PUBLICATION OF FINANCIAL REPORTING ENFORCEMENT DECISIONS

Issuer	Morgan Stanley Asia Products Limited
Report type	Annual financial statements
Reporting period	Year ended 31 December 2014
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 1 *Presentation of Financial Statements* IAS 7 *Statement of Cash Flows* IFRS 7 *Financial Instruments: Disclosures* IAS 24 *Related Party Disclosures* IFRS 8 *Operating Segments*
Other Regulations	Regulation[1] 5(4)(c)(ii) – Management Reports

Summary
Morgan Stanley Asia Products Limited ('the issuer') provided IAASA with a number of undertakings to ensure compliance, in full, with certain financial reporting standards and the Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended). In particular, the issuer agreed to amend the presentation and to provide additional disclosures in future financial statements in relation to the:

a) presentation of gains and losses on financial instruments in the Statement of Comprehensive Income (Profit & Loss Account) (IAS 1);

b) classification of amounts in the Statement of Cash Flows (IAS 7);

c) credit risk disclosures (IFRS 7);

d) market price risk disclosures (IFRS 7);

e) disclosures related to offsetting of financial assets and financial liabilities: master netting arrangements or similar agreements (IFRS 7);

f) related parties transactions (IAS 24);

g) operating segment disclosures (IFRS 8); and

h) Management Report – fair review and principal risks and uncertainties (Regulation 5(4)(c)(ii)).

Background
The issuer is a company incorporated and domiciled in the Cayman Islands and has securities admitted to trading on the Main Market of the Irish Stock Exchange. The principal activity of the company is to act as an issuer of structured notes and warrants for its ultimate parent and controlling entity, Morgan Stanley. The fair value of investments amounted to US$10.9 billion (2013: US$7.3 billion). The issuer is closely integrated with the operations of its ultimate parent company and the wider Morgan Stanley group.
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IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2014.

Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA

Set out below is an outline of the financial reporting treatment applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

[1] Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended)

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
a) Presentation of gains and losses on financial instruments in the Statement of Comprehensive Income (‘SOCI’) (IAS 1)	
No amounts were presented in the SOCI (Profit & Loss Account) in that gains and losses on financial assets and financial liabilities at fair value are presented as a net nil amounts in the SOCI. The issuer’s rationale for adopting a net nil presentation in the SOCI was based on its view that issuing warrants and structured notes and hedging activity (i.e. purchasing financial assets and loans from other Morgan Stanley entities) were linked activities. As a result of the hedging strategy adopted by the issuer, it believes it has no net exposure to market risk. The net outcome of the investment strategy pursued by the issuer is such that any gains and losses will exactly offset each other giving a net nil result for the year. Furthermore, the notes to the SOCI did not provide any analysis of such gains and losses, nor of interest earned, dividends, and gains and losses on derivatives.	During the year, net gains on financial assets amounted to in excess of US$1 billion (unaudited) and the net losses on financial liabilities amounted to in excess of US$1 billion (unaudited). IAASA concluded that the issuer had not provided the information required by paragraph 85 of IAS 1 which states that an entity shall present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance. The SOCI should also be cross referenced to any additional information contained in the relevant notes. The issuer undertook to provide the following disclosures in future financial statements: a) a gross presentation of gains and losses on financial assets and financial liabilities on the face of the SOCI; and b) the relevant comparative information required by paragraph 41 of IAS 1 where there are changes to the presentation of items in the financial statements.
b) Classification of amounts in the Statement of Cash Flows (IAS 7)	
The Statement of Cash Flow (‘SCF’) classified all cash flows as ‘operating’ and presented the operating cash flows as a single net figure. There were no headings in the SCF for amounts classified as ‘investing’ and ‘financing’. The issuer’s rationale for classifying all items in the SCF as operating cash flows was based on the view that the issuer’s two activities (issuance activity (i.e. issuing warrants and structured notes) and hedging activity (i.e. purchasing financial assets and loans from other Morgan Stanley entities) were linked. The issuer regarded these linked activities as the principal revenue generating activities and, therefore, classified them as ‘operating’ cash flows.	IAASA concluded that the issuer undertook activities resulting in ‘operating’, ‘financing’ and ‘investing’ activities. The issuer gave undertakings that, in the event that such transactions take place in future periods, it would classify: a) the cash flows resulting from the purchase and disposal of financial assets as ‘investing’ activities in accordance with paragraphs 6, 16(c) and 16(d) of IAS 7; and b) the cash flows resulting from the issuing of structured notes and related financial instruments as ‘financing’activities in accordance with paragraphs 6, 17(c) and 17(d) of IAS 7.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
c) Credit risk disclosures (IFRS 7)	
There were no disclosures provided in the annual financial statements of the specific credit risk policies (qualitative information) applied by the issuer (as distinct from the broader credit risk parameters of the Morgan Stanley Group).	IAASA concluded that the issuer had disclosed the parent company's credit risk policies without providing a detailed description of its own specific credit risk policies. IAASA found that the disclosure in the annual financial statements did not comply, in full, with the requirements of paragraphs 33 to 36 of IFRS 7. The issuer undertook to provide the following disclosures in future annual financial statements: a) a description as to how the issuer mitigates credit risk exposure on a stand alone entity basis(qualitative disclosure); b) additional credit ratings for individual counterparties; and c) disclosures to meet, in full, the requirements of paragraphs 33 to 36 of IFRS 7.
d) Market price risk disclosures (IFRS 7)	
In the annual financial statements the issuer provided descriptions of: a) the market risk management policies adopted by Morgan Stanley as a Group; and b) how the issuer entered into risk mirroring contracts with other Morgan Stanley Group companies to mitigate and match off the market risk. The issuer was of the view that it was not exposed to any net market risk and, therefore, there was no disclosure in the annual financial statements of: a) summary market price risk information; b) a detailed description of the issuer's specific policies to measure and mitigate market risk as distinct from Morgan Stanley group level policies; and c) a sensitivity analysis of market risk because the issuer enters into risk mirroring contracts.	IAASA concluded that the market price risk disclosures did not comply in full with the requirements of paragraphs 33 to 36 and 40(a) of IFRS 7. Paragraphs 33 and 40(a) of IFRS 7 do not permit an entity to omit disclosure of either the gross market price risk (before hedging) or the sensitivity analysis on the basis that the issuer has limited or no 'net' market price risk. The issuer undertook to provide the following disclosures in future annual financial statements: a) issuer specific quantitative and qualitative disclosures of the gross exposure to market price risk together with a narrative description of changes in that risk during the year; and b) a sensitivity analysis of market price risk and a description of changes in the methods and assumptions and reasons for the changes during the year. The issuer agreed to remove disclosures relating to the Value at Risk ('VaR') analysis in the annual financial statements as such information is not used by the issuer to manage risk sensitivities.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
e) Disclsoures related to offsetting of financial assets and financial liabilities: master netting arrangements or similar agreements (IFRS 7)	
Paragraph 13C of IFRS 7 states that information required by that paragraph shall be presented in a tabular format, separately from financial assets and financial liabilities, unless another format is more appropriate. The issuer provided disclosures with respect to offsetting arrangements required by paragraph 13C of IFRS 7 in a narrative format.	The issuer agreed with IAASA that a tabular format of financial assets and financial liabilities was appropriate and undertook to present the offsetting arrangements of financial assets and financial liabilities in a tabular format in accordance with the requirements of paragraph 13C of IFRS 7.
f) Related party transactions (IAS 24)	
The issuer, which is closely integrated with a number of related Morgan Stanley group entities, did not disclose the terms and conditions of outstanding related party balances.	The issuer undertook to disclose, as required by paragraph 18(b)(i) of IAS 24, that outstanding related party balances are unsecured and will be settled in cash in full.
g) Operating segment disclosures (IFRS 8)	
The issuer processes a large volume of transactions and operates in diverse markets across many currency areas. The annual financial statements omitted disclosure of the judgements made by management in applying IFRS 8 and the required entity-wide disclosures.	The issuer undertook to disclose additional segment information required by IFRS 8 including: a) the minimum entity-wide disclosures required by paragraphs 31 to 34 of IFRS 8; and b) the judgements applied by management in applying IFRS 8.
h) Management Report – fair review and principal risks and uncertainties (Regulation[2] 5(4)(c)(ii))	
The Management Report required under the Regulations[2] did not refer to key matters including: a) the status of Morgan Stanley as guarantor to the issuer; b) the fact that a significant amount of total liabilities for 2014 were expected to be redeemed within the next twelve months (and consequences of same); and c) the changes in market risk during the year.	The issuer undertook to provide the following additional information in future Management Reports: a) issuer specific information (rather than information relevant to the wider Morgan Stanley group) including a more extensive description of: – the activities of the issuer during the year; and – the markets in which it operates; and b) a description of the principal risks and uncertainties faced by the issuer as required by Regulation 5(4)(c)(ii).

[2] Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended)