March 26, 2013

Technical Director
File Reference No. 2013-210
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Transfers and Servicing (Topic 860) – Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

Dear Technical Director:

Morgan Stanley appreciates the opportunity to comment on the Proposed Accounting Standards Update, Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings (the “Proposed Update”).

We support the Financial Accounting Standards Board’s (the “Board’s”) proposals to (1) clarify when a transfer of an existing financial asset with an agreement that both entities and obligates the transferor to repurchase or redeem the transferred asset from the transferee should be accounted for as a secured borrowing transaction and (2) revise the accounting for repurchase financings (as defined). However, we do have concerns regarding some aspects of the guidance which may result in unintended inconsistencies in application. Please see our responses below to selected questions included in the Proposed Update which are of primary concern to Morgan Stanley.

Scope

Question 2: Do you agree with the limited amendment of the condition for derecognition related to effective control in paragraphs 860-10-40-5(c) and 860-10-40-24? That is, do you agree with the application of secured borrowing accounting to the transactions described in Question 1 and not to other transactions resulting in similar risks and rewards for the transferor (for example, regardless of the form of settlement or whether the settlement date of the repurchase agreement is before, on, or after the maturity date of the transferred financial assets)? If not, what approach for assessing derecognition for transactions that involve transfers of financial assets with agreements that entitle and
obligate the transferor to repurchase or redeem the transferred assets would be an improvement to the proposed approach?

We believe that preparers and users may interpret the scope of applying the changes to the effective control guidance and making related disclosures differently, given the following ambiguous language that is used: “an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets,” as stated in paragraph 860-10-40-5(c)(1), or “an agreement that at its inception involves a transfer of existing financial assets and both entitles and obligates the transferor to repurchase or redeem the transferred financial assets from the transferee,” as stated in paragraph 860-10-40-24. This guidance appears to be inconsistent with the more narrow focus discussed in the Basis for Conclusions, particularly in paragraph BC37, where sales and related total return swaps are excluded from the revised guidance.

Furthermore, we are concerned about inconsistent definitions of in-scope transactions within paragraph 860-10-40-24 itself. In addition to the definition quoted above, paragraph 860-10-40-24(d) states that “the agreement is entered into contemporaneously with, or in contemplation of, the initial transfer.” The latter wording indicates that in-scope transactions may be governed by two agreements, but the former wording indicates that the transactions should be governed by one agreement.

We recommend that the Board state specifically which transactions are in scope, e.g., by stating that repurchase agreements under Master Repurchase Agreements and securities borrowed or loaned under Securities Lending Agreements are in scope. Without further clarification, there may be differences in interpretation, leading to inconsistent treatment amongst peers, challenges in operationalizing the proposed changes, and difficulties in auditing the accounting and disclosure of such transactions.

**Repurchase financings**

**Question 3:** This proposed Update would require that an initial transfer and a repurchase agreement that relates to a previously transferred financial asset between the same counterparties that is entered into contemporaneously with, or in contemplation of, the initial transfer (a repurchase financing) be accounted for separately. Would separate accounting for the initial transfer and repurchase financing reflect the economics of those agreements? Do these proposed amendments represent an improvement in financial reporting?

Yes. We believe that the proposed amendments to require that a repurchase financing (as defined) be accounted for separately from the initial transfer represent an improvement in financial reporting as they are consistent with the economics of the repurchase financing.

**Not substantially-the-same disclosure**

**Question 7:** The Board decided that for transfers with agreements that both entitle and obligate a transferor to repurchase transferred financial assets that are accounted for as
sales and forward repurchase agreements solely because the asset to be reacquired is not substantially the same as the initially transferred asset, the transferor should disclose the carrying amount of assets derecognized during the reporting period. Would this proposed disclosure provide decision-useful information? If so, should the scope of this proposed disclosure requirement be expanded to explicitly include all transfers of financial assets with agreements to repurchase the transferred assets that are accounted for as sale transactions? What additional information about those transactions, if any, should be disclosed?

No. Morgan Stanley does not support the disclosure proposed in paragraph 860-30-50-3(b). We do not understand the conceptual basis for the disclosure. As noted in paragraph BC49, accounting judgments are required in many other circumstances with no related disclosure requirements.

In addition, this disclosure appears to be focused primarily on dollar roll transactions with an initial transfer of specified mortgage pools followed by a subsequent transfer of to-be-announced (“TBA”) securities (an initial transfer of a TBA is not in scope of the transfers guidance), but the scope of the requirement is broad and could require disclosure of transactions for which no question exists that the substantially-the-same criteria are not met. Many of the substantially-the-same criteria require no judgment: e.g., the coupon and the form and type of the pool must be identical and the guarantor must be the same. Consider two transactions with the same counterparty involving a sale of pools of 15-year FNMA 2.5 and a 30-year FNMA 3.0 TBA purchase for settlement the following month. These assets clearly fail the substantially-the-same test. However, given the broad scope, every transfer (extending far beyond the agency mortgage markets) could theoretically be in scope of paragraph 860-30-50-3(b): each financial asset sold differs from other financial assets agreed to be repurchased in the future from the same counterparty.

Finally, if this disclosure is required, it should include only those transfers with repurchase obligations outstanding at the end of the reporting period. Once the repurchase obligation has settled, the accounting for the repurchased security is transparent.

Transition

**Question 9:** Do you agree with the transition provisions in this proposed Update? If not, why?

No. Consistent with the treatment of prior amendments to the derecognition guidance in ASC 860’s predecessors (i.e., FAS 125, FAS 140, FAS 166, and FSP FAS 140-3), we believe that the guidance in the Proposed Update should be applied prospectively. In addition, we believe that most reporting entities have few repurchase agreements-to-maturity transactions or repurchase financings-to-maturity transactions and, therefore, a change in the accounting for such outstanding transactions is not warranted, especially when the net income statement impact at the maturity of such trades will be the same.
However, if retrospective application is retained for repurchase agreements-to-maturity transactions or repurchase financings-to-maturity transactions, Morgan Stanley believes the resulting change to the current accounting treatment will give rise to an election date for the fair value option in accordance with ASC 825-10-25-4. As this is not explicit in the Proposed Update, we ask the Board to clarify this point.

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

Sincerely,

G. David Bonnar
Managing Director
Global Advisory and Policy