

**Meeting between Federal Reserve Board Staff
and Representatives of Morgan Stanley
February 7, 2012**

Participants: Sean Campbell, Jeremy Newell, and Christopher Paridon (Federal Reserve Board)

Matthew Berke, Soo-Mi Lee, Tim Lyons, and Jim Rosenthal (Morgan Stanley); Margaret Tayhar (David Polk & Wardwell LLP); and Amy Friend (Promontory Financial Group)

Summary: Staff of the Federal Reserve Board met with representatives of Morgan Stanley to discuss the restrictions on proprietary trading and hedge fund and private equity fund activities under section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (also known as the “Volcker Rule”).

Among matters discussed in the meeting were Morgan Stanley’s views regarding the proposed rule’s implementation of the market making-related activities exemption, including the use of metrics to help differentiate prohibited proprietary trading from permitted market making. Morgan Stanley stated that if the proposed metrics would be useful tools to help inform discussions between banking entities and regulators, but noted that the seven criteria necessary to qualify for the market making-related activity exemption should be modified to take account of differences in liquidity or markets or based on asset classes. Morgan Stanley stressed that, given differences in market conditions and the fact that a dealer may be required to carry assets or risk on its balance sheet in a variety of ways and for different periods of time, the proposed rule’s criterion that the market making-related activities of the banking entity must be designed to generate revenues primarily from fees, commissions, bid/ask spreads or other income not attributable to appreciation in value of the underlying position, would not be feasible for all markets or asset-classes, if at all.

Morgan Stanley suggested that a more effective way to differentiate permitted market making from prohibited proprietary trading was for the final rule to take account of the customer-facing nature of a transaction or business instead of looking solely to the extent to which profits and losses are comprised of customer revenue.