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International Accounting Standards Board
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15 January 2009

Dear Sirs:

Exposure Draft on "Investment in Debt Instruments" -- Proposed Amendments to IFRS 7

Dear Sirs,

Morgan Stanley appreciates and welcomes the opportunity to comment on the IASB's Exposure Draft *Investments in Debt Instruments* (Proposed amendments to IFRS 7) issued on 23 December 2008 (the "ED").

As members of the International Swaps and Derivatives Association ("ISDA"), the London Investment Banking Association ("LIBA") and the Institute of Chartered Accountants in England and Wales' ("ICAEW"), we have participated in their respective responses to the ED and are generally supportive of these responses.

As a participant at the Board's and FASB's public roundtable in December 2008 in response to the global financial crisis, Morgan Stanley acknowledges that impairment of financial assets was an area of particular focus, in particular the measurement of impairment of debt instruments classified as available for sale ("AFS"). However, we believe that the interim step of mandatory disclosure proposed by the IASB does not address the measurement issues raised, given that there is the option to provide additional voluntary disclosures already. We commend the IASB for working so promptly and so closely with the FASB to expose proposed amendments that are closely aligned and encourage the IASB and FASB to leverage from this to make faster progress on the broader financial instruments project. Determining the appropriate measurement model for financial instruments is an essential step in determining any future impairment model.

Below are more detailed comments in response to the questions raised in the invitation to comment. We have also added below some suggested drafting changes we believe improve the clarity of the ED, were it to be issued in its current form.

Question 1

Consistent with our comments above, we are not supportive at this time of the proposed disclosures. In particular, the requirement for companies to prepare pre-tax profit data on a fair value basis is likely to be inconsistent with the way these financial assets are managed, resulting in challenging implementation, as well as being contrary to the principle of IFRS 7 to disclose information that is used by senior management.

Question 2

We would not be supportive of a specific requirement to provide a reconciliation between reported profit or loss of the reporting entity and the profit or loss that would have resulted under the two scenarios, as we do not believe this information would be helpful in all situations, and may therefore result in unnecessary additional disclosures. Reporting entities could be encouraged, in situations where there is significant divergence between the different measurement bases, to provide additional qualitative disclosures.

Question 3

Consistent with our response to question 1 we are not supportive of the proposed requirements. Also, the proposed requirements of paragraph 30A(b)(ii) appear to be duplicative to the current requirements of IFRS 7.25; we would therefore recommend that any proposed disclosures are better integrated within IFRS 7 in order to minimise confusion for the user of the financial statements.

Question 4

We would not support the inclusion in the scope of this ED of debt instruments classified as at fair value through profit or loss. Such debt instruments are generally either held for trading or designated at fair value through profit or loss because they are managed on a fair value basis. As a result, for such financial instruments, fair value is generally considered the most meaningful measure for users and therefore information to support alternative measurement bases is not usually maintained, either for external or internal reporting purposes.

Question 5

We note that the proposed effective date in the ED is consistent with the effective date proposed by the FASB in their FSP. However, given the complex nature of the impairment issue and the potential implementation challenges it may pose, we would ask the IASB to consider a later effective date, with earlier implementation permitted.

Question 6

We are supportive of the proposed transitional provisions.

Drafting comments

Were the ED to be finalised in the current form we also have the following observations and suggestions on the drafting itself:

- IFRS 7.29(a) provides relief from providing disclosure of fair value where the carrying amount is a reasonable approximation of fair value. Similarly, if the IASB proceeds with the ED as drafted, we would encourage the IASB to provide relief from providing the disclosures proposed where fair value and amortised cost are a reasonable approximation of each other.
- Amend paragraph 30A(a)(ii) to read; '*classified in a category measured at amortised cost subsequent to initial recognition'*. It would also be necessary to amend the descriptions in the tabular example in paragraph IG14A accordingly.
- It is not clear from the drafting whether the disclosure requirement under the two alternative classification assumptions of paragraphs 30A (a) (i)-(ii) is for the total pre-tax profit or loss for the reporting entity or the pre-tax profit or loss relating to the financial instruments in scope of the disclosure.
- Amend paragraph 30A(b)(ii) to 'those debt instruments as if they were measured on a fair value basis'.
- Amend paragraph 30A(b)(iii) to 'those debt instruments as if they were measured on an amortised cost basis'.
- Paragraph BC3 of the ED states that '…loans and receivables and held-to-maturity investments are carried at amortised cost and the impairment losses are measured as the difference between *amortised cost* and the present value of estimated future cash flows…' (*emphasis added*). To be consistent with IAS 39.63 it would be more appropriate for "*amortised cost*" to be replaced with 'the asset's carrying amount'.

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I hope you find the responses to the above questions helpful. If there are any comments that are unclear, or you would like to discuss anything further, please do not hesitate to contact me on 0207 4258551 or Vicky Worster on 0207 4257552.

Kind regards,

Alex Brougham

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