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Morgan Stanley

January 31, 2011

Susan M. Cospers
Technical Director
File Reference No. 1890-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: FASB Discussion Paper – Effective Dates and Transition Methods (File Reference Number 1890-100)

Dear Ms. Cospers:

Morgan Stanley appreciates the opportunity to comment on the FASB Discussion Paper, *Effective Dates and Transition Methods* (the “DP”) and commends the FASB and IASB for actively consulting on the most appropriate way to implement the significant proposed changes to U.S. GAAP and IFRS.

We have contributed to the letter submitted by the International Swaps and Derivatives Association (“ISDA”) and the Securities Industry and Financial Markets Association (“SIFMA”) and are generally supportive of the views expressed therein. We have also responded to the IASB Request for Views and participated in the preparation of the related responses submitted by ISDA, the Association of Financial Markets in Europe (“AFME”) and the Institute of Chartered Accountants in England and Wales (“ICAEW”).

We are supportive of the efforts of the FASB and IASB to converge their respective accounting frameworks and to pursue a common approach to implementing the suite of converged standards. However, we are sensitive to the impact on transition efforts should certain standards not be entirely converged because Morgan Stanley reports globally under U.S. GAAP, but also reports many subsidiary financial statements under IFRS. We are troubled by the notion that we may be transitioning to two different financial reporting models in the same timeframe and this concern is exacerbated by the potential requirement to subsequently convert from U.S. GAAP to IFRS for global reporting. For these reasons, we think it is of paramount importance that the FASB and IASB continue to focus on resolving the more significant differences between their respective financial

reporting models before the effective dates and transition methods are established. The decision reached by the FASB on January 25, 2010 to reconsider their approach to classification and measurement of financial instruments is helpful in this regard.

Our detailed responses to the questions raised in the DP are in the Appendix to this letter. Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-7716 or Mona Nag at 212-276-5129 if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Gregory A. Sigrist". The signature is written in a cursive style with a large initial 'G'.

Gregory A. Sigrist
Managing Director
Global Accounting Standards and Control

Appendix

Below are more detailed responses to the questions raised in the DP.

Question 1

Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- a) Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.*
- b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.*
- c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.*
- d) If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.*
- e) Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).*

Answer:

Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, investment management, wealth management and credit services. The firm's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 1,300 offices in 42 countries.

Morgan Stanley's parent company reports under U.S. GAAP. In addition, over 100 of Morgan Stanley's subsidiary companies, some of which are significant and complex, report under IFRS, or accounting standards closely linked to IFRS. Morgan Stanley's parent company is listed on the New York Stock Exchange and many of its IFRS subsidiary entities have securities registered on securities exchanges around the world.

Proposed standards with a high impact

The accounting standards that are expected to have the greatest impact on Morgan Stanley are those related to Financial Instruments (particularly as it relates to classification and measurement and impairment), Fair Value Measurement, Offsetting of Financial Instruments, and Consolidation. The combination of these standards will have a profound impact on the classification and measurement of Morgan Stanley's balance sheet.

Accounting for Financial Instruments is of paramount importance to the securities and banking industry. As of September 30 2010, over 95% of Morgan Stanley's consolidated gross assets were financial instruments. Linked with this, proposals for Fair Value Measurement are also critical (45% of Morgan Stanley's consolidated gross assets at September 30, 2010 were carried at fair value), although in practice we do not anticipate the proposals, as exposed, will significantly alter current practice.

We are also keenly interested in the project addressing Offsetting of Financial Instruments. Morgan Stanley applies significant netting to both its gross derivative assets and liabilities and collateralized financing balances under U.S. GAAP. Based on our understanding of the proposal, requiring these instruments to be reflected on a gross basis will greatly distort our balance sheet.

Lastly, the Consolidation of Investment Companies proposal as well as recent decisions reached by the Board in the Consolidation: Policy and Procedures project that will affect investment companies will be highly relevant to elements of our investment management business where investments in underlying funds held by investment companies are currently held at fair value for U.S. GAAP purposes and the funds are not consolidated on the balance sheet.

Proposed standards with a medium impact

Revenue Recognition proposals are expected to impact fee and expense recognition in the investment banking and asset management businesses, particularly with regards to the proposals for multiple element contracts and the recognition of performance fees.

In addition, the proposals for Leases will have a significant operational impact. With over 1,300 offices as noted above, we have a significant volume of operating leases that will require evaluation.

Proposed standards with a lower impact

The remaining proposals included in the DP are expected to have less impact on Morgan Stanley. However, this may change based on the proposed guidance for projects such as Financial Instruments with Characteristics of Equity, for which the exposure draft is expected to be issued after June 2011.

Nevertheless, all of the revised accounting standards will require some effort to understand the final proposals, educate employees across the organization, and implement changes as required.

Question 2:

Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

- a) *How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each [of] the new standard[s]?*
- b) *What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?*

Answer:

The proposals for Financial Instruments will require the most substantial implementation effort for Morgan Stanley. These proposals contain significant conceptual changes from the existing accounting requirements and/or require significant judgment to be exercised, both of which will require time to educate staff as well as to gain consensus across the industry and with auditors on specific detailed implementation issues not covered in the text of the standards. The retrospective implementation of these proposals will require that this education be completed before the process of analyzing existing transactions under the new requirements can even begin.

In addition to the upfront education and transaction analysis effort, the Financial Instruments proposals in particular will require substantial investment in the development of systems and processes to monitor the characteristics of financial instruments and compliance with the business strategy criterion. A potential increase in the number of items to be measured at fair value, as well as the sheer volume and frequency of fair value measurements that would be required, would necessitate additional human and systems resources. Further, any new model for recognition of credit impairment will involve significant operational complexities. For example, good books and bad books may need to be identified. In addition, Morgan Stanley would need to develop systems to perform complex calculations such as the weighted average life and weighted average age of portfolios at each assessment date. Such calculations would involve tracking and retaining origination patterns and necessitate the development of historical data for use in determining loss emergence patterns and to enable empirical probability distributions to be generated. Significant enhancements to loan accounting systems will be required to store such data and to perform impairment calculations.

The Board recently issued its exposure draft on Offsetting of Financial Instruments, and based on our preliminary read of the document, it is our expectation that the proposed standards will represent a significant change to current netting practices under U.S. GAAP and may require the disclosure of information which is not currently tracked. Presently, it is unclear whether the proposals will significantly impact industry practice under IFRS and to what extent changes will be required to systems and data capture processes. Allowance should therefore be made for the potential impacts of this project in determining the overall effective date for the new standards.

We also believe that the Leasing proposals will require a substantial education and implementation effort due to the significant change in the requirements. This is exacerbated by the local variations to lease contracts as a result of legal differences in each jurisdiction, as well as the resulting number of staff that are involved in the

accounting. The Leasing proposals also have considerable operational impacts, for example, the use of effective interest rates and expected lease term calculations. Systems will be required to track events that might result in significant changes to expected lease payments and thus require re-measurement. Substantial time and investment will also be required to develop processes to manage revenue and expense allocated to bifurcated service contracts versus revenue and expense allocated to the lease, and to reconcile these amounts against the physical lease payments.

In regards to the operational challenges noted above, particularly those related to the implementation of the Financial Instruments, Offsetting and Leasing proposals, significant additional financial and human resources will be required to develop and update in-house systems. Therefore, we request an appropriate provision of time in order to balance what are sure to be competing priorities amongst these projects and to allow for a cost-effective implementation of the new standards.

A point to note is that the above response only focuses on the exposure drafts related to the FASB/IASB joint project plan. However, because of the volume of differences and the complex nature of some issues, we anticipate that many differences between U.S. and international standards will persist well beyond 2011. Significant additional costs and implementation efforts are expected to be incurred by Morgan Stanley as the SEC executes its work plan to incorporate IFRS into the U.S. public company reporting framework.

Question3:

Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Answer:

Both regulatory and tax requirements are also currently undergoing a period of significant change and it is therefore difficult to conclude at this point how such changes will synchronize or conflict with accounting changes. Although financial reporting and regulatory reporting do not necessarily have the same objective, it is preferable that they have a common starting point. Where there are differences, there is a need to be able to reconcile the accounting, regulatory and tax requirements and we foresee a number of areas where this could cause issues:

- In many cases, we note that current regulatory requirements, both in respect of leverage ratios and capital requirements, are accounting balance sheet-focused measures and thus sensitive to any changes in gross assets and liabilities. Accordingly, we would expect the following proposals to have a significant impact on regulatory ratios unless their impact is taken into account in calibrating revised regulatory rules:
 - The proposals for Offsetting of Financial Instruments; and

- The balance sheet gross up resulting from the Leasing proposals. Additionally, the classification of lease assets will impact regulatory capital treatment if they are deemed to be intangibles.
- Historically, regulatory capital calculations have been based on U.S. GAAP asset and liability balances. We would expect that the significant changes to U.S. GAAP will necessitate that regulators modify the financial metrics currently derived from U.S. GAAP financial reports, particularly with respect to derivative contracts. As a result, we expect that new systems will need to be developed to calculate regulatory asset and liability balances distinct from U.S. GAAP balances. In addition, processes will need to be implemented to systematically identify and reconcile GAAP versus regulatory differences.
- Additionally, the Leasing proposals may overlap with tax legislation. For example, the U.S. tax system is currently based on the accounting definitions for financing and operating leases and thus the proposed standard will give rise to new temporary book-tax differences for many entities involved in leasing transactions. Additionally, the changes proposed in the Leasing proposal may affect the calculation of an entity's U.S. state or local tax liability in jurisdictions in which tax liability is based on financial statement values, with associated impact on deferred tax accounting for temporary items in affected jurisdictions.

We therefore believe that it is critical that sufficient lead-time is allowed before implementation of the proposals to enable regulators and tax authorities globally first to adjust their own requirements where necessary and second to allow preparers to develop additional systems to capture and reconcile the different measurement attributes as appropriate.

In addition to the regulatory and tax implications, the significant balance sheet changes could also affect debt covenants, which will impact Morgan Stanley as both a lender and borrower. Therefore, time to renegotiate contracts would be required.

We also note that a number of the proposed changes will require a significant increase in the exercise of judgment by management, such as the calculation of lifetime expected losses in the Impairment proposals and the expected value of lease payments. These areas will present additional challenges for auditors and may necessitate some revision to auditing standards.

Question 4:

In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

Answer:

We are generally supportive of retrospective application for new standards as this improves comparability in financial reporting. However, the consequence of this is that the 'true' effective date of any new standard is, for entities presenting two comparative periods under SEC requirements in the U.S., two years prior to the actual effective date (e.g., if a standard is effective for an accounting period beginning January 1, 2011 it must be applied to the opening balance sheets for the comparative periods i.e., January 1, 2010 and January 1, 2009). Accordingly, retrospective application extends the timeline required for implementation and thus must be taken into account in setting the effective dates for the standards. Additionally, this does not contemplate the requirements of the SEC for selected financial data spanning five years in the Form 10-K filing. Should the SEC require retrospective application for this disclosure, the 'true' effective date actually extends to five years prior to the actual effective date of the proposal.

Question 5:

In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).*
- b) Under a single date approach, what should the mandatory effective date be and why?*
- c) Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.*
- d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.*

Answer:

We prefer the single date approach to adoption as this minimizes cost and disruption to entities, particularly as many of the standards are interlinked. A staggered approach would be disruptive because, in many cases, systems that have to be modified based on a proposed standard may have to be further modified based on the accounting requirement in another interlinked standard which becomes effective at a subsequent date. This may apply equally to accounting judgments and decisions which, when made in the context of one standard, may subsequently require modification. Similarly, under the staggered approach, regulatory and tax calculations will need to be modified year after year to incorporate the impact of an accounting change on individual balance sheet line items. The staggered approach will result in significant confusion not just for preparers, but for users of financial statements as well. Enacting a single adoption date will mitigate this risk.

Taking into account the size and scope of the changes discussed above, combined with retrospective application for many of the proposals, we believe that, under a single date approach, the mandatory effective date should be no earlier than for accounting periods beginning on or after December 15, 2015. However, we note that the deliberations on the Financial Instruments with Characteristics of Equity and Financial Statement Presentation projects have been postponed until post-June 2011. The mandatory effective dates for these projects and any others which do not meet the June 30, 2011 timeline should be determined in consideration of the delays in issuing final standards. In all cases, a full two year implementation period from the time the standards are completed and before the first year of comparative information that must be presented under the new standards should be provided in order to ensure a robust, thorough and systematic implementation of the new requirements.

Question 6:

Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Answer:

We are generally supportive of the FASB providing entities with the option to early adopt standards so that they may efficiently and effectively manage the pace and resource allocation required to make the necessary system and process changes to comply with all of the new rules. This is also consistent with allowing changes that represent improvements to financial reporting to be implemented as quickly as possible.

While optional early adoption does, to an extent, conflict with the comparability benefits of the single date approach, generally, entities within an industry tend to move together and thus we do not believe that early adoption will significantly impair comparability in practice.

As noted in our response to question 8 below, we also believe that early adoption will be important for international organizations that report under both U.S. GAAP and IFRS to enable those entities to adopt standards at the same time, even if the mandatory adoption dates are different.

Question 7:

For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

Answer:

Not applicable to Morgan Stanley.

Question 8:

Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Answer:

We are supportive of convergence between U.S. GAAP and IFRS and, consistent with this, believe that it would be helpful if the same effective dates and transition methods were required for converged standards.

We recognize that this may be difficult to achieve in all circumstances and thus re-iterate our support of early adoption per our response to question 6 above. As Morgan Stanley has reporting obligations under both U.S. GAAP and IFRS, it is important that, regardless of the mandatory adoption dates, flexibility be provided by way of early adoption to enable implementation of converged standards at the same date.

Question 9:

How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Answer:

Not applicable to Morgan Stanley.