

# Morgan Stanley

International Accounting Standards Board  
1<sup>st</sup> Floor  
30 Cannon Street  
London  
EC4M 6XH

17<sup>th</sup> June 2009

## **Discussion Paper on “Preliminary Views on Revenue Recognition in Contracts with Customers”**

Dear Sirs,

Morgan Stanley appreciates and welcomes the opportunity to comment on the Discussion Paper on *Preliminary Views on Revenue Recognition in Contracts with Customers* issued by both the IASB and the FASB in December 2008 (the “DP”). We have chosen to submit our response to the IASB on the understanding that our comments will be shared with the FASB.

As a member of the London Investment Banking Association (“LIBA”), we have participated in developing their response to the DP and thus are not providing a detailed individual response.

In general, we support the objectives and direction of the DP. We do however have a number of reservations about the DP as it currently stands, which we believe suggest that significant further work will be required before an Exposure Draft can be issued.

Our principal concerns with the DP are as follows:

- We strongly believe that financial instruments should be specifically excluded from scope, as the proposals in the DP are not all consistent with the existing specific accounting requirements for financial instruments. Financial instrument contracts are often entered into for trading or hedging purposes and these objectives would not be consistent with the performance obligations concept in the DP. The measurement of financial instruments at fair value is based generally on an exit price notion, which again is not consistent with the transaction price focus in the DP.
- We recognise that management judgment will be required to implement the proposals, particularly in the identification of performance obligations. However, before an exposure draft is issued, we suggest that field testing is completed across a range of industry groups to evaluate the practical consequences of the proposals and to determine what additional guidance is required to increase comparability across entities.
- The focus on contracts is likely to result in transactions being accounted for based primarily on their legal form rather than their economic substance, potentially resulting in the structuring of transactions to achieve a particular accounting outcome.
- We believe that the proposals would be enhanced by the inclusion of guidance on financial statement presentation. In particular, we note that the DP does not address topics such as consideration of “agency” versus “principal” in the presentation of transactions.

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- We encourage the IASB and the FASB to work closely together on this project to ensure the accounting standard itself is converged.

I hope you find the responses to the above questions helpful. If there are any comments that are unclear, or you would like to discuss anything further, please do not hesitate to contact me on 0207 425 8551 or Ed Rogers on 0141 245 7803.

Kind regards,



Alex Brougham  
Managing Director  
European Accounting Standards and Control