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Morgan Stanley

March 29, 2018

Ms. Susan M. Cosper
Technical Director
File Reference No. 2018-220
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2018-220, Derivatives and Hedging (Topic 815): Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes

Dear Ms. Cosper:

Morgan Stanley appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes* (the "ASU"). We are supportive of the efforts of the FASB ("the Board") in its initiative to add SOFR as an eligible benchmark interest rate for hedge accounting purposes.

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. As both a member of the ARRC and as a market maker, we believe it is important to facilitate the market's replacement of LIBOR in financial contracts and to encourage a smooth transition to these replacement rates, including SOFR.

We participated in the International Swaps and Derivatives Association's (ISDA) North America Accounting Committee letter and are supportive of the comments made therein. In addition to the comments provided in the ISDA North America Accounting Committee letter, we submit the following additional comments in support of the addition of SOFR as a benchmark interest rate and requesting transition relief related to the application of hedge accounting, to ensure efficient market acceptance of the new rate.

Question 1: The Board decided to propose that the OIS rate based on SOFR should be added as a U.S. benchmark interest rate. Should the OIS rate based on SOFR be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815? Why or why not?

Answer: The Board's decision to add the OIS rate based on SOFR is a critical step in supporting the AARC's efforts to identify a widely-used alternative to LIBOR and the transition plan to integrate the underlying SOFR rate in the U.S. financial markets. We commend the Board for reacting in a swift manner to expand the list of benchmark interest rates to include the OIS rate based on SOFR. However, we believe the rate that the Board should add at this time is a broader SOFR rate that would accommodate the term structure that is expected to develop over time, as described further in our response to Question 2.

If the consideration of adding a broader SOFR rate would delay progress on adding the SOFR OIS rate, we would support the Board to proceed with adding the SOFR OIS rate in a timely manner and addressing term rates at a later date.

Question 2: The Board's proposal to add the OIS rate based on SOFR, rather than a broader SOFR swap rate that would be the equivalent of the LIBOR swap rate, is based on the ARRC's paced transition plan, which indicates that OIS swaps referencing SOFR are expected to begin trading in 2018. Over a longer term horizon, swaps referencing a SOFR term rate (that is, tenors greater than overnight) may be developed in the marketplace. Should a broader SOFR swap rate be included as a U.S. benchmark interest rate instead of the OIS rate based on SOFR?

Answer: Though the OIS rate based on SOFR will be published first, over time different tenors will develop as swaps referencing SOFR term rates begin to trade. As such, the Board should consider including a broader SOFR swap rate that would be the equivalent of the LIBOR swap rate. This would further support development of SOFR and a swap market for longer tenor rates without the need to continuously amend guidance as different tenors develop.

Question 3: For hedging relationships of benchmark interest rate risk for which the designated hedged risk will be changes in fair values or cash flows attributable to changes in the OIS rate based on SOFR, should the Board consider providing any transition relief upon designation of SOFR as a benchmark rate? If so, please describe the specific types of relief needed and whether relief is necessary for existing hedging relationships based on LIBOR that will transition to SOFR or newly designated hedging relationships based on SOFR.

Answer: In order to ensure minimal disruption to the application of hedge accounting, and therefore support a smooth market acceptance of and transition to SOFR, we believe additional transition relief is necessary. These considerations are outlined in the ISDA North America Accounting Committee letter.

Question 4: Should additional disclosures be required? If yes, please explain what specific additional disclosures should be required and why.

Answer: Existing disclosure requirements, including description of an entity's strategy for using derivatives in hedge accounting activities, will capture any change in risk management objectives or transition effects.

Question 5: Should the proposed amendments be applied on a prospective basis only for qualifying new or redesignated hedging relationships? If not, please explain why.

Answer: The proposed amendments should also be applied to existing hedge relationships under the transition relief provisions as described in response to Question 3 and in the ISDA North America Accounting Committee letter.

Question 6: Should the effective date of the proposed amendments coincide with the effective date of Update 2017-12? If not, when should the proposed amendments be effective? Please explain why.

Answer: The effective date should coincide with Update 2017-12, with early adoption permitted, irrespective of an entity's decision to early adopt Update 2017-12.

In summary, we support the efforts of the Board in its initiative to add SOFR as an eligible benchmark interest rate for hedge accounting purposes. The inclusion of SOFR as an eligible benchmark interest rate will reduce uncertainty, contribute to market acceptance of SOFR, and assist entities in planning to change hedging strategies.

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

G. David Bonnar
Managing Director
Global Advisory and Policy