

FEDERAL RESERVE SYSTEM

Mitsubishi UFJ Financial Group, Inc.
Tokyo, Japan

Order Approving Acquisition of Interests in a
Bank Holding Company and Certain Nonbanking Subsidiaries

Mitsubishi UFJ Financial Group, Inc. (“MUFG”), a foreign banking organization that is a financial holding company for purposes of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act¹ to acquire up to 24.9 percent of the voting shares of Morgan Stanley, New York, New York, and thereby indirectly acquire an interest in Morgan Stanley’s subsidiary banks, Morgan Stanley Bank, National Association (“MS Bank”), Salt Lake City, Utah; and Morgan Stanley Private Bank, National Association (“MSPB”), Purchase, New York. In addition, MUFG has requested the Board’s approval to acquire interests in the nonbanking operations of Morgan Stanley that are engaged in activities described in section 4(k) of the BHC Act.²

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (76 Federal Register 17,418 (2011)). The time for filing comments has expired and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

MUFG, with total consolidated assets of approximately \$2.5 trillion as of March 31, 2011, is the largest banking organization in Japan. MUFG owns the Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”) and Mitsubishi UFJ Trust and Banking Corporation (“MUTB”), both of Tokyo. BTMU operates branches, agencies, and representative offices in several states.³ It also controls Bank of Tokyo-Mitsubishi UFJ

¹ 12 U.S.C. § 1842.

² This notice is required under section 163(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”).

³ BTMU operates branches in California, Illinois, New York, and Washington; agencies in Georgia and Texas; and representative offices in the District of Columbia, Kentucky, Minnesota, New Jersey, and Texas.

Trust Company (“BTMUT”), New York, New York, and UnionBanCal Corporation and its subsidiary bank, Union Bank, N.A. (“Union Bank”), both of San Francisco. MUTB operates a branch and controls Mitsubishi UFJ Trust & Banking Corporation (U.S.A.) (“MUTB USA”), both of New York, New York. MUFG controls deposits of approximately \$60 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁴

Morgan Stanley, with total consolidated assets of approximately \$836 billion, engages in investment banking, securities underwriting and dealing, asset management, trading, and other activities in the United States and abroad.⁵ Morgan Stanley controls MS Bank, which operates one branch in Utah, with total assets of approximately \$68.6 billion and deposits of approximately \$56.7 billion. In addition, Morgan Stanley controls MSPB, with total assets of approximately \$7.4 billion and deposits of approximately \$6.4 billion.⁶

In 2008, the Board approved MUFG’s acquisition of up to 24.9 percent of the voting shares of Morgan Stanley.⁷ MUFG consummated its initial investment in Morgan Stanley in 2008 by purchasing two different series of preferred stock, one of which is convertible into common stock. Subsequently, MUFG acquired additional common stock. MUFG is currently deemed to own 19.23 percent of Morgan Stanley’s voting shares.⁸ MUFG now intends to convert all of its outstanding convertible preferred stock in Morgan Stanley to common shares, after which MUFG would own approximately 22.4 percent of Morgan Stanley’s voting shares. In addition, MUFG is

⁴ Deposit data for MUFG’s subsidiary banks are as of March 31, 2011.

⁵ Asset data for Morgan Stanley and asset and deposit data for MS Bank and MSPB are as of March 31, 2011.

⁶ In addition, Morgan Stanley holds a noncontrolling 9.9 percent interest in a bank holding company, Chinatrust Financial Holding Company, Ltd., Taipei, Taiwan, and a national bank, Herald National Bank, New York, New York. See Morgan Stanley, 95 Federal Reserve Bulletin B86 and B93 (2009).

⁷ Mitsubishi UFJ Financial Group, Inc., 95 Federal Reserve Bulletin B34 (2009) (“Mitsubishi UFJ”).

⁸ The authority to make the initial and additional investments expired April 6, 2011.

seeking authority to acquire, from time to time, additional shares of Morgan Stanley pursuant to an investor agreement in order to maintain a specific level of ownership in Morgan Stanley.⁹

Noncontrolling Investment

MUFG has stated that it does not propose to control or exercise a controlling influence over Morgan Stanley and that its investment in Morgan Stanley will continue to be a passive investment.¹⁰ MUFG has agreed to continue to abide by certain commitments it provided in 2008,¹¹ which are similar to those previously relied on by the Board in determining that an investing company would not be able to exercise a controlling influence over another bank holding company for purposes of the

⁹ The investor agreement between MUFG and Morgan Stanley would provide MUFG with both (i) preemptive rights to participate in certain securities offerings and (ii) the authority to acquire additional shares of Morgan Stanley in the open market up to the ownership level it would acquire on consummation of the conversion transaction. MUFG will need to preserve a certain ownership level to account for its investment in Morgan Stanley using the equity method of accounting and to comply with its commitment to the Board to maintain its investment at a certain level. MUFG made that commitment in connection with its request to have a second director representative on the board of directors of Morgan Stanley without being deemed to exercise a controlling influence over that company.

¹⁰ Although the acquisition of less than a controlling interest in a bank or bank holding company is not a normal acquisition for a bank holding company, the requirement in section 3(a)(3) of the BHC Act that the Board's approval be obtained before a bank holding company acquires more than 5 percent of the voting shares of a bank suggests that Congress contemplated the acquisition by bank holding companies of between 5 and 25 percent of the voting shares of banks. See 12 U.S.C. § 1842(a)(3). On this basis, the Board previously has approved the acquisition by a bank holding company of less than a controlling interest in a bank or bank holding company. See, e.g., China Investment Corporation, 96 Federal Reserve Bulletin B31 (2010) (acquisition of up to 10 percent of the voting shares of a bank holding company); Mitsubishi UFJ, supra, (acquisition of up to 24.9 percent of the voting shares of a bank holding company); Brookline Bancorp, MHC, 86 Federal Reserve Bulletin 52 (2000) (acquisition of up to 9.9 percent of the voting shares of a bank holding company); Mansura Bancshares, Inc., 79 Federal Reserve Bulletin 37 (1993) (acquisition of 9.7 percent of the voting shares of a bank holding company).

¹¹ MUFG provided passivity commitments in 2008 in connection with the Board's approval of its application to acquire up to 24.9 percent of the voting shares of Morgan Stanley. See Mitsubishi UFJ, supra.

BHC Act. For example, MUFG committed not to exercise or attempt to exercise a controlling influence over the management or policies of Morgan Stanley or any of its subsidiaries. The commitments also included certain restrictions on the business relationships of MUFG with Morgan Stanley.

In connection with the Board's decision in 2008, MUFG committed to have no more than one representative serve on the board of directors of Morgan Stanley or its subsidiaries. After the proposed conversion of convertible preferred shares to common shares, MUFG would have two representatives serving on the board of directors of Morgan Stanley. The Board considered carefully the potential for the proposed change in MUFG's voting power on Morgan Stanley's board to create the ability of MUFG to exercise a controlling influence over Morgan Stanley for purposes of the BHC Act. In reaching its determination that the increased voting power would not have such an effect, the Board 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 would continue to be independent of management, MUFG, and other investors. The Board also considered that MUFG representatives would represent less than 15 percent of the total membership of the board and that neither MUFG representative would be able to second a motion offered by the other MUFG representative. In addition, an MUFG representative would be able to cast only one vote on any committee or subcommittee of the board. The Board also relied on certain commitments made by MUFG with respect to, among other things, maintaining the level of its voting investment in Morgan Stanley and using reasonable best efforts to assist Morgan Stanley should Morgan Stanley decide to seek additional funding from other sources.¹²

Based on these facts and commitments, the Board has determined that it would not at this time initiate a control proceeding in this case based on the structure of the proposed investment. The Board notes that the BHC Act would require MUFG to file an application and receive the Board's approval before MUFG may directly or indirectly acquire additional shares of Morgan Stanley above the proposed investment level or

¹² See Board letter to H. Rodgin Cohen, Esq., dated April 22, 2011.

attempt to exercise a controlling influence over Morgan Stanley or any of its subsidiaries.¹³

Competitive Considerations

The Board has considered carefully the competitive effects of the proposal in light of all the facts of record. Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁴

The Board previously has stated that one company need not acquire control of another company to lessen competition between them substantially.¹⁵ The Board has found that noncontrolling interests in directly competing depository institutions may raise serious questions under the BHC Act and has stated that the specific facts of each case will determine whether the minority investment in a company would be anticompetitive.¹⁶ Because the subsidiary insured depository institutions of MUFG and Morgan Stanley compete directly in the metropolitan New York-New Jersey-Pennsylvania-Connecticut (“Metro New York”) banking market,¹⁷ the Board reviewed carefully the competitive effects of the proposal in the Metro New York banking market

¹³ 12 U.S.C. § 1842. See, e.g., Emigrant Bancorp, Inc., 82 Federal Reserve Bulletin 555 (1996).

¹⁴ 12 U.S.C. § 1842(c)(1).

¹⁵ See e.g., Sun Trust Banks, Inc., 76 Federal Reserve Bulletin 542 (1990).

¹⁶ See e.g., BOK Financial Corp., 81 Federal Reserve Bulletin 1052, 1053-54 (1995).

¹⁷ The Metro New York banking market includes Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester Counties in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties and the northern portion of Mercer County in New Jersey; Monroe and Pike Counties in Pennsylvania, and Fairfield County and portions of Litchfield and New Haven Counties in Connecticut.

in connection with the approval granted MUFG in 2008. In particular, the Board considered the number of competitors that would remain in the banking market, the relative shares of total deposits in depository institutions in the market (“market deposits”) controlled by MUFG and Morgan Stanley, and the concentration level of market deposits and the increase in the level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”).

In connection with the current application, the Board has again considered the facts related to the relevant banking markets and has determined that consummation of this proposal is consistent with Board precedent¹⁸ and within the thresholds of the DOJ Guidelines in the Metro New York banking market.¹⁹ On consummation, the Metro New York banking market would remain moderately concentrated, and numerous competitors would remain in the market.²⁰

The DOJ also has reviewed the proposal and has advised the Board that it does not believe that MUFG’s ownership interest in Morgan Stanley is likely to have a

¹⁸ Deposit and market share data are as of June 30, 2010, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386, 387 (1989); National City Corporation, 70 Federal Reserve Bulletin 743, 744 (1984). The Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52, 55 (1991).

¹⁹ Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission recently issued revised Horizontal Merger Guidelines, the DOJ has confirmed that the DOJ Bank Merger Guidelines, which were issued in 1995, were not changed. DOJ press release (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

²⁰ On consummation, the HHI would remain unchanged at 1299, and 273 insured depository institution competitors would remain in the Metro New York banking market. The deposits of MUFG and Morgan Stanley, on a combined basis, would represent less than 1 percent of market deposits.

significant adverse effect on competition in any relevant banking or other market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any relevant banking market and that competitive considerations are consistent with approval.²¹

Financial, Managerial, and Other Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including supervisory and examination information from various U.S. banking supervisors of the institutions involved, publicly reported and other financial information, and information provided by MUFG. In addition, the Board has consulted with the Japanese Financial Services Agency (“FSA”), the agency with primary responsibility for the supervision and regulation of Japanese banking organizations, including MUFG.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transactions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has carefully considered the financial factors of the proposal. The capital levels of MUFG exceed the minimum levels that would be required under the Basel Capital Accord and are considered to be equivalent to the capital levels that

²¹ Competitive considerations in nonbanking markets are set forth in the discussion on nonbanking activities.

would be required of a U.S. banking organization. In addition, the subsidiary depository institutions involved in the proposal are well capitalized and would remain so on consummation. Based on its review of the record, the Board finds that MUFG has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved. The Board has reviewed the examination records of MUFG and its subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money-laundering laws. Based on all the facts of record, the Board has concluded that considerations relating to the managerial resources and future prospects of the organizations involved are consistent with approval.²²

²² A commenter asserted that recently announced losses at a joint venture between MUFG and Morgan Stanley reflect poorly on MUFG's managerial capacity and its ability to avoid predatory lending. MUFG has reviewed management and controls at the joint venture and has strengthened its risk-management framework. In addition, MUFG has increased the amount of capital held by the joint venture. There appears to be no relationship between the losses at the joint venture, which engages in securities activities in Japan, and predatory lending, as asserted by the commenter.

The commenter also referred to news reports regarding Morgan Stanley's mortgage servicer, Saxon Mortgage Services, Inc., with respect to a class action lawsuit involving the Home Affordable Modification Program and a lawsuit under the Servicemembers Civil Relief Act. In addition, the commenter referred to a settlement by Morgan Stanley with the Office of the Attorney General of the Commonwealth of Massachusetts regarding allegedly unfair residential mortgage loans. As noted above, MUFG does not control the operations of Morgan Stanley and cannot exercise a controlling influence over its management. Moreover, as part of its ongoing supervision of Morgan Stanley, the Board monitors the status of government investigations, consults as needed with relevant regulatory authorities, and periodically reviews Morgan Stanley's liability from material litigation.

Finally, the commenter raised allegations that are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See, e.g., The Royal Bank of Scotland Group plc, 90 Federal Reserve Bulletin 87, 88 n.16 (2004); The Royal Bank of Scotland Group plc, 89 Federal Reserve Bulletin 386, 389 n.26 (2003); Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.²³ The FSA is the primary supervisor of Japanese banking organizations. The Board previously has determined that BTMU and MUTB are subject to comprehensive supervision on a consolidated basis by their home country supervisor.²⁴ In that determination, the Board took into account the FSA's supervisory authority with respect to MUFG (operating at the time as Mitsubishi Tokyo Financial Group, Inc.) and its nonbanking subsidiaries.²⁵ Based on this finding and all the facts of record, the Board has concluded that BTMU and MUTB continue to be subject to comprehensive supervision on a consolidated basis by their home country supervisor. As noted, the FSA is the primary supervisor of Japanese banking organizations, including holding companies such as MUFG.²⁶ The FSA may conduct inspections of MUFG and its subsidiaries and require MUFG to submit reports about its operations on a consolidated basis. The FSA also may review transactions between MUFG and its subsidiaries and has authority to require MUFG to take measures necessary to ensure the safety and soundness of the MUFG organization. Based on all the facts of record, the Board has

²³ 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship with any affiliates, to assess the bank's overall financial condition and its compliance with laws and regulations. See 12 CFR 211.24(c)(1).

²⁴ See Mitsubishi Tokyo Financial Group, Inc., 87 Federal Reserve Bulletin 349 (2001). At that time, BTMU was named The Bank of Tokyo-Mitsubishi, Ltd. and MUTB was named The Mitsubishi Trust and Banking Corporation.

²⁵ Id.

²⁶ See, e.g., Chuo Mitsui Trust Holdings, Inc., (Order dated March 15, 2011).

determined that MUFG is subject to comprehensive supervision on a consolidated basis by its appropriate home country authorities for purposes of this application.²⁷

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act (“CRA”).²⁸ The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.²⁹

²⁷ Section 3 of the BHC Act also requires the Board to determine that an applicant has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act. 12 U.S.C. § 1842(c)(3)(A). The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which MUFG operates and has communicated with relevant government authorities concerning access to information. In addition, MUFG previously has committed that, to the extent not prohibited by applicable law, it will make available to the Board such information on the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the International Banking Act, and other applicable federal laws. MUFG also previously has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable its affiliates to make such information available to the Board. In light of these commitments, the Board has concluded that MUFG has provided adequate assurances of access to any appropriate information the Board may request.

²⁸ 12 U.S.C. § 1842(c)(2); 12 U.S.C. §§ 2901 et seq.

²⁹ 12 U.S.C. § 2903.

The Board has carefully considered the convenience and needs factor and the CRA performance records of the relevant insured depository institutions. MUFG's subsidiary banks each received "outstanding" or "satisfactory" ratings,³⁰ and MS Bank received an "outstanding" rating at its most recent CRA performance evaluation by the OCC, as of January 25, 2010.³¹ In addition, consummation of the proposal would strengthen the financial resources of Morgan Stanley by converting preferred stock to voting common shares and better enable its depository institution subsidiaries to provide services to and to assist in meeting the credit needs of their communities.

Based on all the facts of record, the Board has concluded that considerations relating to convenience and needs of the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval of the proposal.

Nonbanking Activities

Morgan Stanley engages in nonbanking activities that are financial in nature as described in section 4(k)(4) of the BHC Act.³² Section 4(k)(6) of the BHC Act generally permits financial holding companies such as MUFG to acquire shares of companies that conduct activities that are financial in nature without prior Board approval.³³ Section 163(b) of the Dodd-Frank Act, however, contains an exception to this rule that requires prior Board approval of an acquisition by a bank holding company with assets of \$50 billion or more of shares of any company with assets of at least \$10 billion that is engaged in activities described in section 4(k) of the BHC Act.

³⁰ The most recent CRA performance evaluations of its insured depository subsidiaries are as follows: (1) Union Bank ("outstanding") by the Office of the Comptroller of the Currency ("OCC") as of June 2009; (2) BTMUT ("outstanding") by the Federal Deposit Insurance Corporation ("FDIC") as of July 2010; and (3) MUTB USA ("satisfactory") by the FDIC as of December 2006.

³¹ MS Bank became a national bank on September 23, 2008, on its conversion from a Utah-chartered industrial bank. MSPB became a national bank on July 1, 2010, on its conversion from a limited-purpose savings association that was not subject to the CRA. MSPB has not yet been evaluated under the CRA by the OCC.

³² 12 U.S.C. § 1843(k)(4).

³³ 12 U.S.C. § 1843(k)(6).

MUFG and Morgan Stanley exceed those asset thresholds and, accordingly, the proposal requires the Board's prior approval.

In reviewing a notice under section 163(b) of the Dodd-Frank Act, the Board is required to consider the standards listed in section 4(j)(2) of the BHC Act.³⁴ Accordingly, the Board has considered carefully whether the proposed acquisition "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."³⁵ In addition, the Board has considered the extent to which the proposed acquisition "would result in greater or more concentrated risks to global or United States financial stability or the United States economy."³⁶

As part of its review of the factors enumerated in section 4(j)(2) of the BHC Act, the Board has considered carefully the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, and the public benefits of the proposal. As previously noted, the Board has concluded, based on its review of the record, that considerations relating to the financial and managerial resources of the organizations involved in the proposal are consistent with approval.

In addition, the Board carefully considered the competitive effects of MUFG's proposed acquisition of additional voting shares of Morgan Stanley. In the United States, MUFG's operations consist primarily of commercial banking through its retail banking subsidiary in California. Morgan Stanley does not engage in retail banking to any significant extent. Moreover, Morgan Stanley engages extensively in nonbank financial activities. MUFG has a limited presence in such activities in the United States. As a result, even if MUFG were to be considered to control Morgan Stanley, a combination of the two firms would be unlikely to raise competitive issues.

³⁴ The Dodd-Frank Act § 163(b)(4).

³⁵ 12 U.S.C. § 1843(j)(2).

³⁶ The Dodd-Frank Act § 163(b)(4).

The proposed marginal increase in the percentage of Morgan Stanley's shares that would be held by MUFG would have no significant competitive effects in any relevant market. As a result, the Board expects that consummation of the proposal would have a de minimis effect on competition for these services.

The Board also has reviewed carefully the public benefits and possible adverse effects of the proposal. The record indicates that consummation of the proposal would strengthen Morgan Stanley's capital position and allow Morgan Stanley to better serve its customers. For the reasons discussed above, and based on all the facts of record, the Board has determined that consummation of the proposal is not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, and that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects. Accordingly, the Board has determined that the balance of public benefits is consistent with approval.

As required by section 163(b) of the Dodd-Frank Act, the Board also has considered the extent to which the proposed acquisition would result in greater or more concentrated risks to global or United States financial stability or to the United States economy. In its review under this factor, the Board has considered whether the proposal would result in a material increase in risks to financial stability, due to an increase in the size of the acquirer or in the extent of the interconnectedness of the financial system, or in a reduction in the availability of substitute providers of critical financial products or services. As discussed above, MUFG has stated that it does not propose to control or exercise a controlling influence over Morgan Stanley and would need Board approval before acquiring control or exercising a controlling influence. Consummation of this proposal would not result in a significant decrease in the availability of substitute providers of critical financial services or a significant increase in the size of MUFG because MUFG will not control Morgan Stanley. For the same reason, and because the increase in MUFG's and Morgan Stanley's economic exposure to each other would be relatively small, this proposal will not result in a significant increase in the interconnectedness of the financial system. As a result, the Board has concluded that

the change in the risk to global or United States financial stability or to the United States economy associated with this transaction would be inconsequential. Based on all the facts or record, the Board concludes that the considerations under this factor are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposal should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes.³⁷ The Board's approval is specifically conditioned on compliance by MUFG with all the commitments made to and relied on by the Board in connection with the application.³⁸ For purposes of this action, the conditions and commitments are deemed to be conditions imposed in

³⁷ The commenter requested that the Board extend the comment period on the proposal. In the Board's view, the commenter has had ample opportunity to submit its views and, in fact, has provided written submissions that the Board has carefully considered in acting on the proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant action at this time and that further delay in considering the proposal, extension of the comment period, or denial of the proposal on the grounds discussed above, is not warranted.

³⁸ The commenter also requested that the Board hold a public hearing on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if necessary or appropriate to clarify the factual issues related to the application and to provide an opportunity for testimony. 12 CFR 223.16(e), 262.25(d). As noted above, MUFG will not be acquiring control of Morgan Stanley or its depository institutions, and the commenter's request fails to demonstrate why written comments do not present its views adequately or why a meeting or hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the request for a public meeting or hearing on the proposal is denied.

writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this order. The conversion transaction must be consummated no later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco (“Reserve Bank”), acting pursuant to delegated authority. Subject to the conversion transaction being consummated within that three-month period, MUFG may acquire additional shares up to 24.9 percent of the voting shares of Morgan Stanley within one year after the effective date of this order, such period subject to extension for good cause by the Board or the Reserve Bank, acting pursuant to delegated authority.³⁹

By order of the Board of Governors,⁴⁰ effective June 14, 2011.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

³⁹ No further approval would be required for MUFG to acquire shares to comply with its commitment to the Board to maintain an investment in at least 20 percent of the voting common equity of Morgan Stanley and to use its reasonable best efforts to honor a Board request to provide additional capital to preserve the maximum level of ownership of total equity of Morgan Stanley that MUFG achieved before the date of the Board’s request. See Board letter to H. Rodgin Cohen, Esq., supra.

⁴⁰ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin.