when to use a practical expedient that should be related to credit risk only. In addition, the Board should further clarify the term "insignificant" expected credit losses of the second criterion in 825-15-25-2;
- Loan's observable market price as a practical expedient: We believe the Board should retain the practical expedient that a creditor may measure impairment based on a loan's observable market price. An observable market price reflects several potential outcomes on a market-weighted basis, and therefore the requirement to reflect at least two possible outcomes would be met. Therefore, the same rationale would apply as for the practical expedient of collateral-dependent financial assets outlined in 825-15-55-6;
- Non-accrual principle: We recommend that
  - instruments classified in FV-OCI should be exempt from the proposed non-accrual guidance;
  - instruments for which expected credit losses are based on a discounted cash flow model should be exempt from the proposed non-accrual principle because interest income recognition is necessary to accrete the amortized cost basis to the cash flows expected to be collected;

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<sup>3</sup> Proposed Accounting Standards Update, *Financial Instruments – Credit Losses (Subtopic 825-15)*, *Frequently Asked Questions*, March 25, 2013.

<sup>4</sup> Please refer to the Board's response on question 16 in the Q&A document.

<sup>5</sup> The first criterion requires that the "fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset" (825-15-25-2).



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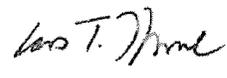
- o either the cash basis or the cost recovery method could be applied for the remaining financial assets classified as amortized cost with disclosure of the method being used in accordance with an entity's accounting policies;
- Troubled Debt Restructuring ("TDR"): The classification of a TDR should be eliminated and all debt restructurings, troubled or non-troubled, should be accounted for under the current accounting principle for debt extinguishment and modification (ASC 310-20-35-9);
- Disclosures: The Board should review the proposed disclosure requirements in conjunction with the Disclosure Framework project which aims to improve the effectiveness of disclosures. We are concerned about the volume of additional disclosures proposed in the ASU and whether they provide decision-useful information;
- Implementation Guidance and Illustrations: Additional guidance and examples should be included for instruments where the maximum contractual period is shorter than the expected period consistent with business practice (e.g., in terms of revolving credit facilities, loan commitments with periodical renewal provisions);
- Effective Date and Transition: Considerable time would be needed to implement the guidance as proposed in the ASU. This would be due to significant system and process changes within reporting and credit risk management to determine life-of-financial asset expected credit losses and to collect the extensive data required for the proposed disclosures. We agree with the proposed transition provision.

We would welcome the opportunity to further discuss our comments in this letter with you at your convenience. If you have any questions or would like to receive additional information on the comments we have provided herein, please do not hesitate to contact me in Zurich at +41 44 333 1968, or Todd Runyan in Zurich at +41 44 334 8063.

Sincerely,



Rudolf Bless  
Managing Director  
Deputy Chief Financial Officer



Lars Thomas Ihme  
Vice President  
Accounting Policy and Assurance Group