

Morgan Stanley



March 27, 2009

LETTER OF COMMENT NO.

184

Mr. Russell G. Golden
Director, TA&I
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position FAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*

Dear Mr. Golden:

Morgan Stanley appreciates the opportunity to comment on the proposed FASB Staff Position FAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (the "Proposed FSP"). We have also contributed to the letters submitted by the Securities Industry and Financial Markets Association ("SIFMA") and the International Swaps and Derivatives Association ("ISDA") on the Proposed FSP.

While we believe the need for clarification of FASB Statement No. 157, *Fair Value Measurements*' ("SFAS 157") principles to be limited, particularly given the recent issuance of FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP FAS 157-3"), we are supportive of the FASB's efforts to provide additional guidance on how to determine when markets become inactive and whether pricing information obtained in an inactive market is associated with a forced or distressed transaction. However, we disagree with the presumption in Step 2 of the Proposed FSP that all transactions in inactive markets, absent certain prescribed evidence to the contrary, are associated with distressed transactions.

We are concerned that application of the guidance in Step 2, as currently drafted, may have the unintended consequence of being interpreted as requiring pricing information for transactions to be discarded even if the preparer considers those inputs to be relevant to the fair value measurement. In certain markets where price discovery is not robust it may be difficult to gather evidence supporting the Proposed FSP's prescribed assertions that the observed quoted price is not a distressed price. This may result in pricing information that does not relate to a distressed transaction being discarded as a relevant input to a fair value measurement. Such an outcome would in turn affect current valuation techniques and lead to measurements and disclosures that may not represent our best estimate of fair value as defined in SFAS 157.

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Therefore, we strongly urge the FASB to reconsider the framework of Step 2 to recognize that the relevant facts and circumstances should be considered in determining whether a price or transaction is distressed. Step 2 in the Proposed FSP could be modified such that the preparer would look to the indicators of a forced transaction, as identified in the October 2008 report of the IASB Expert Advisory Panel, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*, and apply judgment in arriving at a final conclusion. In addition to being consistent with the approach outlined in Step 1 of the Proposed FSP, we believe our recommendation is consistent with the principles within SFAS 157 and FSP FAS 157-3 and meets the FASB's objectives of resolving the fair value measurement practice issues facing certain constituents. We support the marked comments to the Proposed FSP included in the above referenced SIFMA letter. Additionally, to avoid any misinterpretation, we recommend that the text in paragraph A29 of the Appendix be identical to the language in the main body of the final FSP.

Lastly, the proposed effective date does not provide preparers sufficient time to gather the evidence, to the extent available, to support using a quoted price in an inactive market as a relevant observable input in estimating fair value and implement the required changes to fair value measurement methodologies for those instruments for which the Step 2 presumption cannot be overcome. We recommend that the Proposed FSP be effective for interim and annual periods ending after June 15, 2009, and allow for early application as a practical alternative.

Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-7716 if you have any questions.

Sincerely,

/s/ Greg Sigris
Managing Director
Global Head of Accounting Policy