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August 17, 2005

BY MESSENGER

Douglas J. Scheidt
Associate Director
Office of Chief Counsel
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Credit Suisse First Boston LLC

Dear Mr. Scheidt:

We are writing on behalf of Credit Suisse First Boston LLC ("CSFB"), a financial services firm registered with the Securities and Exchange Commission (the "Commission") as both an investment adviser and a broker-dealer. We respectfully request that the staff of the Division of Investment Management advise us that the staff will not recommend Commission enforcement action against CSFB, based on CSFB's use of the procedure described in this letter to satisfy its obligations under Section 206(3) of the Investment Advisers Act of 1940 ("Advisers Act") to provide written disclosure to an investment advisory client and obtain the client's consent to the types of principal transactions described in this letter with an affiliate of CSFB, prior to the completion of those transactions and in the circumstances and subject to the conditions set forth below.

The Program

CSFB has a group that provides a specialized type of investment advisory service to very high net worth clients and institutions that hold large positions in individual equity securities. This service is a volatility management program (the "Program") that utilizes short-dated, covered call options (the "Covered Call Options") (i.e., options related to specific, underlying equity securities owned by each client) to either (i) provide the client yield enhancement on the client's underlying stock position through premium income, or (ii) enable the client to exit the underlying stock position (or portions thereof) at specified price targets reflected by the strike prices of the Covered Call Options.[1] The Program is driven by a quantitative analytical model (the "Model"), which calculates the probability that a given Covered Call Option will finish

[1] The short-dated, covered call options that are used in the Program are contracts that allow, but do not require, the buyer of the option to purchase specified stock from the CSFB client on a specified date or during a specified period of time and at a previously agreed upon price ("strike price"). The option buyer pays the CSFB client for the option (the "premium") and, assuming that the option is cash settled, which typically is the case, also will pay the strike price upon exercise of the option. Additionally, the option is "covered" because the client owns the specific stock underlying the option. The option is short-dated, in that the specified time period during which an the option may be exercised normally will be less than one year and in most cases will be between 30 and 120 days, with options contracts sold for a client upon first entering the program typically having an exercise period of between 30 and 90 days. Subsequent Covered Call Options sold for the client to replace the initial contracts may have slightly longer terms, although they also will almost always expire in one year or less.

in-the-money, or in other words, the probability that the underlying stock price will close above the strike price of a given Covered Call Option.[2]

The returns for investors holding a long-only position in an equity security depend entirely on future developments affecting the price of that particular stock. However, the volatility that defines this return is itself an asset which the investor can monetize by entering into the Program. CSFB uses the Program to reshape the investor's future return by writing and managing a portfolio of Covered Call Options to generate current premium income. The parameters of the Program are set based on each client's individual investment objectives, i.e., whether the client seeks yield enhancement, seeks to exit a stock position or both, as well as client-imposed investment restrictions and risk tolerance guidelines that will govern the management of the client's account. These are determined in detail at or before the time an investor becomes a client in the Program. If the client's objectives include yield enhancement, CSFB seeks to create an additional stream of cash flow or a "synthetic dividend" for the client. The Model is designed to identify Covered Call Options that have both the potential to provide enhanced returns for the client and a reduced risk of expiring in-the-money. Generally, by writing Covered Call Options identified by the Model for the accounts of clients seeking yield enhancement, CSFB expects to achieve returns that will outperform outright stock ownership if the stock price falls, remains the same, or goes up to the strike price, adjusted for Program costs.[3] For each client, CSFB strives to sell a portfolio of Covered Call Options with several strike prices and maturities and to achieve the best risk-adjusted returns in a changing stock price environment, and actively manages the client's account by continuously monitoring the client's Covered Call Option positions and seeking to buy back shorter-dated Covered Call Options and sell longer-dated Covered Call Options at a higher strike price when the underlying stock price is increasing and the client's Covered Call Options positions are either in-the-money or at risk of being exercised.[4]

If the client's objectives include exiting all or part of the underlying stock held by the client, the Program will seek to raise the client's effective selling price for that stock. The Model will take the client's target exit price and will seek to identify options that will extract maximum value from the asset's volatility until the target price level is reached. Generally, for clients seeking to exit their underlying stock, CSFB expects to achieve returns that will exceed the amount that could be realized through the outright sale of the stock if the stock price rises above the stock's spot price upon entering the Program, plus Program costs, adjusted for premium income. For these clients, CSFB will write Covered Call Options on only a percentage of the underlying stock and will actively manage the position to achieve the best risk-adjusted returns until the investor's target exit level is reached.

Potential Clients

Potential clients for the Program are identified by CSFB's private client service advisors and institutional sales force. These advisors identify potential clients holding equity positions that meet the Program's requirements. To qualify for the Program, a client's underlying stock position must meet certain requirements with respect to expected annual returns that can be achieved through the Program as compared to the expected risk of a Covered Call Option finishing in-the-money. The Model customarily

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[2] CSFB has policies and procedures in place aimed to ensure that CSFB complies with all applicable regulations relating to the disclosure of such transactions, including affirmatively advising clients of their own, similar disclosure and reporting obligations.

[3] A client may achieve yield enhancement through the Covered Call Options when the market price of the underlying stock is less than or equal to the strike price, because the buyer of the Covered Call Option normally will not exercise it and the client therefore will retain both the premium and the underlying stock.

[4] An option buyer typically will exercise the option and acquire the underlying stock from the CSFB client if the underlying stock price is greater than the strike price of the option. Conversely, an option buyer generally will not exercise the option if the underlying stock price is less than the strike price.

defaults to a standard set of parameters for initiating trades. The Model will calibrate several variables relating to the underlying stock and current market conditions and will screen for Covered Call Options with an optimized risk return profile that meets certain hurdle rates. If the hurdle rates are not expected to be met, given the current market parameters of a certain stock, the Program is not recommended for that stock or client.

To participate in the Program, a client must commit a minimum of $10 million of underlying stock to be managed under the Program. In most cases, a client also will have a net worth of at least $20 million. When a client decides to participate in the Program, strict investment guidelines are established to reflect the client's investment objectives and risk tolerance and those guidelines are documented in the investment advisory agreement. Once the investment advisory agreement has been put in place for a client, CSFB will begin to enter into Covered Call Option transactions for the client's account, generally on a discretionary basis, in a manner that is consistent with the client's investment guidelines.

Similarity of Covered Call Options

All Covered Call Options sold for a client under the Program are similar. The strike price, term and premium amount of individual Covered Call Options may vary, but the type of option (e.g., a call option), underlying type of security, method of settlement and other characteristics of the Covered Call Options will be the same for each client. The Covered Call Options typically have terms of maturity of between approximately 30 and 90 days and usually are not longer than 120 days. On average, between four and eight Covered Call Option transactions for each underlying stock position will be entered into for the account of a client participating in the Program in any one year, although a particular Covered Call Option transaction, depending on its size and the availability of bids, may be sold in two or more separate tranches to different dealers.

Use of the Model

Covered Call Option transactions are entered into based on the analysis provided by the Model and are not driven by fundamental analyses of the underlying stock. The Program does not take any position as to the perceived value of the underlying stock or future price targets. The Model contains a probability analyzer that uses a pricing model and simulations to calculate the statistical likelihood that a stock price will be above or below certain predefined levels in the future. The probability analyzer uses the risk-free rate of return and a comparison of implied versus historical volatility to project the probable future stock price. The Program will identify options contracts that are in line with the client's investment guidelines, including the appropriate strike price and maturity, as well as the number of contracts to be written. If two or more clients were to have the same underlying stock and the same investment and risk criteria, CSFB would sell the same Covered Call Options for those clients at the same time. There are however, certain portfolio management and risk management considerations that guide the decision as to which contracts are sold for a particular client at a particular time. For each Client, the goal is to establish an options portfolio for the underlying stock that is: (i) diversified across strike prices (no more than 60% of the underlying stock written on one particular strike price); and (ii) diversified across the maturity spectrum (no more than 60% of the underlying stock written with one particular expiration date and generally no contract longer than 120 days). It is within the discretion of the portfolio manager to select within the Covered Call Options identified by the Model those contracts that best fit the client's diversification requirements.

Monitoring

Once positions have been established for a client, CSFB monitors the positions on an intra-day basis. Because the Program methodology is based largely on minimizing exercise risk, CSFB monitors for scenarios where the stock price is advancing and the client's positions are either in-the-money or in jeopardy of being exercised. At that point, the Model will evaluate various "rolling" strategies typically involving buying back a shorter dated Covered Call Option and selling a longer dated option at a higher price with the aim of protecting the underlying position and retaining the initial credit from the first Covered Call Option.

OTC Options

When an exchange-listed call option that meets the client's investment objectives and fits the characteristics required by the Model is available, CSFB will sell a listed option for the Client. However, listed options meeting these criteria are not always obtainable. For certain underlying stocks, there are no listed options. In other instances, there may not be a sufficient liquidity of listed options available with the characteristics identified by the Model, given the size of a client's underlying stock position. Finally, because listed options have standard strike price increments and are only available based on pre-determined expiration cycles, listed call options having the specific terms determined by the Model may not be available in the listed options market. In these circumstances, CSFB will seek to enter into covered call options transactions for the client in the over-the-counter ("OTC") market. In contrast to the listed options market where the economic terms of the options are fixed, in the OTC market, OTC options can be constructed with the precise strike prices and expiration dates needed to meet the economic terms specified by the Model, thereby greatly enhancing CSFB's ability to achieve broader diversification on behalf of its clients by allowing specification of strike price and maturity on a trade-by-trade basis. The standardized strike price increments and fixed expiration dates available for listed options can be extremely limiting in terms of finding listed call options appropriate for a client. Additionally, call options purchased on the listed market are "American style," meaning that buyers of these options have the right to exercise these options at any point through expiration of the option, thus creating "early exercise" risk, i.e., the risk of the stock being called away.

When a stock moves up through a strike price of an option held for a client in the Program, the portfolio managers will look to "roll" the option "up and out," meaning that they will look to buy back the in-the-money option and write a new, higher strike price, longer-term expiration Covered Call Option. The goal in rolling is to sell a higher strike price option at a premium that covers the cost of buying back the in-the-money option. Given strike price and expiration date limitations in the listed options market, this is often difficult to achieve for stocks with low volatility without extending the expiration date six months or more. The ability to use OTC Covered Call Options with customized strike prices and expiration dates provides flexibility such that there is almost always an appropriate "roll" candidate option with a shorter expiration date than is available on a listed options market. The benefit to the client of using OTC Covered Call Options is that CSFB is better able to meet agreed upon investment guidelines with an options portfolio that has an optimized risk-return profile.

Multiple OTC Option Counterparties

Currently, CSFB solicits bids for OTC Covered Call Options from two or more major financial services firms ("dealers") on negotiated terms. However, before CSFB can solicit bids from a particular dealer on behalf of a client, the client must first establish an account with that dealer. The process of establishing an account can take up to several weeks and involves voluminous paperwork that must be reviewed and signed by the client and most often reviewed and/or negotiated by the client's legal counsel. The contracts and other documentation for accounts for OTC options are not standardized and terms differ from dealer to dealer.[5] Thus, opening an account with a dealer to engage in an OTC options transaction

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[5] Although a Master Agreement and Credit Support Annex developed by the International Swaps and Derivatives Association, Inc. ("ISDA") generally is used as the base documentation that governs an OTC Covered Call Options transaction, a specific confirmation (the "Confirmation"), which modifies, supplements and forms a part of the terms of

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is neither quick nor simple, and it is a process that the client must go through separately with each separate dealer, one by one. The form and content of the resulting contracts is not consistent from one dealer to the next.

To protect the client, arrangements also must be put in place to ensure that, effective immediately upon the execution of each OTC Covered Call Options transaction, the stock underlying the contract is pledged to the dealer that buys the call option and that the dealer's security interest in the pledged stock is fully perfected. The terms of these arrangements and the relevant paperwork generally must be negotiated and in place before CSFB can begin to solicit or accept bids from a particular dealer for a particular client, and it must be done on a client by client and dealer by dealer basis.

Given the number of transactions typically effected for a client over the course of a year and the number of different dealers that may act as counterparties in these OTC Covered Call Option transactions, CSFB's experience is that clients are substantially inconvenienced by the administrative burdens of establishing accounts with different dealers and often confused about why it is necessary to establish yet another account with a third-party broker-dealer in addition to the account the client already has established with CSFB. This places practical limits on the number of accounts a client is willing to open with different dealers and therefore places limits on CSFB's ability to expand the number of dealers from which it can seek more favorable bids on behalf of the client.

Once the paperwork is in place with a dealer, CSFB then is in a position to solicit bids from that dealer for the client. Thereafter, if a bid is accepted and an OTC Covered Call Options contract is executed for a client by CSFB (exercising its discretionary authority as investment manager), CSFB then must monitor the stock that is delivered as collateral to the dealer or dealers, as the case may be, and be able to confirm that the client's options positions are at all times covered. This is also a time-consuming process that must be handled manually and individually, and involves the potential for human error, again because standards agreements and terms and a centralized clearance and settlement system is not available for transactions in the OTC Options markets.

For these reasons, on a going forward basis, CSFB would like to be able to enter into an arrangement whereby OTC Covered Call Options could be sold on behalf of its clients to CSFB's affiliated OTC derivatives dealer, Credit Suisse First Boston Capital LLC ("Derivatives Affiliate"), subject to the protective conditions described below. The Derivatives Affiliate is a U.S. registered broker-dealer.

Proposed Back-to-Back Arrangement

Under the arrangement contemplated, when CSFB seeks to sell a particular Covered Call Option for a client with appropriate terms as determined by the Model and where the desired option is not available on the listed market, CSFB will seek bids from two or more third-party dealers to buy from its Derivatives Affiliate an OTC Covered Call Option on terms identical to those of the Covered Call Option that CSFB seeks to sell for its client. CSFB will prepare a term sheet showing the following information: (i) the name of underlying stock; (ii) the underlying stock price; (iii) the strike price of the option; (iv) the expiration date of the option; (v) how dividends will be handled; (vi) the exercise terms (cash or stock settlement); and (vii) the number of shares of underlying stock on which the option will be written. The term sheet then will

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the agreement is negotiated between the individual dealer and each customer, resulting in a customized agreement that varies from one customer and one dealer to the next. Because the Confirmations use ISDA-published definitions (i.e., 2002 ISDA Equity Definitions) which are cross-referenced, parsing through each Confirmation and each election is a time-consuming and difficult process. The Master Agreements and Confirmations that CSFB clients must enter into in order to engage in OTC Covered Call Option transactions are long and complicated.

be sent out by CSFB, via electronic mail, to at least two, but generally three, financially qualified third-party dealers. Bids then will be received back, also via electronic mail generally within one hour of the initial term sheet being sent. The bids then will be evaluated solely based on price and the ability of the third-party dealer to execute the transaction in a timely manner.

Collateral

If CSFB receives bids that it determines will meet the client's needs (i.e., that meet the parameters determined by the Model), CSFB will then agree to sell an OTC Covered Call Option for the client's account to its Derivatives Affiliate on the same terms set forth in the best bid or bids received from the third-party dealer(s) and will direct its Derivatives Affiliate to simultaneously sell an offsetting OTC Covered Call Option to the third-party dealer(s) on terms that mirror those of the contract purchased from the client. The client's underlying securities will serve as collateral for the OTC Covered Call Option purchased by the Derivatives Affiliate and those securities will be held in custody by CSFB in an account in the name of CSFB for the benefit of the relevant client (who will be identified on the firm's custodial account records). CSFB is a "qualified custodian" as defined in Rule 206(4)-2 of the Advisers Act and complies with the requirements of that rule with respect to the accounts of its advisory clients, including Program clients.

The Derivatives Affiliate's offsetting obligations under each mirror OTC Covered Call Option contract with the third-party dealer will be subject to a Credit Support Annex[6] between the third-party dealer and the Derivatives Affiliate (other than the terms of the pledge arrangement) and a client's underlying stock effectively would secure the client's obligations under an OTC Call as well as the Derivatives Affiliate's offsetting obligations under each Mirror OTC Call. The price and other terms of each OTC Covered Call Option purchased by the Derivatives Affiliate from a client will be identical to the terms on which a third-party dealer simultaneously purchases a mirror contract from the Derivatives Affiliate. The Derivatives Affiliate will have no right or power to exercise the OTC Covered Call Option purchased from the client independently of an initial decision by the third-party dealer to exercise its mirror option. If the third-party dealer exercises an OTC Covered Call Option to the Derivatives Affiliate, the Derivatives Affiliate will in turn exercise its mirror option to the client and obtain cash or the underlying stock from the client.[7] In addition, all OTC Covered Call Options will be structured "European style," meaning that they can only be exercised at expiration, thus reducing early exercise risk.

Settlement

All OTC Covered Call Options purchased from a client will be structured to allow settlement in cash or with stock. However, these transactions will always be settled in cash unless the client has given instructions for settlement in stock or there is insufficient cash on hand for a cash settlement.

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[6] The "Credit Support Annex" is the agreement (attached as an "annex" to the ISDA Master Agreement) between two parties that sets forth the terms and conditions by which the performance of the customer's obligations under an OTC option sold by the customer will be secured. In the case of an OTC Covered Call Options contract, the underlying stock typically is pledged to the OTC options dealer as collateral to secure the customer's performance under the contract.

[7] This restriction against exercise of the option independently of a decision to exercise by the third-party dealer to exercise its mirror option as well as the obligation to exercise upon exercise of the mirror option by the third-party dealer will be set forth in the written term sheet provided by CSFB to its Derivatives Affiliate and thus will be part of the contract governing the transaction and a binding obligation of the Derivatives Affiliate.

Services and Charges of the Derivatives Affiliate

The process of selling the matching OTC Covered Call Option contract to the third-party dealer involves substantial back-office and "middle office" administrative work that must be performed by the Derivatives Affiliate to complete the paperwork necessary to create matching contracts and book both sides of the "mirror" trade, negotiating and executing Confirmations, moving shares, clearance and settlement and reporting. These functions are performed manually, are paper-work intensive and involve a significant amount of follow-up by telephone to ensure that all required steps to complete and secure the transaction have been taken. For its services, the Derivatives Affiliate will charge the client a standard servicing fee that is capped at a fixed rate or amount. CSFB believes that the current standard servicing fee is both commensurate with the work performed by the Derivatives Affiliate and compares favorably with the fees charged by other major brokerage houses for executing OTC Call Option transactions for institutional clients. Although the servicing fee will be capped (unless, at some future point, market conditions dictate a higher rate of fee and clients provide prior written consent to the higher amount), for certain lower-priced underlying stocks, the Derivatives Affiliate may set the servicing fee rate lower than the current standard servicing fee. In every case, the specific maximum amount that may be charged a client as a servicing fee will be clearly disclosed to that client in writing and agreed to by the client in writing and in advance, except that, if market conditions cause competitive servicing fee rates to drop lower than the agreed-upon rate, lower servicing fees may be charged on written notice to the client. Written client consent to the maximum rate at which service fees may be charged for transactions effected pursuant to the Program will be renewed annually.

CSFB's Compensation

These servicing fees and CSFB's advisory fees under the Program will be the only compensation earned by the Derivatives Affiliate or CSFB from these transactions. CSFB currently charges an annual advisory fee for participation in the Program of 0.50% to 0.60% of the total notional amount of the stock placed in the Program. The notional amount is a weighted average of the stock's market value at the beginning of each quarter, adjusted for the impact of inflows or outflows of stock under the Program during the quarter. The advisory fee is payable at the beginning of each quarter. The advisory fee is not dependent on or related to the number of transactions in the account. Further, the compensation received by the Derivatives Affiliate will be at a fixed and customary rate that is not earned or payable unless the Model indicates that a specific OTC Covered Call Option transaction is appropriate to achieve the client's investment mandate and that transaction is actually entered. The nature and maximum amount of compensation to be charged on these transactions will be fully disclosed, in writing, and agreed to by the client in advance, and the actual number of transactions and the total dollars charged as servicing fees on these transactions will be shown on the confirmation for each transaction immediately sent to the client and also shown on the client's quarterly account statements from CSFB. These regular disclosures of the frequency of transactions and servicing fee costs, together with (a) the client's ability to direct CSFB to immediately cease placing principal transactions with its Derivatives Affiliate at any time and (b) the requirement that CSFB initially, and thereafter annually, obtain renewed client written consent to the use of the arrangement, will enable clients to evaluate whether the frequency of the transactions and amounts of servicing fees are within the parameters they expected when entering into the Program, and take action to withdraw from the Program without penalty if they decide they are no longer willing to accept the costs of participation.

Eliminating Burdens on the Client

By structuring transactions in this manner, there will be no need for a client to open and maintain accounts or collateral arrangements with a number of different OTC options dealers. Instead, the client will be able to have a single account, a single Master Agreement and a single collateral agreement with CSFB's Derivatives Affiliate. Further, the client's securities can continue to be held in the custody of

CSFB which will limit the margin of human error that is always present when entering into OTC options transactions, given that the details of these contracts, the supporting paperwork and the transfers of collateral are handled manually and by telephone. In addition, confidentiality of client information will be protected. This will result in substantial time, cost and paperwork savings to the client. In addition, the Derivatives Affiliate will be able to enter into a single Master Agreement and collateral arrangement, using the Derivatives Affiliate's line of credit, with each of the different OTC options dealers with which CSFB wishes to do business for its clients, and to use the same standardized arrangements to effect offsetting transactions when it buys individual OTC Covered Call Options from any client participating in the Program. CSFB also will be able to solicit more bids from more dealers under this arrangement which is expected to lead to more favorable pricing and higher premium income and Program returns for the client.

Legal Analysis

Section 206(3) of the Advisers Act prohibits an investment adviser from, directly or indirectly, acting as principal for its own account in selling securities to or buying securities from an advisory client, without providing written disclosure to the client about the capacity in which the adviser is acting and obtaining client consent to *each* such transaction before its completion.

In our view, the alternative procedure proposed by CSFB for obtaining the informed prior written consent of clients participating in the Program to engage in principal transactions in OTC Covered Call Options with CSFB's Derivative Affiliate does not present the potential for overreaching or abuse that Section 206(3) of the Advisers Act is intended to prevent and therefore we question whether Section 206(3) should be applied to these transactions. Each OTC Covered Call Option will be specifically designed to meet the terms identified by the Model and will include variable terms determined by negotiations with the third-party dealers from which CSFB seeks bids for the offsetting option that the Derivatives Affiliate will sell. The number of OTC Covered Call Option transactions effected for a client will also be determined by the Model and the servicing fee to be received by the Derivatives Affiliate will be a standard set rate disclosed to, and agreed to by, the client in advance. Given these facts, we believe that the proposed arrangement does not present the potential for abuse that Section 206(3) was intended to address.

We note that the Commission's staff has not required compliance with Section 206(3) for transactions in mutual fund shares where an investment adviser's affiliate is the fund's distributor and the transactions are effected at net asset value. In a no action letter to Merrill Lynch Trust Company, FSB ("MLTC") in 2000,[8] the staff agreed that the purchase or sale by MLTC of mutual funds sponsored, distributed and advised by affiliates of MLTC (or other broker-dealer affiliates of MLTC) did not create the opportunity for price manipulation or dumping because the fund shares were purchased and redeemed at net asset value and were only purchased to satisfy customer orders. Because there was no opportunity for price manipulation or dumping, the staff believed that the potential for conflicts of interest that Section 206(3) was intended to address did not exist. In our view, CSFB's proposal similarly does not present the potential for price manipulation or dumping of unwanted securities on advisory clients, for the reasons outlined above. The OTC Covered Call Option sold by the Derivatives Affiliate to the third-party dealer will completely offset the Derivatives Affiliate's transactions with the clients and the Derivatives Affiliate will not profit from the premium or strike price of any OTC Covered Call Option, as they will strictly "mirror" the terms received by the Derivatives Affiliate from the third-party dealer offering the best bid. CSFB and the Derivatives Affiliate will have no incentive to engage in price manipulation because they could not benefit from any such manipulation. Essentially, any OTC Covered Call Option, and any underlying stock (upon exercise), would pass through the Derivatives Affiliate's account only to facilitate a client's transactions with a third-party dealer and consequently, we believe the proposed transactions do not

[8] See Merrill Lynch Trust Company, FSB, SEC No-Action Letter (pub. avail. July 6, 2000).

present the potential for abuse that Section 206(3) is intended to prevent because they are akin to transactions in which the Derivatives Affiliate acts solely as an agent for a client.

The Commission has brought some enforcement actions regarding so-called "riskless principal" transactions in certain instances.[9] In one case, an investment adviser executed 242 transactions on a riskless principal basis and 163 transactions on a principal basis through affiliated broker-dealers. In a second case, the investment adviser executed approximately 5,670 riskless principal transactions for or with its advisory clients. In both situations, there was no attempt by the adviser to provide any form of prior disclosure to clients about the capacity in which its affiliates would be acting or to obtain client consent to the transactions. In both cases, it appears that the adviser either did not realize that the restrictions of Section 206(3) of the Advisers Act applied to transactions with its control affiliates or had failed entirely to pay attention to where its trading desk was placing trades for advisory client accounts. In contrast, CSFB proposes an alternative means for obtaining advance, informed and written client consent to a limited type of principal transactions with its Derivatives Affiliates, where its clients will be sophisticated investors capable of understanding the nature of the transactions, the capacities in which CSFB and the Derivatives Affiliate will be acting and the conflicts of interests and risks presented by these arrangements.

The proposed arrangement will not work effectively if CSFB must obtain prior client consent to each separate OTC Covered Call Option transaction that is placed with its Derivatives Affiliate, based on written disclosure of all specific terms of each such transaction. For the Program to be successful for a client, transactions must be executed promptly once the Model identifies particular Covered Call Options for a client. If listed options with the desired terms and in the desired amounts are unavailable and the client cannot be reached in a timely manner to provide consent to an OTC Covered Call Option transaction with the Derivatives Affiliate – and many of these clients cannot always be reached on short notice – the effectiveness of the Program will be undermined. Also, most clients do not want to be contacted about every OTC Covered Call Options transaction, having considered and agreed to the Program in advance.

Given the characteristics of the Program and the investment advisory clients that participate in the Program, we believe that the important protections provided by the transaction-by-transaction prior consent requirements of Section 206(3) will be provided by use of the alternative method of obtaining advance written client consent and the other conditions proposed by CSFB. Specifically, the Program (i) will be governed by strict investment guidelines clearly set out in each client's investment advisory agreement; (ii) will utilize OTC Covered Call Options for a client's underlying stock that have standardized terms except for their strike price, premium, expiration date, quantity of shares to be covered and time of the transaction, which are variables determined by the Model; (iii) will involve only sophisticated clients that understand and have consented in advance to the Program; and (iv) if the relief we are seeking is granted, will involve only the type of principal transactions described herein between the Derivatives Affiliate and a client where the client has consented in advance to such transactions in the manner and subject to the conditions discussed herein. Fundamentally, use of the described arrangement with the Derivatives Affiliate does not change the client's participation in or exposure under the Program. Instead, it eases administrative burdens, standardizes paperwork with respect to individual trades and potentially offers opportunities for improved pricing of OTC Covered Call Options contracts. It also would increase transparency and liquidity, which may result in enhanced Program returns to clients.

As mentioned above, all OTC Covered Call Options bought by the Derivatives Affiliate from a client will be similar. The strike price, term, premium amount and expiration date of individual options may vary

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[9] See In the Matter of ABN AMRO-NSM International Funds Management, B.V., File No. 3-9751 (Sept. 30, 1998); and In the Matter of The Feldman Investment Group, Inc., File No. 3-8884 (Nov. 27, 1995).

("variable terms"), but the type of option (e.g., a covered call option), underlying security, method of settlement and other characteristics of the options will always be the same. In addition, every OTC Covered Call Option that will be simultaneously purchased from the Derivatives Affiliate by a third-party dealer will contain terms, including the variable terms, that are identical to those of the OTC Covered Call Option purchased by the Derivatives Affiliate from the client. The OTC Covered Call Option sold by the Derivatives Affiliate to the third-party dealer will completely offset the Derivatives Affiliate's transactions with the clients and the Derivatives Affiliate will not profit from the premium or strike price of any OTC Covered Call Option, as they will strictly "mirror" the terms received by the Derivatives Affiliate from the third-party dealer offering the best bid. The variable terms for every OTC Covered Call Options transaction will be determined by the most favorable terms that CSFB is able to negotiate with the third-party dealers from which it seeks bids for the offsetting option that the Derivatives Affiliate will sell. CSFB will solicit bids from at least two dealers for each such transaction. The servicing fees charged on these transactions will be limited to a maximum fixed rate that is disclosed and agreed to by the client in advance. Clients will be furnished with immediate confirmations detailing the servicing fee charges, plus quarterly account statements also showing all transactions and servicing fees paid. The rates charged will be competitive with those charged on comparable transactions by the securities industry. The set rate may be decreased on notice to the client, but not increased (and if lowered, may not be re-increased) without advance written disclosure and written client consent. These servicing fees will be in addition to the advisory fees paid by the client for participation in the Program. Other than its investment advisory fees and these servicing fee charges, CSFB and its Derivatives Affiliate will receive no other compensation on these transactions. CSFB is in the process of developing a standard set of documentation to be negotiated with all third-party dealers participating in this arrangement. Individual confirmations will be sent to each client by the Derivatives Affiliate, as promptly as possible, and in any event at or before completion of each transaction in the Program, which will include the servicing fee charged by the Derivatives Affiliate. The trade Confirmation entered into by the Derivatives Affiliate with the client will mirror the trade Confirmation received from the third-party dealer to avoid any potential mismatch in terms. Servicing fee charges payable to the Derivatives Affiliate will also be shown on quarterly statements provided to the clients by CSFB. If the staff wishes to see sample copies of the trade confirmations for the OTC Covered Call Option transactions and the draft standard documents to be used, please let us know.

Conditions

The modified prior written consent arrangement will be subject to the following conditions:

- The written consent by the client will cover only OTC Covered Call Options transactions (i.e., covered calls) entered into within one year (or such shorter period specified by the client) of the date of the client's written consent, unless renewed by the client in writing for another year (or such shorter period specified by the client).
- The OTC Covered Call Options transactions covered by the written consent and the master collateral arrangement between the client and the Derivatives Affiliate will be consistent with the terms (including forms of documentation) disclosed to and reviewed by the client at the time the written consent is signed.
- At the time the initial written consent is requested and prior to requesting renewal of the written consent each year, CSFB will provide the client with a statement spelling out the capacities in which CSFB and the Derivatives Affiliate will be acting and the potential conflicts of interest on the part of CSFB involved in this arrangement.
- Before entering into an OTC Covered Call Options transaction where the Derivatives Affiliate intends to purchase an option from a client and simultaneously sell an option with identical terms to a third-party dealer, CSFB will seek bids from at least two qualified third-party dealers. The variable terms of the OTC Covered Call Options contract entered into by the

Derivatives Affiliate with the client will be determined by the best bid received from a third-party dealer and will be reflected in an offsetting contract entered into by the Derivates Affiliate with such third-party dealer.

- The client will be charged a transaction or servicing fee at a rate or in an amount that is fully disclosed to the client in writing and approved by the client in advance. This fee will be the only compensation (other than its regular advisory fee) earned by CSFB and the Derivatives Affiliate on these transactions.
- The client will have the option of prohibiting the Derivatives Affiliate from participating in any or all OTC Covered Call Option transactions with the client.
- The client may cancel participation in the Program upon 30 days' written notice to CSFB and may withdraw consent to any further principal transactions with the Derivatives Affiliate at any time.
- The client will commit at least $10 million of underlying stock to the Program and in most cases will have a minimum net worth of at least $20 million excluding assets committed to the Program.
- CSFB will maintain records of each OTC Covered Call Options transaction entered into by the Derivatives Affiliate with the client and each offsetting contract simultaneously entered into by the Derivatives Affiliate with a third-party dealer including the bids received from third-party dealers for the OTC Covered Call Option and the names of such dealer(s), and will make such information available to the client upon request.

Of course, the proposed arrangements would continue to be subject to the general antifraud provisions of the Advisers Act, namely Sections 206(1) and (2).

We believe that the alternative written consent procedure we propose is an effective way to obtain informed client consent to the OTC Covered Call Option transactions with CSFB's Derivatives Affiliate as described and under the facts and circumstances and subject to the conditions set forth herein. Each client will consent to the key standardized terms for all OTC Covered Call Option transactions at the time of entering the Program and each year thereafter when the written consent is renewed. Those terms will not vary from transaction to transaction. Each client also will know what the variable terms for each OTC Covered Call Option transaction are and how such terms will be determined. The client will receive prompt confirmation of each transaction disclosing the terms, i.e., the strike price, premium, expiration date, quantity of shares covered and time of the transaction as well as the servicing fees paid to the Derivatives Affiliate. Other variables will be subject to the specific limitations and controls set by each client in the written individual investment objectives and restrictions and risk tolerance guidelines that will govern the management of the client's account.

Conclusion

Based upon the foregoing, we believe that the proposed procedure for obtaining prior written consent from investment advisory clients to engage in these specific types of OTC Covered Call Options transactions on a principal basis with CSFB's Derivatives Affiliate, subject to the protective conditions outlined above, is an effective, alternative way of obtaining meaningful, informed prior client consent to these transactions and thereby meeting the investor protection objectives and satisfying the purposes of Section 206(3) of the Advisers Act.

For the foregoing reasons, we respectfully request that the staff advise us that it will not recommend enforcement action against CSFB if it proceeds as described above.

Thank you for your help with this matter. Please call me at (202) 263-3374 or Amy Pershkow at (202) 263-3336 if you need more information or have questions.

Sincerely,

Kathryn B. McGrath

Kathryn B. McGrath
Partner

cc: Alison M. Fuller
Kenneth C. Fang
U.S. Securities and Exchange Commission

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