



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

December 12, 2025

Jonathan V. Gould  
Comptroller of the Currency  
Office of the Comptroller of the Currency  
400 7th Street, SW  
Washington, DC 20219

Dear Mr. Gould:

This letter concerns the request by Morgan Stanley Bank, N.A. (“Bank”), Salt Lake City, Utah, for an exemption from certain requirements of section 23A of the Federal Reserve Act<sup>1</sup> to acquire the fixed income derivatives business of Morgan Stanley Capital Services LLC (“MSCS”), New York, New York. Bank and MSCS are both indirect, wholly owned subsidiaries of Morgan Stanley, New York, New York, a financial holding company. As part of a one-time internal corporate reorganization, Morgan Stanley would separate the fixed income derivatives business of MSCS into a separate company, MSCS FID, and would retain MSCS’s existing institutional equities business in MSCS.<sup>2</sup> Morgan Stanley would then immediately merge MSCS FID with and into Bank. As a result of the reorganization, Bank would acquire the assets, and would assume the liabilities, of MSCS FID, and pay no additional consideration in connection with the transaction.

Section 23A defines affiliate to include “any other company that is controlled by the company that controls the member bank.”<sup>3</sup> Bank and MSCS FID are

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<sup>1</sup> 12 U.S.C. § 371c.

<sup>2</sup> Morgan Stanley represents that on the date of the reorganization, all the activities of MSCS FID would be permissible for Bank to conduct as a national bank.

<sup>3</sup> 12 U.S.C. § 371c(b)(1)(A); 12 CFR 223.2(a)(2).

both controlled by Morgan Stanley and are therefore affiliates for purposes of section 23A.<sup>4</sup>

Section 23A and the Board's Regulation W limit the amount of covered transactions between a bank and any single affiliate to 10 percent of the bank's capital stock and surplus, and limit the amount of covered transactions between a bank and all its affiliates to 20 percent of the bank's capital stock and surplus.<sup>5</sup> Section 23A defines a covered transaction to include, among other things, a bank's "purchase of assets from the affiliate."<sup>6</sup> Regulation W defines the purchase of an asset from an affiliate as the acquisition of an asset from an affiliate in exchange for cash or any other consideration, including an assumption of liabilities. The merger of an affiliate into a bank is a purchase of assets by the bank from an affiliate if the bank assumes any liabilities of the affiliate or pays any other form of consideration in the transaction.<sup>7</sup> Accordingly, Bank's proposed acquisition of MSCS FID by merger is a purchase of assets from an affiliate and, therefore, a covered transaction subject to section 23A.

Bank would acquire MSCS FID's assets, would assume MSCS FID's liabilities, and would not pay any additional consideration in connection with the transaction. The aggregate covered transaction associated with the reorganization is valued at \$ [REDACTED], as of September 30, 2025.<sup>8</sup> The acquisition of MSCS FID exceeds Bank's quantitative limits in section 23A for covered transactions both with a single affiliate and with all affiliates. Accordingly, Bank seeks an exemption from the quantitative limits of section 23A to engage in the proposed reorganization.

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<sup>4</sup> Under section 23A, a company "controls" another company if, among other things, it owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other company. 12 U.S.C. § 371c(b)(3)(A)(i); 12 CFR 223.3(g)(1)(i). Morgan Stanley indirectly owns all the voting securities of Bank and MSCS, and will indirectly own all the voting securities of MSCS FID, and thus controls each entity.

<sup>5</sup> 12 U.S.C. § 371c(a)(1); 12 CFR 223.11.

<sup>6</sup> 12 U.S.C. § 371c(b)(7)(C); 12 CFR 223.3(h)(3).

<sup>7</sup> 12 CFR 223.3(dd); see also 12 CFR 223.31(b)(1).

<sup>8</sup> Through the proposed reorganization, MSBNA would assume approximately \$ [REDACTED] in liabilities, which equals approximately [REDACTED] percent of MSBNA's capital stock and surplus as of September 30, 2025. After reducing the amount of liabilities that would be assumed by a proposed capital contribution from Morgan Stanley to Bank of \$ [REDACTED], the aggregate value of the covered transaction would be \$ [REDACTED], or [REDACTED] percent of MSBNA's capital stock and surplus, as of September 30, 2025. See 12 CFR 223.31(b)(1).

Because Bank is a national bank, the Office of the Comptroller of the Currency (“OCC”) may, by order, exempt the proposed asset purchase from the requirements of section 23A if the Board and OCC jointly find the exemption to be (i) in the public interest and (ii) consistent with the purposes of section 23A.<sup>9</sup> In addition, the FDIC must not object to the exemption in writing based on a determination that the exemption presents an unacceptable risk to the Deposit Insurance Fund within 60 days of being notified of the OCC’s and Board’s joint findings.<sup>10</sup>

The Board previously has stated that the dual purposes of section 23A are to protect against a depository institution suffering losses in transactions with affiliates and to limit the ability of the depository institution to transfer to its affiliates the subsidy arising from the institution’s access to the federal safety net.<sup>11</sup> The Board previously has approved exemptions under section 23A for one-time asset transfers that are part of an internal corporate reorganization where the transaction is structured to ensure the quality of the transferred assets and to protect the bank from losses should the quality of the transferred assets deteriorate.<sup>12</sup>

Bank asserts that the merger of MSCS FID with and into Bank would strengthen Bank and balance its risk profile by expanding and diversifying its activities, revenue streams, and client relationships. Bank also asserts the reorganization would increase Bank’s profitability and improve Bank’s ability to provide products and services to customers at a lower cost through improved efficiencies and cost savings. Further, Bank asserts that the reorganization would strengthen its strategic position and competitiveness and allow it to expand its client offerings to include a suite of fixed income derivatives associated with the MSCS FID business. In addition, Morgan Stanley and Bank have provided commitments listed in the Appendix, similar to those previously relied upon by the Board in granting section 23A exemptions to allow internal corporate

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<sup>9</sup> 12 U.S.C. § 371c(f)(2)(B)(i)(I).

<sup>10</sup> 12 U.S.C. § 371c(f)(2)(B)(i)(II).

<sup>11</sup> 67 *Fed. Reg.* 76560 (Dec. 12, 2002).

<sup>12</sup> See, e.g., Letter from Benjamin W. McDonough, Deputy Secretary of the Board, to Stuart Feldstein, Acting Principal Deputy Chief Counsel of the OCC (July 31, 2025), <https://www.federalreserve.gov/supervisionreg/legalinterpretations/fedreserseactint20250731.pdf>; Letter from Robert deV. Frierson, Deputy Secretary of the Board, to John A. Buchman, E\*TRADE Bank (Oct. 24, 2006), <https://www.federalreserve.gov/supervisionreg/legalinterpretations/20061024.pdf>; Letter from Robert deV. Frierson, Deputy Secretary of the Board, to Carl Howard, Citigroup Inc. (June 30, 2006), <https://www.federalreserve.gov/supervisionreg/legalinterpretations/20060630.pdf>.

reorganizations, to ensure that Bank is protected from losses should the quality of the assets acquired by Bank in connection with the proposal deteriorate.<sup>13</sup>

In light of these considerations and all the facts presented, the Director of the Division of Supervision and Regulation, acting pursuant to authority delegated by the Board, and with the concurrence of the General Counsel, hereby finds that the proposed exemption is in the public interest and consistent with the purposes of section 23A.

This action is specifically conditioned on compliance by Bank with all the commitments and representations it has made to the Board in connection with this exemption request. These commitments constitute conditions imposed in writing in connection with this action and, as such, may be enforced in proceedings under applicable law. This action also is based on the specific facts and circumstances described in Bank's correspondence and this letter. Any change in the facts or circumstances may result in a different conclusion or revocation of the findings in this letter.

This action also is specifically conditioned on receipt by Bank of all regulatory approvals required by the proposal and compliance with any conditions imposed in connection with such approvals.

Very truly yours,

*(Signed) Michele Taylor Fennell*

Michele Taylor Fennell  
Associate Secretary of the Board

cc: Federal Deposit Insurance Corporation  
Alfred Seivold, Acting Senior Deputy Director  
Division of Complex Institution Supervision and Resolution

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<sup>13</sup> Morgan Stanley also has committed to contribute funds to Bank equal to the book value of any low-quality assets that are transferred to Bank in connection with Bank's acquisition of MSCS FID.

## Appendix

In connection with the request filed by Morgan Stanley Bank, N.A., Salt Lake City, Utah (“Bank”), to the Office of the Comptroller of the Currency for an exemption from the requirements of section 23A of the Federal Reserve Act (12 U.S.C. § 371c) in order to engage in an internal corporate reorganization through which the Bank would acquire the fixed income derivatives business of its affiliate Morgan Stanley Capital Services LLC, New York, New York (“MSCS FID”), the Bank and its parent holding company, Morgan Stanley, provide the following commitments to the Board of Governors of the Federal Reserve System (“Board”):

1. Morgan Stanley commits that, on the effective date of the internal corporate reorganization, it will contribute funds to the Bank in the amount of the book value of any low-quality assets that are transferred to the Bank at the time that MSCS FID is transferred to the Bank. Morgan Stanley and the Bank also commit that the Bank will hold an amount of risk-based capital equal to the book value of any low-quality assets that are transferred to the Bank so long as the Bank retains ownership or control of the transferred assets.
2. Morgan Stanley commits, for a two-year period following the effective date of the internal corporate reorganization, to make either (i) a cash payment to the Bank equal to the book value at the end of each calendar quarter plus write-downs during that quarter by the Bank of any transferred assets (other than those that were low-quality assets at the time of the initial transfer) that were low-quality assets at the end of that quarter; or (ii) quarterly purchases from the Bank of any transferred assets (other than those that were low-quality assets at the time of the initial transfer) that were low-quality assets at the end of that quarter at a price equal to the book value at the end of that quarter plus write-downs during that quarter by the Bank of any such transferred assets. Morgan Stanley will make the cash payment or will purchase the assets within 30 days after the end of each calendar quarter. Morgan Stanley and the Bank also commit that the Bank will hold an amount of risk-based capital equal to the book value of any transferred assets that become low-quality so long as the Bank retains ownership or control of the transferred assets as described in the example above.
3. Before the internal corporate organization is consummated, a majority of the Bank’s directors will review and approve the transaction.

Morgan Stanley and the Bank agree that these commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and

decision on the exemption request and, as such, may be enforced in proceedings under applicable law.

Morgan Stanley and the Bank understand that, as a condition of any finding and decision on the exemption request by the Board, the Bank must remain well capitalized based on the Office of the Comptroller of the Currency's risk-based capital guidelines and the modifications to those guidelines described in commitments (1) and (2) above.