

Morgan Stanley

October 10, 2014

Secretariat

Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel, Switzerland

Re: Comments on the Basel Committee's proposed revisions to Pillar 3 disclosure requirements

Ladies and Gentlemen:

Morgan Stanley appreciates the opportunity to provide comments to the Basel Committee on Banking Supervision (the “**Basel Committee**”) in response to its June 2014 consultative document entitled *Standards: Review of the Pillar 3 disclosure requirements* (the “**Proposal**”).

Morgan Stanley is a global financial services firm that provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. We are registered as a bank holding company with the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”) and are subject to the Federal Reserve’s consolidated regulation and supervision, including with respect to public disclosure requirements. In addition, as a publicly traded company registered with the Securities and Exchange Commission (“**SEC**”), we provide detailed annual and quarterly disclosure reports to the general public.

We fully support the principle of robust, comprehensive bank disclosures as well as the Basel Committee’s efforts in the Proposal to improve the quality of bank disclosures. We dedicate significant resources to comply with our existing disclosure requirements, which include annual and quarterly submissions to the Federal Reserve (e.g., FR Y-9C reports) and annual and quarterly submissions to the SEC (e.g., 10-K, 10-Q filings). We also devote significant resources to ensure that our disclosures comply with the letter and the spirit of the Basel Committee’s existing Pillar 3 guidance, including the U.S. Basel III Pillar 3 guidelines. We provide extensive disclosures through our regulatory capital filings with the Federal Reserve, our investor relations publications, and our securities filings with the SEC, which include qualitative and quantitative information on risk exposures and regulatory capital.¹

¹ Morgan Stanley’s filings with the Federal Reserve are available at www.ffiec.gov. Our filings with the SEC are available at www.sec.gov/edgar/searchedgar/companysearch.html. In addition, the Investor Relations section

(continued)

While we support the objectives of the Proposal, we have concerns with certain features of the Proposal that appear inflexible and would result in burdensome new requirements for banks without significantly improving the quality of existing disclosures. In these areas, we believe that the Proposal should provide banks with more flexibility in determining relevant content that would be meaningful to users, taking into consideration materiality and already existing disclosures that present the same or similar information. In addition, due to the granularity and complexity of the Proposal's disclosure requirements, we believe that the current proposed effective date of April 1, 2016 is impractical and should be extended, with components of the Proposal phased-in over a longer period to provide national regulators with sufficient opportunity to propose and adopt new disclosure rulemakings and banks with reasonable time to design and implement disclosure processes, technologies and internal controls that would meet the Proposal's policy objectives and revised national-level standards.

Morgan Stanley urges the Basel Committee to consider the comments on the Proposal submitted by the Institute of International Finance, the American Bankers Association and the British Bankers Association, which we contributed to and which we believe contain many reasonable and practical suggestions for improving the usefulness and comparability of Pillar 3 disclosures. We are submitting this comment letter to the Basel Committee to provide additional comments on certain points in the Proposal that we believe should be resolved to best meet the Proposal's objectives.

A. The Proposal should incorporate a later effective date and phase-in arrangements

The Proposal includes an effective date of no later than April 1, 2016 for new public disclosure requirements to take effect, with earlier adoption encouraged for internationally active banks. We believe that this date should be delayed, with implementation subject to an extended phase-in period, for the following reasons:

- Seasoning of current disclosures. Consistent with Principle 4 (Disclosures should be consistent over time),² there should be additional "seasoning" of the currently available U.S. Basel III Pillar 3 disclosures to provide users time to absorb, understand and analyze trends in the current disclosures before publishing another set of changes that are significantly different in content and format, which increases the risk of incomparability and confusion by users.

of our website, available at www.morganstanley.com/about/ir/index.html, includes links to various SEC filings as well as supplemental disclosures not included in our regulatory filings.

² Proposal, ¶ 38.

- Ongoing evolution of the regulatory capital framework. The Basel Committee has several significant ongoing projects to further revise banks' regulatory capital requirements, including through the Standardized Approach for Counterparty Credit Risk, the Fundamental Review of the Trading Book, and revisions to the securitization framework. Revisions to the Pillar 3 framework should be implemented when there is greater clarity on the final outcome of these initiatives, which will likely include revised disclosure practices in each case. Implementing Pillar 3 revisions ahead of these new regulatory capital standards will lead to greater user confusion as disclosure practices repeatedly change in a short period of time.
- National-level implementation. After the Basel Committee finalizes the Proposal, prudential regulators in various countries will have to propose and then finalize national-level implementation standards. This process presents two timing challenges. First, regulatory capital requirements in some countries vary from some disclosure items in the Proposal. This is true, for instance, in the United States, where the Dodd-Frank Act imposes a capital floor on Advanced Approaches banks, and the Proposal's disclosure templates would need to be tailored appropriately. Second, national regulators may require several months to prepare and publish proposed and final disclosure templates governing banks in their jurisdictions. This rulemaking process may be extended in cases where there are significant differences between national regulatory capital standards and the items in the Proposal's templates. The Proposal anticipates an 18-month period between the date of this letter and the final effectiveness of the new disclosure requirements. We respectfully urge the Basel Committee to consider a longer implementation period to complete national rulemakings and reconcile applicable differences between national-level regulatory capital standards and Pillar 3 disclosure standards.

B. Clarification of “Credit Exposure” and accounting framework concepts

We support the Basel Committee's effort to standardize key definitions and thereby promote the comparability and consistency of banks' disclosures. We believe that further work is required, however, before finalizing the definition of “Credit Exposure.” Likewise, we request that the Basel Committee clarify the treatment of certain accounting concepts in its proposed Pillar 3 disclosures.

Based on our review of the Proposal, we are uncertain how the Basel Committee intends for the “Credit Exposure” disclosure item to be applied in practice. Generally speaking, “Credit Exposure” is a regulatory capital-specific concept but not an accounting concept. We request the Basel Committee to clarify the meaning of this term when finalizing the new disclosure requirements.

More generally, we believe that when an accounting concept is the item subject to disclosure, the disclosure instructions should fully align with the applicable accounting definition of that concept. This approach would ensure consistency across all of a firm's disclosures and eliminate potential uncertainty in the interpretation of certain Pillar 3 disclosure items. In addition, users would be able to interpret disclosures with reference to well-known accounting definitions, thus avoiding potential user confusion.

C. Avoidance of duplication through signposting disclosures

We urge the Basel Committee to provide banks with greater discretion to use signposting throughout their Pillar 3 and related disclosures.

We support the Basel Committee's goal of promoting flexible Pillar 3 disclosures through signposting. Banks in the United States already extensively utilize signposting practices by incorporating references to existing public disclosures into other disclosure documents. This practice reduces duplicative disclosures, minimizes potential confusion by users, and allows banks to maintain consistency with the location of existing "like" disclosures. We believe that users find disclosures less meaningful and more confusing when a bank releases multiple disclosure files containing similar items as opposed to directing users through signposting to a single underlying source.

The Proposal, however, places limits on banks' ability to use signposting for all disclosure items. In particular, the Proposal would permit signposting for disclosure requirements in "flexible format only," a limitation that will likely result in many of the duplication problems that signposting seeks to avoid, and signposting is only possible in those cases where data assurances meet the same standards as prescribed in the Proposal.³

Accordingly, we encourage the Basel Committee to consider adopting a more flexible signposting standard which allows banks to develop and cross-reference to an index of existing public disclosures which meet the requirements of the Proposal. This approach, we believe, is likely to result in a simpler and more accessible disclosure regime which will help to promote a better understanding of disclosures among users.

D. External credit rating disclosures

We recommend that the Basel Committee clarify that, when the regulatory capital regime governing a bank does not permit the use of external credit ratings, the bank should complete the external credit rating section of the Pillar 3 disclosure templates by indicating "not applicable" or a similar reference.

³ Proposal, ¶¶ 44, 45.

The Dodd-Frank Act requires that U.S. banking agencies “remove any reference to or requirement of reliance on credit ratings and to substitute in such regulations such standard of credit-worthiness as each respective agency shall determine as appropriate for such regulations.”⁴ Under regulations implementing this statutory requirement, banks subject to U.S. banking agencies’ capital standards are not permitted to rely on external credit ratings for regulatory capital purposes.

External credit ratings are explicitly referenced in various qualitative and quantitative disclosure templates in the Proposal.⁵ Since U.S. banks are not permitted to incorporate external credit ratings into their regulatory capital calculations, it would be meaningless for U.S. banks to provide external credit rating disclosures. Accordingly, we believe that U.S. banks should be permitted to complete these disclosure templates by indicating that external credit ratings are not applicable to the bank’s regulatory capital regime.

E. Application of materiality standards to disclosure practices

Disclosure practices inherently involve questions of materiality. Disclosure of all information about a bank, without the benefit of a materiality filter, would result in a flood of information that users could not meaningfully review. Similarly, judgments about materiality inform the length and detail of various types of bank disclosures, with the prominence of disclosure increasing in connection with greater materiality.

The Proposal does not directly address materiality in disclosure practices.⁶ The Proposal indirectly raises the topic, however, by noting that “disclosures should be meaningful to users.”⁷ We believe that the Proposal should require banks to focus on disclosing material items, with non-disclosure of immaterial items in appropriate circumstances.

Various other standard-setters have considered principles of materiality. For instance, accounting standard-setters are currently considering revisions to accounting practices to better incorporate materiality standards, and the Enhanced Disclosure Task Force has considered similar issues. Securities law disclosures are also typically subject to materiality

⁴ Dodd-Frank Act § 939A(b).

⁵ See, e.g., CR5 “Protected exposures by guarantor rating class,” CR6 “Exposures protected by credit derivatives: breakdown by counterparty rating class,” CRF “Qualitative disclosures related to specialized lending and equities under the simple risk weight method,” SEC5 “Securitization positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor,” and SEC6 “Securitization positions in the banking book and associated regulatory capital requirements – bank acting as investor.”

⁶ We note, however, that earlier Basel Committee guidance explicitly cited materiality as a consideration in disclosure practices. Basel Framework, Paragraph 817, Page 227.

⁷ Proposal, ¶ 37.

considerations, and the SEC and the Financial Accounting Standards Board are each currently examining approaches to further reduce non-material disclosures.

We encourage the Basel Committee to clarify, when the Proposal is finalized, that banks should consider principles of materiality when preparing their disclosures, while being mindful of the objective of ensuring comparability of disclosure regimes. Incorporating principles of materiality would support the integration of Pillar 3 into the overall suite of a bank's disclosures, as other disclosures are subject to these standards. Similarly, applying principles of materiality to Pillar 3 disclosures would likely result in disclosures that are most meaningful to users, consistent with the Proposal's guidance.

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Morgan Stanley appreciates the opportunity to provide comments to the Basel Committee. The Proposal resulted from years of prior work by the Basel Committee on reviewing disclosure practices and establishing best practices and minimum standards. Although the Proposal represents a significant step towards harmonizing bank disclosure practices across jurisdictions, we encourage the Basel Committee to continue engaging with banks, as well as with investor and asset manager representatives, to ensure that disclosure practices continue to accurately capture and reflect banks' material activities.

Please do not hesitate to contact us if you have any questions.

Yours sincerely,

A handwritten signature in dark ink, reading "Paul C. Wirth". The signature is written in a cursive, slightly stylized font.

Paul C. Wirth

Deputy Chief Financial Officer