Morgan Stanley

Clearing Member Pricing Disclosure Under The European Market Infrastructure Regulation.

Introduction

The European Market Infrastructure Regulation on OTC derivatives, central counterparties and trade repositories (**EMIR**) regulates the clearing of OTC and exchange-traded derivatives on EU central counterparties (**CCPs**).

In particular, Article 38(1) of EMIR requires that CCPs and their clearing members disclose the prices and fees associated with the services they offer. This document provides guidance on the factors which affect fees and prices for clearing derivatives through Morgan Stanley & Co. International plc (**Morgan Stanley**).

Article 39(7) of EMIR also requires that CCPs and their clearing members disclose details of the available segregation models (i.e. omnibus client accounts or individually segregated client accounts) and the costs involved with each. The possible costs implications of different models are addressed in this document and information on other aspects is available via the following link (under the heading "EMIR Public Disclosures"):

http://www.morganstanley.com/institutional/sales/derivatives.html

As described below, Morgan Stanley's pricing structure for the clearing of OTC and exchange-traded derivatives and a client's ability to benefit from discounts and rebates are determined on the basis of a number of factors, including return on equity, minimum revenue thresholds, and a client's broader relationship with Morgan Stanley.

Factors Affecting Fees and Prices

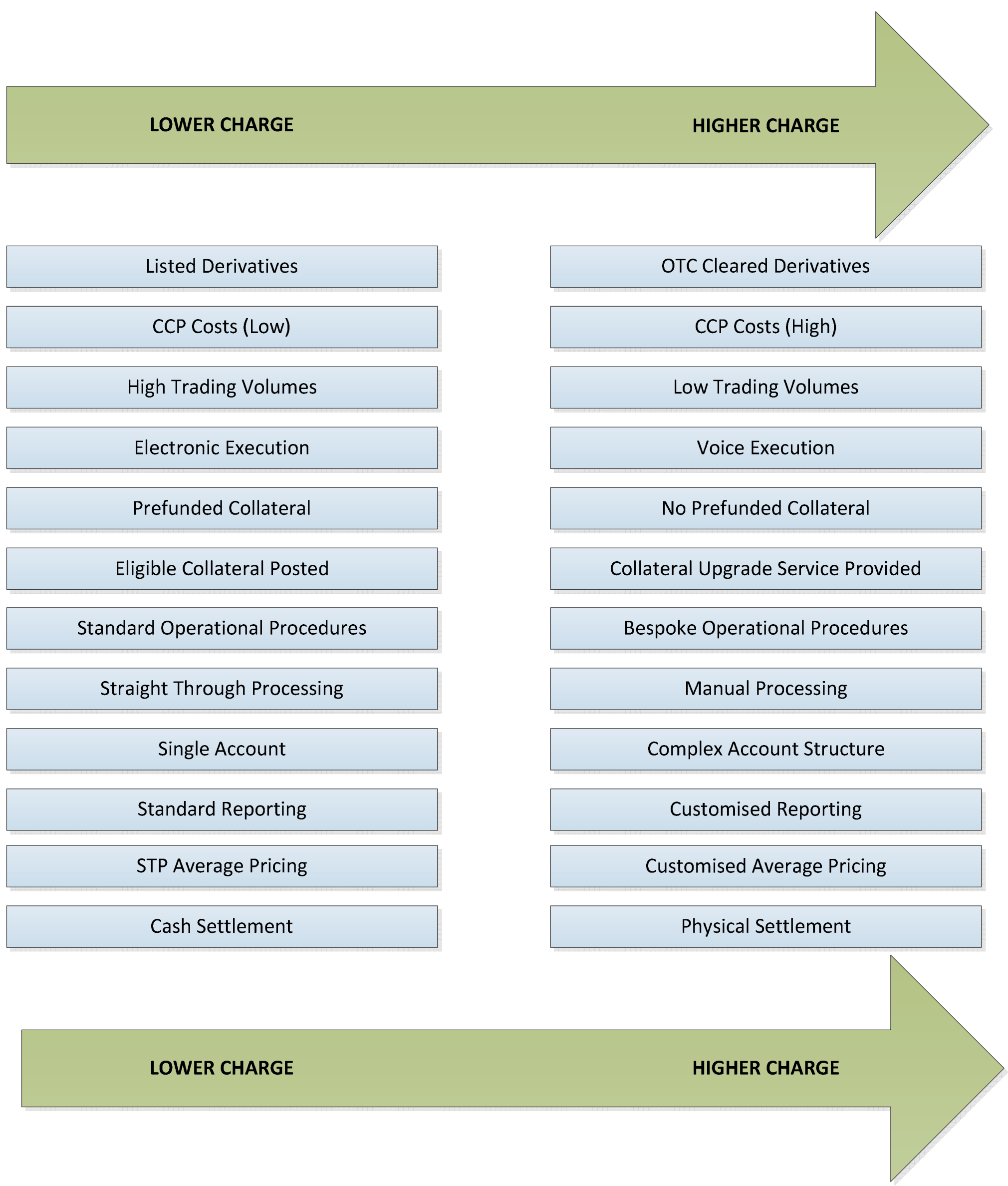
Morgan Stanley targets a return on equity in excess of 15%. This return includes an analysis of net revenues received from the client versus funding costs and capital. Costs include those related to funding the guarantee fund, contingent funding and the supplementary leverage ratio.

Fees and prices for OTC and listed derivatives clearing services provided to clients by Morgan Stanley may depend on a number of variables, including the following:

- Product scope:
  - Whether listed and/or OTC derivatives are cleared.
  - CCPs on which derivatives are cleared.
- Volume of contracts traded.
- Execution method (voice or DMA) and percentage of execution done with Morgan Stanley.
- Margin requirements and type of collateral posted by client and to be posted by Morgan Stanley:
  - Any pre-funding requirements for relevant accounts.

    - Complexity and role of Morgan Stanley in margining process.
    - Degree of consistency and operational scalability of accounts across relevant CCPs.
- Brokerage, clearing and exchange fees incurred by Morgan Stanley.
- Number of accounts to set up and manage, bespoke technology enhancements to implement, ongoing service requirements.
- Broader Morgan Stanley relationship and mandates which may be associated with derivatives clearing relationship (e.g. prime brokerage).
- Capital costs: Morgan Stanley's capital costs associated with clearing services may vary, depending on the relevant clearing arrangement, the status of the local central counterparty, and relevant clearing rules and associated documentation. Such capital costs may impact the pricing for clearing services.

The following diagram shows how some of the variables listed above would affect pricing:



Indicative Pricing Examples

We have set out below a hypothetical pricing example, subject to the effect of the variables described in this document.

Exchange-traded derivatives

Exchange / Clearing House: Eurex
Product: Euro Stoxx 50 Index Futures (FESX)
Annual volumes: 100,000 contracts
Clearing commission per lot: €2.00 + exchange / clearing house fees
Annual clearing cost: €200,000 + exchange / clearing house fees

OTC derivatives

Clearing House: LCH Ltd
Product: Interest Rate Swap
Annual volumes: 1,000 trades
Ticket fees: $500 + clearing house fees
Annual clearing cost: $500,000 + clearing house fees

Actual pricing will differ depending on the variables identified in this document. Any client may at any time obtain the specific pricing of clearing services associated with their accounts by contacting their exchange-traded or OTC derivatives account representative.

Morgan Stanley applies a minimum revenue threshold, currently set at USD 250,000 per annum, for the provision of clearing services for OTC and exchange-traded derivatives.

Costs for individual vs omnibus accounts

Article 39(5) and 39(7) of EMIR require a clearing member to offer its clients, at least, the choice between omnibus client segregation and individual client segregation and inform them of the costs and level of protection associated with each option.

Different CCP structures are likely to result in varying levels of costs and risks associated with the default of a clearing member or another client. Please refer to the risk disclosure documentation accessible at the same location as this document that sets out a high level overview of the different levels of protection associated with various account models and provides links to the CCPs' risk disclosures.

The specific costs of an individual or omnibus account for a particular client may depend on the number of accounts maintained for the relevant client, the type of assets held in such accounts, the ongoing operational costs associated with maintaining that account, and any margin pre-funding requirements for those accounts. We envisage the operational costs, and the costs associated with pre-funding margin (whether involving client or Morgan Stanley capital) to be greater for individual accounts. Any client may at any time obtain the specific costs for such accounts by contacting their exchange-traded or OTC derivatives account representative.

Delegated Reporting

Additional fees may be charged for the provision of a delegated EMIR trade reporting service for OTC and exchange-traded derivatives.