International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

16 July 2010

Dear Sirs,


Morgan Stanley appreciates and welcomes the opportunity to comment on the Exposure Draft ED/2010/2: Conceptual Framework for Financial Reporting - The Reporting Entity issued by both the IASB and FASB in March 2010 (the “ED”). We have chosen to submit our response to the IASB on the understanding that our comments will be shared with the FASB.

We have actively contributed to the development of the industry comment letter responding to the ED from the Association of Financial Markets in Europe (“AFME”). We fully endorse the views expressed in AFME’s letter and have not therefore expanded on AFME’s responses to the questions set out in the ED.

However, we would like to reiterate some of the key concerns expressed in AFME’s letter.

We do not believe that the recognition of an entity as a “reporting entity” should in any way influence whether or not the entity is required to prepare financial statements. The obligation to prepare financial statements is governed by the legal or regulatory requirements in a particular jurisdiction and should not be governed by the accounting framework. The fact that an entity could meet the definition of a “reporting entity” yet have no requirement to prepare financial statements seems contradictory. As such, we believe that the characteristics of a “reporting entity”, as set out in paragraphs RE2 and RE3 of the ED, should be those of an “entity”. A “reporting entity” would be an entity that (i) has the characteristics set out in RE3 and (ii) is subject to applicable regulatory and/or legal requirements to prepare general purpose financial statements.

We strongly agree with the proposal that a portion of an entity, in the appropriate circumstances, should be considered an entity. The concept of silos (i.e. a portion of an entity whose specified assets are the only source of payment for specified liabilities or specified other interests) is addressed explicitly in US GAAP. The identification and consolidation of silos is also accepted practice under IFRS although the guidance is less explicit in this regard. We would therefore encourage the IASB to build on this concept by including explicit guidance on the identification and consolidation of silos which we believe should be addressed in the relevant standard rather than the Conceptual Framework (the “Framework”).
Finally, we agree that a broad definition of control should be included in the Framework as the concept of control has wide application. However, we believe that the definition of control in the ED is too detailed for inclusion in the Framework. In addition, we believe that the application of the control concept in the context of consolidation should be addressed in the relevant standard rather than the Framework.

We hope you find our feedback 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 Craig Withers on 0207 677 2239.

Yours faithfully,

Alex Brougham
Managing Director
Global Accounting Standards and Control