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New York, NY 10004

Morgan Stanley

November 22, 2016

Ms. Susan M. Cosper
Technical Director
File Reference No. 2016-310
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2016-310, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Dear Ms. Cosper:

Morgan Stanley appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (the "ASU"). We are supportive of the efforts of the FASB ("the Board") in its initiative to address practice issues that have arisen under generally accepted accounting principles (GAAP) and to simplify the application of hedge accounting guidance.

We participated in the International Swaps and Derivatives Association's (ISDA) Accounting Policy Committee and the American Institute of CPAs (AICPA) Financial Reporting Executive Committee (FinREC) letters and are supportive of the comments made therein. In addition to the comments provided in the aforementioned letters, we submit the following as it relates to benchmark interest rates.

Question 2: The Board decided that it would retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments and forecasted issuances or purchases of fixed-rate financial instruments, maintain the existing list of permissible benchmark rates, and add the SIFMA Municipal Swap Rate to the list.

a. Should the Board retain the current concept of benchmark interest rates for fair value hedges of fixed-rate financial instruments and for cash flow hedges of forecasted issuances or purchases of fixed-rate financial instruments? Please explain why or why not.

b. If the Board continues to maintain the current concept of benchmark interest rates, should the Board consider within the concept expectations that a rate will become widely used?

c. If the Board continues to maintain a list of rates, are there any other rates that should be added to the list? Please explain why a particular rate meets the definition of a benchmark rate.

Answer:

a. The Board should retain the current concept of benchmark interest rates but should expand the concept to include a rate that is expected to become widely used (see response to Question 2.b. below).

b. If the Board continues to maintain the current concept of benchmark interest rates, we think it would be imperative that the Board considers amending the current definition of benchmark interest rates to include rates that are expected to become widely used based on certain facts and circumstances (e.g., the introduction of a rate endorsed by a government agency but that is not yet widely used). As regulatory actions and market trends indicate that a new benchmark interest rate is expected to become widely used, GAAP should allow the Board to react in a swift manner to expand the list of benchmark interest rates to include the new rate and ensure minimal disruption to the application of hedge accounting.

c. As a member of the Alternative Reference Rates Committee (ARRC), convened by the Federal Reserve Board, we have been involved in the effort to identify a widely-used alternative to LIBOR. These efforts are in line with and in response to the Financial Stability Oversight Council (FSOC) recommendations and the Financial Stability Board (FSB) objectives. Similar initiatives are also underway in other regions, such as the U.K., Europe, Switzerland and Japan, to identify replacement interest rates in line with and in response to the FSOC recommendations and FSB objectives.

   The ARRC and committees in these other regions are working diligently on this effort. The ARRC have preliminarily identified two alternative rates for consideration, the Overnight Bank Funding Rate (OBFR) and an overnight Treasury general collateral repurchase agreement (GC repo) rate. Once a rate is ultimately chosen, which is expected to be in the first quarter of 2017, it will be calculated by the Federal Reserve Board and endorsed by the ARRC. At that time, the chosen rate would be expected to become widely used and thus should be added to the list of benchmark interest rates upon endorsement.

In summary, we support the concept of benchmark interest rates but believe that the concept should incorporate rates that are expected to become widely used and that there should be a mechanism in place such that the Board can react timely to significant market developments to ensure hedge accounting rules can be continuously applied within a consistent framework.

Again, we thank you for the opportunity to provide comments. Please contact me at 212-276-7824 or Sarah Clark at 212-276-3010 if you have any questions.

Sincerely,

G. David Bonnar

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Managing Director
Global Advisory and Policy