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Susan M. Cosper  
Technical Director  
File Reference No. EITF-15F  
Financial Accounting Standards Board  
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Classification of Certain Cash Receipts and Cash Payments

Dear Ms. Cosper:

Morgan Stanley appreciates the opportunity to comment on the Proposed Accounting Standards Update, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (the “ASU”). We are supportive of the efforts of the FASB (“the Board”) in its initiative to address the diversity in practice related to how certain cash receipts and cash payments are classified within the statement of cash flows.

Although we support the majority of the proposed changes, we do have reservations regarding others and have responded to the questions for those items below. We also provided some additional feedback on two other cash flow items, which we believe should be simplified.

Question 2: Should the cash payment made at the settlement of a zero-coupon bond be separated and classified as follows: the portion of the cash payment attributable to the accreted interest as cash outflows for operating activities, and the portion of the cash payment attributable to the principal as cash outflows for financing activities? If not, what classification is more appropriate and why?

Answer: We presume you are referring to zero-coupon bonds issued and not held (i.e., financial liability). With the exception of zero coupon bonds measured at fair value (discussed in the final paragraphs of this letter), we believe that the cash payment made at settlement of a zero-coupon bond should be classified in its entirety as financing activities. This would be consistent with premiums and discounts on interest-bearing
debt, which are also not classified separately. Disaggregation of the cash payment between a portion attributable to accreted interest and a portion attributable to principal would result in additional costs and complexity, as we would need to implement changes to our accounting systems or implement a manual process to administer this change, without a substantial benefit to users of the financial statements.

**Question 9:** Should a transferor’s beneficial interest obtained in a securitization of financial assets be disclosed as a noncash activity? If not, what treatment is more appropriate and why?

**Answer:** We believe that the treatment of a transferor’s beneficial interest obtained in a securitization transaction should depend on a preparer’s individual business model. In the Background Information and Basis for Conclusions, it is noted that the Task Force supports this disclosure in part because disclosing a transferor’s beneficial interest as a noncash activity is consistent with the requirement in Topic 230, which states that noncash investing activities shall be disclosed. We do not believe it is accurate to assume that beneficial interests in a securitization of financial assets are obtained for investing purposes across all preparers. The majority of our securitization transactions and related proceeds from sales are included within cash flows from operating activities as it relates to trading assets. We generally do not have an intention or obligation to hold beneficial interest obtained in a securitization transaction until maturity and we believe this is also the case for other preparers. Therefore, we believe a single approach would not be appropriate. We believe that preparers should have flexibility to consider their individual business model in determining whether the beneficial interest obtained relates to investing or operating activities. A beneficial interest obtained in a securitization of financial assets that is part of a trading business should be classified as cash flows from operating activities and not require separate disclosure as a noncash activity.

**Question 12:** Should the proposed amendments for all eight cash flow issues be applied using a retrospective transition method? If not, what transition approach is more appropriate and for which specific cash flow issues and why?

**Answer:** We believe that the prospective method is more appropriate, as it may be difficult for preparers to obtain the prior year information needed to implement the amendments. The allowance for an impracticability provision may lead to diversity in application, impacting comparability of financial information. To ensure consistency, we believe all amendments should be applied prospectively.

In addition to the questions addressed above, we would like to take this opportunity to provide feedback on two other cash flow issues that we believe should be simplified:

1. Cash receipts and cash payments for financial assets measured at fair value – Assets measured under the fair value option should be classified in operating activities as this provides for consistent classification for all items that are accounted for in a similar manner (i.e. fair value), and are generally risk managed under the same or similar strategies. In addition to resulting in a consistent classification for these items,
this treatment would alleviate the operational challenges of segregating and tracking individual items where the intent may be different, or may change over time, and which would not be reflected in the underlying accounting.

For example, a company may originate one loan, which is accounted for pursuant to the fair value option, which management intends to hold to maturity. A company may then originate a second loan, which is also accounted for pursuant to the fair value option, which management may intend to sell. For both of these loans, the company economically hedges the activity, with changes in value of both the loans and the derivative reflected in the income statement. Further, management’s intent for such loans may change over time. For the reasons noted above, we believe the activity in both cases should be reflected in the operating activities of the statement of cash flows.

2. Cash receipts and cash payments for loans – Currently, the cash flow classification for loans is based on the original intent of the portfolio. For instance, cash flows for a loan portfolio that was originally designated as held for investment and subsequently transferred to held for sale would be classified in investing due to the original designation being held for investment. We believe the cash flow classification should follow the current designation of the loan rather than the original intent as this would provide more relevant information and eliminate the operational burden of tracking transfers for the purposes of cash flow classification.

Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-7824 or Fred Barnfield at 212-276-3026 if you have any questions.

Sincerely,

G. David Bonnar
Managing Director
Global Advisory and Policy