European Banking Authority
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ
United Kingdom

20th March 2012

EBA Consultation Paper CP 50 on Supervisory Reporting Requirements

Dear Sir/Madam,

Morgan Stanley welcomes the opportunity to comment on the EBA’s Proposed Supervisory Reporting Requirements implemented through Common Reporting template (“COREP”) and Financial Reporting (“FINREP”).

Morgan Stanley supports the comments made through the British Bankers Association response to Consultation Paper 50 (“CP 50”). However we would like to comment separately on FINREP requirements. Our detailed comments on the consultation paper are as follows.

FINREP Implementation timeframe

Although we support more harmonised regulatory financial reporting, the timeline to implement FINREP is unrealistic and should be reconsidered. The FINREP requirement was communicated to the UK industry in December 2011 as part of CP 50 and the proposed implementation date of 1st January 2013 only provides firms with a year to implement, which is not sufficient time.

FINREP introduces a significant level of detailed data, as compared to previous financial reporting to the Financial Services Authority (“FSA”), particularly for investment firms, and will require vast changes to existing infrastructure. We estimate that an infrastructure change project of this size would, from inception to delivery, take approximately 18 – 24 months to complete.

We would strongly recommend that FINREP requirements be delayed until at least 1st Jan 2014. This is because firms are already dealing with significant regulatory change projects during 2012 e.g. living wills, Recovery and Resolution plans and Basel III implementation. We expect that the resources required for the implementation of FINREP will be on a similar scale to the Basel III project and delivering FINREP in the same time frame will be unachievable. We are very concerned that because firms are asked to comply with the FINREP requirements by 1st January 2013, there is significant risk that the data provided will lack the quality and accuracy that is desired by the regulators.
FINREP implementation approach

Both COREP and FINREP has been introduced as part of the same consultation paper, however we believe that there would be significant benefit to the FINREP requirements being subject to a separate consultation. In a separate future consultation the EBA should consider explaining in more detail why the proposed level of detailed financial reporting is considered appropriate and necessary, as well as providing more clarity in the instructions. Please see our comments in the Annexure to this letter.

In addition, we recommend that the implementation of the FINREP requirements should be phased from 1st January 2014. We recommend that core balance sheet and profit and loss information should be introduced first, with revised templates to be brought in from 1st January 2015. Since many of the templates require profit and loss based information is it is important that these templates only be introduced at the beginning of an accounting period.

FINREP Questions

The response to select FINREP questions raised in the Consultation paper ITS 50 is given in Appendix to this letter.

Regards,

Gareth James
Executive Director
Regulatory Controllers, EMEA
APPENDIX – Consultation Paper Questions and Response

33. Are the templates included in Annex III and Annex IV and the related instructions included in Annex V sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

The templates in Annex III and Annex IV, as well as the related instructions, are not sufficiently clear and our specific examples below are provided to indicate the types of issues that the EBA need to consider.

1. Clarity on why the data is required
   Template 13: Fair Value Hierarchy – This template requires information which is in excess of IFRS 7 Financial Instruments: Disclosure requirements. Specifically, IFRS 7 requires a three level hierarchy for instruments carried at fair value on the balance sheet information and profit and loss information only for Level 3 financial instruments, whereas FINREP requires profit and loss information for Level 2 and Level 3 financial instruments. Since the fair value of Level 2 financial instruments are, by definition, determined using observable inputs we do not understand why this is necessary information for the purposes of determining risk. The financial instruments that have the most judgment are Level 3 financial instruments, since they include unobservable inputs in the determination of fair value. We would suggest that the EBA should only require profit and loss information for Level 3 financial instruments since these are where the firm is required to exercise the most judgment.

2. Instructions that result in incomparable data
   Template 12: Transfers of financial assets and other pledges of collateral
   Paragraph 37 reproduced below (Annex III, IV and V instructions of CP50 on pg 75) states that it is necessary to report liabilities resulting from the continued recognition of assets associated with transferred assets consistently with how the assets that were not derecognised are reported. This means that these items will often be shown as financial liabilities held for trading, although they will be measured at either amortised cost or designated at fair value. Our view is that mixing measurement bases within reported balance sheet lines is confusing and results in a lack of comparability

   “The associated liabilities shall be reported according to the portfolio in which the related transferred financial assets are included and not according to the portfolio in which they are included in the liability side”

3. Instructions lack clarity for “non-IFRS reporting institutions”
   It is not clear how the instructions in Annex V should be applied for "non-IFRS reporting institutions". The instructions for Annex IV and V for “non-IFRS reporting institutions” should be completed based upon Bank Accounts Directive (BAD). However many templates have instructions that only reference IFRS so it is unclear how those instructions interact with "BAD". For example, Template 12, paragraph 36 (Annex III, IV and V instructions of CP50 on pg 75) states that the template should be completed based upon IAS 39.15-37.

   Where an institution’s national GAAP is not consistent with IAS 39, yet consistent with BAD, does this mean that the non-IFRS reporting institutions has to apply IFRS for the purposes of this template, yet not for the purposes of the balance sheet templates 1.1 and 1.2? We recommend that the EBA provide more clarity on FINREP templates, in particular making it clear that “non-IFRS reporting institutions” are required to complete the templates in accordance with their national GAAP and not in accordance with IFRS.