



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 2011

H. Rodgin Cohen, Esq.
Sullivan & Cromwell, LLP
125 Broad Street
New York, NY 10004

Dear Mr. Cohen:

This is in response to a request by Mitsubishi UFJ Financial Group, Inc. (MUFG), Tokyo, Japan, for the Board's views under the control provisions of section 2 of the Bank Holding Company Act (BHC Act) regarding a proposal by MUFG to convert preferred shares it owns in Morgan Stanley, New York, New York, into common voting shares of Morgan Stanley. A determination regarding whether MUFG may convert the preferred shares into common shares is the subject of a separate proceeding under the BHC Act.

In October 2008, MUFG invested \$9 billion in a combination of convertible and nonconvertible preferred stock of Morgan Stanley. In connection with that investment, MUFG provided passivity commitments designed to ensure that MUFG would not exercise a controlling influence over Morgan Stanley for purposes of the BHC Act. MUFG has previously converted certain of these preferred shares into voting common stock of Morgan Stanley and has proposed to convert its remaining holdings of Series B Preferred Stock into voting common stock. As a result of the proposed conversion, MUFG would own approximately 22.4 percent of the common stock of Morgan Stanley.

In connection with its request, MUFG has proposed to adopt the equity method of accounting for its investment in Morgan Stanley. This method would allow MUFG to recognize its proportionate interest in any earnings (and losses) of Morgan Stanley. To meet the requirements for equity accounting, MUFG represents that it must have two representatives on the board of directors of Morgan Stanley. MUFG has offered a number of commitments to the Board designed to reaffirm that MUFG would neither seek nor be able to exercise a

controlling influence over Morgan Stanley under this structure. These commitments include a commitment that neither MUFNG representative would second a motion made by the other representative and that the two directors could not together constitute more than 15 percent of the membership of the Morgan Stanley board of directors, except in the case of a temporary vacancy on the board.¹ These commitments are attached in the Appendix. In addition, MUFNG has reaffirmed its commitment to the passivity commitments provided in connection with its original investment in Morgan Stanley.

The Board has considered carefully the potential for the proposed change in MUFNG's voting power on Morgan Stanley's board to create the ability of MUFNG to exercise a controlling influence over Morgan Stanley for purposes of the BHC Act. In particular, the Board has considered the size, composition, and expertise of the members of the Morgan Stanley board of directors and the fact that a majority of the members of the board will continue to be independent of management, MUFNG, and other investors. The Board also considered that MUFNG representatives would represent less than 15 percent of the total membership of the board and that neither MUFNG representative would be able to second a motion offered by the other MUFNG representative. In addition, an MUFNG representative would be able to cast only one vote on any committee or subcommittee of the board.

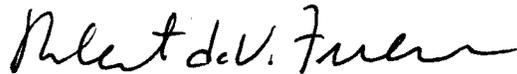
In addition to these limitations surrounding MUFNG's involvement in the governance of Morgan Stanley, MUFNG has agreed to take additional financial responsibility for its representation on the board of Morgan Stanley. MUFNG has committed to maintain at least a 20 percent proportional interest in Morgan Stanley, including by participating in any capital raising efforts by Morgan Stanley. MUFNG has also committed to use its reasonable best efforts, at the request of the Board of Governors, to maintain its investment at the highest level of investment made by MUFNG before the Board's request. It also has committed to use its reasonable best efforts to assist Morgan Stanley in obtaining funding and financial support from other sources if requested by Morgan Stanley. Moreover, MUFNG has committed not to impose any restrictions on the ability of Morgan Stanley unilaterally to access the capital markets.

¹ With the addition of a second representative of MUFNG, there would be at least 14 members of the board of directors of Morgan Stanley. If there is a temporary vacancy on the board, MUFNG representatives may cast both their votes on a matter only if the MUFNG votes represent 17 percent or less of the total votes cast regarding that matter.

The Board has also taken into account, as it did in 2008, the fact that Morgan Stanley is a substantial organization in its own right that can be expected to be able to act in its own interests. MUFG has demonstrated its ability to abide by commitments made to the Board and has been in continuous compliance with the passivity commitments made in 2008.

In light of all the facts of record, including the commitments made by MUFG, the Board would not at this time find that MUFG would have the ability to exercise a controlling influence over Morgan Stanley solely by virtue of the proposed structure outlined in this letter. This determination is limited to the question of control and does not grant approval of the proposed conversion. For purposes of this determination, the conditions and commitments made in connection with this request are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

Sincerely yours,



Robert deV. Frierson
Deputy Secretary of the Board

Appendix

April 21, 2011

Conditions for allowing Mitsubishi UFJ Financial Group, Inc. ("MUFG") to have two representatives on the board of directors of Morgan Stanley ("MS") without a finding of control under the Bank Holding Company Act

- 1) MUFG will maintain an investment in at least 20 percent of the voting common equity of MS and will use all its reasonable best efforts to honor a Federal Reserve Board request to provide additional capital to preserve the maximum level of ownership of total equity of MS that MUFG has achieved prior to the date of the request. This capital may be on terms similar to those provided to other parties that invest in MS at the same time.
- 2) MUFG will use all its reasonable best efforts to assist MS in raising funding from other sources, including assisting MS in attracting new capital, and obtaining other financial support from other sources, as requested by MS.
- 3) MUFG commits not to impose any restrictions on the ability of MS unilaterally to access the capital markets (e.g., no down-round protection); provided that this commitment shall not prevent MUFG from maintaining its current preemptive rights with respect to sales of capital instruments by MS.
- 4) MUFG must account for its investment in MS using the equity accounting method (thereby accounting for losses as well as profits), provided that equity accounting is available.
- 5) After taking account of the size, composition and expertise of the members of the MS board of directors and the fact that a majority of the members of the board will continue to be independent of management of MS, of MUFG and of other investors, MUFG may have two voting representatives on the board of directors of MS (each with only one vote) so long as those representatives constitute less than 15% of the membership of the board of directors; except that the membership percentage may temporarily exceed 15% (but may not exceed 17%) for a reasonable period of time necessary to fill any temporary vacancy on the board of directors that may occur; and provided that neither representative of MUFG may second a motion made by the other MUFG representative.

- 6) MUFG will have no more than one representative on any committee or subcommittee of the board of directors of MS or have more than one vote on the committee or subcommittee, and no person designated by MUFG will chair any committee or subcommittee of the board.
- 7) MUFG must continue to abide by all the passivity commitments already provided to the Federal Reserve Board.