

**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 funds 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.