Morgan Stanley

October 7, 2019

Mr. Shayne Kuhaneck
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-770 Facilitation of the Effects of Reference Rate Reform on Financial Reporting

Dear Mr. Kuhaneck:

Morgan Stanley appreciates the opportunity to comment on the proposed Accounting Standards Update, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (the “proposed ASU”), issued in September 2019. We appreciate the willingness of the Board to address the accounting implications of, and provide accounting relief for, reference rate reform in such a timely manner.

We broadly agree with the accounting relief provided in the proposed ASU related to contract modification and hedge accounting in response to reference rate reform. We believe the proposed relief will facilitate the transition to alternative reference rates and appreciate the efforts of the Board throughout this process. We have also provided input into and are supportive of the comment letters issued by SIFMA on behalf of the Alternative Reference Rate Committee, Accounting and Tax working group, and by ISDA.

In particular, we strongly encourage the FASB to consider the specific points summarized below as raised in the aforementioned letters.

*Changes for a Spread Adjustment*
Within the proposed ASU, 848-20-15-5(b) includes “Changes for a spread adjustment for the difference between an existing reference rate and the replacement reference rate…” as an example of a change to terms that are related to the replacement of the reference rate. We agree with this example insofar as a spread adjustment may be required as part of the change in the reference rate and we agree that a change related to the specific counterparty credit risk is not related to replacement of the reference rate. However, we would recommend including a rebuttable presumption that a change in the spread following market conventions, for example using a published spread related to the replacement reference rate, is related to the change in the reference rate, unless there is evidence to the contrary, and so long as the change is not related to the specific counterparty credit risk premium. This would help clarify the level of support needed to evidence meeting this criterion and make the process more manageable.
**Novation of Counterparties**
We would like to request clarification from the Board that novation of counterparties due to a change in the classification of a derivative as bilateral versus cleared, or a change in the CCP designated as the counterparty to the derivative, should not scope a contract out of the relief provided in the proposed ASU if the change is the result of changing to a replacement rate which would otherwise be in the scope of this update. This clarification would be consistent with guidance previously given by the Board that a change in the counterparty to a derivative that has been designated as the hedging instrument in an existing hedging relationship does not in and of itself represent a change in the critical terms of the hedging relationship that would require redesignation of the hedging relationship (ASC 815-20-55-56A and 815-30-40-1A).

**Sunset Provision**
We understand that the relief provided in the proposed ASU will be temporary, and we do not expect the proposed relief should continue to apply after successful transition from a discontinued reference rate to an alternative reference rate. However, we expect there are rates in various jurisdictions for which the transition could extend past the specified date in the proposed ASU. Therefore, we would suggest that the Board explicitly acknowledges in the ASU itself the intent to revisit the sunset date for possible extension based on developments in the marketplace.

**Disclosures**
We do not think additional quantitative disclosures, such as an entity’s exposure to reference rate reform, should be required in the footnotes to the financial statements. In response to disclosure guidance from the SEC, firms are currently disclosing in the MD&A their transition plans in relation to reference rate reform, and these disclosures are expected to evolve to reflect firms’ transition progress in relation to reference rate reform. Therefore the SEC’s guidance on disclosures seems to be appropriately placed in the MD&A and sufficient for financial statement users. If the Board concludes additional disclosures related to reference rate reform are necessary, we would encourage that those disclosures be permitted to be made in the MD&A.

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Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-3026 or Sarah Clark at 212-276-3010 if you have any questions.

Sincerely,

Frederick L. Barnfield
Managing Director
Global Advisory and Policy