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Luigi L. De Ghenghi

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July 10, 2020

Re: Application of Morgan Stanley to Acquire by Merger E*TRADE Financial Corporation—
Response to Additional Information Requests

VIA E-APPS

Brian S. Steffey
Assistant Vice President, Bank Applications Function
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear Mr. Steffey:

This letter relates to the application (the “**Application**”) filed by Morgan Stanley, New York, New York, pursuant to Sections 4(j) and 4(k) of the Bank Holding Company Act of 1956, as amended, and Regulation Y promulgated thereunder, as well as Section 163(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requesting approval of the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”) for Morgan Stanley to acquire by merger E*TRADE Financial Corporation (“**E*TRADE**”), Arlington, Virginia, with Morgan Stanley as the surviving entity (the “**Proposed Transaction**”).

In particular, this letter responds to an additional number of requests for additional information regarding the Application and the Proposed Transaction that Federal Reserve staff emailed to me on June 19, 2020 (the “**June 19th Additional Information Request**”) – specifically, Additional Information Requests 1, 2, 4, 6, 7, 8, 9, 10, 11, 12 and 13.¹ Morgan Stanley’s responses to the public requests are included in Appendix 1, and Morgan Stanley’s responses to the confidential requests included in the confidential annex to the June 19th Additional Information Request are included as Confidential Appendix 2.

¹ On June 25, 2020, Morgan Stanley and E*TRADE provided information responsive to Additional Information Request 3 in the June 19th Additional Information Request. As requested by Additional Information Request 5, Morgan Stanley will provide to the Federal Reserve the results of the special meeting of E*TRADE stockholders to be held on July 17, 2020, during which E*TRADE’s stockholders will consider and vote on the proposal to adopt the merger agreement with Morgan Stanley, once those results are available.

Morgan Stanley anticipates submitting information responsive to the staff's request for updated pro forma financial statements as of June 30, 2020 in the next few weeks, once the requested information becomes available.

Morgan Stanley respectfully requests confidential treatment under the federal Freedom of Information Act, 5 U.S.C. § 552 ("FOIA"), and the implementing regulations of the Federal Reserve, 12 C.F.R. Part 261, for the responses included in Confidential Appendix 2, the Confidential Exhibits Volume to this submission, and any other information marked "confidential" (collectively, the "**Confidential Materials**"). The Confidential Materials include, for example, non-public information regarding the business strategies and plans of (i) Morgan Stanley and its subsidiary banks, Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association (together, the "**Morgan Stanley Banks**"), and (ii) E*TRADE and its subsidiary banks, E*TRADE Bank and E*TRADE Savings Bank (together, the "**E*TRADE Banks**"), and other information regarding additional matters of a similar nature, which is commercial or financial information that is customarily and actually treated as confidential by Morgan Stanley or E*TRADE and that is being provided to the government under an assurance of confidentiality. Certain information in the Confidential Materials may also include confidential supervisory information, which is statutorily protected from disclosure. None of the information in the Confidential Materials is the type of information that would otherwise be made available to the public under any circumstances. All such information, if made public, could result in substantial and irreparable harm to Morgan Stanley, the Morgan Stanley Banks, E*TRADE, and the E*TRADE Banks. In addition, potential investors could be influenced or misled by such information, which is not reported in any documents filed or to be filed in accordance with the disclosure requirements of applicable securities laws, as a result of which Morgan Stanley or E*TRADE could be exposed to potential inadvertent violations of law or exposure to legal claims. Accordingly, confidential treatment is respectfully requested with respect to the Confidential Materials under FOIA, specifically 5 U.S.C. § 552(b)(4) and (b)(8), and the Federal Reserve's implementing regulations, specifically 12 CFR 261.14(a)(4) and (a)(8). The Confidential Materials may also be exempt from disclosure under other provisions of law.

We also request that, if the Federal Reserve should make a preliminary determination not to comply with the request for confidential treatment, Morgan Stanley be given notice thereof in ample time to permit it to make an appropriate submission as to why such information should be preserved in confidence. If the Confidential Materials, or any memoranda, notes or writings made by employees, agents or other persons under the control of the Federal Reserve or any Federal Reserve Bank that incorporate, include or relate to any of the matters referred to in the Confidential Materials, are the subject of a FOIA request or a request or demand for disclosure by any governmental agency, Congressional office or committee, or court or grand jury, we request, pursuant to the Federal Reserve's regulations, that you notify Morgan Stanley and the undersigned prior to making such disclosure.

We further ask that Morgan Stanley and the undersigned be furnished with a copy of all written materials pertaining to such request (including, but not limited to, the request itself and any determination with respect to such request) and that Morgan Stanley and the undersigned be given sufficient advance notice of any intended release so that Morgan Stanley may, if deemed necessary or appropriate, pursue any available remedies.

* * *

If you have any questions regarding this letter or the confidential treatment request, please feel free to contact me at (212) 450-4296 or luigi.deghenghi@davispolk.com, or my colleague Ryan Johansen at (212) 450-3408 or ryan.johansen@davispolk.com.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Luigi L. De Ghenghi', written over a horizontal line.

Luigi L. De Ghenghi

Enclosures

cc: Alison M. Thro, Federal Reserve
Eric F. Grossman, Morgan Stanley
Sebastiano Visentini, Morgan Stanley
Andrew S. Baer, Morgan Stanley
Lori S. Sher, E*TRADE Financial Corporation
Neil Barr, Davis Polk & Wardwell LLP
Marc O. Williams, Davis Polk & Wardwell LLP
Brian Wolfe, Davis Polk & Wardwell LLP
Stephen F. Arcano, Skadden, Arps, Slate, Meagher & Flom LLP
Brian D. Christiansen, Skadden, Arps, Slate, Meagher & Flom LLP
David C. Hepp, Skadden, Arps, Slate, Meagher & Flom LLP
Dohyun Kim, Skadden, Arps, Slate, Meagher & Flom LLP

Appendix 1

Responses to June 19th Additional Information Requests

Defined terms used but not defined in these responses have the same meaning set forth in Morgan Stanley's Application.

1. Please notify the Federal Reserve if Morgan Stanley develops any plans to merge the subsidiary banks of Morgan Stanley or E*TRADE.

As discussed in response to prior additional information requests, Morgan Stanley continues to perform the necessary due diligence and analysis on the potential post-closing legal entity structure for the integration of E*TRADE's legal entities within Morgan Stanley. As of the date of this response, Morgan Stanley has not made any decision about the structure, scope or timing of any future consolidation of the Morgan Stanley Banks and the E*TRADE Banks. To the extent any plans are developed before closing related to a merger of subsidiary banks, Morgan Stanley will notify the Federal Reserve and the OCC.

2. Does the COVID-19 crisis increase the financial stability risks and vulnerabilities posed by the Morgan Stanley E*TRADE merger? What steps would Morgan Stanley take to address such risks?

Morgan Stanley believes that the current economic downturn resulting from the COVID-19 pandemic has not increased the financial stability risks or vulnerabilities of the Proposed Transaction. On the contrary, Morgan Stanley continues to expect that the Proposed Transaction will strengthen Morgan Stanley financially and enhance its overall resiliency, thereby reducing the risk to U.S. financial stability and the U.S. economy. As discussed in the Application and in response to prior additional information requests, a key benefit of the Proposed Transaction is that it will accelerate Morgan Stanley's shift toward a higher proportion of more stable and durable revenue streams and profitability from its Wealth Management and Investment Management business segments. In addition, the Proposed Transaction is expected to strengthen Morgan Stanley's regulatory capital position and provide it with access to more stable and low-cost deposits that can reduce its reliance on wholesale funding. As discussed below, the present crisis has made it all the more critical that the Proposed Transaction proceed in a timely fashion so that the parties can achieve the benefits to financial stability that the Proposed Transaction will generate.²

Effects of the COVID-19 Pandemic

The COVID-19 pandemic has had a significant impact on individuals, communities and organizations. Morgan Stanley has taken several direct steps to provide assistance. In particular, Morgan Stanley has supported market and client activity by taking in increased

² The following discussion is primarily based on the parties' previously disclosed first quarter results. Both Morgan Stanley and E*TRADE expect to release their second quarter results later in July, at which time more information about second quarter performance will be available.

deposits from its Wealth Management clients, extending credit to its institutional and retail clients to provide them with additional liquidity, and providing financing to support COVID-19 impacted clients across multiple sectors.

In some cases, the pandemic has also adversely affected Morgan Stanley's own business. As discussed in its Form 10-Q for the three months ended March 31, 2020,³ the decline of asset prices, reduction in interest rates, widening of credit spreads, borrower and counterparty credit deterioration, market volatility and reduced investment banking activity had a negative effect on Morgan Stanley's first quarter performance. Morgan Stanley experienced mark-to-market losses, net of economic hedges on loans and lending commitments held for sale, provisions for credit losses on loans and lending commitments held for investment, and losses on fund and business-related investments, net of hedges. In addition, Morgan Stanley began to have discussions with and receive requests from certain clients for forbearance, or deferral of their loan payments, primarily related to commercial and residential real estate loans. Certain clients also requested modifications of covenant terms.

Through all of this, Morgan Stanley's financial condition, balance sheet, capital and liquidity have remained strong. Overall, Morgan Stanley generated \$9.5 billion of revenues during the first quarter and its operating plan continued to function well in light of the difficult conditions. These results serve as a testament to the stability of Morgan Stanley's business mix and its diligent efforts over the past decade to diversify its businesses, including by expanding the scale of its Wealth Management business to strengthen resilience against changes in the wider market environment. As discussed at length in the Application, the Proposed Transaction represents a continuation of these efforts, and would strengthen Morgan Stanley against any further disruptions caused by the COVID-19 pandemic.

For its part, E*TRADE has also experienced the effects of the COVID-19 pandemic, including the significant increase in market volatility in March 2020. As the COVID-19 pandemic weighed on the macroeconomic environment, lower interest rates and equity market valuations adversely affected E*TRADE's results of operations through reduced net interest income and other related revenues, compressed net interest margins and lower margin balances, among other factors. At the same time, however, E*TRADE experienced significant increases in customer activity and organic growth in retail assets and retail accounts, as new and existing customers shifted funds to E*TRADE. E*TRADE's stock plan business also continued to do well, announcing more than \$4 billion in new stock plan client implementations in the first quarter of 2020.

As noted by E*TRADE's CEO, Michael Pizzi, E*TRADE's performance in the first quarter in the face of challenging market conditions "demonstrat[es] the robustness of [its]

³ Morgan Stanley's 10-Q for the three months ended March 31, 2020 is available here: <https://www.sec.gov/ix?doc=/Archives/edgar/data/895421/000089542120000323/msq1202010q.htm>.

platforms, tools, and systems to meet peak customer demand.”⁴ Since that point, E*TRADE’s platforms and service capabilities have continued to perform well, while providing E*TRADE’s customers the level of reliability and security that they have come to expect. Morgan Stanley and E*TRADE intend to continue this level of service following the Proposed Transaction, while managing any increased risks.

Morgan Stanley’s Risk Management Framework

To address those risks that have arisen or that will arise as a result of the present economic and market conditions, Morgan Stanley expects to rely on its existing enterprise risk management framework, which has continued to function well in the current environment. As discussed in the Application, Morgan Stanley’s enterprise risk management framework facilitates the incorporation of risk assessment into decision-making processes across the firm and is supported by policies and procedures that identify, measure, monitor, advise, challenge and control the principal risks of Morgan Stanley’s business activities, including market, credit, operational, model, compliance, cybersecurity, liquidity, strategic, reputational and conduct risk. Morgan Stanley’s risk management groups continue to perform their control and monitoring activities, while meeting and communicating internally with respect to these activities with increased frequency since the onset of the COVID-19 pandemic.

Morgan Stanley maintains its plan to incorporate E*TRADE into its risk appetite, limits, capacity, management framework and monitoring upon the closing of the Proposed Transaction. Based on its ongoing monitoring of the evolving situation, Morgan Stanley does not expect that the COVID-19 pandemic will have any material adverse impact on the proposed combined risk management program.

Finally, as described in the Application and in response to prior additional information requests, both Morgan Stanley and E*TRADE have devoted and will continue to devote ample resources toward ensuring a successful integration, enabling them to address integration-related vulnerabilities, including any vulnerabilities relating to financial stability, if they arise.

For all of the foregoing reasons, Morgan Stanley does not believe that the COVID-19 pandemic increases the financial stability risks or vulnerabilities of the Proposed Transaction and looks forward to achieving the benefits to financial stability that the Proposed Transaction will generate.

⁴ See E*TRADE Financial Corporation Announces First Quarter 2020 Results (Apr. 23, 2020), <https://about.etrade.com/newsroom/press-releases/article?qmodStoryID=6554902034827676>.

4. Please respond to questions 19.a.iii and 24 from the additional information request dated April 17, 2020.

Morgan Stanley respectfully notes that responses to Additional Information Requests 19.a.iii and 24 were included in Morgan Stanley's submissions dated May 18, 2020 and June 1, 2020, respectively.