

Morgan Stanley

750 Seventh Avenue

NEW YORK, NY 10019

September 4, 2012

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Attention: Jennifer J. Johnson, Secretary

Re: Capital Assessments and Stress Testing information collection (OMB control number 7100 0341)

Ladies and Gentlemen:

Morgan Stanley appreciates the opportunity to comment on the proposed revision to the Board of Governors of the Federal Reserve System's (the "**Board**") report, *Capital Assessments and Stress Testing information collection* (the "**Proposal**").¹ We strongly support the comments on the Proposal submitted by The Clearing House Association L.L.C. and the American Bankers Association.

We write separately to emphasize the following points as means to enhance the quality, utility and clarity of the information to be collected.

1. FR Y-14Q: Trading, PE and Other Fair Value Assets Schedule

Credit Correlation Worksheet

The Proposal includes new columns to split out the long and short market value and notional exposures for index and bespoke products. These new columns are split out into attachment/detachment point rows corresponding to the previously existing correlation sensitivity table. While the specified split by attachment/detachment makes sense for the correlation sensitivity, it is not feasible for the market values and notionals since the positions will have a large variety of overlapping attachment and detachment points. We suggest simplifying the long and short breakout tables to only three buckets for clarity and consistency: (i) an "Equity Tranche" bucket for a position that has an attachment point of 0%, (ii) a

¹ Board, "Proposed Agency Information Collection Activities; Comment Request," 77 F.R. 40051 (July 6, 2012).

“Mezzanine Tranche” for any position that has a non-0% attachment and non-100% detachment, and (iii) a “Super Senior Tranche” for positions with a detachment point of 100%.

We suggest removing the XO (or crossover) category from the tranches as XO is implied from market observations but is not an index tranche per se. The implied XO surface observed from the market for index tranches would be specific to a particular covered company.

IDR Corporate Credit Worksheet

It would be helpful for the Proposal to be more prescriptive on the grossing methodology the Board wishes for firms to employ, especially for index products. For these products, we suggest index grossing based upon the unique combination of the following characteristics: reference entity, attachment/detachment point, index series, and index family.

Munis Worksheet

We suggest further disaggregating the Munis worksheet into taxable and tax exempt bonds.

Questions

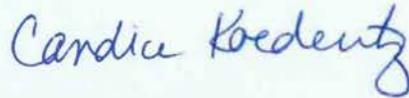
In addition to the points described above, we have certain questions about fields in the FR Y-14Q, as revised by the Proposal. These questions are included in Appendix A to this letter. We respectfully request that the Board clarify these issues when publishing the final version of the revised FR Y-14Q.

2. FR Y-14A: Basel III & Dodd-Frank Schedule

The draft schedule calls for annual projections through Q4 2019. While this forecast horizon coincides with the Basel III phase-in period, it is difficult for covered companies to project this far out into the future with any meaningful level of precision. As a result, firms run the risk of implying a greater degree of accuracy than is possible, given the highly volatile nature of the capital markets. We recommend that the Board consider a shorter forecast horizon, consistent with the 2012 CCAR.

Thank you for considering our comments included in this letter. We appreciate the opportunity to share our views with the Board and would be pleased to provide any further clarification or information that the Board may find helpful. If you have any questions or requests related to this letter, please contact Candice Koederitz, Managing Director of Morgan Stanley, at (212) 762-4219 (e-mail: Candice.Koederitz@morganstanley.com).

Respectfully submitted,



Candice Koederitz
Managing Director, Morgan Stanley

Appendix A
Specific Requests for Clarification in the FR Y-14Q

FR Y-14Q: Trading, PE and Other Fair Value Assets Schedule

Securitized Products Worksheet

1. In the new template, it is unclear whether the “CLO” column is for Cash CLO only or also for CDS on CLO. Should we include CDS on CLO along with cash in the CLO column, or in the “Other/Unspecified” column?
2. For warehouse, some lines are set up with initial credit enhancement / overcollateralization (OC) and performance based triggers but may not have margining features. Should OC be considered part of first loss protection and be included in the “Total Protection” column?
3. In some warehouse lines, the underlying collateral is loans originated to agency conforming standards. Is it possible to have a separate category for Agency Warehouse lending, and include it under the “Agencies” Tab?