Meeting between Federal Reserve Board and Other Agency Staff  
and Representatives of Morgan Stanley  
October 28, 2010

Participants:  Ruth Porat, Kenneth deRegt, Candice Koederitz, Jacqueline LiCalzi,  
Phil Blumberg, Frank Barron, Edmond Moriarty, Paul Wirth, David Russo,  
Edgar Sabounghi, Patricia Gould, Matt Berke, Chris O'Dell, Soo-Mi Lee,  
Lillian Amato Tartamella, John Neary, Nancy King, and James Hill  
(Morgan Stanley)  

David Lynch, John Colwell, Sean Campbell, Jeremy Newell, and Chris Paridon  
(Federal Reserve Board); Clinton Lively, Debra Stone, and Matthew Lieber  
(Federal Reserve Bank of New York); and other Federal agency staff

Summary:  Staff of the Federal Reserve and other Federal agency staff met with  
representatives of Morgan Stanley to discuss the restrictions on proprietary trading activities 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”). Morgan Stanley  
provided Federal Reserve and other agency staff with a presentation on their views on (i) the  
proprietary trading restrictions both generally and with particular respect to trading, market  
making and hedging activities and operations in which they engage and (ii) the hedge fund and  
private equity fund restrictions both generally and with particular respect to the fund sponsorship  
and investment activities in which they engage.

Among other matters discussed in the meeting relating to the proprietary trading restrictions  
were: the differences in liquidity, client volume, and inventory needs among market making  
activities in varying types of asset classes and product types; Morgan Stanley’s view as to the  
key characteristics of any market making operation (i.e., a permanent inventory from which to  
provide liquidity to clients and a permanent client-ready posture to buy and sell); the use of risk  
metrics (e.g., VaR and inventory limits), estimates of client demand, and judgment in managing  
the risks posed by market making operations; Morgan Stanley’s view as to the critical  
importance of sound judgment and discretion, apart from quantitative measures, in identifying  
limit trading risk; and the unique features of derivatives and structured products market making  
(e.g., the presence of residual risk rather than a specific “inventory” of assets).

Among other matters discussed in the meeting relating to the hedge fund and private equity fund  
restrictions were: the types of hedge fund and private equity fund in which Morgan Stanley and  
other banking entities have historically investment or sponsored; the characteristic differences  
between long/short equity or fixed income funds, funds of funds, and liquidity or money market  
funds; the extent to which banking entities may typically hold ownership interests in hedge funds  
or private equity finds that they sponsor; the use of certain fund structures to make merchant
banking investment; Morgan Stanley’s view that section 619’s definition of “hedge fund and private equity fund” is overbroad because of its incorporation of certain exemptions contained in the Investment Company Act of 1940; and the application of section 619’s conformance period to types of funds that might be identified by the rulemaking agencies as “similar funds” to which section 619 applies in the future.