Morgan Stanley

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November 7, 2011

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

OMB Desk Officer
Office of Information and Regulatory Affairs
U.S. Office of Management and Budget
New Executive Office Building, Room 10235
725 17th Street, N.W.
Washington, D.C. 20503

Re: Capital Plans – Proposed Agency Information Collection Activities (FR Y-14Q and FR Y-14A); FR Doc. 2011-22912

Dear Sir or Madam:

Morgan Stanley ("the Firm") appreciates the opportunity to comment on the notice of proposed rulemaking (the "**NPR**")[1] issued by the Board of Governors of the Federal Reserve System (the "**Board**") requiring large Bank Holding Companies ("BHCs") to submit quarterly and annually certain defined data schedules (the FR Y-14Q and the FR Y-14A) to the Federal Reserve in connection with the submission of a BHCs capital plan. We support sound capital planning and believe that many of the NPR's requirements are appropriate. However, we have concerns with several aspects of the NPR and the proposed FR Y-14Q and FR Y-14A data collection schedules as discussed below.

Comments were invited on the following:

a. Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;
b. Ways to enhance the quality, utility, and clarity of the information to be collected; and
c. Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

1 76 Fed. Reg 55288 - 55292 (September 7, 2011).

The Firm proposes comments on the following, as requested by the NPR:

A.) Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility

A.1) Retail Risk Templates - Domestic Other Consumer Schedule
The scope of the Domestic Other Consumer Schedule included in the FR Y-14Q is defined as all non-student , domestic loans reported in line items 6(b) and 6(d) on Schedule HC-C of the FR Y-9C. Within line 6(d), Other Consumer Loans, our BHC includes non-purpose Securities Based Lending ("SBL") to individuals. SBL in this context refers to loans secured by marketable securities pledged to the Firm These loans are generally demand facilities and over-collateralized by the pledged securities. The overcollateralization amount is determined by the risk characteristics of the underlying security collateral (e.g. equities typically receive a larger haircut than corporate bonds). Collateral amounts are recalculated daily. Should the security collateral value decline below the required collateralization level, a collateral call will be made. As a result, losses on the product have been de-minimis. These SBL products are marketed only to customers of our retail broker-dealer.

We believe that populating the metrics required in Domestic Other Consumer Schedule to SBL books would not have practical utility, because these required metrics do not reflect the risk characteristics of these products due to their over-collateralization and daily margining.

We propose that SBL be excluded from the scope of the Domestic Other Consumer Schedule. This would be consistent with the treatment of SBL portfolios, such as loans for purchasing or carrying securities reported on in line item 9(b)(1) on Schedule HC-C of the FR Y-9C for which the FRB has not requested a detailed schedule in the FR Y-14Q.

A.2) PPNR Metrics Worksheet - Treasury Services
The PPNR Metrics Worksheet in the FR Y-14Q and the FR Y-14A requires a bank holding company ("BHC ") to report the Average Interest Rate Spread Between Loan and Deposit Yields. Morgan Stanley uses multiple sources of funding to extend loans, and deposits comprise less than one third of the liabilities of Morgan Stanley as a whole. This interest rate spread might not have not really be indicative of the sort of pricing differential on a consolidated BHC reporting level on which the Board seems focused. Various line items on the PPNR Metrics Worksheet are only applicable to BHCs completing the Net Interest Income Worksheet, i.e. for BHCs where deposits comprise one third or more of total liabilities for any given reporting period. We recommend that the Average Interest Rate spread between Loan and Deposit Yields should only be required from BHCs completing the Net Interest Income Worksheet.

B.) Ways to enhance the quality, utility, and clarity of the information to be collected

B.1) Trading, PE and Other Fair Value Exposures Template
Morgan Stanley recommends that BHCs be provided the following options in filling out the Trading, PE and Other Fair Value Exposures Template to enhance the quality and utility of the information requested.

(1) BHCs should be given the option to decompose certain risk exposures further or to provide additional details to ensure that distinct risk drivers are adequately identified.

For example, more granular asset type breakdown in the Securitized Products templates and additional second-order risk metrics in Corporate Credit templates may help identify different risk behavior.

(2) BHCs should be given the option to report risk exposure in ways consistent with BHCs' risk representation to ensure utility. For example, the current exposure template page for interest rate DV01 splits out exposure by curve. It is not clear how to distinguish between the directional and basis risks, and the sum of the two is not a meaningful risk measure. We propose allowing BHCs the option to use a base/basis curve methodology that matches how the risk is generally represented and understood.

B.2) Summary Schedule – Counterparty Risk Worksheet

The CVA template includes a line for "Trading IDR ("Incremental Default Risk") losses from securitized products". There are no further instructions associated with this item, although it is referred to on page 13 of the Summary Schedule Instructions as a subcategory of overall Trading IDR Losses. Trading IDR Losses are defined as additional losses incurred from default of underlying securities (obligors) in the trading book, beyond the MTM losses already captured by the MTM trading book shocks applied.

The scope and intention of the "Trading IDR losses from securitized products" line item is unclear. Morgan Stanley believes that this item is best interpreted as the marginal contribution to total Trading IDR losses from the correlation trading portfolio, defined to include all correlation trading products and their hedges. Reporting losses from securitized products excluding their hedges would not yield economically meaningful results since the correlation trading portfolio is typically extensively hedged.

Morgan Stanley does not believe that this line should include losses from Asset-Backed Securitized Products which typically have multiple-name underlying reference obligations (such as RMBS or CMBS). The dominant part of the risk in these products (when held in the trading book and marked to market) is general market risk, and is therefore fully captured as mark-to-market losses in the trading book loss template. This view is also reflected in Basel 2.5 and the NPR, neither of which seek to calculate an IDR measure for these products.

B.3) Comment and Question Period for FRB Prescribed Market Shock

This year the Federal Reserve has elected to prescribe risk factor shocks for the Supervisory Stress Scenario. The shocks will be provided in a template released toward the end of November. This represents a change from last year when firms derived shocks based on changes in risk factors experienced over the second half of 2008. In prior exercises, Morgan Stanley invested a significant amount of effort and discussion to arrive at what the appropriate set of shocks would be. We would likewise appreciate the opportunity to review and provide feedback on the supplied shocks for CCAR this year, with an opportunity for amendments if appropriate. Due to the fact that shocks cannot be disclosed until after the portfolio stress date has been communicated, this request may extend the turnaround time for firms participating in the CCAR exercise. However, we feel that including these steps in the process will ultimately improve the quality of information provided to the Federal Reserve.

C.) Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology

C.1) Due date for the FR Y-14A

The proposed rule states that the Federal Reserve expects to receive completed FR Y-14A templates by early-January 2012. For many BHCs this production schedule is suboptimal given the scheduling of Board meetings and fourth quarter earnings releases. We recommend that the timing of this submission be consistent with the BHC's production process for producing Board approved quarterly financial information, i.e. mid to late-January to increase efficiency and minimize the burden on BHCs.

In addition to the comments detailed above we also agree with and endorse the comments provided by The Clearing House Association L.L.C. , the American Bankers Association, The Financial Services Roundtable and the Securities Industry and Financial Markets Association on the proposed FR Y-14A and FR Y-14Q data schedules.

If you have any questions, or need further information, please contact Daniel Park, Managing Director of Morgan Stanley, at (212) 762-4338 (e-mail: Daniel.B.Park@morganstanley.com).

Respectfully submitted,

Daniel B. Park,
Managing Director

cc:
David Russo – Treasurer, Morgan Stanley