

One New York Plaza
New York, NY 10004

Morgan Stanley

April 22, 2013

Ms. Susan Cospers
Technical Director
File Reference No. EITF-13A
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. EITF-13A; Proposed Accounting Standards Update – Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

Dear Ms. Cospers:

Morgan Stanley appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging: Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* (the “ASU”). We have also contributed to the letter submitted by the International Swaps and Derivatives Association’s Accounting Policy Committee and are generally supportive of that response.

We are broadly supportive of the proposal to include the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate, “OIS”) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. As mentioned in the Basis for Conclusions in the ASU, the prevalence of OIS in the marketplace has increased and risk management based on OIS valuations and even use of OIS-based derivative products for hedging purposes has become more widespread over the past few years. The inclusion of OIS as a benchmark interest rate for hedge accounting purposes will allow convergence of risk management strategies and use of OIS-based hedging products with the accounting guidance, and is also a step towards convergence with IFRS.

However, we are concerned that the application of hedge accounting with OIS as the designated benchmark interest rate would be inappropriately limited due to the existing guidance in ASC 815-20-25-6 (emphasis added):

Ordinarily, an entity shall designate the same benchmark interest rate as the risk being hedged for similar hedges, consistent with paragraphs 815-20-25-80 through 25-81. The use of different benchmark interest rates for similar hedges *shall be rare and shall be justified.*

While the ASU indicates that this paragraph would not be cause for restricting designation of OIS in new and redesignated hedge relationships on or after the adoption date irrespective of existing similar hedge relationships designated at LIBOR, we are concerned that, post-adoption, an entity presumably would have to make a choice between OIS and LIBOR for all future hedge relationships. We believe it is the Board's intention to provide appropriate flexibility for risk managers in light of the increased prevalence of OIS. An entity's use of LIBOR- and OIS-based hedging instruments will vary depending on the risk management strategy, either for the particular hedged instrument or in light of broader risk management objectives, and depending on market conditions with respect to the availability and cost of various hedge products. Therefore, we recommend that the requirement for the use of different benchmark interest rates to be "rare" be removed from Topic 815 as this requirement appears to be at odds with the Board's intention and would restrict the practical application of the ASU. Further, we suggest that an entity's risk management strategy and cost/availability of hedging products should be justifiable reasons for using different hedging instruments, and therefore different benchmark interest rates, in otherwise similar hedge relationships.

An additional justification for the removal of the requirement that the use of different benchmark interest rates be "rare" is that this would be better aligned with IAS 39 wherein the hedge of interest rate risk is not limited to specifically defined benchmark interest rates.

Other than the suggestion to remove the restriction against use of different benchmark interest rates for similar hedges in ASC 815-20-25-6, we are otherwise supportive of the proposals in the ASU. Below are responses to the specific questions posed in the ASU:

Question 1: Do you agree that the Fed Funds Effective Swap Rate (OIS) should be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR? Why or why not?

Response: Yes; we believe that the increased prevalence of OIS in the marketplace justifies the inclusion of OIS as a benchmark interest rate. It is important that accounting standards evolve as warranted by market conditions in order to provide relevant information to users of financial statements. Furthermore, this change is aligned with the objective of hedge accounting to reflect risk management objectives and is a step towards convergence with IFRS.

Question 2: Do you agree that no additional disclosures should be required? If not, please explain why.

Response: Yes; we believe that existing disclosure requirements are adequate to inform users of an entity's objectives with respect to the use of hedge accounting. However, if the Board decides to remove the requirement that the use of different benchmark interest rates be "rare," we understand that the Board may want to consider requiring additional disclosures as to the justification for the use of different benchmark interest rates for similar hedge relationships within an entity.

Question 3: Do you agree that the proposed amendments only should be applied on a prospective basis for qualifying new or redesignated hedging relationships? If not, please explain why.

Response: Yes; we believe that prospective adoption of the ASU is aligned with the requirements in Topic 815 for contemporaneous documentation of the risk management objective for hedge relationships.

Question 4: Should the effective date of the amendments in the proposed Update coincide with the issuance date of a final Update? If not, when should the amendments be effective? Please explain why.

Response: Yes; we are supportive of an effective date that coincides with the issuance of the final ASU. Hedge accounting is elective and the implementation of the final ASU will not require significant implementation efforts for entities which already incorporate OIS into their risk management considerations. Further, entities disclose their risk management objectives with respect to hedge accounting and so lack of comparability is not of concern with respect to the addition of OIS as a benchmark interest rate.

Question 5: If the effective date of the amendments in the proposed Update does not coincide with the issuance of a final Update, should early adoption be permitted? If not, please explain why.

Response: Yes; for the reasons noted above in our response to Question 4, we believe early adoption should be permitted if the effective date does not coincide with issuance of the final ASU.

Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-7824 or Mona Nag at 212-276-5129 if you have any questions.

Sincerely,



G. David Bonnar
Managing Director
Global Advisory and Policy