

MORGAN STANLEY ACES SPC

(a segregated portfolio company incorporated under the laws of the Cayman Islands)

NOTE ISSUANCE PROGRAM

Morgan Stanley ACES SPC (the "**Company**") and, when acting for the account of a Segregated Portfolio (as defined herein), the "**Issuer**") may issue notes (the "**Notes**") from time to time under the Note Issuance Program (the "**Program**") described herein in one or more series (each a "**Series**"). Each Series of Notes offered hereby and pursuant to the applicable Private Placement Memorandum Supplement (the "**Applicable Supplement**") delivered with this Base Private Placement Memorandum (this "**Base Private Placement Memorandum**" and, together with the Applicable Supplement, this "**Private Placement Memorandum**") will be issued by the Company for the account of one or more segregated portfolios (each, a "**Segregated Portfolio**") created in order to segregate the assets and liabilities of the Company specifically attributable to such Series from the assets and liabilities of the Company held within or on behalf of any other Segregated Portfolio with respect to another Series of Notes or the general assets and liabilities of the Company. The Notes will be issued pursuant to an indenture (the "**Applicable Indenture**") with LaSalle Bank National Association or such other trustee specified in the Applicable Supplement (the "**Trustee**").

Each Series of Notes may include one or more classes (each, a "**Class**"). The rights of one or more Classes of any Series of Notes may be senior or subordinate to the rights of one or more of the other Classes. A Series of Notes may include two or more Classes which differ as to the timing, order of priority of payment, interest rate or amount of payments of principal or interest or both. Information regarding each Class of Notes will be set forth in the Applicable Supplement.

Each Series of Notes will have recourse only to the assets of the Segregated Portfolio relating to such Series (the "**Portfolio Property**"). The Portfolio Property will, subject to the Applicable Supplement, consist of (i) the Underlying Securities relating to such Series, (ii) the Issuer's rights under the Applicable Swap Agreement (including the Swap Guarantee), (iii) the Issuer's rights under the Applicable Contingent Forward Agreement (including the Contingent Forward Guarantee), if any, (iv) any Permitted Investments relating to such Series purchased by the Issuer, (v) certain property incidental thereto, and (vi) the proceeds of the foregoing, each as more particularly described in the Applicable Supplement.

The Portfolio Property will provide the sole source of funds to meet the obligations of the Issuer to the creditors of the relevant Series of Notes, including the holders of such Series of Notes (the "**Holders**"), and all other obligations of the Issuer attributable to such Segregated Portfolio. If the amounts received from the Portfolio Property are insufficient to make payment of all amounts due in respect of such Series and all other obligations attributable to such Segregated Portfolio (after meeting the payments that are due from the Issuer and that rank in priority in accordance with the Priority of Payments) no other assets of the Issuer will be available to meet that shortfall and all further claims of the Holders in respect of such Series of Notes will be extinguished.

The Notes will not be an obligation of or interest in Morgan Stanley or any affiliate.

Application has been made to the Irish Financial Services Regulatory Authority (the "**Irish Financial Services Regulatory Authority**" or "**IFSR**"), in its capacity as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"), for this Base Private Placement Memorandum to be approved. Application will be made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") within 12 months of the approval of this registration document for certain Series or Classes of Notes to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and to trading on its regulated market. **Such approval relates only to the Notes which are to be admitted to trading on the regulated market of Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area.**

This Private Placement Memorandum constitutes a registration document for the purpose of Directive 2003/71/EC (the "Prospectus Directive").

The principal balance of each Series of Notes will be reduced by Credit Events under the Applicable Swap Agreement, as described in the Applicable Supplement. The Issuer will make payments of interest and principal on each Series of Notes as described in the Applicable Supplement.

In making an investment in the Notes, Holders should consider the risks of such an investment, including the Risk Factors described in the Applicable Supplement.

Unless provided otherwise in the Applicable Supplement, the Notes will be issued in book entry form and will be represented by one or more global notes in the name of the Depository Trust Company and/or a nominee thereof. The Notes will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities laws, and the Issuer will not be registered under the Investment Company Act of 1940, as

amended (the "**Investment Company Act**"). Sales or other transfers of Notes may be made only (i) to qualified institutional buyers as defined under Rule 144A under the Securities Act which are also Qualified Purchasers, as defined in Section 2(a) (51) of the Investment Company Act or (ii) to non-U.S. persons in offshore transactions in reliance and in accordance with Regulation S under the Securities Act. Prospective purchasers are hereby notified that sellers of Notes under clause (i) will be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. See "Description of the Notes – Transfer Restrictions."

The Notes are offered by the Distributor (as defined herein), subject to prior sale, when, as and if issued and subject to acceptance by the Trustee, with a minimum subscription as set forth in the Applicable Supplement. The Distributor reserves the right to offer Notes at a price different from the initial offering price as described in the Applicable Supplement (the "**Issue Price**") at any time.

MORGAN STANLEY

NOTICE TO INVESTORS

Holders should read the Notice to Investors and Transfer Restrictions set forth in the Applicable Supplement and should read and carefully consider the Risk Factors set forth in the Applicable Supplement. Each purchaser of the Notes, whether by initial purchase or by transfer, will, by its purchase of its Notes, be deemed to have made each of the representations and agreements set forth in the Notice to Investors and Transfer Restrictions in the Applicable Supplement or will be required to execute and deliver to the Trustee and the Distributor an Investor Letter in the form required by the Applicable Indenture.

This Private Placement Memorandum does not constitute an offer to sell or a solicitation of any offer to buy any security other than the Notes offered hereby, nor constitute an offer to sell or a solicitation of an offer to buy any of the Notes to any person in any jurisdiction in which it is unlawful to make such an offer or solicitation to such person.

Other than the approval of the Irish Financial Services Regulatory Authority of this Private Placement Memorandum as a registration document in accordance with the Prospectus Directive, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Private Placement Memorandum in any jurisdiction. The distribution of this Private Placement Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Private Placement Memorandum (or any part thereof) comes are required by the Company and MS to inform themselves about and to observe any such restrictions.

The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Trustee has not participated in the preparation of this Private Placement Memorandum and assumes no responsibility for its contents.

The purchase of Notes is suitable only for, and should be made only by, investors who can bear the risks of limited liquidity and who can understand and bear the financial and other risks of such an investment for a significant period of time. The Notes are subject to restrictions on transfer which could also limit their liquidity.

Each Series of Notes will be issued for the account of one or more segregated portfolios of the Company. The Companies Law (2003 Revision) of the Cayman Islands (the "**Companies Law**") provides that a segregated portfolio company may create one or more segregated portfolios in order to segregate the assets and liabilities of the segregated portfolio company held within or on behalf of a segregated portfolio from the assets and liabilities of the segregated portfolio company held within or on behalf of any other segregated portfolio of the company or the assets and liabilities of the company which are not held within or on behalf of a segregated portfolio of the company. The Companies Law also provides that segregated portfolio assets shall only be available and used to meet the liabilities to the creditors of the segregated portfolio company who are creditors of that segregated portfolio and who shall thereby be entitled to have recourse only to the segregated portfolio assets attributable to that segregated portfolio for such purposes, and segregated portfolio assets shall not be available or used to meet liabilities to, and shall be absolutely protected from, the creditors of the segregated portfolio company who are not creditors in respect of that segregated portfolio, and who accordingly shall not be entitled to recourse to the segregated portfolio assets attributable to that segregated portfolio. This type of structure does not exist in most jurisdictions and these provisions of the Companies Law have not been subject to judicial scrutiny in any jurisdiction. Accordingly, there is a risk that upon such review a court may not be willing to uphold the statutory segregation of assets and liabilities as provided for by the Companies Law with respect to a segregated portfolio company.

The Swap Counterparty, the Distributor and their affiliates (the "**Morgan Stanley Affiliates**") may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with the issuer of the Underlying Securities, the entities identified as Reference Entities in the Applicable Supplement (the "**Reference Entities**"), or any of their respective affiliates (or any other person or entity having obligations relating to the issuer of the Underlying Securities or a Reference Entity) and may act with respect to such business in the same manner as if the Notes did not exist, regardless of whether any such action might have an adverse effect on the issuer of the Underlying Securities, any Reference Entity, or on a purchaser of

the Notes (including, without limitation, any action which might constitute or give rise to a Credit Event). Any Morgan Stanley Affiliate may vote its interest (if any) in any obligations it holds of the issuer of the Underlying Securities or a Reference Entity (or of any of their respective affiliates), purchase or sell such obligations, provide bid and offer prices with respect thereto, affect the market value thereof, and otherwise participate in the secondary market for such obligations as if the Notes did not exist, regardless of whether any such action might have an adverse effect on the issuer of the Underlying Securities, the Underlying Securities, a Reference Entity or the Holders of the Notes.

The Morgan Stanley Affiliates may, whether by virtue of the types of relationships described above or otherwise, at the date hereof or at any time hereafter be in possession of information in relation to the issuer of the Underlying Securities, Reference Entity or any of their respective obligations which is or may be material in the context of the Notes and which is not or may not be known to the general public. None of the Morgan Stanley Affiliates has any obligation, and the offering of the Notes and the execution of the Applicable Swap Agreement does not create any obligation on the part of any Morgan Stanley Affiliate, to disclose to the purchaser of the Notes any such relationship or information (whether or not confidential).

No person is authorized to give any information or to make any representation not contained in this Private Placement Memorandum, and any information or representation not contained herein must not be relied upon as having been authorized by or on behalf of any Morgan Stanley Affiliate or the Trustee. The delivery of this Private Placement Memorandum at any time does not imply that information contained herein is correct at any time subsequent to the date hereof.

The information set forth in this Private Placement Memorandum has been obtained from official or other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by any Morgan Stanley Affiliate or the Trustee.

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT NO REGISTRATION STATEMENT OR APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

INFORMATION AS TO PLACEMENT WITHIN THE NETHERLANDS

Each Distributor has represented and agreed that it has not, directly or indirectly, offered, sold, transferred or delivered and will not, directly or indirectly, offer, sell, transfer or deliver any Notes (including rights representing an interest in a global certificate) in denominations less than €250,000 or \$250,000 (or the equivalent thereof in other currencies) to anyone anywhere in the world other than to banks, investment banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international and supranational organizations, treasuries and finance companies of large enterprises and other entities which trade or invest in securities in the conduct of a business or profession.

NOTICE TO CANADIAN RESIDENTS
(Ontario and Québec)

Offers and Sales in Canada

This Private Placement Memorandum constitutes an offering of the securities described herein only in those Canadian jurisdictions and to those Canadian persons where and to whom the securities may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This Private Placement Memorandum is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in Canada or in any province or territory thereof. Any offer or sale of the securities in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable provincial securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this Private Placement Memorandum or the merits of the securities described herein and any representation to the contrary is an offence.

The offering of the securities in Canada is being made solely by this Private Placement Memorandum and any decision to purchase the securities should be based solely on information contained within this document. No person has been authorized to give any information or to make any representations concerning this offering other than as contained herein. The delivery of this Private Placement Memorandum does not imply that any information contained herein is correct as of any date subsequent to the date set forth on the cover hereof. This Private Placement Memorandum constitutes an offering of the securities described herein in the provinces of Ontario and Québec only.

This Private Placement Memorandum is for the confidential use of only those persons to whom it is delivered by the Issuer or its authorized dealer-agents in connection with the private placement of securities in the provinces of Ontario and Québec. The Issuer and its authorized dealer-agents reserve the right to reject all or part of any offer to purchase the securities for any reason or allocate to any purchaser less than all of the securities for which it has subscribed.

Responsibility

Except as otherwise expressly required by applicable law or as agreed to in contract, no representation, warranty, or undertaking (express or implied) is made and no responsibilities or liabilities of any kind or nature whatsoever are accepted by any dealer as to the accuracy or completeness of the information contained in this Private Placement Memorandum or any other information provided by the Issuer in connection with the offering of securities in the provinces of Ontario and Québec.

Resale Restrictions

The distribution of the securities in Canada is being made on a private placement basis only and is exempt from the requirement that the Issuer prepare and file a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, any resale of the securities must be made in accordance with applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with prospectus and registration requirements or statutory exemptions from the prospectus and registration requirements in the relevant Canadian provinces and/or territories or under a discretionary exemption granted by the relevant Canadian securities regulatory authorities. Canadian investors are advised to seek legal advice prior to any resale of the securities.

The Issuer is not a “reporting issuer”, as such term is defined under applicable Canadian securities legislation, or the equivalent in any province or territory of Canada in which the securities will be offered. Canadian investors are advised that the Issuer currently does not intend to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the securities to the public in Canada or any province or territory thereof.

Representations of Purchasers

Each Canadian investor who purchases securities will be deemed to have represented to the Issuer and any dealer who sells securities to such purchaser that:

- (a) the offer and sale of the securities was made exclusively through the final version of the Private Placement Memorandum and was not made through an advertisement of the securities in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada;
- (b) such purchaser has reviewed and acknowledges the terms referred to above under the heading "--Resale Restrictions";
- (c) where required by law, such purchaser is purchasing as principal, or is deemed to be purchasing as principal in accordance with the applicable securities laws of the province in which such purchaser is resident, for its own account and not as agent for the benefit of another person; and
- (d) such purchaser, or any ultimate purchaser for which such purchaser is acting as agent, is entitled under applicable Canadian securities laws to purchase such securities without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing:
 - (i) in the case of a purchaser resident in Québec, such purchaser is an "**accredited investor**" as defined in section 1.1 of National Instrument 45-106 Prospectus and Registration Exemptions ("**NI 45-106**"); and
 - (ii) in the case of a purchaser resident in Ontario, such purchaser, or any ultimate purchaser for which such purchaser is acting as agent:
 - (1) is an "**accredited investor**", other than an individual, as defined in section 1.1 of NI 45-106 and is a person to which a dealer registered as an international dealer in Ontario within the meaning of section 98(4) of the Regulation to the Securities Act (Ontario) may sell the securities; or
 - (2) is an "**accredited investor**", including an individual, as defined in section 1.1 of NI 45-106 and is purchasing the securities from a registered investment dealer or limited market dealer registered within the meaning of section 98(5) and section 98(6) of the Regulation to the Securities Act (Ontario), respectively.

In addition, each resident of Ontario who purchases the securities will be deemed to have represented to the Issuer and each dealer from whom a purchase confirmation is received, that such purchaser:

- (a) has been notified by the Issuer:
 - (i) that the Issuer may be required to provide certain personal information ("**personal information**") pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any securities purchased), which Form 45-106F1 may be required to be filed by the Issuer under NI 45-106;
 - (ii) that such personal information may be delivered to the Ontario Securities Commission (the "**OSC**") in accordance with NI 45-106;
 - (iii) that such personal information is collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario;
 - (iv) that such personal information is collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and

- (v) that the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administrative Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 5520 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and
- (b) has authorized the indirect collection of the personal information by the OSC.

Furthermore, the purchaser acknowledges that its name, address, telephone number and other specified information, including the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable Canadian laws. By purchasing the securities, each Canadian purchaser consents to the disclosure of such information.

Taxation and Eligibility for Investment

Any discussion of taxation and related matters contained in this Private Placement Memorandum does not purport to be a comprehensive description of all the tax considerations that may be relevant to a Canadian investor when deciding to purchase the securities. Canadian investors should consult their own legal and tax advisers with respect to the tax consequences of an investment in the securities in their particular circumstances and with respect to the eligibility of the securities for investment by such investor under relevant Canadian federal and provincial legislation and regulations.

Rights of Action for Damages or Rescission

Securities legislation in certain of the Canadian provinces provides purchasers of securities pursuant to an Private Placement Memorandum (such as this Private Placement Memorandum) with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the Private Placement Memorandum and any amendment to it contains a "Misrepresentation". Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

Ontario

Section 130.1 of the Securities Act (Ontario) provides that every purchaser of securities pursuant to an Private Placement Memorandum (such as this Private Placement Memorandum) shall have a statutory right of action for damages or rescission against the issuer and any selling security holder on whose behalf the distribution is made in the event that the Private Placement Memorandum contains a Misrepresentation. A purchaser who purchases securities offered by an Private Placement Memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and the selling security holders, provided that:

- (a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages against the issuer and the selling security holders, if any;
- (b) the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (c) the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that they can prove do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the Securities Act (Ontario) provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of:
 - (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - (ii) three years from the day of the transaction that gave rise to the cause of action.

This Private Placement Memorandum is being delivered in reliance on exemptions from the prospectus requirements contained under NI 45-106. The rights referred to in section 130.1 of the Securities Act (Ontario) do not apply in respect of an Private Placement Memorandum (such as this Private Placement Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of National Instrument 45-106 (the “accredited investor” exemption) if the prospective purchaser is:

- (a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,
- (b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada), or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the Securities Act (Ontario) and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defenses on which the Issuer may rely. The enforceability of these rights may be limited as described herein under the heading “Enforcement of Legal Rights”.

The rights of action for damages or rescission discussed above are conferred to Ontario purchasers and are in addition to, and without derogation from, any other right or remedy which purchasers may have at law.

Enforcement of Legal Rights

All or substantially all of the directors and officers of the Issuer, as well as the experts named in this Private Placement Memorandum, may be located outside of Canada and, as a result, it may not be possible for Canadian investors to effect service of process upon such persons in Canada. All or a substantial portion of the assets of the Issuer and such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgement against the Issuer or such other persons in Canada or to enforce a judgement obtained in Canadian courts against the Issuer or such other persons outside of Canada.

Language of Documents

Upon receipt of this document, each Canadian investor hereby confirms that its has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu’il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d’achat ou tout avis) soient rédigés en anglais seulement.*

The Applicable Supplement, which describes certain terms of the relevant Series of Notes, the Applicable Swap Agreement, the Applicable Contingent Forward Agreement, if any, and the Underlying Securities, is provided

herewith. This Base Private Placement Memorandum must be read in conjunction with the Applicable Supplement. If there is a conflict between the provisions of the Applicable Supplement and the provisions of this Base Private Placement Memorandum, the provisions of the Applicable Supplement will control.

The distribution of this Private Placement Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons receiving this Private Placement Memorandum should inform themselves about and observe any such restriction. This Private Placement Memorandum does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. For a further description of certain restrictions on offerings and sales of Notes and on distribution of this Private Placement Memorandum, see "Plan of Distribution" herein and the Applicable Supplement.

Notwithstanding anything to contrary above, from the commencement of discussions with respect to this transaction, all parties to this transaction (and any employee, representative, or other agent of any party to this transaction) may disclose to any and all persons, without limitation of any kind, the U.S. federal tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such U.S. federal tax treatment and tax structure. Each of the parties to this transaction further acknowledges and agrees that: (i) the disclosure of the U.S. federal tax treatment or the tax structure of this transaction is not limited in any manner by an express or implied understanding or agreement, oral or written, whether or not such understanding or agreement is legally binding; and (ii) it does not know or have reason to know that its use or disclosure of the information relating to the U.S. federal tax treatment or tax structure of this transaction is limited in any other manner, such as where the transaction is claimed to be proprietary or exclusive, for the benefit of any person.

The Trustee has not participated in the preparation of the Private Placement Memorandum and assumes no responsibility for its contents.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Notes, the Issuer will promptly furnish, upon request of a Holder of a Note to such Holder and a prospective purchaser designated by such Holder, the information required to be delivered under Rule 144(d)(4) if, at the time of such request, the Issuer is neither a reporting company under Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. Such information having been furnished by the Issuer to the Trustee or the Irish Paying Agent may be obtained from (i) the Trustee or (ii) if and for so long as any Notes are listed on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, the Irish Paying Agent located in Dublin. It is not contemplated that the Issuer will be such a reporting company or so exempt.

FOREIGN LANGUAGE TEXT

Any foreign language text included in this Private Placement Memorandum is for convenience purposes only and does not form part of the registration document.

DEFINED TERMS

An index of defined terms used in this Private Placement Memorandum may be found on page 60 hereof.

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RISK FACTORS

The purchase of the Notes involves substantial risks, including without limitation the risks described below. This Base Private Placement Memorandum and the Applicable Supplement do not describe all risks of an investment in the Notes, either as such risks exist at the date hereof or as such risks may change in the future.

Limited Recourse; Notes Payable Solely from Portfolio Property; Notes Not Payable from Portfolio Property of Other Series

The Notes will not be obligations or responsibilities of, and will not be guaranteed by, the Trustee, the Swap Counterparty, the Swap Guarantor, the Distributors, any Agent or any company in the same group of companies as or any affiliate of any of the foregoing. Each Holder by its holding of its Notes will be deemed to agree that the obligations of the Issuer will be payable solely from the Portfolio Property. No assurance can be made that the amount of Portfolio Property available for and allocated to the repayment of the Notes at any particular time will be sufficient to cover all amounts that would otherwise be due and payable in respect of the Notes. If proceeds of the Portfolio Property received by the Trustee for the benefit of the Holders are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency, and following liquidation of the Portfolio Property, the obligations of the Issuer to pay such deficiency will be extinguished. **Holders in respect of the Segregated Portfolio of any Series will not have any recourse to the general assets of the Company or any assets of any other segregated portfolio of the Company.**

Statutory Segregation of Assets and Liabilities

The Notes will be issued for the account of the Segregated Portfolio as described in the Applicable Supplement. The Companies Law (2004 Revision) of the Cayman Islands (the "**Companies Law**") provides that a segregated portfolio company may create one or more segregated portfolios in order to segregate the assets and liabilities of the segregated portfolio company held within or on behalf of a segregated portfolio from the assets and liabilities of the segregated portfolio company held within or on behalf of any other segregated portfolio of the company or the assets and liabilities of the company which are not held within or on behalf of a segregated portfolio of the company. The Companies Law also provides that segregated portfolio assets shall only be available and used to meet the liabilities to the creditors of the segregated portfolio company who are creditors of that segregated portfolio and who shall thereby be entitled to have recourse only to the segregated portfolio assets attributable to that segregated portfolio for such purposes, and segregated portfolio assets shall not be available or used to meet liabilities to, and shall be absolutely protected from, the creditors of the segregated portfolio company who are not creditors in respect of that segregated portfolio, and who accordingly shall not be entitled to recourse to the segregated portfolio assets attributable to that segregated portfolio. This type of structure does not exist in most jurisdictions and these provisions of the Companies Law have not been subject to judicial scrutiny in any jurisdiction. Accordingly, there is a risk that upon such review a court may not be willing to uphold the statutory segregation of assets and liabilities as provided for by the Companies Law with respect to a segregated portfolio company.

Swap Counterparty and Distributors Not Adviser or Fiduciary

Neither the Swap Counterparty nor any of the Distributors is acting as a fiduciary or adviser to the Issuer or the Holders. In selecting the Reference Entities and in performing its obligations under the Swap Agreement, neither the Swap Counterparty nor any of the Distributors will act as an adviser, fiduciary or agent of the Issuer or the Holders, but will take such actions as are permitted under the Swap Agreement and which it deems to be in its interests, which may be adverse to the interests of the Issuer or the Holders.

Issuer's Ability to Pay Interest under the Notes

The ability of the Issuer to meet its obligations to pay interest on the Notes after payment in full has been made by the Issuer of all amounts due and owing which rank in priority thereto, will depend on the performance by or on behalf of the Swap Counterparty of its obligations under the Swap Agreement, of the Swap Guarantor under the Swap Guarantee and receipt by the Issuer of the sums of principal and interest receivable by the Issuer in respect of the Underlying Securities.

The Swap Counterparty will make payments of interest and/or premium due from it under the Swap Agreement to the Issuer, and such amounts will be applied in payment of amounts due to the Holders in accordance with the Priority of Payments.

Acceleration or Early Redemption in Certain Circumstances

The Notes are subject to acceleration upon the occurrence of an Indenture Event of Default or early redemption upon the occurrence of an Early Redemption Event, as described herein. In such circumstances, the Underlying Securities will, subject to the Holder not having elected to receive Underlying Securities, be liquidated (to the extent not previously redeemed) and the proceeds applied in accordance with the Priority of Payments. The net proceeds (if any) of any realization of the Underlying Securities may be insufficient to pay amounts due to the Holders in respect of the Notes.

In the event of an acceleration or early redemption, each Holder may elect in writing to the Trustee to receive Underlying Securities instead of payment of the Principal Balance of the Notes held by such Holder, in which case the Trustee will, subject to execution by such Holder of any necessary documentation, deliver to such Holder Underlying Securities with a face amount equal to the Principal Balance of the Notes held by such Holder, less a pro rata portion of any Underlying Securities required to be liquidated to fund amounts payable at a senior level in the Priority of Payments. The market value of such Underlying Securities at the time of delivery may be less than the Principal Balance of the Notes.

Risks Associated with Underlying Securities

Underlying Securities Default

The Holders will be exposed to the credit of the issuer of the Underlying Securities to the full extent of their investment in the Notes. If the issuer of the Underlying Securities is late in making any payment of interest or principal with respect to the Underlying Securities, and if such failure continues after the expiration of any applicable grace period, or if any other event occurs which constitutes an Underlying Securities Default (as defined in "The Notes" section), the Swap Agreement will be subject to termination as described herein. If the Swap Agreement is terminated, the Issuer will, out of the proceeds of the Underlying Securities, pay certain accrued and unpaid expense payments due to the Trustee and other service providers of the Issuer and amounts due to the Swap Counterparty under the Swap Agreement (including any Swap Breakage Fee other than a Defaulted Swap Termination Payment) before distributing the remaining proceeds to the Holders of the Notes. If an Underlying Securities Default occurs, then the amount distributed to the Holders could be substantially less than the Holders' original investment in the Issuer and could even be zero.

Limited Information with respect to the Underlying Securities

The Private Placement Memorandum does not provide detailed information with respect to the Underlying Securities or the issuer thereof or with respect to any rights or obligations, legal, financial or otherwise, arising under the Underlying Securities. Prospective purchasers of the Notes are urged to undertake their own investigation of these and other matters relating to the Underlying Securities.

The limited information concerning the Underlying Securities and the Issuer thereof that is set forth herein will, unless otherwise specified, be based upon publicly available sources and will not have been independently checked or verified by the Distributors, the Swap Counterparty, the Swap Guarantor, the Trustee or anyone else in connection with the issuance of the Notes.

The issuer of the Underlying Securities has not participated in, and is most likely unaware of, the offering of the Notes or the preparation of this Private Placement Memorandum.

Risks Associated with the Swap Agreement

Credit of Swap Counterparty and Swap Guarantor

The receipt by Holders of payments on their Notes will be dependent on the Issuer's timely receipt of payments from, and therefore the credit of, the Swap Counterparty and the Swap Guarantor.

Liability for Swap Breakage Fees and Defaulted Swap Termination Payments

The Swap Agreement may be terminated early if a Swap Event of Default or a Swap Termination Event (each as defined in "The Portfolio Property—The Swap Agreement" section) with respect to the Swap Counterparty or the Issuer occurs or if an Indenture Event of Default or Early Redemption Event occurs. If a Swap Event of Default, a Swap Termination Event, an Indenture Event of Default or an Early Redemption Event occurs, then the Swap Agreement will be subject to termination and, as a result of such termination, the Issuer or the Swap Counterparty will pay a termination payment in accordance with Section 6(e) of the Master Swap Agreement (the "**Swap Breakage Fee**"). The Issuer will pay a Swap Breakage Fee to the Swap Counterparty if the value of the Swap Agreement is in favor of the Swap Counterparty and the Swap Counterparty will pay a Swap Breakage Fee to the Issuer if the value of the Swap Agreement is in favor of the Issuer, subject to the Priority of Payments. The value of the Swap Agreement may be highly volatile, and it is not possible to estimate the amount of the Swap Breakage Fee paid or foregone by the Holders of the Notes. The Holders of the Notes will effectively pay any Swap Breakage Fee payable by the Issuer, in inverse Order of Seniority, up to the limit of their respective holdings of the Notes.

The Indenture distinguishes between Swap Breakage Fees and Defaulted Swap Termination Payments, which term refers to any amount payable by the Issuer under the Swap Agreement as a consequence of an early termination of the Swap Agreement in respect of which termination the Swap Counterparty (and not the Issuer) is the sole affected or defaulting party. Swap Breakage Fees that are Defaulted Swap Termination Payments have a lower priority in the Priority of Payments than (and will be subordinated to) the payments due to the Holders in respect of the Notes.

Conflicts of Interest

You should assume that the Swap Counterparty, the Distributors and their affiliates (the "**Morgan Stanley Affiliates**") will accept deposits from, make loans or otherwise extend credit to, and generally engage in commercial or investment banking or other business with the issuer of the Underlying Securities or a Reference Entity or one or more of their respective affiliates (or another person or entity having obligations relating to the issuer of the Underlying Securities or a Reference Entity) and is most likely to act with respect to such business as if the Notes did not exist, regardless of whether any such action might have an adverse effect on the issuer of the Underlying Securities or a Reference Entity or on a purchaser of the Notes (including, without limitation, any action which might constitute or give rise to a Credit Event). You should assume that the Morgan Stanley Affiliates will vote any interests they may have in obligations of the issuer of the Underlying Securities or the Reference Entities (or of any of their respective affiliates), and purchase or sell such obligations, provide bid and offer prices with respect thereto, affect the market value thereof, and otherwise participate in the secondary market for such obligations as if the Notes did not exist, regardless of whether any such action would have an adverse effect on the issuer of the Underlying Securities, the Underlying Securities, the Reference Entities or the Holders of the Notes.

You should assume that the Morgan Stanley Affiliates will, whether by virtue of the types of relationships described above or otherwise, at the date hereof or at any time hereafter, be in possession of information in relation to the issuer of the Underlying Securities or the Reference Entities or any of their respective obligations which is or may be material in the context of the Notes and which is not or may not be known to the general public. None of the Morgan Stanley Affiliates has any obligation, and the offering of the Notes and the execution of the Swap Agreement does not create any obligation on the part of any Morgan Stanley Affiliate, to disclose to the purchaser of the Notes any such relationship or information (whether or not confidential) and you should assume that the Morgan Stanley Affiliates will not disclose such relationship or information to you.

Legal Investment

The appropriate characterization of the Notes under various legal investment restrictions, and thus the ability of investors subject to those restrictions to purchase the Notes, may be subject to significant interpretative uncertainties. No representation is made as to the proper characterization of the Notes for legal investment purposes, or for risk-weighting, securities valuation, regulatory accounting or other financial institution regulatory regimes of the National Association of Insurance Commissioners, any state insurance commissioner, any federal or state banking authority or any other regulatory body. Investors should consult with their own legal advisors in determining whether, and to what extent, the Notes will constitute legal investments for them and the consequences of such an investment.

U.S. Federal Income Tax Consequences Relating to the Issuer and the Holders

The Company will be classified as an association taxable as a corporation for U.S. federal income tax purposes. Moreover, although each Series is nominally issued by the Company, the Company intends for U.S. federal income tax purposes, and each investor will be required, to treat each Issuer as a separate corporation. However, due to a lack of directly governing authority, such treatment is not free from doubt. Each prospective investor is urged to consult with its own tax advisors as to the effect of denial of such separate treatment.

The Issuer, the Trustee and the Swap Counterparty will treat, and each Holder will be required to treat, the Swap Agreement as a "notional principal contract" for U.S. federal income tax purposes. However, there is no authority directly addressing the U.S. federal income tax treatment of investments such as the Swap Agreement and it is possible that the Swap Agreement may be recharacterized as some other type of financial instrument of the Swap Counterparty. Such recharacterization may have adverse income tax consequences to Holders.

Each prospective investor is urged to consult with its own tax advisors as to the federal income, state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of the Notes. See "Certain U.S. Federal Income Tax Considerations" in the Applicable Supplement and the discussion herein under the heading "Certain U.S. Federal Income Tax Considerations" for a more detailed discussion of the U.S. federal income tax issues arising in connection with the purchase, ownership and disposition of the Notes.

Limited Information

This Private Placement Memorandum does not provide detailed information concerning the Underlying Securities or the Reference Entities. Holders should do their own review and investigation of the Underlying Securities, the Swap Agreement and the Reference Entities to the same extent as if they were making a direct investment in the Underlying Securities, the Swap Agreement and obligations of the Reference Entities. Further, Holders should review for themselves the Indenture setting forth the terms of the Notes. A copy of each Confirmation is attached as an annex hereto. Copies of the Master Swap Agreement, the sets of definitions published by ISDA and forming part of the Swap Agreement, as well as the Indenture and the other documents executed in connection with the issuance of the Notes, are available upon request from the Trustee.

SUMMARY OF PRINCIPAL TERMS

The following summary is qualified in its entirety by reference to the documents described herein and to the information included elsewhere in this Private Placement Memorandum.

Securities Offered:.....	The Notes described herein and in the Applicable Supplement (the " Notes ")
Company.....	Morgan Stanley ACES SPC, a segregated portfolio company incorporated under the laws of the Cayman Islands established as a special purpose entity for the purpose of creating segregated portfolios to issue, among other things, synthetic credit-linked notes. The Company's registered office is at P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands, telephone number: +1 (345) 945-7099, fax number: +1 (345) 945-7100.
Issuer	The Company when acting for the account of the applicable Segregated Portfolio. Each Series of Notes will be issued by the Issuer pursuant to the indenture described in the Applicable Supplement among the Trustee, the Issuer and the Holders of the Notes (the " Applicable Indenture "). Except as otherwise specified in the Applicable Supplement, the Issuer has been established primarily to (i) issue the Notes described in the Applicable Supplement, (ii) purchase and hold the Underlying Securities to be described in the Applicable Supplement and (iii) hold as property the Applicable Swap Agreement and the Applicable Contingent Forward Agreement.
Trustee	LaSalle Bank National Association, a national banking association, (" LaSalle " or " Trustee ") or such other banking corporation or association specified in the Applicable Supplement.
Distributor.....	Morgan Stanley & Co. Incorporated (" MS&Co ") or any of its affiliates (the " Distributor ") and/or any other dealer specified in the Applicable Supplement.
Administrator.....	Maples Finance Limited, a licensed trust company incorporated under the laws of the Cayman Islands.
Irish Paying Agent	Custom House Administration and Corporate Services Limited (the " Irish Paying Agent ") acting through its office at 25 Eden Quay, Dublin 1, Ireland as Irish paying agent of the Issuer or such other entity specified in the Applicable Supplement.
Listing Agent	Arthur Cox Listing Services Limited (the " Listing Agent ") acting through its office at Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland as listing agent of the Issuer or such other entity specified in the Applicable Supplement.
The Notes.....	The Notes may be issued in one or more series (each, a " Series "), each as described in the Applicable Supplement. Any Series of Notes may be issued in book-entry form and may, subject to the

Applicable Supplement, be represented by one or more Global Notes registered in the name of the Depository Trust Company ("**DTC**"), Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), or Clearstream Banking, *société anonyme* ("**Clearstream**"), or in registered form in the name of each purchaser of such Notes or its nominee. See "Description of the Notes" and "Book-Entry" Registration" herein.

Each Series of Notes may include one or more classes (each, a "**Class**"). The rights of one or more Classes of any Series of Notes may be senior or subordinate to the rights of one or more of the other Classes. A Series of Notes may include two or more Classes which differ as to the timing, order of priority of payment, interest rate or amount of payments of principal or interest or both. Each Class of Notes within a Series may include more than one tranches (each, a "**Tranche**"), which differ as to the currency, interest rate or timing of payments. Information regarding each Class of a Series of Notes, and each Tranche within a Class, will be set forth in the Applicable Supplement.

Applicable Supplement.....

The Applicable Supplement relating to each Series of Notes will set forth, among other matters, the following terms, if applicable: (i) with respect to such Series, (A) the Issue Date, (B) the authorized denominations, (C) the rate at which interest will accrue thereon, (D) the dates on which interest is payable, (E) the date on which principal is scheduled to be repaid, subject to adjustments (the "**Maturity Date**"), (F) possible early redemption of such Series, including any right of the Distributor or the Swap Counterparty to call such Series from Holders and the terms and conditions of such call, (G) events of default that differ from those specified herein; (H) whether such Series will be issued in multiple Classes or Tranches; (I) whether such Series will be issued in book-entry form or as Definitive Notes; and (J) possible holdover in respect of the Notes, under which the principal payments may be delayed because of the occurrence of a Credit Event on or before the scheduled principal payment date (a "**Holdover**"); (ii) with respect to the Applicable Swap Agreement, (A) the Swap Counterparty, (B) the Swap Guarantee and the Swap Guarantor, and (C) descriptions of the Confirmation or Confirmations the forms of which will be attached as annexes to such Applicable Supplement, (iii) with respect to the Applicable Contingent Forward Agreement (if any), (A) the Contingent Forward Counterparty, (B) the Contingent Forward Guarantee and the Contingent Forward Guarantor, and (C) a description of the Confirmation the form of which will be attached as an annex to such Applicable Supplement; and (iv) with respect to the Underlying Securities, (A) the principal amount of the Underlying Securities, (B) the rate at which interest accrues on the Underlying Securities, if applicable, and (C) the dates on which interest, if applicable, and principal are payable on the Underlying Securities.

Interest Payments.....

Interest in respect of each Series of Notes will be paid at such times and in such manner as described herein and the Applicable Supplement. Unless provided otherwise in the Applicable Supplement, interest on the Notes will be paid net of any applicable withholding tax.

Principal Payments	Principal in respect of each Series of Notes will be paid at such times and in such manner as described herein and the Applicable Supplement. The Applicable Supplement will also describe the circumstances and times under which the principal of the Notes of the relevant Series may be reduced or redeemed prior to their scheduled maturity date.
Indenture Events of Default.....	Unless otherwise provided in the Applicable Supplement, the events described in "Description of the Notes—Redemptions—Early Redemption Events" will constitute an Early Redemption Event in respect of each Series of Notes. Upon the occurrence of an Indenture Event of Default, the Trustee will, unless otherwise provided in the Applicable Supplement, (i) liquidate the Portfolio Property and pay the proceeds as provided in the Applicable Supplement or (ii) subject to the approval of Holders of 66-2/3% of the Principal Balance of each Class of Notes entitled to vote, liquidate the Portfolio Property to the extent sufficient to cover any amounts that rank in priority to payments due to the Holders and distribute the remaining Portfolio Property, if any, to the Holders.
Early Redemption Events	Unless otherwise provided in the Applicable Supplement, the events described in "Description of the Notes—Redemptions—Early Redemption Events" will constitute an Early Redemption Event in respect of each Series of Notes. Upon the occurrence of an Early Redemption Event, unless otherwise provided in the Applicable Supplement, the Calculation Agent will arrange for and administer the sale of the Underlying Securities and the Permitted Investments, if any, and the Trustee will apply the proceeds as provided in the Applicable Supplement.
Use of Proceeds	In connection with the sale of the Notes of any Series, the Issuer will receive either (i) cash, and/or (ii) the Underlying Securities. If the Issuer receives cash, it will utilize such cash to acquire the Underlying Securities and, if so provided in the Applicable Supplement, to make any up front payment due under the Applicable Swap Agreement and, if applicable, the Applicable Contingent Forward Agreement.
Estimation of Admission to Trading Expenses	An estimate of the total expenses related to the admission to trading in respect of each Class or Series of Notes which are to be admitted to the Official List will be set out in the Applicable Supplement relating to such Class or Series.
Limited Recourse.....	The Portfolio Property will provide the sole source of funds to meet the obligations of the Issuer to the creditors of the relevant Segregated Portfolio, including to the Holders of the Notes of the applicable Series, and all other obligations of the Issuer attributable to such Series. The Portfolio Property shall not be available or used to meet liabilities to, and shall be absolutely protected from, any creditors of the Company who are not creditors in respect of the relevant Segregated Portfolio, and who accordingly shall not be entitled to recourse to the Portfolio Property. If proceeds of the Portfolio Property in respect of a Series are insufficient to make payments on the Notes of that Series, no other assets will be available for payment of the deficiency, and following liquidation of the Portfolio Property, the obligations of the Issuer to pay such

deficiency will be extinguished. Holders of a Series of Notes will not have any recourse to the general assets of the Company or any assets forming part of the Portfolio Property of any other Series of Notes.

Portfolio Property	In respect of each Series of Notes, the assets of the Segregated Portfolio relating to such Series will, subject to the Applicable Supplement, consist of (i) the Underlying Securities relating to such Series, (ii) the Issuer's rights under the Applicable Swap Agreement, (iii) the Issuer's rights under the Applicable Contingent Forward Agreement, if any, (iv) any Permitted Investments relating to such Series purchased by the Issuer, (v) certain property incidental thereto, and (vi) the proceeds of the foregoing (collectively, the " Portfolio Property "). See "The Portfolio Property—Underlying Securities", "The Portfolio Property—The Applicable Swap Agreement" and "The Portfolio Property—The Applicable Contingent Forward Agreement" herein and in the Applicable Supplement.
Underlying Securities	On the date of issuance of the Notes of any Series (the " Issue Date "), the Issuer will purchase the Underlying Securities described in the Applicable Supplement.
Applicable Swap Agreement	On the relevant Issue Date, the Issuer will, for each Series of Notes being issued by the Issuer, enter into a swap agreement (the " Applicable Swap Agreement ") with the Swap Counterparty consisting of the Master Swap Agreement and a confirmation evidencing a credit default swap (the " Credit Confirmation ") or other type of derivative transaction, each as described in the Applicable Supplement. The Applicable Supplement will specify whether the Applicable Swap Agreement will include any other confirmations.
Master Swap Agreement	On January 25, 2007, the Issuer and the Swap Counterparty entered into a master swap agreement (the " Master Swap Agreement ") consisting of the 1992 ISDA Master Agreement (Multicurrency-Cross Border) published by the International Swaps and Derivatives Association, Inc. (" ISDA ") (www.isda.org) and a schedule thereto.
Swap Counterparty	Morgan Stanley Capital Services Inc. (" MSCS " or the " Swap Counterparty ") or any affiliate thereof specified in the Applicable Supplement.
Guarantee of Swap Counterparty's Obligations	Unless otherwise provided in the Applicable Supplement, the payment obligations of the Swap Counterparty under the Applicable Swap Agreement will be unconditionally and irrevocably guaranteed by Morgan Stanley (in such capacity, the " Swap Guarantor ") pursuant to the guarantee, dated as of January 25, 2007, issued by the Swap Guarantor (the " Swap Guarantee "). The obligations of the Swap Counterparty and the Swap Guarantor will be unsecured.
Applicable Contingent Forward Agreement..	Unless otherwise provided in the Applicable Supplement, on the relevant Issue Date, the Issuer will, for any Series of Notes, enter into a contingent forward agreement (the " Applicable Contingent

Forward Agreement") with the Contingent Forward Counterparty consisting of the Master Contingent Forward Agreement and a contingent forward confirmation (the "**Contingent Forward Confirmation**"), each as described in the Applicable Supplement.

Master Contingent Forward Agreement On August 5, 2004, the Issuer and the Contingent Forward Counterparty entered into a Master Contingent Forward Agreement (the "**Master Contingent Forward Agreement**") consisting of the 1992 ISDA Master Agreement (Multicurrency-Cross Border) published by ISDA and a schedule thereto.

Contingent Forward Counterparty MS Remora Ltd., a company incorporated under the laws of the Cayman Islands, or any other entity specified in the Applicable Supplement.

Guarantee of Contingent Forward Counterparty's Obligations Unless otherwise provided in the Applicable Supplement, the payment obligations of the Contingent Forward Counterparty under the Applicable Swap Agreement will be unconditionally and irrevocably guaranteed by Morgan Stanley (in such capacity, the "**Contingent Forward Guarantor**") pursuant to the guarantee, dated as of August 5, 2004, issued by the Contingent Forward Guarantor (the "**Contingent Forward Guarantee**"). The obligations of the Contingent Forward Counterparty and the Contingent Forward Guarantor will be unsecured.

U.S. Federal Income Tax Considerations The Company will be classified as an association taxable as a corporation for U.S. federal income tax purposes. Moreover, although each Series is nominally issued by the Company, the Company intends for U.S. federal income tax purposes, and each investor will be required, to treat each Issuer as a separate corporation. However, due to a lack of directly governing authority, such treatment is not free from doubt. Each prospective investor is urged to consult with its own tax advisors as to the effect of denial of such separate treatment.

Except as otherwise provided in the Applicable Supplement, with respect to each Series issued pursuant to the Program, Clifford Chance US LLP ("**Special U.S. Tax Counsel**") will provide an opinion as of the closing date in respect of such Series that, although there is no directly governing authority, the Issuer will not be engaged in a trade or business within the United States under current U.S. federal income tax law and, therefore, its net income will not be subject to U.S. federal income tax (including the branch profits tax). An opinion of a legal advisor is not binding on the Internal Revenue Service (the "**IRS**") and it is possible that the IRS could disagree with Special U.S. Tax Counsel's conclusion. If the Issuer were deemed to be engaged in a United States trade or business, it would be subject to U.S. federal income tax on its taxable income effectively connected to such United States trade or business and to the 30% branch profits tax.

For purposes of Cayman Islands law, the Notes will be treated as indebtedness of the Issuer. Notwithstanding such treatment, in

certain circumstances a strong likelihood may exist that the Notes will be treated as equity of the Issuer for U.S. federal income tax purposes. The Applicable Supplement will specify, with respect to each Class of Notes, whether the Issuer intends to treat the Notes as indebtedness or as equity for U.S. federal income tax purposes, and in each case Holders will be required to treat the Notes consistent with such intention. However, the position of the Issuer will not be binding on the IRS and no assurance can be provided that the IRS will respect such position. In particular, in certain cases, it is possible that the IRS may assert that the Notes represent ownership of the Portfolio Property.

The Issuer will be a "passive foreign investment company" ("PFIC") and may be a "controlled foreign corporation" ("CFC") for U.S. federal income tax purposes.

Each prospective investor is urged to consult with its own tax advisors as to the federal income, state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of the Notes.

See "Certain U.S. Federal Income Tax Considerations" herein.

ERISA and Other Considerations

Employee benefit plans and certain other plans and those acting on behalf of such plans or with plan assets may be subject to conditions with respect to, or otherwise restricted in, their ability to buy Notes in the initial distribution and thereafter. Plan investors should consult with their counsel and other advisors prior to making an investment in the Notes. See "Certain ERISA and Other U.S. Considerations."

Private Placement;
Transfer Restrictions.....

The Notes have not been and will not be registered under the Securities Act and the Company will not be registered under the Investment Company Act. Unless otherwise specified in the Applicable Supplement, Notes will be offered only (i) to Qualified Institutional Buyers as defined under Rule 144A under the Securities Act who are also Qualified Purchasers (as defined in Section 2(a)(51) and related regulations of the Investment Company Act) or (ii) to non-U.S. persons in offshore transactions in reliance and in accordance with Regulation S under the Securities Act, in minimum amounts for any single beneficial owner as set forth in the Applicable Supplement. Each purchaser of the Notes (whether by initial purchase or by transfer) will be deemed to have made the representations and agreements set forth in the Notice to Investors in the Applicable Supplement or will be required to sign an investor letter substantially in the form required by the Applicable Indenture and as is available from the Trustee and the Distributor (the "**Investor Letter**"). See "Transfer Restrictions" in the Applicable Supplement.

Listing.....

Application has been made to the Irish Financial Services Regulatory Authority (the "**Irish Financial Services Regulatory Authority**" or "**IFSR**"), in its capacity as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"), for this Base Private Placement Memorandum to be approved.

Application will be made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") within 12 months of the approval of this registration statement for certain Series or Classes of Notes to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and to trading on its regulated market.

Ratings.....

The Notes of a Series may be assigned a credit rating by one or more nationally recognized rating agencies. The rating of the Notes, if any, and the rating agency or agencies that assigned such rating will be specified in the Applicable Supplement. The Issuer will inform the Irish Stock Exchange, so long as any of the Notes are listed thereon and the guidelines of the Irish Stock Exchange so require, if the ratings assigned to such Notes as of their date of issuance are reduced or withdrawn.

DESCRIPTION OF THE COMPANY

General

Morgan Stanley ACES SPC (the "**Company**" and, when acting for the account of a Segregated Portfolio (as defined herein), the "**Issuer**"), a segregated portfolio company incorporated in the Cayman Islands with limited liability, was incorporated on July 21, 2004 as a segregated portfolio company under the Companies Law (2003 Revision) of the Cayman Islands (the "**Companies Law**") with company registration number MC-137889. The Company has been established as a special purpose entity for the purpose of creating segregated portfolios to issue, among other things, synthetic credit-linked notes. The Company's registered office is at P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The telephone number of the Company is +1 (345) 945-7099. The fax number of the Company is +1 (345) 945-7100.

As a segregated portfolio company, the Company may create one or more segregated portfolios (each a "**Segregated Portfolio**"). Under the Companies Law, by virtue of the Company creating a separate Segregated Portfolio with respect to each Series of Notes, the assets and liabilities of each Segregated Portfolio with respect to each Series of Notes will be legally segregated from the assets and liabilities of every other Segregated Portfolio and from the general assets and liabilities of the Company. The general assets and liabilities of the Company are those, which are not attributable to any particular Segregated Portfolio and are held by the Company itself instead of for any particular Segregated Portfolio. The Directors are required to establish and maintain procedures to preserve this segregation and will do so by establishing a separate account or accounts for each Segregated Portfolio. The Companies Law provides that a creditor of a particular Segregated Portfolio may only have recourse to the assets of that Segregated Portfolio and not to the assets of any other Segregated Portfolio or to the general assets of the Company. Even though the assets and liabilities of each Segregated Portfolio are segregated from the assets and liabilities of the other Segregated Portfolio, each Segregated Portfolio is not a separate legal entity.

The authorized share capital of the Company is U.S.\$250.00 divided into 250 ordinary shares of U.S.\$1.00 each all of which have been issued. All of the issued shares (the "**Shares**") are fully-paid and are held by Maples Finance Limited as share trustee (in such capacity, the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated August 5, 2004 under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Declaration of Trust) and may only dispose or otherwise deal with the Shares with the approval of the Trustee for so long as there are Notes outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power with the consent of the Trustee, to benefit the Noteholders or Qualified Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made whilst any Note is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

Business

Since its incorporation, the Company has created a number of Segregated Portfolios with respect to various Series of Notes. The Company has otherwise no prior operating history or prior business and will not have any substantial assets other than Underlying Securities relating to each Series of Notes and will not have any substantial liabilities other than in connection with the Notes.

So long as any of the Notes remain outstanding, the Company shall not, without the consent of the Trustee, incur any other indebtedness for borrowed moneys or engage in any business (other than acquiring and holding Underlying Securities), issuing the Notes and entering into related agreements and transactions as provided for in the Applicable Indenture, or, *inter alia*, declare any dividends, have any subsidiaries or employees, purchase, own, lease, or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in the Applicable Indenture) or issue any shares (other than such Shares as were in issue on the date hereof).

The Company has, and will have, no assets other than the sum of U.S.\$250.00 representing the issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of the Notes and the acquisition of the

Underlying Securities, the bank account into which such paid-up share capital and fees are deposited, rights under an expenses agreement with Morgan Stanley Capital Services Inc. and an administration agreement with Maples Finance Limited. Such non-Portfolio Property assets shall form part of the general assets of the Company and shall not be available to meet any obligations under any Segregated Portfolio. Save in respect of fees generated in connection with the issue of the Notes any related profits and proceeds of any deposits and investments made from such fees or from amounts representing the Company's issued and paid-up share capital, the Company does not expect to accumulate any surpluses.

The Notes are the obligations of the Company alone and not the Share Trustee. Furthermore, they are not the obligations of, or guaranteed in any way by the Share Trustee or any other party.

Capitalization

The following table sets out the capitalization of the Company on the date hereof, disregarding the Notes of each outstanding Series:

Shareholders' Funds	(U.S.\$)
Share capital – 250 Ordinary Shares of U.S.\$1.00 each	<u>250</u>
Total Capitalization	<u>250</u>

As at the date of this Private Placement Memorandum, the Company has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities. There has been no change in the capitalization of the Company since, the date of its incorporation.

Board of Directors

The Directors of the Company are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Christopher Marett	Vice President, Maples Finance Limited
Mora Goddard	Vice President, Maples Finance Limited
Hugh Thompson	Senior Vice President, Maples Finance Limited

Each of the Directors are officers and/or employees and/or directors of Maples Finance Limited and has the business address of P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. Directors serve until their resignation, death or discharge in accordance with the Company's Memorandum and Articles of Association. The Secretary of the Company is Maples Secretaries Limited whose principal office is P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Administrator

Maples Finance Limited will also act as the Administrator of the Company (in such capacity, the "**Administrator**"). The Administrator's principal office is P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The office of the Administrator will serve as the general business office of the Company.

Administration Agreement

Through the office, and pursuant to the terms of an Administration Agreement to be entered into between the Company and the Administrator (the "**Administration Agreement**"), the Administrator will perform in the Cayman Islands various management functions on behalf of the Company, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. The terms of the Administration Agreement provide that the Company may terminate the appointment of the Administrator by giving 14 days' notice to the Administrator at any time within 12 months of the happening of any of certain stated events, including any breach by the Administrator of its obligations under the Administration Agreement. In addition, the Administration Agreement provides that the Administrator shall be entitled to retire from its appointment by giving at least three months' notice in writing. The fees and expenses of the Administrator in connection with the Administration Agreement are paid by the Swap Counterparty and are not an obligation of the Company or any Segregated Portfolio.

The Administrator will be subject to the overview of the Company's Board of Directors. The Administration Agreement may be terminated (other than as stated above) by either the Company or the Administrator giving the other three months written notice.

TRUSTEE AND AGENTS

Trustee

Unless otherwise specified in the Applicable Supplement, LaSalle will, in respect of any Series of Notes, act as trustee (in such capacity, the "**Trustee**") on behalf of the Holders of such Series of Notes pursuant to the Applicable Indenture. The Trustee may resign upon 30 days' written notice to the Issuer, the Rating Agencies and the Administrator; *provided* that no resignation will be effective until a successor has been appointed. Upon such notice, the Issuer will appoint a successor trustee. If no successor trustee is appointed within 30 days after the giving of such notice of resignation, the resigning trustee may petition a court of competent jurisdiction for appointment of a successor trustee.

The Issuer will remove the Trustee, or any Holder who has been a bona fide holder of a Note for at least six months may petition a court of competent jurisdiction to remove the Trustee, if the Trustee ceases to be eligible to continue as such under the Applicable Indenture or if at any time the Trustee becomes incapable of acting, or is adjudged bankrupt or insolvent, or a receiver or liquidator for the Trustee or its property is appointed or any public officer takes charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. The Swap Counterparty will also be entitled under the Applicable Swap Agreement to request that the Issuer at any time use its reasonable best efforts to remove the Trustee. Any such removal of the Trustee and appointment of a successor trustee will not become effective until acceptance of the appointment by the successor trustee. In addition, the Holders of at least a majority of the Principal Balance of each Class of Notes entitled to vote may remove the Trustee at any time. Any removal of the Trustee and appointment of a successor trustee will be notified by the Issuer to the Holders, the Swap Counterparty, the Contingent Forward Counterparty and the Rating Agencies.

The Trustee will not be liable for any damage, loss, cost or expense whatsoever to or by the Issuer or any Holder at any time for taking any action, or for refraining from taking any action, in good faith in accordance with the directions of the Issuer, the Swap Counterparty and/or Holders pursuant to the Applicable Indenture, unless such damage, loss, cost or expense is caused by the Trustee's own negligence, willful misconduct or bad faith. Under no circumstances will the Trustee be liable for special or consequential damages.

The fees and expenses (including indemnities) of the Trustee will be paid by a Morgan Stanley Affiliate and will not be borne by the Company or any Segregated Portfolio.

Paying Agents, Registrar, Agent Bank, Transfer Agents and Irish Paying Agents

Unless otherwise specified in the Applicable Supplement, LaSalle will also act as principal paying agent (in such capacity, the "**Principal Paying Agent**"), as transfer agent (in such capacity, a "**Transfer Agent**"), as registrar (in such capacity, the "**Registrar**") and as agent bank (in such capacity, the "**Agent Bank**"). The Issuer will also appoint an Irish paying agent in respect of any Series of Notes which are listed on the Irish Stock Exchange (for so long as such Notes are listed on the Irish Stock Exchange) (in such capacity, an "**Irish Paying Agent**"). As used herein, "**Principal Paying Agent**", "**Registrar**", "**Agent Bank**", "**Transfer Agent**" and "**Irish Paying Agent**" (each, an "**Agent**") mean the persons so specified in the Applicable Indenture and include any successor or additional principal paying agent, registrar, agent bank, transfer agent or Irish paying agent, as the case may be, appointed from time to time in connection with the Notes. Each Agent may resign upon 30 days' written notice to the Trustee, the Administrator and the Issuer; *provided* that no resignation will be effective until a successor has been appointed. Upon such notice, the Issuer will appoint a successor paying agent, registrar, agent bank, transfer agent or Irish paying agent. If no successor paying agent, registrar, agent bank, transfer agent or Irish paying agent is appointed within 30 days after the giving of such notice of resignation, the resigning Agent may petition a court of competent jurisdiction for the appointment of a successor paying agent, registrar, agent bank, transfer agent or Irish paying agent, as applicable.

The Issuer may remove any Agent. Any such removal of an Agent and appointment of a successor thereto will not become effective until acceptance of the appointment by the successor paying agent, registrar, agent bank or transfer agent, as applicable.

No Agent will be liable for any damage, loss, cost or expense whatsoever to or by the Issuer, the Trustee or any Holder at any time for taking any action, or for refraining from taking any action, in good faith in accordance with the direction of the Issuer, the Trustee or the Holders pursuant to the Applicable Indenture, unless such damage, loss, cost or expense is caused by such Agent's own negligence, willful misconduct or bad faith.

The fees and expenses of the Agents will be paid by a Morgan Stanley Affiliate and will not be borne by the Company or any Segregated Portfolio.

LaSalle Bank National Association

As described above, LaSalle Bank National Association is acting as Trustee, Principal Paying Agent, Registrar, Agent Bank and Transfer Agent, unless provided otherwise in the Applicable Supplement. LaSalle and each of its affiliates providing services in connection with the contemplated transactions will have only the duties and responsibilities expressly agreed to by such entity in the relevant capacity and will not, by virtue of its or any of its affiliates' acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to a standard of care other than as expressly provided with respect to each such capacity. LaSalle and its affiliates in their various capacities in connection with the contemplated transactions may enter into business dealings, including the acquisition of investment securities as contemplated by the transaction documents, from which they may derive revenues and profits in addition to the fees stated in the various transaction documents, without any duty to account therefor.

In no event will LaSalle, in any of its respective capacities, be liable for indirect, special, incidental or consequential losses or damages of any kind whatsoever, including lost profits due to its performance under any Transaction Document to which it is a party, even if it has been advised of the possibility thereof and regardless of the form of action in which such damages are sought.

DESCRIPTION OF THE NOTES

The following is a summary of the terms and conditions of the Notes. The summary is qualified in its entirety by reference to the Applicable Indenture, copies of which are available upon request from the Distributor or the Trustee. Capitalized terms used herein have the meanings ascribed to them in the Applicable Indenture unless the context otherwise requires.

General

Unless provided otherwise in the Applicable Supplement, the Issuer will issue a single series (a "**Series**") of notes (the "**Notes**"). Any Series may or may not consist of multiple classes (each, a "**Class**"). Any Class may or may not consist of multiple tranches (each, a "**Tranche**"). An Issuer may issue Notes at any time as determined by the Issuer.

The Notes are to be issued pursuant to an indenture for the relevant Series (as the same may be amended or modified from time to time, the "**Applicable Indenture**"), among the Issuer, the Trustee and the Holders of the Notes. The Notes are direct, limited recourse obligations of the Issuer. If the Portfolio Property is insufficient to pay any amounts due in respect of the Notes, the Issuer will have no other assets available to meet such insufficiency, and all claims in respect of such unpaid amounts will be extinguished.

Payments on the Notes will be made pursuant to the Applicable Indenture. Unless provided otherwise in the Applicable Supplement, LaSalle will act as Principal Paying Agent, Agent Bank, Transfer Agent and Registrar.

Each purchaser of a Note, by its purchase thereof, will be deemed to make certain representations and agreements or will be required to execute and deliver an Investor Letter in the form required by the Applicable Indenture.

References in the Notes to "U.S.\$", "\$" or "U.S. dollars," are to the lawful currency from time to time of the United States of America.

Form, Denomination and Transfer

Form and Denomination

Unless otherwise specified in the Applicable Supplement, the form and denomination of Notes shall be as follows. (If a Series is issued as without being divided into Classes, then the whole Series shall be a Class for purposes of this discussion. If a Class is divided into Tranches on issue, then each such Tranche shall be a Class for purposes of this discussion.)

Each Class of Notes sold in reliance on Regulation S will initially be represented by one or more permanent global notes in registered form without interest coupons (each, a "**Regulation S Global Note**"), deposited with the Trustee as custodian for, and registered in the name of, Cede & Co. ("**Cede**"), as nominee of The Depository Trust Company ("**DTC**") for the accounts of Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"). Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Beneficial interests in a Regulation S Global Note may not be held by a U.S. person (as defined in Regulation S under the Securities Act) at any time and may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note (as defined below) only in accordance with certification requirements and only in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Note. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent that it is not a U.S. person and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person or to a person who takes delivery in the form of an interest in a Rule 144A Global Note.

A Class of Notes sold in reliance on Rule 144A of the Securities Act and qualified for resale under Rule 144A will initially be represented by one or more permanent global notes in registered form without interest coupons (each, a "**Rule 144A Global Note**") deposited with the Trustee as custodian for DTC and registered in the name of Cede, as nominee of DTC. Investors may hold their interests in the Rule 144A Global Notes directly through DTC, if they are participants in DTC ("**DTC Participants**"), or indirectly through organizations which are DTC Participants.

The Regulation S Global Notes and the Rule 144A Global Notes are referred to herein as "**Global Notes**". Beneficial interests in Global Notes will be subject to certain restrictions on transfer set forth therein and in the Applicable Indenture and, in the case of Rule 144A Global Notes, as set forth in Rule 144A, and such Global Notes will bear the applicable legends regarding the restrictions set forth under "Transfer Restrictions" in the Applicable Supplement. A beneficial interest in a Regulation S Global Note representing a Class of Notes may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note representing such Class of Notes, only upon receipt by the Transfer Agent of the applicable written certification from the transferor (in the form provided in the Applicable Indenture) to the effect that the transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer, within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A, who is also a qualified purchaser for purposes of the Investment Company Act and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Notes representing a Class of Notes may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note representing such Class of Notes, only upon receipt by the Trustee of the applicable written certification (in the form provided in the Applicable Indenture) to the effect that the transfer is being made to a non-U.S. person in accordance with Regulation S under the Securities Act.

Any beneficial interest in a Regulation S Global Note representing a Class of Notes that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note representing such Class of Notes will, upon transfer, cease to be an interest in such Regulation S Global Note and become an interest in the applicable Rule 144A Global Note and, accordingly, will thereafter be subject to all applicable transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A Global Note representing such Class of Notes for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note representing a Class of Notes that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note representing such Class of Notes will, upon transfer, cease to be an interest in such Rule 144A Global Note and become an interest in the applicable Regulation S Global Note and, accordingly, will thereafter be subject to all applicable transfer restrictions and other procedures applicable to beneficial interests in a Regulation S Global Note representing such Notes for so long as it remains such an interest.

If (i) DTC notifies the Issuer that it is unwilling or unable to continue as a depository or at any time ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and a successor depository so registered is not appointed by the Issuer within 90 days of such notice or (ii) the Issuer in its sole discretion determines that a Global Note representing the Notes will be exchanged for notes in definitive registered form of such Class (each, a "**Definitive Note**" and collectively, the "**Definitive Notes**"), interests in such Global Note, upon written notice to the Principal Paying Agent and to the Holders of such Class, will be transferred to the beneficial owners thereof in the form of Definitive Notes, without interest coupons, in Authorized Denominations. A Definitive Note will be issued to each Holder in respect of its registered holding of the Notes against delivery by such Holder of a written order tendered to the Registrar containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Notes. In such circumstances, the Issuer will cause sufficient Definitive Notes of such Class to be executed and delivered to the Registrar and/or the Transfer Agents, as the case may be, for completion, authentication and dispatch to the relevant Holders.

Transfers

A Note may be transferred in whole or in part in an Authorized Denomination (as defined below) upon the surrender of the relevant Note, together with an appropriate form of transfer duly completed and executed, at the specified offices of the Registrar or the Transfer Agent. In the case of a transfer of only a part of a Note, the principal amount of the Note transferred and the principal amount of the Note not transferred must each be an Authorized Denomination. Further, a new Note in respect of the balance not transferred will be issued to the transferor.

Each new Note to be issued upon a transfer of Notes will (in the place of the specified offices of the Registrar or the Transfer Agent, as the case may be) be available for delivery at the specified offices of the Registrar or the Transfer Agent, if so stipulated in the request for exchange or form of such transfer, or be mailed at the risk of the holder entitled to the Note to such address as may be specified in such request or form of transfer.

Registration of Notes upon exchange or transfer will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent, but upon payment of (or the giving of such indemnity as the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to such exchange or transfer.

Beneficial interests in all Global Notes and the Definitive Notes will be subject to certain restrictions on transfer, and such Notes will bear the applicable restrictive legend, as described in "Transfer Restrictions" in the Applicable Supplement. In addition, transfer of beneficial interests in any Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, and, where applicable, the rules and procedures of Euroclear and Clearstream, which may change from time to time.

The Notes will be issued in minimum denominations and integral multiples as specified in the Applicable Supplement ("**Authorized Denominations**").

Title

Each Note will be numbered serially with an identifying number that will be recorded in the register (the "**Register**") which the Issuer will cause to be kept by the Registrar. Title to the Notes passes by registration of transfer in the Register. Subject as provided below, a "**Holder**" or "**holder**" means the person in whose name a Note is registered. The Holder will (except as otherwise required by law) be treated as the absolute owner of the relevant Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss), and none of the Issuer, the Trustee, the Agents, any other agent of the Issuer and any other person will be liable for so treating the Holder.

Status and Ranking

The Notes are direct, limited recourse obligations of the Issuer. The Issuer's obligations with respect to the Notes will be funded from the proceeds of the Portfolio Property. To the extent set forth herein, the proceeds of the Portfolio Property will be applied to Classes of Notes in Order of Seniority. Accordingly, the obligations of the Issuer with respect to any Class of Notes are subordinate in payment priority to the obligations of the Issuer with respect to more senior Classes of Notes.

The assets and liabilities of each Segregated Portfolio with respect to each Series of Notes will be legally segregated from the assets and liabilities of every other Segregated Portfolio and from the general assets and liabilities of the Company. A creditor of a particular Segregated Portfolio will only have recourse to the Portfolio Property of that Segregated Portfolio and not to the Portfolio Property of any other Segregated Portfolio or the general assets of the Company.

Security

As security for its obligations under the Notes, the Applicable Indenture, the Applicable Swap Agreement and the Applicable Contingent Forward Agreement, the Issuer will pledge to the Trustee for the benefit of the Holders, the Swap Counterparty and the Contingent Forward Counterparty (together, the "**Secured Parties**") the Issuer's rights and interest in the Portfolio Property. The proceeds of the Portfolio Property will be applied in accordance with the Priority of Payments set out in "—Collections and Allocations of Collections—Allocations".

Restrictions

So long as any Notes remain outstanding, the Issuer will not (i) incur any other indebtedness for borrowed money other than with respect to the issue of other Series of Notes, (ii) engage in any business (other than the establishment of other Segregated Portfolios and the acquisition and holding of the Portfolio Property with respect to each

Segregated Portfolio and the investment in Underlying Securities in accordance with the terms of the Applicable Indenture, the entry into the Applicable Indenture, the Applicable Swap Agreement, the Applicable Contingent Forward Agreement, the Administration Agreement and certain other related agreements, the issue and redemption of the Notes collateralized by the Portfolio Property, the exercise of all rights and powers incidental to the ownership of the Portfolio Property, the performance of its obligations under the foregoing agreements and instruments and matters incidental thereto), (iii) issue further shares, (iv) permit the transfer of shares to or for the benefit of U.S. persons, (v) declare any dividends, (vi) have any subsidiaries, (vii) merge with or be acquired by any other entity or give any guarantee or (viii) assume any other liability, except for its reasonable expenses incurred in the ordinary course of its business. Except in respect of the initial transaction fee received in connection with the issuance of any Series of Notes, any earnings on investment of its share capital, the Issuer will not accumulate any surpluses.

Principal

Scheduled Maturity Date; Principal Payments

Unless previously redeemed as a result of an Indenture Event of Default or Early Redemption Event as described in the Applicable Supplement, no payments of the Principal Balance of any Series of the Notes ("**Principal Payments**") will be made until the scheduled maturity date of the Notes specified in the Applicable Supplement (the "**Scheduled Maturity Date**").

On the earliest of the Initial Principal Payment Date or, if applicable, the last day of the Holdover period (the "**Final Principal Payment Date**"), the aggregate Principal Balance of the Notes (after giving effect to the reduction of Principal Balance to be made in connection with Cash Settlement Amounts, if any, required to be made on such date), to the extent not reduced or redeemed on or before the Final Principal Payment Date, together with all accrued interest thereon and on any Principal Balance being reduced in connection with any Cash Settlement Amounts being made on such date, will be due and payable in full.

Initial Principal Payment Date

On the Scheduled Maturity Date or such earlier date, if any, on which the Notes are first redeemed (whichever such date first occurs, the "**Initial Principal Payment Date**"), the Issuer will redeem Notes, in the Order of Seniority, with an aggregate Principal Balance equal to:

- (i) the aggregate Principal Balance of the Notes (after giving effect to the reduction of Principal Balance to be made in connection with any Cash Settlement Amounts); *minus*
- (ii) if Holdover is specified as applicable in the Applicable Supplement, the Holdover Amount, if any, specified in the Applicable Supplement.

Holdover

Repayment or reductions after the Initial Principal Payment Date of any Principal Balance outstanding will be made in accordance with the Applicable Supplement, if applicable.

Principal Balance

The funds available to the Issuer to make payments due on any particular Payment Date will be allocated in order of priority beginning with the senior-most outstanding Class of Notes and then progressing to each next junior outstanding Class of Notes (the "**Order of Seniority**").

The "**Initial Principal Balance**" of each Class of Notes will be the face amount of such Class of Notes as of the date of issuance for the relevant Series, as specified in the Applicable Supplement. As of any date of determination thereafter, the "**Principal Balance**" of any Class of Notes will be an amount determined as follows:

- (i) the Initial Principal Balance of such Class of Notes; *minus*

- (ii) the aggregate amount of reductions in connection with Cash Settlement Amounts applied to the Principal Balance of such Class of Notes on or before such date, with each such reduction described in this clause (ii) being in an amount equal to the related Cash Settlement Amounts, taking effect on the relevant Event Determination Date and being applied to reduce the Principal Balance of each Class of Notes until such Principal Balance is reduced to zero in Inverse Order of Seniority; *minus*
- (iii) the aggregate amount of Principal Payments (if any) made in respect of the Notes of such Class on or before such date.

Payments in respect of each Class of Notes will be applied ratably among the Notes of such Class according to their respective Principal Balances.

"**Cash Settlement Amount**" has the meaning specified in the Credit Confirmation.

"**Event Determination Date**" has the meaning specified in the Credit Confirmation.

"**Inverse Order of Seniority**" means, with respect to the Notes, the order of priority beginning with the most junior outstanding Class of Notes progressing to each next most senior outstanding Class of Notes.

Interest

Interest Rates

Unless otherwise specified in the Applicable Supplement, the interest on any Class of Notes bearing a floating interest rate ("**Floating Rate Notes**") will be based on LIBOR. Each Class of Floating Rate Notes will bear interest on its Principal Balance at a per annum floating rate (each, an "**Floating Rate**") equal to the sum of LIBOR for the relevant period *plus* the applicable margin specified in the Applicable Supplement (the "**Margin**"). Unless otherwise specified in the Applicable Supplement, the calculation of each such Floating Rate will be made in accordance with the procedures described below.

Each Class of Notes with a fixed interest rate (the "**Fixed Rate Notes**") will bear interest on its Principal Balance at a per annum fixed rate (each, a "**Fixed Rate**" and, together with the Floating Rate, each, an "**Interest Rate**") specified in the Applicable Supplement.

Interest Payments

Interest on the Notes will be payable in arrears on the Interest Payment Dates specified in the Applicable Supplement (each, an "**Interest Payment Date**").

With respect to each Interest Payment Date, unless specified in the Applicable Supplement, interest on the Principal Balance of each Class of Notes will accrue during the period (the "**Interest Accrual Period**") from and including the preceding Interest Payment Date (or, in the case of the first Interest Payment Date, from and including the Initial Interest Accrual Period Start Date, as specified in the Applicable Supplement) to but excluding such Interest Payment Date. Any interest accrued but unpaid on any Interest Payment Date will accrue interest from and including such Interest Payment Date to but excluding the succeeding Interest Payment Date.

With respect to each Interest Payment Date, interest payments in respect of the Notes will be made to the Holders of record as of the close of business on the 15th Business Day immediately preceding such Interest Payment Date (a "**Record Date**").

As used herein, "**Principal Payment Date**" means the Initial Principal Payment Date or the Final Principal Payment Date, as applicable. "**Payment Date**" means a Principal Payment Date or an Interest Payment Date, or both, as the context may require. "**Business Day**" means any day, other than a Saturday or Sunday, that is a day on which commercial banks are generally open for business in the City of New York and Chicago, Illinois *provided* that, if any action is required of the Irish Paying Agent, solely for purposes of determining when such action of the Irish

Paying Agent is required, days on which commercial banking institutions in Dublin, Ireland are authorized or obligated by law or executive order to be closed will also be considered in determining whether such day is a "**Business Day**".

Each Note (or, in the case of the redemption of only part of a Note, that part of such Note) will cease to bear interest from the Initial Principal Payment Date occurring with respect to such Note (or the applicable redemption date) unless payment of the amount of principal due on such day is withheld or refused after, solely in the case of such Initial Principal Payment Date, due presentation of such Note. In such event, such Note (or portion thereof) will continue to bear interest (both before and after judgment) until the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder and (ii) the day that is seven days after the Trustee or the Principal Paying Agent has notified Holders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holder).

Determination of Floating Rate

The Floating Rate applicable to the Notes for each Interest Accrual Period will be determined by the Agent Bank in accordance with the following provisions (unless otherwise specified in the Applicable Supplement). If any Interest Determination Date is not a Business Day, the Agent Bank will make the determinations set out herein on the next following Business Day using rates determined as of the specified time on the relevant Interest Determination Date.

- (i) With respect to notes denominated in U.S. Dollars, or Japanese Yen:
 - (A) On the second London Banking Day immediately preceding the first day of each Interest Accrual Period (each such day, an "**Interest Determination Date**"), the Agent Bank will determine "**LIBOR**" based on the offered rate for deposits in the currency in which the Notes are denominated (the "**Specified Currency**") for a period of the designated maturity specified in the Applicable Supplement (and, if no such period is designated, such period will be deemed equal to the Interest Accrual Period) (the "**Designated Maturity**"), commencing on the first day of such Interest Accrual Period (the "**Interest Reset Date**") that appears on the display page specified in the Applicable Supplement or any successor (the "**Display Page**"), as specified in the Applicable Supplement, for the purpose of displaying the London interbank offered rate of major banks for the Specified Currency, as of 11:00 a.m., London time, on such Interest Determination Date (or, in the case of the first Interest Determination Date, if the Interest Accrual Period is not a period for which a rate appears, the Agent Bank will determine such rate by interpolation (rounded to the nearest one hundred-thousandth of a percentage point) between the offered rates for deposits in the Specified Currency for periods that are shorter and longer than the Interest Accrual Period, in each case commencing on the Interest Reset Date, that appear on the Display Page as of 11:00 a.m., London time, on the first Interest Determination Date). Notwithstanding the foregoing, if no offered rate appears, LIBOR for such Interest Accrual Period will be determined as described in paragraph (B) below.
 - (B) With respect to an Interest Determination Date on which no offered rate appears on the Display Page, the Agent Bank will request the principal London office of each of four major banks in the London interbank market, selected by the Agent Bank (after consultation with the Issuer), to provide the Agent Bank with its offered quotation for deposits in the Specified Currency for a period equal to the relevant Interest Accrual Period (assuming no reduction in Principal Balance and no occurrence of a Principal Payment Date prior to the beginning of the next Interest Accrual Period), commencing on the second London Banking Day immediately following such Interest Determination Date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Specified Currency in such market at such time. If at least two such quotations are provided, LIBOR for the relevant Interest Accrual Period will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR for such Interest Accrual Period will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. in the City of New York on such Interest Determination Date by three major banks in the City of New

York selected by the Agent Bank (after consultation with the Issuer) for loans in the Specified Currency to leading European banks, for a period equal to the relevant Interest Accrual Period (assuming no reduction in Principal Balance and no occurrence of a Principal Payment Date prior to the beginning of the next Interest Accrual Period), commencing on the second London Banking Day following such Interest Determination Date and in a principal amount that is representative for a single transaction in the Specified Currency in such market at such time; *provided, however*, that if any of the banks so selected by the Agent Bank is not quoting as mentioned in this sentence, the Floating Rate on each Class of Notes in effect for such Interest Accrual Period will be the rate of interest on such Class of Notes in effect on such Interest Determination Date.

(ii) With respect to Notes denominated in Euro:

- (A) On the second Business Day immediately preceding the first day of each Interest Accrual Period (each such day, an "**Interest Determination Date**"), the Agent Bank will determine "**EURIBOR**" based on the offered rate for deposits in Euro for a period of three months commencing on the first day of such Interest Accrual Period (the "**Interest Reset Date**") that appears on the display page, as defined in the applicable Supplement (or any successor) as of 11:00 a.m., Brussels time, on such Euro Interest Determination Date (such page being the "**Display Page**"). Notwithstanding the foregoing, if no offered rate appears on the Display Page, EURIBOR for such Interest Accrual Period will be determined as described in paragraph (b) below.
- (B) With respect to an Interest Determination Date on which no offered rate appears on the Display Page, the Agent Bank will request each of four major banks in the Euro-zone interbank market, selected by the Agent Bank (after consultation with the Issuer), to provide the Agent Bank with its offered quotation for deposits in Euro for a period of three months, commencing on the second Business Day immediately following such Interest Determination Date, to prime banks in the Euro-zone interbank market at approximately 11:00 a.m., Brussels time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in Euro in such market at such time. If at least two such quotations are provided, EURIBOR for the relevant Interest Accrual Period will be the arithmetic mean of such quotations. If fewer than two quotations are provided, EURIBOR for such Interest Accrual Period will be the arithmetic mean of the rates quoted at approximately 11:00 a.m., Brussels time, on such Interest Determination Date by major banks in the Euro-zone market selected by the Agent Bank (after consultation with the Issuer) for loans in Euro to leading European banks, for a period of three months, commencing on the second Business Day following such Interest Determination Date and in a principal amount that is representative for a single transaction in Euro in such market at such time; provided, however, that if any of the banks so selected by the Agent Bank is not quoting as mentioned in this sentence, the Floating Rate in effect for such Interest Accrual Period will be the applicable Floating Rate in effect on such Interest Determination Date.
- (C) The "**Interest Rate**" applicable to the Notes for the Interest Accrual Period relating to an Interest Determination Date shall be the sum of EURIBOR as determined by the Agent Bank on such Interest Determination Date and the additional per annum rate specified in the Terms Schedule (the "**Margin**").

"**TARGET Settlement Date**" means any day on which TARGET (the Trans-European Automated Real-time Gross settlement Express Transfer system) is open.

- (iii) The Floating Rate applicable to each Class of Notes for the Interest Accrual Period relating to an Interest Determination Date will be the sum of LIBOR as determined by the Agent Bank on such Interest Determination Date and the applicable Margin for such Class.
- (iv) Subject to applicable law, there will be no maximum or minimum Floating Rate.

"**London Banking Day**" means any day on which dealings in the Specified Currency are transacted in the London interbank market.

Calculation of Interest

The Agent Bank will, as soon as practicable after 11:00 a.m., London time, on each Interest Determination Date, determine the Interest Rate applicable to each Class of Notes.

Unless provided otherwise in the Applicable Supplement, on each Interest Payment Date, the amount of interest due in respect of each Class of Notes will be equal to (i) the sum obtained by adding the products, determined with respect to each day in the related Interest Accrual Period (such number calculated in accordance with the applicable Day Count Fraction as specified in the Applicable Supplement), of (a) the applicable Interest Rate *divided* by 360 and (b) the Principal Balance of each Class of Notes on such day *minus* (ii) if one or more Principal Payment Dates have occurred with respect to the Notes of such Class during such Interest Accrual Period (other than on the first day of such Interest Accrual Period), the aggregate amount of interest paid in respect of the Notes of such Class on such Principal Payment Dates.

Any overdue interest on the Notes of any Class will, to the fullest extent permitted by applicable law, bear interest for each day until paid at the Interest Rate applicable to such Class of Notes on each such day.

The determination by the Agent Bank of the Interest Rate and the interest payable on any Interest Payment Date will (in the absence of manifest error) be final and binding upon all parties and the Holders.

The "**Interest Accrual Period**" with respect to any Class of Notes for any Payment Date shall be the period from and including the preceding Interest Payment Date (or, in the case of the first Payment Date, from and including the Initial Interest Accrual Period Start Date, as defined in the Applicable Supplement) to but excluding such Payment Date.

Notification of Interest Rate and Interest Payments

The Agent Bank will notify in writing the Issuer, the Trustee, the Principal Paying Agent and the Irish Paying Agent (in respect of any Series of Notes which are listed on the Irish Stock Exchange for so long as such Notes are listed on the Irish Stock Exchange) of the Interest Rate and the projected amount of interest due on each Class of Notes for each Interest Accrual Period and the relevant Payment Date as soon as possible after their determination and verification (or redetermination, in the event of a reduction in the Principal Balance or the occurrence of a Principal Payment Date after such determination) but in no event later than the fourth Business Day thereafter. The Agent Bank will also notify DTC in writing. The amount of interest and Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a lengthening or shortening of the Interest Accrual Period. In addition, the amount of interest is subject to change if there is a reduction in Principal Balance or a Principal Payment Date on a date other than an Interest Payment Date. The relevant Irish Paying Agent will cause the Interest Rate for such Interest Accrual Period for each Series of Notes listed on the Irish Stock Exchange, the amount of interest payable on such Notes and each Payment Date to be delivered to the Irish Stock Exchange.

Determination or Calculation by Trustee

If the Agent Bank fails to determine an Interest Rate at any time or for any reason, the Trustee will determine the applicable Interest Rate in accordance with the terms of the Applicable Indenture or, as the case may be, the Trustee will calculate or verify the amount of interest payable on a Payment Date in accordance with such procedures, and each such determination will be deemed to have been made by the Agent Bank as the case may be. The determination by the Agent Bank or the Trustee (as the case may be) of an Interest Rate and calculation thereby of the amount of interest payable on a Payment Date will, in the absence of manifest error, be final and binding on all parties and the Holders. None of Morgan Stanley Capital Services Inc., in its capacity as the Calculation Agent (the "**Calculation Agent**"), the Agent Bank and the Trustee will, in connection therewith, be under any duty towards any person other than the Issuer.

Agent Bank

The Issuer agrees that, so long as any of the Notes remain outstanding, there will at all times be an Agent Bank in relation to the Notes, the appointment of which may be terminated by the Issuer as described in "—Payments" below.

Redemptions

In connection with any redemption of the Notes, Holders may, by written notice to the Trustee, elect to receive Underlying Securities with a face amount equal to the Principal Balance of their Notes (subject to any reductions to pay amounts ranking senior in the Priority of Payments), subject to the execution by such Holder of any documentation and the completion by the Holder of any formalities necessary to effect delivery of the Underlying Securities.

Early Redemption

Unless otherwise provided in the Applicable Supplement, the Notes will be subject to early redemption by the Issuer following an Early Redemption Event (as described below) (an "**Early Redemption**"). The Notes may not be amortized or redeemed other than as provided herein or in the Applicable Supplement. The redemption price of the Notes of each Class will be equal to (i) the Principal Balance of the Notes of such Class *plus* (ii) accrued but unpaid interest to but excluding the redemption date and shall be paid on such redemption date subject to the Priority of Payments.

Early Redemption Events

The occurrence of any of the following events will constitute an Early Redemption Event (an "**Early Redemption Event**"): (i) a Related Agreement Redemption Event, (ii) a Tax Redemption Event, or (iii) an Underlying Securities Early Redemption.

A "**Related Agreement Redemption Event**" occurs when a Related Agreement is terminated, including because of an Underlying Securities Default, without replacement thereof (on or prior to such termination) that is satisfactory to and has the prior written approval of the Trustee, at the direction of the Swap Counterparty, and that satisfies the Rating Condition.

A "**Tax Redemption Event**" occurs when:

- (i) the Issuer on the occasion of the next payment due in respect of the Notes would be required to withhold or account for tax in the place of incorporation or tax jurisdiction of the Issuer;
- (ii) the Issuer would be unable to make payment of any amount due on the Notes because (a) the Issuer becomes subject to tax in respect of its income with respect to the Underlying Securities or payments made to it under a Related Agreement, (b) the Issuer becomes subject to an obligation to deduct or withhold tax on payments made by it under a Related Agreement and to pay an additional amount under any such Related Agreement in respect thereof, or (c) the payments in respect of the Underlying Securities or payments made to the Issuer under any such Related Agreement are made net of any tax; or
- (iii) any exchange controls or other currency exchange or transfer restrictions or taxes are imposed on the Issuer or any payments to be made to or by the Issuer or for any reason the cost to the Issuer of complying with its obligations under or in connection with any Related Agreement would (in the sole opinion of the Issuer) be materially increased, the Issuer having used its reasonable efforts to procure the substitution of a company incorporated in another jurisdiction (in which jurisdiction the relevant tax, exchange control, or currency exchange or transfer restrictions does not apply) as the principal obligor in respect of the Notes, or the establishment of a branch office in another jurisdiction (in which jurisdiction the relevant tax, exchange control, or currency exchange or transfer restrictions does not apply) (in each case subject to the satisfaction of certain conditions as more fully specified in the Indenture) from which it may continue to carry out its functions under the Related Agreement, and the Issuer, having used its reasonable efforts, is unable to arrange such substitution before the next payment is due in respect of the Notes.

Notwithstanding the foregoing, if any of the taxes referred to in clause (i) of the definition of Tax Redemption Event arises:

- (a) owing to the connection of any Holder, or any third party having a beneficial interest in the Notes with the place of incorporation or tax jurisdiction of the Issuer otherwise than by reason only of the holding of any Note or receiving principal or interest in respect thereof; or
- (b) by reason of the failure by the relevant Holder to comply with any applicable procedures required to establish non-residence or other similar claim for exemption from such tax;

then, to the extent it is able to do so, the Issuer will deduct such taxes from the amounts payable to the relevant Holder and will not redeem the Notes but this will not affect the rights of the other Holders hereunder. Any such deduction will not constitute an Early Redemption Event or an Indenture Event of Default.

An "**Underlying Securities Early Redemption**" occurs when the Initial Underlying Securities are redeemed pursuant to an early redemption prior to their scheduled maturity date, unless such Initial Underlying Securities:

- (i) are amortized in accordance with their terms following the occurrence of an early amortization event in respect of the Initial Underlying Securities pursuant to the terms thereof; or
- (ii) are redeemed in full following the exercise by the issuer of the Initial Underlying Securities of its option to redeem the Initial Underlying Securities in full prior to their scheduled maturity date,

and, in the case of clause (i) or clause (ii) above, the holder of such Initial Underlying Securities receives payment in full in respect of the principal amount of the Initial Underlying Securities being amortized or, as the case may be, being redeemed; or

- (iii) are accelerated or redeemed by reason of an Underlying Securities Default.

An Underlying Securities Early Redemption may occur in respect of any Underlying Securities other than the Initial Underlying Securities.

Liquidation of Portfolio Property Due to an Early Redemption Event

In case of an Early Redemption, (i) the Calculation Agent will arrange for and administer the sale of the Underlying Securities and the Permitted Investments, if any, (ii) the Trustee will terminate the Related Agreements and (iii) save as set out in the last paragraph of this section, the Trustee will apply the liquidation proceeds of the Underlying Securities and the Permitted Investments, if any, and the termination payments paid to the Issuer under the Related Agreements in accordance with the Priority of Payments, but in each case without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any Secured Party; *provided* that the Trustee will not be required to take any action that would involve the Trustee in any liability or expense unless previously indemnified and/or secured to its reasonable satisfaction.

On first becoming aware of the occurrence of any Early Redemption Event, the Issuer and the Swap Counterparty will give notice thereof in writing to the Issuer or the Swap Counterparty, as applicable, the Swap Calculation Agent, the Rating Agency, the Calculation Agent and the Trustee. The Issuer will also deliver notice of redemption to the relevant Irish Paying Agent for delivery to the Irish Stock Exchange if and so long as any Series of Notes to be redeemed is listed on the Irish Stock Exchange. Upon giving or, as the case may be, receiving such notice, the Swap Agreement will be terminated and the Swap Calculation Agent will calculate the Swap Breakage Fee or the Defaulted Swap Termination Payment, as applicable. If a Swap Breakage Fee or a Defaulted Swap Termination Payment is payable by the Issuer, such amount will be paid and the Notes shall be redeemed by a Physical Settlement Redemption or a Liquidation Redemption, as specified under "The Notes—Principal Payments and Redemptions—Redemption Style" in the Applicable Supplement, in accordance the procedures set out in "—Indenture Events of Default" below.

Prior to giving any notice of redemption in respect of a Related Agreement Redemption Event, the Issuer will deliver to the Trustee a certificate signed by a director of the Issuer demonstrating that the conditions precedent to the obligations of the Issuer so to redeem have occurred and, in the case of a redemption of Notes in respect of clause (i) or part (a) or part (b) of clause (ii) of the definition of Tax Redemption Event, an opinion (in form and substance satisfactory to the Trustee) of legal advisers of recognized standing to the Issuer in the relevant jurisdiction to the effect that the Issuer has or will become obliged to withhold, account for or subject to such tax. The Trustee may rely on the aforementioned certificate and/or opinion without further inquiry.

Notwithstanding the foregoing, by written notice to the Trustee, any Holder may elect to take physical delivery of Underlying Securities in lieu of payment of the Principal Balance of the Notes held by such Holder, subject to the execution by such Holder of any documentation necessary to effect delivery of the Underlying Securities. In such circumstances, the Trustee will liquidate the Portfolio Property to the extent sufficient to cover any amounts that rank in priority to payments due to the Holders and deliver to such Holder, in consultation with the Calculation Agent, Underlying Securities having a face amount equal to the Principal Balance of the Notes held by such Holder, less the *pro rata* amount of such prior-ranking payments. The Trustee will liquidate any remaining Portfolio Property and distribute the proceeds of such liquidation to all Holders that have not elected to take physical delivery of the Underlying Securities.

Optional Early Redemption of Notes held by Morgan Stanley Affiliates

In the case of any Notes ("**MS Notes** ") held by a Morgan Stanley Affiliate, such Morgan Stanley Affiliate may at any time deliver a notice requiring the Issuer to redeem (such redemption an "**MS Note Redemption**") such MS Notes on the date specified in such notice (the "**MS Note Redemption Date**") by, at the option of such Morgan Stanley Affiliate either:

- (i) (A) delivery by the Issuer to or to the account of such Morgan Stanley Affiliate of Underlying Securities having a face amount equal to the Principal Balance of the MS Notes and (B) termination of a notional amount of the relevant Transactions under the Swap Agreement (or, in the case of the Rate Confirmation, the payment obligations relating to the Class or Tranche which includes the MS Notes) equal to the Principal Balance of the MS Notes, without termination payments being made by either party; or
- (ii) (A) liquidation by the Issuer of Underlying Securities having a face amount equal to the Principal Balance of the MS Notes for a price not less than such face amount plus accrued interest, (B) termination of a notional amount of the relevant Transactions under the Swap Agreement (or, in the case of the Rate Confirmation, the payment obligations relating to the Class or Tranche which includes the MS Notes) equal to the Principal Balance of the MS Notes, with corresponding termination payments being calculated in accordance with the Swap Agreement and, if payable by the Swap Counterparty, paid to the Issuer and (C) payment to or to the account of such Morgan Stanley Affiliate of an amount equal to the proceeds of such liquidation of the Underlying Securities plus the termination payment received by the Issuer,

provided that in each case the following conditions are satisfied:

- (A) if the MS Notes are Equity Notes, the Issuer has received advice (copied to the Trustee) from tax counsel that the redemption of the MS Notes will not cause any Class of Debt Notes to cease to be indebtedness for U.S. federal income tax purposes; and
- (B) if a Credit Event has occurred under the Swap Agreement in respect of which either (x) the related Cash Settlement Amount has not been paid and could result in a reduction in the Principal Balance of the Class of Notes of which the MS Notes form part or (y) the Swap Counterparty has not waived the right to deliver a Credit Event Notice, the Issuer will not redeem the MS Notes in whole on the MS Note Redemption Date but instead will defer to the first Business Day following the Cash Settlement Date for such Credit Event (the "**Deferred MS Note Redemption Date**") the redemption of a portion of the MS Notes on a pro rata basis in an outstanding Principal Balance equal to the maximum amount by which the Principal Balance of the MS Notes could be reduced as a result of such Credit Event. On the Deferred MS Note Redemption Date, the Issuer will redeem each outstanding MS Note at the Principal Balance of such Note as of the

Deferred MS Note Redemption Date (with accrued but unpaid interest to but excluding the Deferred MS Note Redemption Date) in the manner set out in sub-paragraph (i) or (ii) above.

Following any MS Note Redemption, the terms of the Swap Agreement and the Contingent Forward Agreement shall be amended to take into account such redemption.

The consent of the Holders and the Swap Counterparty and Rating Confirmation shall not be required with respect to any MS Note Redemption, provided that the Swap Counterparty shall give prior written notice of such MS Note Redemption to the Rating Agencies.

Sale of Underlying Securities to Morgan Stanley Affiliates

In arranging for the sale of any of the Underlying Securities as referred to above, the Calculation Agent, acting on behalf of the Issuer, may arrange for the sale of all or part thereof to itself or any other Morgan Stanley Affiliate (including, without limitation, the Swap Counterparty). The Swap Counterparty, in such capacity, or any Morgan Stanley Affiliate will not at any time be required to purchase any Underlying Securities from the Issuer upon liquidation thereof. Notwithstanding the foregoing, the Underlying Securities may only be sold to a Morgan Stanley Affiliate if (i) such Morgan Stanley Affiliate is the highest bidder and (ii) bids were also received in respect of the Underlying Securities from at least two dealers that are not Morgan Stanley Affiliates.

Investment in Substitute Underlying Securities

Unless provided otherwise in the Applicable Supplement, if (i) the Underlying Securities initially purchased by the Issuer and identified as such in the Applicable Supplement (the "**Initial Underlying Securities**") are amortized prior to their scheduled maturity date in accordance with their terms or (ii) are redeemed in full following the exercise by the issuer of the Initial Underlying Securities of its option to redeem the Initial Underlying Securities in full prior the scheduled maturity date of the Initial Underlying Securities and, in either case, the holder of such Initial Underlying Securities receives payment in full in respect of the principal amount of the Initial Underlying Securities being amortized or, as the case may be, being redeemed, then the Calculation Agent, acting on behalf of the Issuer, may, at any time after such Initial Underlying Securities are amortized invest the proceeds thereof in other Underlying Securities (the "**Substitute Underlying Securities**"), *provided* that (i) any such Substitute Underlying Securities satisfy the criteria set forth in the Applicable Supplement and (ii) security is granted simultaneously with such Substitute Underlying Securities and in respect thereof. Upon investment in the Substitute Underlying Securities, the relevant payment due to the Swap Counterparty from the Issuer under the Rate Confirmation will be adjusted to reflect the interest rate or distribution rate in respect of such Substitute Underlying Securities.

For the avoidance of doubt, if (i) an early amortization event occurs in respect of the Initial Underlying Securities pursuant to the terms thereof (ii) the issuer of the Initial Underlying Securities exercises its option to redeem the Initial Underlying Securities in full prior the scheduled maturity date of the Initial Underlying Securities, but, in either case, (A) the holders thereof do not receive payment in full of an amount equal to the amount of principal to be amortized or redeemed in respect of such Initial Underlying Securities or (B) such Initial Underlying Securities fall due to be redeemed or amortized for a reason other than the occurrence of an early amortization event in respect of the Initial Underlying Securities pursuant to the terms thereof or the exercise by the Initial Underlying Securities Issuer of its option to redeem the Initial Underlying Securities in full prior the Initial Underlying Securities Maturity Date, then (i) the Calculation Agent will not be entitled to invest the proceeds of any such redemption in Substitute Underlying Securities and (ii) an Underlying Securities Early Redemption will be deemed to occur.

Purchases

The Issuer may not at any time purchase any of the Notes.

Cancellation

All Notes redeemed by the Issuer will be cancelled and may not be reissued or resold.

Payments

Payments of interest and, if applicable, principal on each Note will be made to the person in whose name such Note is registered on the related Record Date or, in the case of a Principal Payment Date, on such Principal Payment Date. So long as DTC or its nominee is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Applicable Indenture and the Notes. Payments of principal and interest on the Global Notes will be made to DTC or its nominee, as the registered owner or holder thereof. Payments of principal and interest on the Global Notes will be made by wire transfer in immediately available funds to an account maintained by DTC or its nominee and identified in writing to the Registrar and Principal Paying Agent no later than 15 Business Days before the initial Payment Date (or, if changed, no later than 15 Business Days before any subsequent Payment Date) or, if a wire transfer cannot be effected, by a check delivered to DTC or its nominee at its address specified as of the Record Date in the Register, which address may be changed by written notice to the Registrar and Principal Paying Agent no later than 15 Business Days before the relevant Payment Date.

Payments of principal and interest on any Definitive Notes will be made by wire transfer in immediately available funds to an account identified in writing no later than 15 Business Days before the initial Payment Date (or, if changed, no later than 15 Business Days before any subsequent Payment Date) by each registered owner of such Definitive Notes to the Registrar and Principal Paying Agent or, if a wire transfer cannot be effected, by a check mailed by the Principal Paying Agent on such Payment Date to each such registered owner at the address identified by each such registered owner in writing no later than 15 Business Days before the relevant Payment Date to the Registrar and Principal Paying Agent.

None of the Issuer, the Trustee and the Principal Paying Agent will have any responsibility or liability for any aspects of the records maintained by DTC, its nominee, Euroclear, Clearstream or any of their participants relating to or for payments made thereby on account of beneficial interests in any Global Note or for maintaining, supervising or reviewing records relating to such beneficial interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note held by DTC or its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Note as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants, including Euroclear and Clearstream or their respective depositaries, to owners of beneficial interests in such Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with respect to securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants. In addition, no beneficial owner of an interest will receive payments, except in accordance with DTC's applicable rules and operating procedures (in addition to those under the Applicable Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

LaSalle will act as Principal Paying Agent, Registrar, Agent Bank and Transfer Agent. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of LaSalle or any of its successors in any of LaSalle's respective capacities, subject to the conditions set forth in the Applicable Indenture. Any such termination and any related appointment of a successor in any of such capacities will only take effect (other than in the case of insolvency, when it will be of immediate effect) after not more than 45 and not less than 30 days' notice thereof will have been given to the Holders in and a replacement principal paying agent, paying agent, transfer agent, agent bank or registrar (as the case may be) has been appointed.

The Issuer will inform the Irish Stock Exchange, so long as any of the Notes are listed thereon and the guidelines of the Irish Stock Exchange so require, of the principal amounts of the outstanding Notes following each Payment Date and if any Series or Class of Notes does not receive scheduled payments of principal or interest on a Payment Date.

For so long as any of the Notes are listed on the Irish Stock Exchange and the guidelines of such exchange so require, the Issuer will maintain a paying agent in Dublin, Ireland (such paying agent, the "**Irish Paying Agent**"). The Issuer may terminate the appointment of the Irish Paying Agent and the Irish Paying Agent may resign, at any time, by giving at least 30 days' notice to the respective other party.

Collections and Allocations of Collections

Collections

All payments received by the Issuer from the Portfolio Property including the proceeds of the liquidation thereof (together, the "**Collections**") will at all times be applied by the Trustee on a Payment Date in accordance with the Priority of Payments specified in "—Allocations" below.

All collections will be deposited into an account located in the United States established with the Trustee (the "**Collection Account**").

Calculations made on or as of a specified day will, unless the context requires otherwise, be made on or as of the close of business on such day or, if such day is not a Business Day, on or as of the close of business on the last Business Day prior to such day.

Allocations

On each Payment Date, or date on which the proceeds of the Portfolio Property are distributed by the Trustee, the Collections in the Collection Account will be allocated and applied by the Trustee in the following amounts and in the following order of priority (the "**Priority of Payments**"):

- (i) *first, pro rata and pari passu:*
 - (a) to the Swap Counterparty, an amount equal to all amounts due and payable by the Issuer to the Swap Counterparty on or prior to such Payment Date pursuant to the provisions of the Applicable Swap Agreement (including any Swap Breakage Fees but excluding any Defaulted Swap Termination Payment); and
 - (b) to the Contingent Forward Counterparty (if any), an amount equal to all amounts due and payable by the Issuer to the Contingent Forward Counterparty on or prior to such Payment Date pursuant to the provisions of the Applicable Contingent Forward Agreement (including any Contingent Forward Breakage Fees but excluding any Defaulted Contingent Forward Termination Payment); and
- (ii) *second, to each Class of Holders, in Order of Seniority, an amount equal to:*
 - (a) the amount of interest due and payable in respect of such Class of Notes on such Payment Date; and
 - (b) the amount of any overdue interest in respect of such Class of Notes on such Payment Date; and
 - (c) if such date is a Principal Payment Date, the Principal Balance of such Class of Notes due and payable on such Principal Payment Date; and
- (iii) *third, pro rata and pari passu:*
 - (a) to the Swap Counterparty, an amount equal to any Defaulted Swap Termination Payment; and
 - (b) to the Contingent Forward Counterparty (if any), an amount equal to any Defaulted Contingent Forward Termination Payment; and
- (iv) *finally, in respect of the Final Principal Payment Date only, all remaining amounts held by the Trustee in the Collection Account as of such Final Principal Payment Date to the Holders of the Notes outstanding with a Principal Balance greater than zero immediately prior to the application of clause (ii) above, and if there remained more than one Class of Notes outstanding with a Principal Balance greater than zero prior to*

such application, then to the most junior Class of such outstanding Notes; provided, however, that if any Class of Notes (other than the junior-most Class of Notes originally issued) would receive a distribution under this clause (iv) in excess of the accrued and unpaid interest and outstanding Principal Balance of such Class of Notes (determined without regard to reductions of principal in connection with Cash Settlement Amounts), such excess amount shall be instead be distributed to the Class of Notes immediately junior thereto.

Indenture Events of Default

Each of the following events constitutes an "**Indenture Event of Default**" with respect to a Series of Notes:

- (i) the Issuer defaults in the payment of any interest or principal on any Note when such interest or principal becomes due and payable and such default continues for a period of five days after written notice of such default is given to the Issuer and the Swap Counterparty by the Trustee or Principal Paying Agent;
- (ii) the Issuer fails to perform or observe any of its other obligations under the Notes or the Applicable Indenture and such failure continues for a period of 30 days following the delivery by the Trustee to the Issuer of written notice (which notice may be delayed as permitted under the Applicable Indenture) requiring the same to be remedied;
- (iii) (a) the entry of a decree or order by a court with competent jurisdiction adjudging the Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer under any applicable law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Issuer or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 15 consecutive days; or (b) the institution by the Issuer of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or of any substantial part of its property, respectively, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of any action by the Issuer in furtherance of any such action;
- (iv) the Issuer is required to register or is registered as an "investment company" under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"); or
- (v) an Underlying Securities Default.

Unless otherwise specified in the Applicable Supplement, an "**Underlying Securities Default**" shall mean one of the following events: (i) the acceleration of the outstanding Underlying Securities under the terms of the Underlying Securities; (ii) the failure of the issuer of the Underlying Securities to pay an installment of principal of, or any amount of interest due on (to the extent that interest is not permitted to be deferred under the terms of the Underlying Securities), the related Underlying Securities after the due date thereof specified in the Applicable Supplement and after the expiration of any applicable grace period, or (iii) the occurrence of any event of default under such Underlying Securities caused by the insolvency or bankruptcy of the issuer of the Underlying Securities. An Underlying Securities Default shall be deemed to have occurred for all purposes notwithstanding the rescission or annulment of such declaration of acceleration under such Underlying Securities or the subsequent payment (after such applicable grace period) of such overdue principal or interest. The Applicable Supplement will set forth any additional events of default under the Underlying Securities, if any, that will trigger an Underlying Securities Default with respect thereto.

In the case of any event described above, the Notes will be accelerated only if, after the expiration of any applicable grace period and while such event is continuing, the Trustee, at its discretion or if so directed in writing by the Holders of at least a majority of the Principal Balance of each affected Class of Notes entitled to vote and the Swap

Counterparty (unless the Indenture Event of Default arose from a Swap Counterparty Event), declares the Notes to be due and payable.

"Swap Counterparty Event" means an event or circumstance that arises as a result of the actions of, or failure to act by, the Swap Counterparty or as a result of an Event of Default or Termination Event (other than Illegality or a Tax Event) under the Swap Agreement in respect of which the Swap Counterparty is the Defaulting Party or the sole Affected Party (each such term as defined in the Swap Agreement).

Upon the occurrence of an Indenture Event of Default, the Trustee will provide the Holders with notice of such Indenture Event of Default.

The Notes will be redeemed in the event of an acceleration thereof. As long as the Underlying Securities are the Initial Underlying Securities and unless otherwise provided in the Applicable Supplement, such redemption shall be effected by either a Physical Settlement Redemption or a Liquidation Redemption, as specified under "The Notes—Principal Payments and Redemptions—Redemption Style" in the Applicable Supplement.

"Physical Settlement Redemption" means:

- (i) *first*, the Calculation Agent will liquidate first any Portfolio Property other than the Underlying Securities and thereafter Underlying Securities in an amount sufficient to pay any amounts payable under paragraph (i) of the Priority of Payments;
- (ii) *second*, the Trustee will deliver to each Holder, *pro rata* according to the Principal Balance of the Notes held by each such Holder, Underlying Securities with a face amount equal to the Principal Balance of the Notes held by such Holder; and
- (iii) *third*, the Trustee will apply any other funds available to the Issuer to pay any outstanding amounts in accordance with the Priority of Payments.

Physical Settlement Redemption shall not be applied to any Notes that are treated as Debt Notes.

"Liquidation Redemption" means:

- (i) *first*, the Calculation Agent will liquidate any Portfolio Property other than the Underlying Securities and Underlying Securities;
- (ii) *second*, if the relevant redemption arises as a result of a Swap Counterparty Event and the liquidation amount of the Underlying Securities is less than the outstanding principal amount of such Underlying Securities on the date on which they are liquidated, the Swap Counterparty will, under the terms of the Rate Confirmation, pay to the Issuer an amount equal to the difference between such liquidation amount and such outstanding principal amount. If the liquidation amount of the Underlying Securities is greater than the outstanding principal amount of such Underlying Securities on the date on which they are liquidated, the Issuer will, under the terms of the Rate Confirmation, pay to the Swap Counterparty an amount equal to the excess of such liquidation amount over such outstanding principal amount; and
- (iii) *third*, the Trustee shall apply the funds available to the Issuer in accordance with the Priority of Payments.

Subject to the prior rights of the Swap Counterparty, the Trustee will be entitled to protect and enforce the rights of the Holders in respect of the Portfolio Property. Prior to the acceleration of the Notes as a result of the occurrence of any Indenture Event of Default, the Swap Counterparty will be permitted (but not required) to use commercially reasonable efforts to remedy an Indenture Event of Default.

At any time after an acceleration of the Notes and before a judgment or decree for payment of the money due has been obtained by the Trustee and *provided* that all Indenture Events of Default have been cured or waived in accordance with the terms of the Applicable Indenture, the Holders of at least a majority of the Principal Balance of

each Class of Notes entitled to vote and the Swap Counterparty (unless such acceleration arose due to the actions of, or failure to act by, the Swap Counterparty) may, by written notice to the Issuer and Trustee, rescind and annul such acceleration and its consequences if the Issuer has paid or deposited with the Trustee (or provided for the payment or deposit with the Trustee of) an amount sufficient to pay all overdue interest in respect of the Notes and the Principal Balance of and interest on any Notes which have become due otherwise than by reason of such acceleration.

Each Applicable Indenture applies separately to each Series. As a result, an Indenture Event of Default under one Series in and of itself does not constitute an Indenture Event of Default under another Series.

The Indenture Events of Default may be varied or amended in respect of any Series of Notes as set out in the Applicable Supplement.

Permitted Investments

The Trustee, at the direction of the Issuer, will invest any funds held in the Collection Account, not otherwise applied in accordance with the Priority of Payments, in Permitted Investments for the benefit of, *inter alia*, the Swap Counterparty and the Holders. All income received from time to time on such Permitted Investments by the Issuer will be reinvested by the Trustee in additional Permitted Investments. On the Final Principal Payment Date, the Trustee will sell all Permitted Investments and will apply the proceeds thereof in accordance with the Priority of Payments. In no event will the Trustee be liable to Holders or to any other party as a result of the prices at which it sells Permitted Investments or as a result of an inability to sell such Permitted Investments as a result of market conditions.

"**Permitted Investments**" means unless otherwise specified in the Applicable Supplement, any of the following investments selected by the Calculation Agent in its sole and absolute discretion (provided that, in the case of clauses (i) and (ii) below, at the time of purchase of the relevant asset, payments in respect thereof are not subject to any deduction or withholding on account of tax by virtue of such asset being held by or on behalf of the Issuer):

- (i) any U.S. dollar-denominated senior debt securities of the United States of America issued by the U.S. Treasury Department and backed by the full faith and credit of the United States of America with a maturity that falls no later than the next following Interest Payment Date in respect of the Notes; and/or
- (ii) any U.S. dollar denominated investment that is an offshore money market fund or liquidity fund or similar investment vehicle that principally invests in short term fixed income obligations, including, without limitation, any investment vehicle for which the Calculation Agent or the Trustee, or an affiliate of any of them, provides services, provided that (a) such fund has a Moody's money market fund rating of at least "Aaa/MR1+" and an S&P rating of at least "AAAm", (b) such fund distributes interest or dividends on such investment on a regular basis and at least quarterly, (c) the Issuer will not invest in any one such money market fund or liquidity fund an amount exceeding, in the aggregate, 10% of the share capital of such fund unless the Rating Agency Condition is satisfied prior to investment in such funds and (d) the maturity date of such fund falls no later than the next following Interest Payment Date in respect of the Notes; and/or
- (iii) U.S. dollars; and/or
- (iv) any repurchase or similar arrangements approved by the Rating Agencies.

For the avoidance of doubt, in the case of clauses (i), (ii) and (iii) above, the approval of the Holders or the Rating Agencies, if any, will not be required.

Enforcement

At any time after the occurrence and during the continuance of an Indenture Event of Default or after acceleration of a Series of the Notes, the Trustee will, subject to it having been indemnified to its satisfaction by the Holders requesting action by the Trustee from and against all proceedings, claims and demands to which it may be or become liable and all fees, costs, charges and expenses which it may incur, and in any case may, at its discretion, to

the extent permitted by applicable law, take steps to protect and enforce the rights of the Secured Parties in respect of the Portfolio Property in accordance with the Applicable Indenture.

Only the Trustee may pursue the remedies available under applicable law or under the Applicable Indenture and the Notes to enforce the rights of the Holders, and no Holder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to proceed in accordance with the terms of the Applicable Indenture, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. Following the application of the net proceeds of the Portfolio Property in accordance with the Applicable Indenture, neither the Trustee nor any Holder may take any further steps against the Issuer to recover any sum still unpaid and the Issuer's liability for any sum still unpaid with respect to the relevant Series will be extinguished. In particular, none of them will be entitled to petition or take any other step for the winding-up of the Issuer; *provided* that the Trustee may prove or lodge a claim in the event of a liquidation of the Issuer initiated by another person. The net proceeds of the Portfolio Property under the Applicable Indenture will be applied in the order of priority set forth above.

Holders of one Series of Notes will not have any recourse to any assets other than the Portfolio Property of that Series.

Prescription

Claims in respect of principal and interest for any Series will be prescribed unless made within a period of six years of the Applicable Date. Any moneys held by the Trustee in trust for the payment of any amount due with respect to any Note that remain unclaimed for two years after such amount has become due and payable to such Holder will be discharged from such trust and paid to the Issuer, and thereafter such Holder will be able to claim such moneys only from the Issuer and will be a general unsecured creditor of the Issuer.

As used herein, "**Applicable Date**" means the date on which such payment first becomes due, but if the full amount of the moneys payable has not been received by the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with the procedures described below.

Agents

In acting under the Applicable Indenture, the Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Irish Paying Agent will act solely as agents of the Issuer (each, an "**Agent**") and will not assume any obligation or relationship of agency or trust to or with the Holders, unless an Indenture Event of Default has occurred, when the Principal Paying Agent, the Registrar, the Transfer Agent, the Agent Bank and the Irish Paying Agent will (if the Trustee so directs) act as agents of the Trustee.

Replacement of Notes

If any Note at any time becomes mutilated, defaced, destroyed, stolen or lost, it may be replaced at the cost of the applicant at the specified office of the Registrar (or at such other office of the Registrar as the Issuer may from time to time notify the Holders in accordance with the procedures described in "—Notices"), upon payment by the applicant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

Notices

Notices to Holders will be mailed or faxed to them at their respective addresses or fax numbers specified in the Register. Any such notice will be deemed to have been given on the day of such mailing or faxing.

In addition, for so long as any of the Notes are listed on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, notices to the Holders of such Notes will also be published via the Irish Stock Exchange's Company Registration Office.

On or prior to each Interest Payment Date, the Trustee (with respect to items (ii) and (iii) below, based solely upon information provided by the Swap Counterparty, the Calculation Agent and/or the Swap Calculation Agent) will prepare a servicing report (the "**Servicing Report**") setting forth the following information: (i) the Principal Balance for the calculation period preceding such Interest Payment Date and the Interest Rate for such period; (ii) a copy of each Credit Event Notice or Notice of Publicly Available Information provided under the Applicable Swap Agreement since the last such report (or, in the case of the first such report, since the date of issuance of the relevant Notes) and (iii) the amount of the Cash Settlement Amount, if any, determined by the Calculation Agent on or prior to such Interest Payment Date. The Trustee will deliver a copy of the Servicing Report to the Holders promptly after each Interest Payment Date, but in no event later than the fifth Business Day following such Interest Payment Date.

The Trustee (based solely upon information provided by the Swap Counterparty, the Calculation Agent and/or the Swap Calculation Agent) will, on or prior to each Interest Payment Date (each such date, a "**Portfolio Report Delivery Date**"), compile a report (the "**Portfolio Report**"), setting forth information determined as of the Business Day preceding the Portfolio Report Delivery Date (each such date, a "**Portfolio Report Determination Date**"). The Issuer shall deliver such Portfolio Report not later than the Portfolio Report Delivery Date to each Rating Agency, each Holder and the Swap Counterparty. The Portfolio Report will contain the following information as of the applicable Portfolio Report Determination Date: (i) a list of all the Reference Entities and Reference Obligations (in the case of Reference Entities, grouped into the applicable reference transaction portfolio); (ii) the total loss amount and loss amount following the occurrence of a Credit Event in connection with each reference transaction portfolio, indicating any change in such total loss amount or loss amount since the last Portfolio Report (or, in the case of the first Portfolio Report, since the date of issuance of the relevant Notes); (iii) the Cash Settlement Amounts in connection with each reference transaction portfolio, indicating any change in such Cash Settlement Amounts since the last Portfolio Report (or, in the case of the first Portfolio Report, since the date of issuance of the relevant Notes); and (iv) the senior unsecured debt rating for each Reference Entity and the rating of each Reference Obligation, indicating any change in such rating since the last Portfolio Report (or, in the case of the first Portfolio Report, since the date of issuance of the relevant Notes). The Trustee will have no obligation to verify any information provided to it by the Swap Counterparty, the Calculation Agent and/or the Swap Calculation Agent.

Modification of the Applicable Indenture and the Notes; Additional Series

Modification without Consent

Without notice to or the consent of the Holders or the Swap Counterparty, the Issuer and the Trustee (having given notice to the Rating Agencies) may execute a supplemental indenture for the purpose of (i) adding to the covenants of the Issuer in the Applicable Indenture or the Notes or surrendering any rights of the Issuer in the Applicable Indenture, *provided* that any such addition of covenants or surrender of rights or powers shall not have an adverse effect on the rights and interests of any Class of Notes, (ii) curing any ambiguity in the Applicable Indenture or the Notes, (iii) evidencing and providing for the acceptance of appointment by a successor entity to the Issuer or a successor entity to any of the Trustee, the Registrar, the Agent Bank, the Transfer Agent, the Irish Paying Agent or the Paying Agents, (iv) correcting, modifying or supplementing any provision of the Applicable Indenture or the Notes which may be inconsistent with any other provision, (v) pledging any property to the Trustee or correcting or amplifying the description of, or better assuring, conveying or confirming unto the Trustee, any property pledged under the Applicable Indenture, (vi) to correct or amplify the description of any property at any time subject to a Lien of the Applicable Indenture, or better to assure, convey and confirm unto the Trustee any property subject to a Lien of the Applicable Indenture, (vii) making any change in the Applicable Indenture or the Notes requested by a Rating Agency, following the downgrade of the senior, unsecured short-term debt obligations of the Swap Counterparty, (viii) making any change in the Applicable Indenture or the Notes that does not adversely affect the rights and interests of the Holders or the Swap Counterparty, (ix) making any change required by the Irish Stock Exchange or any other stock exchange on which any Series or Class of Notes are listed, in order to permit or maintain such listing, or (x) facilitating that acquisition by the Issuer of or entry by the Issuer into any Underlying Security or Permitted Investment, *provided* that any change described in clauses (i), (iii) (with respect a successor entity to the Issuer only), (vii) or (viii) is subject to satisfaction of the Rating Condition.

The Issuer may, without the consent of the Holders, change its place of residence for taxation purposes; *provided* (i) that the Issuer does all such things as may be required in order that such change in the place of residence of the Issuer for taxation purposes is fully effective, (ii) the Issuer has received an opinion of counsel, a copy of which

shall be delivered to the Trustee, that such change will not have an adverse effect on the rights and interests of any Class of Notes or the Swap Counterparty and (iii) the Issuer sends written notice to the Holders and the Rating Agencies of such change in the place of residence.

Additional Series

The Company may issue multiple Series of Notes and, subject to the Applicable Supplement, each Series will be related to a different Segregated Portfolio of the Company.

Modification with Consent

Except as set forth below, (i) with the consent of (a) the Holders of at least a majority of the aggregate Principal Balance of each Class of Notes affected by such supplemental indenture and entitled to vote and (b) the Swap Counterparty; and (ii) having given notice to the Rating Agencies, the Trustee and the Issuer may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the Applicable Indenture or modify in any manner the rights of the holders of the Notes of each such Class or the rights of the Swap Counterparty. Without (i) the consent of each Holder of the relevant Series and the Swap Counterparty and (ii) satisfaction of the Rating Condition, however, no supplemental indenture may (a) change the Scheduled Maturity Date or any Payment Date, or reduce the Principal Balance of any Note or the amount of interest payable thereon or change the coin or currency in which any Note or interest thereon is payable; (ii) impair the right to institute suit for the enforcement of any such payment on or after the date any such payment becomes due and payable; (iii) reduce the percentage of Principal Balance, whether of a Class or Classes, the consent of the Holders of which is required for the execution of any such amendment or supplement to the Applicable Indenture, or the consent of the Holders of which is required for any waiver of compliance with provisions of the Applicable Indenture or for any waiver of Indenture Events of Default under the Applicable Indenture and their consequences provided for in the Applicable Indenture; (iv) change any obligation to redeem Notes or change any redemption price or dates; (v) modify or alter the provisions of the Applicable Indenture regarding the voting of Notes held by the Swap Counterparty or any affiliate of the Swap Counterparty; (vi) permit the creation of any lien ranking prior to or on a parity with the lien of the Trustee for the benefit of, *inter alios*, the Holders under the Applicable Indenture with respect to any part of the Portfolio Property, or except as otherwise permitted thereunder, terminate the lien under the Applicable Indenture on any property at any time subject thereto or deprive a Holder of the security afforded by such liens; or (vii) modify certain provisions of the Applicable Indenture relating to amendments, control or limitation on suits by Holders.

In determining whether the Holders of the requisite percentage of the Principal Balance of the Notes of any Class have given any request, demand, authorization, direction, notice, consent or waiver requested or required to be obtained from the holders of Notes, the Notes owned by the Swap Counterparty or any affiliate of the Swap Counterparty will be disregarded and will not be entitled to vote in respect thereof; *provided* that if the Swap Counterparty or an affiliate of the Swap Counterparty holds all of the Notes of a Class or Classes, such Notes will not be so disregarded, and will be entitled to vote in respect of any matter that affects only such Class or Classes.

In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to, those in relation to any proposed modification, waiver, authorization, substitution or exchange as aforesaid) the Trustee will not have regard to the consequences of such exercise for individual Holders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee will not be entitled to require, nor will any Holder of a Note be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders.

"Rating Agencies" means those rating agencies, if any, specified in the Applicable Supplement.

"Rating Condition" means, (i) if a Series is not rated, is not applicable, and there is no requirement to satisfy any Rating Condition; and (ii) if a Series is rated, with respect to any action subject to such condition, that the Rating Agencies have notified the Issuer and the Trustee in writing that such action will not result in a reduction or withdrawal of the then current rating of any outstanding Class of Notes rated by such Rating Agencies.

Modification of the Transaction Documents

The Trustee will not approve or consent to or otherwise agree to any amendment or supplement to, or other modification of, the Applicable Swap Agreement, the Applicable Contingent Forward Agreement (if any), the Administration Agreement or any other agreement (other than (i) corrective or clarifying amendments, (ii) amendments to facilitate the acquisition by the Issuer or the entry by the Issuer into, any Underlying Securities or Permitted Investments, (iii) in the case of the Administration Agreement only, amendments which, as evidenced by an officer's certificate of the Issuer, do not have a materially adverse effect on the rights and interests of the Holders entitled to vote, (iv) in the case of the Applicable Swap Agreement or the Applicable Contingent Forward Agreement only, a transfer by the Applicable Swap Counterparty or the Applicable Contingent Forward Counterparty, as applicable, of its rights and obligations to a Morgan Stanley Affiliate; *provided* that a guarantee similar to the Swap Guarantee or the Contingent Forward Guarantee, as applicable, is issued in respect of the obligations of such Morgan Stanley Affiliate, or (v) making any change to any such document necessary to maintain the then-current rating of the Notes following the downgrade of the senior, unsecured short-term debt obligations of the Swap Counterparty, *provided* that following such change the Rating Condition is satisfied), without the consent of the Swap Counterparty and the consent of the Holders of (a) in the case of the Applicable Swap Agreement and the Applicable Contingent Forward Agreement, at least a majority of the Principal Balance of the (or, if more than one, each) Class or Tranche of Notes related to the Transaction being amended, supplemented or modified and (b) in the case of any other Assigned Document, at least a majority of the Principal Balance of each Class or Tranche of Notes adversely affected by such amendment, supplement or modification.

Taxation

Payments under the Notes will be made without deduction or withholding for or on account of any present or future tax, duty, assessment or governmental charge imposed upon or as a result of such payments ("**Taxes**"), unless required by law. Unless provided otherwise in the Applicable Supplement, to the extent any such Taxes are so levied or imposed, the Issuer will deduct or withhold amounts sufficient to cover such Taxes and will not pay any additional amounts ("**Additional Amounts**") to a Holder of the Notes in respect of such Taxes.

Governing Law

The Notes, the Applicable Indenture (including the grant by the Issuer of the security interest in the Portfolio Property and the enforcement by the Trustee of such security interest (except to the extent that the perfection of the Issuer's or the Trustee's interest in the Portfolio Property, or remedies under the Applicable Indenture in respect thereof, may be governed by the laws of a jurisdiction other than the State of New York, in which case the laws of such jurisdiction will apply to such extent)), the Applicable Swap Agreement and the Applicable Contingent Forward Agreement will be governed by, and will be construed in accordance with, the laws of the State of New York. The Administration Agreement will be governed by, and will be construed in accordance with, the laws of the Cayman Islands. The Issuer will submit to the non-exclusive jurisdiction of the New York courts for all purposes in connection with the Notes, the Applicable Indenture, the Applicable Swap Agreement, the Applicable Contingent Forward Agreement and the Administration Agreement and will appoint Morgan Stanley & Co. Incorporated to accept service of process on its behalf. The Swap Counterparty and the Contingent Forward Counterparty will submit to the non-exclusive jurisdiction of the New York courts for all purposes in connection with the Applicable Swap Agreement and the Applicable Contingent Forward Agreement, as applicable.

PORTFOLIO PROPERTY

General

The assets of the Segregated Portfolio of the Issuer in respect of any Series of Notes will, subject to the Applicable Supplement, consist of (i) the Underlying Securities, (ii) the Issuer's rights under the Applicable Swap Agreement described in the Applicable Supplement (including the Swap Guarantee), (iii) the Issuer's rights under the Applicable Contingent Forward Agreement, if any, described in the Applicable Supplement (including the Contingent Forward Guarantee) (together with the Applicable Swap Agreement (the "**Related Agreements**")), (iv) any Permitted Investments purchased by the Issuer, (v) certain property incidental thereto, and (vi) the proceeds of the foregoing (collectively, the "**Portfolio Property**").

The Portfolio Property will be available solely to meet the obligations of the Issuer to the Holders of a Series of Notes and all other obligations of the Issuer attributable to that Segregated Portfolio. If the amounts received from the Portfolio Property (whether or not any security granted in respect thereof has been enforced) are insufficient to make payment of all amounts due in respect of the Notes of the relevant Series and all other obligations attributable to that Segregated Portfolio (after meeting the payments that are due from the Issuer and that rank in priority in accordance with the Priority of Payments) no other assets of the Issuer will be available to meet that shortfall and all further claims of the Holders in respect of such Notes will be extinguished.

Underlying Securities

Underlying Securities

Unless otherwise specified in the Applicable Supplement, the Underlying Securities constituting a portion of the Portfolio Property with respect to an issuance of a Series of Notes (the "**Underlying Securities**") will consist of all or a portion of one or more issuances, series or classes of debt obligations of a single issuer identified in the Applicable Supplement. As may be more particularly described in the Applicable Supplement, such debt obligations may have been purchased by MS&Co (or an affiliate thereof) in the secondary market or directly from the issuer of the Underlying Securities.

Limited Information on Underlying Securities

The Applicable Supplement will not provide detailed information concerning the Underlying Securities or the issuer thereof but will merely summarize certain terms of the Underlying Securities, including (i) the principal amount thereof, (B) the rate at which interest accrues thereon and (C) the dates on which interest and principal are payable thereon. Any information concerning the Underlying Securities or the issuer thereof that is set forth in the Applicable Supplement will, unless otherwise specified, be based upon publicly available sources, will not have been independently checked or verified by the Distributor, the Swap Counterparty, the Trustee or anyone else, and will not purport to be complete or to include information which will be material to a prospective investor in the Notes. Prospective purchasers of the Notes should undertake their own investigation of the creditworthiness of the issuer of the Underlying Securities as well as the terms of the Underlying Securities.

Voting of Underlying Securities; Modification of Underlying Securities Indenture

In the event that the Trustee receives a request from the applicable trustee of the Underlying Securities or any Underlying Securities Issuer for its consent to any amendment, modification or waiver under the Underlying Security Indenture or other document relating to the Underlying Securities, or receives any other solicitation for any action with respect to the Underlying Securities, the Trustee shall request instructions from the Holders as to whether or not to consent to or vote to accept such amendment, modification, waiver or solicitation and shall vote in accordance with the instructions of the majority of the Holders. In the absence of any such instruction, the Trustee will be under no obligation to take any action in respect of such Underlying Securities. The Trustee will also notify the Swap Counterparty and the Rating Agency of its receipt of such a request from the relevant trustee or solicitation for action with respect to the Underlying Securities.

Exchange offers on Underlying Securities

In the event that an offer is made by any Underlying Securities Issuer to issue new obligations in exchange and substitution for any of the related Underlying Securities, the Trustee will not accept any such offer. The Trustee will also notify the Rating Agencies. In the event that an event of default occurs and is continuing with respect to any Underlying Securities, the Trustee will notify each Holder of the Notes and each Rating Agency of such occurrence as promptly as practicable (and in any event within five Business Days after the Trustee has actual knowledge of such default).

Prepayment of Initial Underlying Securities

In the event that there is a prepayment of the Initial Underlying Securities, the Trustee shall notify the Rating Agencies of such prepayment.

Applicable Swap Agreements

The Applicable Supplement may provide that the Issuer, in respect of a Series of Notes, will enter into a related swap agreement with the applicable Swap Counterparty (the "**Applicable Swap Agreement**"). The Applicable Supplement may describe certain provisions of the Applicable Swap Agreement that materially differ from the description thereof contained in this Base Private Placement Memorandum. In addition, to the extent not set forth in this Base Private Placement Memorandum, the specific terms of such Applicable Swap Agreement, particularly the method of calculation of payments by the Swap Counterparty thereunder and the timing of such payments, will be set forth in the Applicable Supplement.

The following summaries of provisions of the Applicable Swap Agreement do not purport to be complete and are subject to the detailed provisions of the form of Applicable Swap Agreement. Copies of the form of Applicable Swap Agreement (including the Swap Guarantee) will be available for inspection at the corporate trust office or agency of the Trustee, at the addresses and in the matter set forth in the Applicable Supplement.

General

As particularly described in the Applicable Supplement, for any Series of Notes, the derivatives transaction or transactions that the Issuer may enter into under the Applicable Swap Agreement may be one or more of the following: (i) a rate swap transaction, credit default swap, total rate of return swap, basis swap, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions); (ii) any combination of these transactions; or (iii) any other transaction identified in such Applicable Swap Agreement or the relevant confirmation and described in such Applicable Supplement.

Unless otherwise indicated in the Applicable Supplement, the Applicable Swap Agreement will be in the form of the 1992 ISDA Master Agreement (Multicurrency—Cross Border), including the schedule thereto (the "**Master Swap Agreement**"), published by the International Swaps and Derivatives Association, Inc. ("**ISDA**") and will incorporate the 2000 ISDA Definitions (as published by ISDA, the "**ISDA Definitions**"), except as modified to reflect the terms of the related Notes, the Applicable Indenture and the derivatives transaction or transactions provided for in such Applicable Swap Agreement. Except as expressly set forth therein, the Applicable Swap Agreement will be governed in all relevant respects by the provisions set forth in the Master Swap Agreement and the ISDA Definitions, without regard to any amendments or modifications to the Master Swap Agreement or the ISDA Definitions published by ISDA subsequent to the date of such Applicable Swap Agreement.

Payments under Applicable Swap Agreements

In general, under the Applicable Swap Agreement, the Issuer and the Swap Counterparty will each agree to exchange certain payments on each payment date (each, a "**Swap Payment Date**") under such Applicable Swap Agreement. All payments to be made by the Issuer will be made by the Trustee in accordance with the provisions of

the Applicable Indenture. The amounts to be exchanged by the parties on a Swap Payment Date may both be floating amounts, calculated with reference to one or more interest rate bases or other types of bases, in each case as set forth in the Applicable Supplement, or one such amount may be floating and the other fixed. In addition, such amounts will also be calculated with reference to the notional principal amount of the derivatives transaction or transactions under such Applicable Swap Agreement.

The obligations of the Issuer to the Swap Counterparty will be secured by a security interest in the Portfolio Property granted by the Trustee in favor of the Secured Parties pursuant to the Applicable Indenture. The Swap Counterparty will be a secured party under the Indenture.

The Applicable Swap Agreement may provide for either periodic exchanges of payment amounts or, in certain cases, a single exchange or series of exchanges upon the maturity or prospective maturities of the related Underlying Securities, or both. The Applicable Supplement will set forth the specific terms of the Applicable Swap Agreement, including the timing and method of calculation of payments under such Applicable Swap Agreement. **The terms of the Applicable Swap Agreement are fundamental to an informed investment decision with respect to the Notes and must be considered carefully.**

Modification and Amendment of Applicable Swap Agreements

Unless otherwise specified in the Applicable Supplement, the Applicable Indenture will provide that the Trustee will not approve or consent or otherwise agree to any amendment or supplement to or other modification of the Applicable Swap Agreement (save for certain exceptions, including (i) corrective or clarifying amendments and (ii) any change to any document requested by a Rating Agency (if any), following the downgrade of the debt obligations of the Swap Counterparty, *provided* that following such change the Rating Condition is satisfied), without the consent of the Holders of at least a majority of the Principal Balance of each Class of Notes affected by such amendment, supplement or modification and the consent of the Swap Counterparty.

Conditions Precedent

Unless otherwise specified in the Applicable Supplement, the respective obligations of the Swap Counterparty and the Issuer to pay any amount due under the related Applicable Swap Agreement will be subject to the following conditions precedent: (i) no Swap Event of Default (as defined below under "—Defaults Under Applicable Swap Agreement") (or event that with the giving of notice or lapse of time or both would become a Swap Event of Default) shall have occurred and be continuing; (ii) no Swap Termination Event (as defined below under "—Swap Termination Events") (or event that with the giving of notice or lapse of time or both would become a Swap Termination Event) shall have occurred and be continuing; and (iii) any other condition precedent specified in the Applicable Supplement.

Defaults Under Applicable Swap Agreements

Unless otherwise noted in the Applicable Supplement, "Events of Default" under the Applicable Swap Agreement (each, a "**Swap Event of Default**") are limited to: (i) the failure of the Issuer to pay any amount when due after giving effect to the applicable grace period, if any; (ii) the failure of the Swap Counterparty or the Swap Guarantor to pay any amount when due under such Applicable Swap Agreement after giving effect to the applicable grace period, if any; (iii) the occurrence of certain events of insolvency or bankruptcy of the Issuer, the Swap Counterparty or the Swap Guarantor and (iv) certain other standard events of default under the Master Swap Agreement, including "Credit Support Default" (with respect to the Swap Counterparty) and "Merger without Assumption" (with respect to the Swap Counterparty), as described in Sections 5(a)(iii) and 5(viii) of the Master Swap Agreement. Several of the standard events of default of the Master Swap Agreement are not Swap Events of Default under the Applicable Swap Agreement. The standard events of default excluded are "Breach of Agreement", "Misrepresentation", "Default Under Specified Transaction", and "Cross Default" as described in Sections 5(a)(ii), 5(a)(iv), 5(a)(v), and 5(a)(vi), respectively, of the Master Swap Agreement.

Swap Termination Events

Unless otherwise specified in the Applicable Supplement, "Termination Events" under the Applicable Swap Agreement (each, a "**Swap Termination Event**") consist of the following: (i) the adoption of any change in any applicable law, or the change in the interpretation of any law by any court or governmental authority, which causes it to become unlawful for (A) the Issuer or the Swap Counterparty or both, as applicable (the "**Affected Party**" or "**Affected Parties**"), to perform any obligation to make or receive a payment pursuant to the Applicable Swap Agreement or (B) the Swap Guarantor to perform its obligations under the Swap Guarantee; (ii) actions taken by a taxing authority or brought by a court of competent jurisdiction or a change in tax law, with the result that one of the parties to such Applicable Swap Agreement (an "**Affected Party**") will probably be required to (A) pay an additional amount to the other party as a result of the imposition of certain withholding taxes or (B) receive a payment from which an amount is deducted or withheld on account of the imposition of such withholding tax, in each case under the Applicable Swap Agreement (a "**Tax Event**"); (iii) a "Tax Event Upon Merger" as such term is more particularly described in Section 5(b)(iii) of the Master Swap Agreement; (iv) "Credit Event Upon Merger" as described in 5(b)(iv) of the Master Swap Agreement with respect to the Swap Counterparty; and (v) any Additional Termination Events specified in the Applicable Swap Agreement.

Unless otherwise specified in the Supplement, "Additional Termination Events" under the related Applicable Swap Agreement consist of the following: (i) if an Indenture Event of Default in respect of the Notes occurs and the Trustee gives the relevant notice to the Issuer, (ii) if the Notes are redeemed in whole prior to the Scheduled Maturity Date (otherwise than as a result of an Indenture Event of Default) or the outstanding principal balance of such Notes becomes zero, (iii) if the related Applicable Contingent Forward Agreement (if any) is terminated, or (iv) if any Applicable Indenture is supplemented, amended or modified or any provision of the same is waived, in each case, without prior written consent of the Swap Counterparty, and which supplement, modification or waiver, is in the reasonable judgment of the Swap Counterparty materially adverse to the interests of the Swap Counterparty.

Early Termination of Applicable Swap Agreements

Unless otherwise specified in the Applicable Supplement, upon the occurrence of a Swap Termination Event (which, by the terms of the Master Swap Agreement, includes Additional Termination Events and Events of Default), the date on which the Swap Agreement will terminate (also, an "**Early Termination Date**") must be designated by one of the parties, as specified in each case in the Applicable Swap Agreement, and will occur only upon notice and, in certain cases, after any Affected Party has (or Affected Parties have, if applicable) used reasonable efforts to transfer their rights and obligations under the Applicable Swap Agreement to a related entity within a limited time period after notice has been given of the Swap Termination Event, all as set forth in the Applicable Swap Agreement.

In the event that the Trustee becomes aware that a Swap Termination Event occurs with respect to which the Swap Counterparty is the Affected Party, the Trustee will under the terms of the Applicable Indenture, designate a Swap Termination Event. If a Swap Termination Event occurs and, when applicable, an Early Termination Date is designated, the Applicable Swap Agreement will terminate and Swap Breakage Fees or Defaulted Swap Termination Payments may be payable by the Issuer to the Swap Counterparty or by the Swap Counterparty to the Issuer.

Prior to the complete discharge of the Applicable Indenture, if the Issuer is liable for a Swap Breakage Fee or a Defaulted Swap Termination Payment, such payments will be paid according to the Priority of Payments set forth in the Indenture. If, after the complete discharge of the Applicable Indenture Underlying Securities remain in the Issuer and the Issuer is liable for a Swap Breakage Fee, Underlying Securities may be sold by the Trustee in order to fund such payments. See "—Swap Breakage Fees and Defaulted Swap Termination Payments."

If provided for in the Applicable Supplement, under certain circumstances the Swap Counterparty may have the option to terminate the Applicable Swap Agreement prior to its final termination date, in which event it may be required to call the Underlying Securities at a price set forth in the Applicable Supplement. If and as provided in the Applicable Supplement, Swap Breakage Fees under the Applicable Swap Agreement may be payable by the Issuer or the Swap Counterparty.

In addition to the termination events described above, unless otherwise specified in the Applicable Supplement, to the extent that the aggregate principal amount of the Underlying Securities held by the Issuer is reduced through redemption, prepayment or exchange, the corresponding swap notional amount subject to the Applicable Swap Agreement will be reduced automatically.

Swap Breakage Fees and Defaulted Swap Termination Payments

Unless otherwise specified in the Applicable Supplement, the Applicable Indenture provides for "**Swap Breakage Fees**" as any amounts payable under the Applicable Swap Agreement as a consequence of an early termination of the Applicable Swap Agreement, whether to or by the Issuer, as the case may be, while for the purposes of the Priority of Payments under the Applicable Indenture, the Applicable Indenture differentiates "**Defaulted Swap Termination Payments**" as any amount payable by the Trustee under the Applicable Swap Agreement as a consequence of an early termination of the Applicable Swap Agreement (i) in respect of which termination the Swap Counterparty (and not the Issuer) is the sole affected or defaulting party or (ii) following an Early Redemption Event resulting from the termination of the Applicable Contingent Forward Agreement, in respect of which termination the Contingent Forward Counterparty (and not the Issuer) is the sole affected or defaulting party.

Defaulted Swap Termination Payments have a lower priority in the Priority of Payments than Swap Breakage Fees. For the avoidance of doubt, the term "Swap Breakage Fees" does not include any amounts accrued and unpaid to or by the Issuer under the Applicable Swap Agreement, as of the Early Termination Date, that would have been required to be paid (either on such Early Termination Date or on any other date, whether earlier or later) absent an early termination.

If the Applicable Swap Agreement is terminated prior to maturity thereof, the market value of the Applicable Swap Agreement will be established by the Swap Counterparty either (a) on the basis of the market quotations of the cost to the Swap Counterparty of entering into a replacement swap agreement or (b) if such market quotations are unavailable or do not produce a commercially reasonable result, based on losses suffered by either party as a result of the termination of the Applicable Swap Agreement, in each case in accordance with the procedures set forth in detail in the Applicable Swap Agreement. The market value may be positive for the Issuer, in which case a Swap Breakage Fee will be due from the Swap Counterparty to the Issuer, or it may be positive for the Swap Counterparty, or result in a net loss to the Issuer, in which case a Swap Breakage Fee or a Defaulted Swap Termination Payment will be due to the Swap Counterparty.

The Swap Breakage Fees payable by the Issuer will be limited to the assets of the Issuer, and Holders will not be liable to the Swap Counterparty for Swap Breakage Fees to the extent, if any, that the amount of such fees exceeds the value of the assets of the Issuer.

Transfers of Applicable Swap Agreements

Unless otherwise provided in the Applicable Supplement, the Swap Counterparty may transfer its rights and obligations under the Applicable Swap Agreement at its own discretion and its own expense to any third party (including, for the avoidance of doubt, an affiliate of the Swap Counterparty); *provided* that (i) the ratings assigned to the short term senior unsecured debt obligations of such transferee (or an entity which is guaranteeing the obligations of such transferee under the Agreement) satisfy the rating requirements applicable to Swap Counterparty at the time of such transfer and (ii) the Rating Condition is satisfied. Each of the Issuer and the Swap Counterparty may transfer its rights and obligations to the Trustee if such transfer is made in accordance with the terms of the Applicable Indenture and *provided* that the Swap Counterparty will not be obliged to pay any greater amounts and will not receive less as a result of such transfer or assignment than would have been the case if such transfer or assignment had not taken place and will not incur any costs, expenses or liabilities in respect of any such transfer or assignment.

Governing Law

Unless otherwise specified in the Applicable Supplement, the Applicable Swap Agreement will be governed by the laws of the State of New York and the federal and state courts in the Borough of Manhattan in the City of New York

shall have non-exclusive jurisdiction in respect of any action arising out of or relating to the Applicable Swap Agreement.

Swap Guarantee of Morgan Stanley; Other Guarantee or Support

In general, unless otherwise specified in the Applicable Supplement, the payment obligations of the Swap Counterparty under the Applicable Swap Agreement will be general, unsecured obligations of the Swap Counterparty. With respect to an Applicable Swap Agreement in which the Swap Counterparty is MSCS, pursuant to the Swap Guarantee to be delivered with respect to such Applicable Swap Agreement, Morgan Stanley ("**MS**") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts payable by MSCS under the Applicable Swap Agreement. Pursuant to such Swap Guarantee, MS will agree to pay or cause to be paid all such amounts upon the failure of MSCS punctually to pay any such amount and written demand by the Trustee to MS to pay such amount. With respect to any Applicable Swap Agreement in which the obligations of the Swap Counterparty are not guaranteed by MS, the Applicable Supplement will describe the material provisions of any guarantee or other type of support, if any, of the obligations of such Swap Counterparty.

Applicable Contingent Forward Agreement

The Applicable Supplement may provide that the Issuer, in respect of a Series of Notes, will enter into a related contingent forward agreement with the applicable Contingent Forward Counterparty (the "**Applicable Contingent Forward Agreement**"). The Applicable Supplement may describe certain provisions of the Applicable Contingent Forward Agreement that materially differ from the description thereof contained in this Base Private Placement Memorandum. In addition, to the extent not set forth in this Base Private Placement Memorandum, the specific terms of such Applicable Contingent Forward Agreement, particularly the method of calculation of payments by the Contingent Forward Counterparty thereunder and the timing of such payments, will be set forth in the Applicable Supplement. The standard termination event "Credit Event Upon Merger", as described in Section 5(b)(iv) of the Master Contingent Forward Agreement, is not a Contingent Forward Termination Event under the Applicable Contingent Forward Agreement.

The following summaries of provisions of the Applicable Contingent Forward Agreements do not purport to be complete and are subject to the detailed provisions of the form of Applicable Contingent Forward Agreement, which will be attached to the Applicable Supplement and will be available for inspection at the corporate trust office or agency of the Trustee, at the addresses and in the matter set forth in the Applicable Supplement.

General

Unless otherwise indicated in the Applicable Supplement, the Applicable Contingent Forward Agreement will be in the form of the 1992 ISDA Master Agreement (Multicurrency—Cross Border), including the schedule thereto (the "**Master Contingent Forward Agreement**"), published by ISDA and will incorporate the 1997 ISDA Government Bond Option Definitions (as published by ISDA, the "**Bond Option Definitions**"), except as modified to reflect the terms of the related Notes, the Applicable Indenture and the derivatives transaction or transactions provided for in such Applicable Contingent Forward Agreement. Except as expressly set forth therein, the Applicable Contingent will be governed in all relevant respects by the provisions set forth in the Master Contingent Forward Agreement and the Bond Option Definitions, without regard to any amendments or modifications to the Master Contingent Forward Agreement or the Bond Option Definitions published by ISDA subsequent to the date of such Applicable Contingent Forward Agreement.

Payments and Deliveries under Applicable Contingent Forward Agreement

In general, under the Applicable Contingent Forward Agreement, after the occurrence of certain events specified therein, the Contingent Forward Counterparty will agree to make certain payments, and the Issuer will agree to deliver a par amount of the Underlying Securities equal to such payments by the Contingent Forward Counterparty on each settlement date (each, a "**Contingent Forward Settlement Date**").

The obligations of the Issuer to the Contingent Forward Counterparty will be secured by a security interest in the Portfolio Property granted by the Trustee in favor of the Secured Parties pursuant to the Applicable Indenture. The Contingent Forward Counterparty will be a secured party under the Indenture.

Modification and Amendment of Applicable Contingent Forward Agreement

Unless otherwise specified in the Applicable Supplement, the Applicable Indenture will provide that the Trustee will not approve or consent or otherwise agree to any amendment or supplement to or other modification of the Applicable Contingent Forward Agreement (save for certain exceptions, including (i) corrective or clarifying amendments and (ii) making any change to any document requested by a Rating Agency (if any), following the downgrade of the debt obligations of the Contingent Forward Counterparty, *provided* that following such change the Rating Condition is satisfied), without the consent of the Holders of at least a majority of the Principal Balance of each Class of Notes affected by such amendment, supplement or modification and, if such amendment, supplement or modification will have a material adverse effect on the rights and interests of the Contingent Forward Counterparty, the consent of the Swap Counterparty.

Conditions Precedent

Unless otherwise specified in the Applicable Supplement, the respective obligations of the Contingent Forward Counterparty and the Issuer to pay any amount due under the related Applicable Contingent Forward Agreement will be subject to the following conditions precedent: (i) no Contingent Forward Event of Default (as defined below under "—Defaults Under Applicable Contingent Forward Agreement") (or event that with the giving of notice or lapse of time or both would become a Contingent Forward Event of Default) shall have occurred and be continuing; (ii) no Contingent Forward Termination Event (as defined below under "—Contingent Forward Termination Events") (or event that with the giving of notice or lapse of time or both would become a Contingent Forward Termination Event) shall have occurred and be continuing; and (iii) any other condition precedent specified in the Applicable Supplement.

Defaults Under Applicable Contingent Forward Agreement

Unless otherwise noted in the Applicable Supplement, "Events of Default" under the Applicable Contingent Forward Agreement (each, a "**Contingent Forward Event of Default**") are limited to: (i) the failure of the Issuer to pay any amount when due after giving effect to the applicable grace period, if any; (ii) the failure of the Contingent Forward Counterparty or the Contingent Forward Guarantor to pay any amount when due under such Applicable Contingent Forward Agreement after giving effect to the applicable grace period, if any; (iii) the occurrence of certain events of insolvency or bankruptcy of the Issuer, the Contingent Forward Counterparty or the Contingent Forward Guarantor and (iv) certain other standard events of default under the Master Contingent Forward Agreement, including "Credit Support Default" (with respect to the Contingent Forward Counterparty and "Merger without Assumption" (with respect to the Contingent Forward Counterparty), as described in Sections 5(a)(iii) and 5(viii) of the Master Contingent Forward Agreement. Several of the standard events of default of the Master Contingent Forward Agreement are not Forward Events of Default under the Applicable Contingent Forward Agreement. The standard events of default excluded are "Breach of Agreement", "Misrepresentation" and "Default Under Specified Transaction" and "Cross Default" as described in Sections 5(a)(ii), 5(a)(iv), 5(a)(v), 5(a)(vi), respectively, of the Master Contingent Forward Agreement.

Contingent Forward Termination Events

Unless otherwise specified in the Applicable Supplement, "Termination Events" under the Applicable Contingent Forward Agreement (each, a "**Contingent Forward Termination Event**") consist of the following: (i) the adoption of any change in any applicable law, or the change in the interpretation of any law by any court or governmental authority, which causes it to become unlawful for (A) the Issuer or the Contingent Forward Counterparty or both, as applicable (the "**Affected Party**" or "**Affected Parties**"), to perform any obligation to make or receive a payment pursuant to the Applicable Contingent Forward Agreement or (B) the Contingent Forward Guarantor to perform its obligations under the Contingent Forward Guarantee; (ii) actions taken by a taxing authority or brought by a court of competent jurisdiction or a change in tax law, with the result that one of the parties to such Applicable Swap Agreement (an "**Affected Party**") will probably be required to (A) pay an additional amount to the other party as a

result of the imposition of certain withholding taxes or (B) receive a payment from which an amount is deducted or withheld on account of the imposition of such withholding tax, in each case under the Applicable Swap Agreement (a "**Tax Event**"); (iii) a "Tax Event Upon Merger" as such term is more particularly described in Section 5(b)(iii) of the Master Swap Agreement and (iv) any Additional Termination Events specified in the Applicable Contingent Forward Agreement.

Unless otherwise specified in the Supplement, "Additional Termination Events" under the related Applicable Contingent Agreement consist of the following: (i) if an Indenture Event of Default in respect of the Notes occurs and the Trustee gives the relevant notice to the Issuer, (ii) if the Notes are redeemed in whole prior to the Scheduled Maturity Date (otherwise than as a result of an Indenture Event of Default) or the outstanding principal balance of such Notes becomes zero, or (iii) if the related Applicable Swap Agreement is terminated.

Early Termination of Applicable Contingent Forward Agreement

Unless otherwise specified in the Applicable Supplement, upon the occurrence of a Contingent Forward Termination Event (which, by the terms of the Master Contingent Forward Agreement, includes Additional Termination Events and Events of Default), the date on which the Applicable Contingent Forward Agreement will terminate (also, an "**Early Termination Date**") must be designated by one of the parties, as specified in each case in the Applicable Contingent Forward Agreement, and will occur only upon notice and, in certain cases, after any Affected Party has (or Affected Parties have, if applicable) used reasonable efforts to transfer their rights and obligations under the Applicable Contingent Forward Agreement to a related entity within a limited time period after notice has been given of the Contingent Forward Termination Event, all as set forth in the Applicable Contingent Forward Agreement.

In the event that the Trustee becomes aware that a Contingent Forward Termination Event occurs with respect to which the Contingent Forward Counterparty is the Affected Party, the Trustee will under the terms of the Applicable Indenture, designate a Contingent Forward Termination Event. If a Contingent Forward Termination Event occurs and, when applicable, an Early Termination Date is designated, the Applicable Contingent Forward Agreement will terminate and Contingent Forward Breakage Fees or Defaulted Contingent Forward Termination Payments may be payable by the Issuer to the Contingent Forward Counterparty or by the Contingent Forward Counterparty to the Issuer.

Prior to the complete discharge of the Applicable Indenture, if the Issuer is liable for a Contingent Forward Breakage Fee or a Defaulted Contingent Forward Termination Payment, such payments will be paid according to the Priority of Payments set forth in the Indenture. If, after the complete discharge of the Applicable Indenture Underlying Securities remain in the Issuer and the Issuer is liable for a Contingent Forward Breakage Fee, Underlying Securities may be sold by the Trustee in order to fund such payments. See "**—Contingent Forward Breakage Fees and Defaulted Contingent Forward Termination Payments.**"

If provided for in the Applicable Supplement, under certain circumstances the Contingent Forward Counterparty may have the option to terminate the Applicable Contingent Forward Agreement prior to its final termination date, in which event it may be required to call the Underlying Securities at a price set forth in the Applicable Supplement. If and as provided in the Applicable Supplement, Contingent Forward Breakage Fees under the Applicable Contingent Forward Agreement may be payable by the Issuer or the Contingent Forward Counterparty.

In addition to the termination events described above, unless otherwise specified in the Applicable Supplement, to the extent that the aggregate principal amount of the Underlying Securities held by the Issuer is reduced through redemption, prepayment or exchange, the corresponding notional amount subject to the Applicable Contingent Forward Agreement will be reduced automatically.

Contingent Forward Breakage Fees and Defaulted Contingent Forward Termination Payments

Unless otherwise specified in the Applicable Supplement, in the event an Early Termination Date is designated with respect to the Applicable Contingent Forward Agreement, no Contingent Forward Breakage Fees or Defaulted Contingent Forward Termination Payment will generally be payable by the Issuer or the Contingent Forward

Counterparty. "**Contingent Forward Breakage Fees**" means any amounts payable under the Applicable Contingent Forward Agreement as a consequence of an early termination of the Applicable Contingent Forward Agreement, whether to or by the Issuer, as the case may be. "**Defaulted Contingent Forward Termination Payments**" means any amount payable by the Trustee under the Applicable Contingent Forward Agreement as a consequence of an early termination of the Applicable Contingent Forward Agreement (i) in respect of which termination the Contingent Forward Counterparty (and not the Issuer) is the sole affected or defaulting party or (ii) following an Early Redemption Event resulting from the termination of the Applicable Swap Agreement, in respect of which termination the Swap Counterparty (and not the Issuer) is the sole affected or defaulting party.

Defaulted Contingent Forward Termination Payments have a lower priority in the Priority of Payments than Contingent Forward Breakage Fees. For the avoidance of doubt, the term "Contingent Forward Breakage Fees" does not include any amounts accrued and unpaid to or by the Issuer under the Applicable Contingent Forward Agreement, as of the Early Termination Date that would have been required to be paid (either on such Early Termination Date or on any other date, whether earlier or later) absent an early termination.

If the Applicable Contingent Forward Agreement is terminated prior to maturity thereof, the market value of the Applicable Contingent Forward Agreement will be established by the Contingent Forward Counterparty either (a) on the basis of the market quotations of the cost to the Contingent Forward Counterparty of entering into a replacement Applicable Contingent Forward Agreement or (b) if such market quotations are unavailable or do not produce a commercially reasonable result, based on losses suffered by either party as a result of the termination of the Applicable Contingent Forward Agreement, in each case in accordance with the procedures set forth in detail in the Applicable Contingent Forward Agreement. The market value may be positive for the Issuer, in which case a Contingent Forward Breakage Fee will be due from the Contingent Forward Counterparty to the Issuer, or it may be positive for the Contingent Forward Counterparty, or result in a net loss to the Issuer, in which case a Contingent Forward Breakage Fee or a Defaulted Contingent Forward Termination Payment will be due to the Contingent Forward Counterparty.

The Contingent Forward Breakage Fees payable by the Issuer will be limited to the assets of the Issuer, and Holders will not be liable to the Contingent Forward Counterparty for Contingent Forward Breakage Fees to the extent, if any, that the amount of such fees exceeds the value of the assets of the Issuer.

Transfers of Applicable Swap Agreements

Unless otherwise provided in the Applicable Supplement, the Swap Counterparty may transfer its rights and obligations under the Applicable Swap Agreement at its own discretion and its own expense to any third party (including, for the avoidance of doubt, an affiliate of the Swap Counterparty); *provided* that (i) the ratings assigned to the short term senior unsecured debt obligations of such transferee (or an entity which is guaranteeing the obligations of such transferee under the Agreement) satisfy the rating requirements applicable to Swap Counterparty at the time of such transfer and (ii) the Rating Condition is satisfied. Each of the Issuer and the Swap Counterparty may transfer its rights and obligations to the Trustee if such transfer is made in accordance with the terms of the Applicable Indenture and *provided* that the Swap Counterparty will not be obliged to pay any greater amounts and will not receive less as a result of such transfer or assignment than would have been the case if such transfer or assignment had not taken place and will not incur any costs, expenses or liabilities in respect of any such transfer or assignment.

Governing Law

Unless otherwise specified in the Applicable Supplement, the Applicable Contingent Forward Agreement will be governed by the laws of the State of New York and the federal and state courts in the Borough of Manhattan in the City of New York shall have non-exclusive jurisdiction in respect of any action arising out of or relating to the Applicable Contingent Forward Agreement.

Contingent Forward Guarantee of Morgan Stanley; Other Guarantee or Support

In general, unless otherwise specified in the Applicable Supplement, the payment obligations of the Contingent Forward Counterparty under the Applicable Contingent Forward Agreement will be general, unsecured obligations of the Contingent Forward Counterparty. With respect to an Applicable Contingent Forward Agreement in which the Contingent Forward Counterparty is MS Remora Ltd. ("**MSRL**"), pursuant to the Contingent Forward Guarantee to be delivered with respect to such Applicable Contingent Forward Agreement, MS will unconditionally and irrevocably guarantee the due and punctual payment of all amounts payable by MSRL under the Applicable Contingent Forward Agreement. Pursuant to such Contingent Forward Guarantee, MS will agree to pay or cause to be paid all such amounts upon the failure of MSRL punctually to pay any such amount and written demand by the Trustee to MS to pay such amount. With respect to any Applicable Contingent Forward Agreement in which the obligations of the Contingent Forward Counterparty are not guaranteed by MS, the Applicable Supplement will describe the material provisions of any guarantee or other type of support, if any, of the obligations of such Contingent Forward Counterparty.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes is based upon laws, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change or differing interpretations, with possible retroactive effect. It deals only with Notes held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers or traders in securities or currencies, persons holding Notes as a hedge against currency risks or as a position in a "straddle" or as part of a "conversion transaction" for U.S. tax purposes, persons entering into a "constructive sale" transaction with respect to the Notes, tax-exempt organizations, persons liable for alternative minimum tax, certain U.S. expatriates and former long-term residents of the United States, or U.S. Holders (as defined below) whose functional currency is not the U.S. dollar. It also does not deal with holders other than original purchasers (except where otherwise specifically noted). Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation or entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source, or (iv) a trust (A) if a court in the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Internal Revenue Code of 1986, as amended (the "Code")) have the authority to control all substantial decisions of the trust or (B) if it has a valid election in effect under applicable Treasury regulations to be treated as a United States person. Notwithstanding the preceding sentence, to the extent provided in Treasury Regulations, certain trusts in existence on August 20, 1996, and treated as domestic trusts prior to such date, that elect to continue to be treated as domestic trusts will also be U.S. Holders. As used herein, the term "non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder.

If a partnership or other entity taxable as a partnership holds Notes, the tax treatment of a partner generally will depend upon the status of the parties and upon the activities of the partnership. Partners of partnerships holding Notes should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

PROSPECTIVE INVESTORS IN THE NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

Internal Revenue Service Circular 230 Notice

To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of federal tax issues contained or referred to in this Private Placement Memorandum is not intended or written to be used, and cannot be used, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the Internal Revenue Code; (b) such discussion is written in connection with the promotion or marketing by the Issuer and the Distributor of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Tax Treatment of the Company and the Issuer

The Company will be classified as an association taxable as a corporation for U.S. federal income tax purposes. Moreover, although each Series is nominally issued by the Company, the Company intends for U.S. federal income tax purposes, and each investor will be required, to treat each Issuer as a separate corporation. However, due to a lack of directly governing authority, such treatment is not free from doubt. Each prospective investor is urged to consult with its own tax advisors as to the effect of denial of such separate treatment. The remainder of this discussion assumes such separate treatment is appropriate.

Except as otherwise provided in the Applicable Supplement, with respect to each Series issued pursuant to the Program, Clifford Chance US LLP ("**Special U.S. Tax Counsel**") will provide an opinion as of the Closing Date that, although there is no directly governing authority, the Issuer will not be engaged in a trade or business within the United States under current U.S. federal income tax law and, therefore, its net income will not be subject to U.S. federal income tax (including the branch profits tax). The opinion of Special U.S. Tax Counsel will be based on certain covenants made by the Issuer in the Applicable Indenture and certain other assumptions and qualifications. The Issuer believes that the limited and passive nature of its activities should not constitute a trade or business and will further rely on Section 864(b)(2)(A)(ii) of the Code and Proposed Treasury Regulation Section 1.864(b)-1, which provide, in pertinent part, that trading in stocks or securities, or derivatives, respectively, for a taxpayer's own account, whether by the taxpayer or his employees or through a resident broker, commission agent, custodian, or other agent, and whether or not any such employee or agent has discretionary authority to make decisions in effecting their transactions, will not constitute the conduct of a "trade or business within the United States," *provided* that the taxpayer is not a dealer in stocks or securities. An opinion of legal advisors is not binding on the Internal Revenue Service (the "**IRS**") and it is possible that the IRS could disagree with counsel's conclusion. If the Issuer were deemed to be engaged in a trade or business within the United States, it would be subject to U.S. federal income tax on its taxable income effectively connected to such trade or business and to the 30% branch profits tax.

Intended Treatment of the Portfolio Property

Although, in the opinion of Special U.S. Tax Counsel, the Issuer will not be subject to U.S. federal income tax on its taxable income, the U.S. federal income tax treatment of U.S. Holders of Notes that are treated as equity will be affected by the U.S. tax treatment of the Portfolio Property of the Issuer.

Intended Treatment of the Applicable Swap Agreement

Classification of the Applicable Swap Agreement. Unless the Applicable Supplement provides otherwise, the Issuer, the Trustee and the Swap Counterparty will treat, and each Holder will be required to treat, the Applicable Swap Agreement as a "notional principal contract" within the meaning of Treasury Regulation Section 1.446-3(c) for U.S. federal income tax purposes. Based on such treatment, payments made to the Issuer with respect to the Applicable Swap Agreement generally will not be subject to withholding of U.S. federal income tax. However, there is no authority directly addressing the U.S. federal income tax treatment of investments such as the Applicable Swap Agreement. It is therefore possible that the Applicable Swap Agreement may be recharacterized as a put option, a guarantee, an insurance contract or some other type of financial instrument of the Swap Counterparty. If the Applicable Swap Agreement were characterized as a financial instrument other than a notional principal contract (*e.g.*, as a guarantee, an insurance contract or some other type of financial contract) for U.S. federal income tax purposes, payments to the Issuer may be subject to a 30% withholding tax or a 4% excise tax. See the discussion below under "—Alternative Characterization of the Applicable Swap Agreement."

Assuming the Applicable Swap Agreement will be governed by the U.S. federal income tax rules applicable to notional principal contracts, income or deductions with respect to the Applicable Swap Agreement will be attributable to periodic payments or nonperiodic payments, each of which is described below.

Periodic Payments and Nonperiodic Payments. Periodic payments under the Applicable Swap Agreement are payments made or received by the Issuer on a Swap Payment Date that are payable at intervals of one year or less during the entire term of the contract (including any extension periods), that are based on a specified index or fixed rate, and are based on a single notional principal amount or a notional principal amount that varies over the term of the contract in the same proportion as the notional principal amount that measures the other party's payments. Based on the foregoing, the Trustee will treat the payment of fixed amounts by the Swap Counterparty as periodic payments. All U.S. Holders must account for such periodic payments under an accrual method of accounting. To the extent an adjustment is made to the payment of a fixed amount on the next payment date as a result of a final determination of a floating amount, such adjustment generally should be taken into account as an adjustment to the net income from the Applicable Swap Agreement for the taxable year during which such adjustment is made.

Payments under the Applicable Swap Agreement that are not periodic payments or termination payments (as defined below under "—Termination Payments") are "nonperiodic payments." Nonperiodic payments generally must be recognized over the term of the Applicable Swap Agreement in a manner that reflects the economic substance of the

contract. The Trustee will treat the payment of floating amounts, if any, under the Applicable Swap Agreement as nonperiodic payments.

Periodic and nonperiodic payments attributable to any taxable year generally are netted, and the net amount received or paid generally should constitute ordinary income or ordinary deduction, respectively, for that year. However, there is a risk that the IRS could attempt to recharacterize the nonperiodic payments as termination payments if the IRS were to deem each floating amount to be a termination payment on a separate notional principal contract with respect to the relevant Reference Entity (as defined in the Applicable Supplement). A termination payment generally would result in a capital loss to the Issuer (see "—Termination Payments").

Termination Payments. A termination of the Applicable Swap Agreement (including, in certain circumstances, an assignment of the Applicable Swap Agreement by the Swap Counterparty) will be treated as resulting in a termination payment by or to the Issuer equal to the then fair market value of the contract. In such a case, the Issuer will have gain or loss from termination of the Applicable Swap Agreement equal to (i) the sum of the unamortized portion of any nonperiodic payments received by the Issuer and any termination payment it receives or is deemed to have received (including any Swap Breakage Fee), less (ii) the sum of the unamortized portion of any nonperiodic payments paid by the Issuer and any termination payment it pays or is deemed to have paid (including any Swap Breakage Fee). Gain or loss upon the termination of such a notional principal contract will generally be treated as capital gain or loss. To the extent such gain or loss is attributable to accrued periodic payments, although not free from doubt, such gain or loss generally should be treated as ordinary income or loss.

Alternative Characterization of the Applicable Swap Agreement. Although the Issuer intends to treat, and each Holder is required to treat, the Applicable Swap Agreement as a notional principal contract, such treatment is uncertain. Recharacterization of the Applicable Swap Agreement as a financial instrument other than a notional principal contract (e.g., as a written put option, a written guarantee, an insurance contract or some other type of financial contract) for U.S. federal income tax purposes may have a material effect on certain Holders. Prospective investors should consult their tax advisors regarding the U.S. federal income tax treatment of the Applicable Swap Agreement.

- (i) *Options and Other Financial Instruments.* The Applicable Swap Agreement may be treated as an option or other financial instrument for U.S. federal income tax purposes. If so recharacterized, a U.S. Holder's pro rata portion of any option premium received or deemed received by the Issuer would generally not be reported by the U.S. Holder when received or deemed received. Instead, the aggregate amount of the U.S. Holder's pro rata portion of such premium would be reported when the option is exercised or when the option or other financial instrument lapses.
- (ii) *Guarantee.* The Applicable Swap Agreement may be treated as a guarantee for U.S. federal income tax purposes. However, the U.S. federal income tax treatment of guarantees is unclear. If the Applicable Swap Agreement were treated as a guarantee, periodic guarantee fees received by the Issuer in connection with the Applicable Swap Agreement may be subject to a 30% withholding tax and would likely be accrued into income currently in accordance with the U.S. Holder's normal method of accounting.
- (iii) *Insurance Contract.* The Applicable Swap Agreement may be recharacterized as an insurance contract for U.S. federal income tax purposes. If the Applicable Swap Agreement were recharacterized as an insurance contract for U.S. federal income tax purposes, such recharacterization could cause payments made to the Issuer under the insurance contract to be subject to a 4% excise tax.

Proposed Regulations Affecting the Applicable Swap Agreement. On February 26, 2004, the Department of Treasury and the IRS issued proposed regulations (the "**Proposed Regulations**") relating to notional principal contracts with contingent nonperiodic payments. The Proposed Regulations are complex and, if finalized in their current form, may apply to the Applicable Swap Agreement and impact the timing and character of income and deductions with respect to the Issuer and U.S. Holders that are U.S. Shareholders and/or U.S.-10% Shareholders (both as defined below). In addition, as of March 27, 2004, the Proposed Regulations require taxpayers that previously have not adopted a method of accounting for notional principal contracts with contingent nonperiodic payments to adopt a reasonable amortization method for taking into account such contingent nonperiodic payments over the life of the notional principal contract. Although the Proposed Regulations and the specific accounting

methods prescribed thereunder are not intended to be effective until 30 days after the Proposed Regulations have been finalized, the current requirement to adopt a method of accounting may apply to the Applicable Swap Agreement and may result in adverse U.S. federal income tax consequences to the Issuer and U.S. Holders that are U.S. Shareholders and/or U.S.-10% Shareholders. U.S. Holders should consult their own tax advisors as to the U.S. federal income tax consequences to them if the Proposed Regulations were to apply to the Applicable Swap Agreement.

Treatment of the Applicable Contingent Forward Agreement

Payments to the Issuer under the Applicable Contingent Forward Agreement will not be subject to withholding of U.S. federal income tax if the Issuer and each non-U.S. Holder satisfies the certification requirements discussed below under "—Non-U.S. Holders of Notes." However, if such requirements are not satisfied, since payments to the Issuer with respect to the Applicable Contingent Forward Agreement are not subject to a gross-up, the imposition of any withholding tax thereon could adversely affect the return of any Holder.

Treatment of the Underlying Securities

Payments to the Issuer of earnings on and principal of the Underlying Securities will be accrued by the Issuer in accordance with the Issuer's regular method of accounting and generally will not be subject to withholding of U.S. federal income tax if the Issuer and each non-U.S. Holder satisfies the certification requirements discussed below under "—Non-U.S. Holders of Notes" and certain other certification requirements. However, if such requirements are not satisfied, since payments to the Issuer with respect to the Underlying Securities are not subject to a gross-up, the imposition of any withholding tax thereon could adversely affect the return of any Holder.

U.S. Holders of Notes

Status of the Notes

For purposes of Cayman Islands law, the Notes will be treated as indebtedness of the Issuer. Notwithstanding such treatment, in certain circumstances a strong likelihood may exist that the Notes will be treated as equity of the Issuer or as representing ownership of the Portfolio Property for U.S. federal income tax purposes. The Applicable Supplement will specify, with respect to each Class of Notes, whether the Issuer intends to treat the Notes as indebtedness or as equity for U.S. federal income tax purposes, and in each case Holders will be required to treat the Notes consistent with such intention. However, the position of the Issuer will not be binding on the IRS and no assurance can be *provided* that the IRS will respect such position. In particular, in certain cases, it is possible that the IRS may assert that the Notes represent ownership of the Portfolio Property.

U.S. Holders of Notes that are Treated as Indebtedness. U.S. Holders of Notes ("**Debt Notes**") that are treated as indebtedness for U.S. federal tax purposes generally will include in gross income payments of stated interest received on the Notes, in accordance with their usual method of tax accounting, as ordinary interest income from sources outside the United States.

However, if the Issue Price of the Note is less than such Note's "stated redemption price at maturity" by more than a *de minimis* amount, a U.S. Holder will be considered to have purchased such Note with original issue discount ("**OID**"). The stated redemption price at maturity of a Note will be the sum of all payments to be received on such Note, other than payments of "qualified stated interest" (*i.e.*, generally, stated interest which is unconditionally payable in money at least annually). The Applicable Supplement will specify whether it is expected that the Notes will be issued with OID.

A U.S. Holder of a Note issued with OID will be required to accrue and include in gross income the sum of the "daily portions" of total OID on such Note, as interest from sources outside the United States, for each day during the taxable year on which the U.S. Holder held such Note, generally under a constant yield method, regardless of such U.S. Holder's usual method of tax accounting and without regard to the timing of actual payments on such Note. Accrual of OID, if any, will be based on the weighted average life of the applicable Note, rather than on its stated maturity, and will be calculated by assuming that interest will be paid over the life of such Note based on the

applicable rate, in the case of a floating rate Note, used in setting interest for the first Interest Accrual Period, and then adjusting the income for each subsequent Interest Accrual Period for any difference in the actual rate used in setting interest for that subsequent Interest Accrual Period and the assumed rate.

Any OID on the Notes includible in income would be treated as interest income from sources outside the United States.

A U.S. Holder of Notes who accrues interest or OID in a foreign currency with respect to such Notes will be required to include in income the U.S. dollar value of the amounts of income that have accrued and are otherwise required to be taken into account with respect to such instrument during an accrual period. The U.S. dollar value of such accrual income will be determined by translating such income at the average rate of exchange for the accrual period, or with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect to translate such interest income or OID into U.S. dollars at the spot rate on the last day of the accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the last day of the interest accrual period is within five business days of the date of receipt, the spot rate on the date of receipt. A U.S. Holder that makes such an election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS. A U.S. Holder described in this paragraph will recognize additional exchange gain or loss, treated as ordinary income or loss, with respect to accrual income on the date such income is actually received or the applicable Note is disposed of. The amount of ordinary income or loss recognized will equal the difference between (i) the U.S. dollar value of the foreign currency payment received (determined at the spot rate on the date such payment is received or the applicable instrument is disposed of) in respect of such accrual period and (ii) the U.S. dollar value of income that has accrued during such interest accrual period (determined at the average rate or spot rate as described above).

Unless otherwise specified in the Applicable Supplement, the Issuer will take the position, and the foregoing discussion assumes, that the Notes will not be classified as "contingent payment debt obligations" for purposes of calculating OID. However, it is possible that the IRS will take a contrary view, and seek to so classify some or all of the Notes. If the IRS were successful in so classifying the Notes, among other consequences, any gain recognized on the sale or disposition of such Notes might be treated as ordinary income rather than as capital gain.

In general, a U.S. Holder of a Note will have a basis in such Note equal to the cost of such Note to such Holder, (i) increased by any amount includable in income by such Holder as OID with respect to such Note, and (ii) reduced by any payments on such Note, other than payments of qualified stated interest on a Note. Upon a sale, exchange, redemption or retirement of a note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts attributable to accrued interest on a Note, which will be taxable as described above) and the Holder's tax basis in such Note. Such gain or loss will be long-term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

A U.S. Holder may also recognize gain upon receipt of a principal payment equal to the difference between the amount received and the portion of its basis that is considered to be allocable to such payment. Such gain may, under certain circumstances, be taxable as ordinary income.

Gain recognized by a U.S. Holder on the sale, exchange or retirement of a Note generally will be treated as from sources within the United States and loss so recognized generally will offset income from sources in the United States.

Gain or loss realized upon the sale, exchange or retirement of the Notes that is attributable to fluctuations in currency exchange rates will be treated as ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Notes, and any payment with respect to accrued interest, translated at, unless otherwise specified in the Applicable Supplement, the spot rate on the date such payment is received or the Notes are disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of such instrument on the date such U.S. Holder acquired such instrument and the U.S. dollar amounts previously included

in income in respect of the accrued interest received. For purposes of determining foreign currency gain or loss, a Note shall be treated as having a principal amount equal to the U.S. Holder's purchase price (in foreign currency). Such foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by a U.S. Holder on the sale, exchange or retirement of the relevant instrument. The source of such foreign currency gain or loss will be determined by reference to the residence of the U.S. Holder or the qualified business unit of the U.S. Holder on whose books the instrument is properly reflected.

A U.S. Holder who purchases a Note with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Note on the date of purchase. A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Note equal to the U.S. dollar value of such foreign currency, determined at the time of such sale, exchange or retirement. Any gain or loss realized by a U.S. Holder on a sale or other disposition of foreign currency will be ordinary income or loss.

U.S. Holders of Notes that are Treated as Equity. Subject to the passive foreign investment company ("PFIC") and controlled foreign corporation ("CFC") discussions below, U.S. Holders of Notes ("**Equity Notes**") that are treated as equity for U.S. federal income tax purposes would be required to include in income (with no dividends received deduction available to corporate U.S. Holders and no "qualified dividend income" treatment available to individual U.S. Holders) distributions in respect of such Notes as dividends to the extent of current or accumulated earnings and profits of the Issuer, as determined for U.S. federal income tax purposes. Distributions in respect of the Notes, to the extent they exceed current or accumulated earnings and profits of the Issuer, will not be dividends for U.S. federal income tax purposes and will generally reduce the U.S. Holder's tax basis in such Notes and, to the extent they exceed a U.S. Holder's tax basis, would generate capital gain. In addition, for purposes of calculating applicable foreign tax credits, dividend income derived by a U.S. Holder with respect to a Note generally should constitute foreign source income. The application of the foreign tax credit provisions of the Code is complex and a U.S. Holder should consult its own tax advisor as to the proper treatment of such payments for purposes of its particular U.S. foreign tax credit calculation.

Subject to the PFIC and CFC discussions below, upon the sale, exchange or other disposition of Notes, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on such sale, exchange or other disposition and such U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted basis in a Note generally will equal the cost of such Note. Such gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains. The deductibility of net capital losses by individuals and corporations is subject to limitations. Any gain or loss realized by a U.S. Holder on the sale, exchange or other disposition of a Note generally will be U.S. source.

Investment in a Passive Foreign Investment Company

The Issuer will be a PFIC for U.S. federal income tax purposes. The PFIC provisions of the Code impose an interest charge on gains from the sale of, and on certain distributions with respect to, shares of a PFIC owned directly by a United States person (a "**U.S. Shareholder**"). In addition, certain U.S. Shareholders may be deemed to own shares of a PFIC owned through certain other entities pursuant to certain attribution rules. Potential investors should consult their tax advisors, as to the effect, if any, of the PFIC rules on such U.S. Shareholders including, in the case of individuals, the denial of a "step up" in the basis of their shares at death.

Under the PFIC rules, unless a U.S. Shareholder of a PFIC makes the election described in the next paragraph and the PFIC complies with certain reporting requirements, any "excess distribution" by the PFIC (i.e., (a) the U.S. Shareholder's ratable share of distributions (including return of capital distributions) in any year that exceeds 125% of the average annual distribution received by such U.S. Shareholder in the three preceding years or the U.S. Shareholder's holding period, if shorter, and (b) any gain realized on the sale or other disposition of the PFIC shares) will be treated as ordinary income and will be subject to tax as if (i) the excess distribution had been realized ratably over the U.S. Shareholder's holding period, (ii) the amount deemed realized had been subject to tax in each year of that holding period at the highest applicable tax rate for such year, and (iii) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in all years prior to the year in

which the excess distribution was actually realized. For purposes of the foregoing rules, a U.S. Shareholder who uses such shares as security for a loan will be treated as having disposed of such shares.

A U.S. Shareholder may elect to have the Issuer treated, with respect to its shareholding, as a "qualified electing fund" (a "**QEF**"), provided the Issuer complies with certain reporting requirements. In such case, the U.S. Shareholder must include annually in gross income its pro rata share of the Issuer's ordinary earnings and net realized capital gains (translated at the weighted average exchange rate for the Issuer's taxable year, in the case of non-U.S. denominated Notes), as ordinary income and long-term capital gain, respectively, whether or not such amounts are actually distributed to the U.S. Shareholder. Upon actual distribution of such earnings by the Issuer, the U.S. Shareholder is not taxed on such distribution except, in the case of non-U.S. denominated Notes, to the extent attributable to fluctuations in exchange rates between the times of the deemed and actual distributions (resulting in ordinary income or loss to the U.S. Shareholder). Any losses of the Issuer in a taxable year will not be available to such U.S. Shareholder and may not be carried back or forward in computing the Issuer's ordinary earnings and net realized capital gain in other taxable years. The Issuer, upon written request from a U.S. Shareholder and at such U.S. Shareholder's expense, will provide or cause to be provided the necessary information and will agree to open its books in order to allow such U.S. Shareholder to make a QEF election. The QEF information that will be provided by the Issuer will only be with respect to itself. As previously discussed, it is unclear whether the Issuer will be treated as a separate corporation for U.S. federal income tax purposes and as such, it is unclear whether the QEF information provided will be sufficient for a U.S. Shareholder to properly make a QEF election. Each U.S. Holder is urged to consult with its own advisors with respect to this matter.

Each U.S. Shareholder that wishes to make a QEF election must do so by filing IRS Form 8621 on or before the due date for filing such U.S. Shareholder's federal income tax return for the first taxable year for which such U.S. Shareholder is treated as holding an equity interest in the Issuer. A U.S. Shareholder making the QEF election must also file Form 8621 annually with the IRS. Failure to comply with the annual reporting requirement described in the preceding sentence may result in the termination or invalidation of a U.S. Shareholder's QEF election.

U.S. Shareholders generally will not be able to elect to mark-to-market the Notes instead of the QEF election discussed above, because the Notes are not expected to be marketable within the meaning of the mark-to-market provisions.

Investment in a Controlled Foreign Corporation

A CFC is a foreign corporation more than 50 percent of whose shares by vote or value are owned, directly or indirectly, by United States persons (as defined in Section 7701(a)(30) of the Code) that individually own, actually or constructively, 10 percent or more of the combined voting power of such corporation ("**U.S.-10% Shareholders**"). It is not clear whether a U.S. Holder of 10% or more of the Notes would be treated as satisfying the voting power requirement to be treated as a U.S.-10% Shareholder. The Issuer could be a CFC even if all of its securities were owned by non-U.S. Holders due to the application of attribution rules under the Code.

If the Issuer is classified as a CFC, a U.S.-10% Shareholder at the end of the taxable year of the Issuer would be treated, subject to certain exceptions, as receiving a dividend of the Issuer in an amount equal to its pro rata share of the Issuer's "subpart F income" and certain U.S. source income of the Issuer for such taxable year, regardless of whether cash attributable to such income is actually distributed. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, net income from notional principal contracts, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. If the Issuer were a CFC, it is expected that all of its income would be subpart F income. In addition, income that would otherwise be characterized as capital gain and gain on the sale of the CFC's stock by a U.S.-10% Shareholder (during the period the Issuer is a CFC and thereafter for a five-year period) could be recharacterized in whole or in part as ordinary dividend income.

If the Issuer were to constitute a CFC, a U.S.-10% Shareholder of the Issuer would be taxable on the subpart F income of the Issuer under rules described in the preceding paragraph and not under the PFIC rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the U.S.-10% Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the PFIC rules if a QEF election were made.

Foreign Currency Considerations

Constructive distributions made in foreign currency with respect to Notes pursuant to a QEF election (or pursuant to the CFC rules, if applicable) will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency distributions calculated by reference to the average exchange rate for the taxable year of such QEF (or such CFC, if applicable). The U.S. Holder will recognize exchange gain or loss, treated as ordinary income or loss, upon receipt of actual distributions made in foreign currency with respect to Notes that are attributable to the amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) to the extent that the spot rate in effect on the date such distribution is received differs from the exchange rate applicable to such previously taxed income in accordance with the preceding sentence. Whether or not a QEF election has been made, actual distributions made in foreign currency will be translated into U.S. dollars, unless otherwise stated in the Applicable Supplement, at the spot rate in effect on the date of receipt, regardless of whether such distributions are in fact converted into U.S. dollars. The U.S. Holder will recognize exchange gain or loss, treated as ordinary income or loss, upon a subsequent disposition of the foreign currency in an amount equal to the difference between the U.S. Holder's tax basis in the foreign currency and the U.S. dollar value of the foreign currency at the time of such disposition. A U.S. Holder's tax basis in foreign currency will be equal to the U.S. dollar value of the foreign currency determined, unless otherwise stated in the Applicable Supplement, by reference to the spot rate in effect on the date that any actual distribution is received.

In connection with the sale or exchange of Notes, a U.S. Holder may recognize exchange gain or loss, treated as ordinary income gain or loss, with respect to previously taxed but undistributed amounts attributable to such Notes. For purposes of determining such exchange gain or loss, any previously taxed but undistributed amounts of the U.S. Holder attributable to Notes will be deemed distributed immediately prior to the sale or exchange of such Notes. The U.S. Holder will recognize exchange gain or loss to the extent that the spot rate in effect on the date of such deemed distribution differs from the exchange rate that applied to such previously taxed amounts in accordance with the principles set forth in the preceding paragraph.

A U.S. Holder who purchases a Note with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Note on the date of purchase. A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Note equal to the U.S. dollar value of such foreign currency, determined at the time of such sale, exchange or retirement. Any gain or loss realized by a U.S. Holder on a sale or other disposition of foreign currency will be ordinary income or loss.

Reporting Requirements

A U.S. Holder (including a tax-exempt entity) that purchases Notes for cash will be required to file IRS Form 926 or similar form with the IRS if (i) such U.S. Holder owned, directly or by attribution, immediately after the transfer at least 10% by vote or value of the Issuer or (ii) the purchase, when aggregated with all purchases made by such U.S. Holder (or any related person thereto) within the preceding 12-month period, exceeds U.S.\$100,000. If a U.S. Holder fails to file any such required form, the U.S. Holder could be required to pay a penalty equal to 10% of the gross amount paid for its Notes (subject to a maximum penalty of U.S.\$100,000, except in cases involving intentional disregard). U.S. Holders should consult their tax advisors with respect to this or any other reporting requirement that may apply with respect to their acquisition of the Notes.

Recently finalized Treasury Regulations (the "**Tax Shelter Regulations**") intended to address so-called tax shelters and other potentially tax-motivated transactions require participants in a "reportable transaction" to disclose certain information about the transaction on IRS Form 8886 and retain information relating to the transaction. Organizers and sellers of reportable transactions are required to maintain lists identifying the transactions' investors and furnish to the IRS upon demand such investor information as well as detailed information regarding the transactions. A transaction may be a "reportable transaction" based upon any of several indicia, including the existence of confidentiality agreements, certain indemnity arrangements, potential for recognizing investment or other losses, a brief asset holding period, and whether the transaction is a listed transaction, one or more of which may be present with respect to or in connection with an investment in the Notes. Recent legislation imposes significant penalties for failure to comply with these disclosure requirements. Investors should consult their tax advisors concerning any possible disclosure obligation with respect to their investment and should be aware that the Issuer and other

participants in the transaction intend to comply with the disclosure and maintenance requirements under the Tax Shelter Regulations as they determine apply to them with respect to this transaction.

Non-U.S. Holders of Notes

A non-U.S. Holder of Notes (regardless of whether such securities are treated as debt or equity) generally will be exempt from any U.S. federal income or withholding taxes with respect to gain derived from the sale, exchange, or other disposition of, or any distributions received in respect of, the Notes, provided such gain or distributions are not effectively connected with a trade of business within the United States of such non-U.S. Holder or, in the case of gains realized by a non-U.S. Holder who is an individual, the non-U.S. Holder has not been physically present in the United States for 183 days or more during the year in which the gains are realized and certain other conditions are met.

Notwithstanding the foregoing, the Issuer may elect under certain circumstances to apply the reporting and withholding rules with respect to a Series as if the Notes or that Series were issued by a U.S. entity in order to protect the Issuer from potential U.S. withholding tax on payments with respect to the Underlying Securities. This would be done solely as a protective matter in the event the IRS were to successfully assert that the conduit financing regulations apply to the Underlying Securities and the Notes. No inference is intended that the conduit financing regulations should apply. As a result, with respect to a Series, non-U.S. Holders may be required to satisfy the following certification requirements. Each non-U.S. Holder may be required to provide to the Issuer either (a) an IRS Form W-8BEN that (i) is signed by the beneficial owner of the Note under penalties of perjury, (ii) certifies, among other things, that such owner is not a U.S. Holder and (iii) provides the name and address of the beneficial owner, or (b) an IRS Form W-8ECI certifying, among other things, that the income it receives is effectively connected to the conduct of a trade or business in the United States and providing such non-U.S. Holder's U.S. taxpayer identification number. If an interest in a Note is held by a beneficial owner through a non-U.S. intermediary, the intermediary may be required to provide a signed statement on an IRS Form W-8IMY to the Issuer, accompanied by a copy of the IRS Form W-8BEN, IRS Form W-8ECI or IRS Form W-9, as applicable, provided by the beneficial owner. If the Issuer elects to apply these rules as a protective matter to a Series of Notes and, as a result, non-U.S. Holders are required to provide certification of their foreign status, the Applicable Supplement will specify the need for such certification.

Backup Withholding and Information Reporting

Backup withholding of U.S. federal income tax at the applicable rate may apply to payments made in respect of Notes (including OID) whose owners are not "exempt recipients" and fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Notes to a U.S. Holder must be reported to the IRS, unless the U.S. Holder is an exempt recipient or establishes an exemption. Compliance with the identification procedures described in the preceding section would establish an exemption from backup withholding for those non-U.S. Holders who are not exempt recipients.

In addition, upon the sale of a Note to (or through) the U.S. office of a broker or brokers with certain types of relationships to the U.S., the broker must withhold at the applicable rate on the entire purchase price, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. Holder, certifies that such seller is a non-U.S. Holder (and certain other conditions are met). Such a sale must also be reported by the broker to the IRS, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the registered owner's non-U.S. status would be made normally on the appropriate IRS Form(s) W-8BEN, W-8IMY, W-8ECI or W-8EXP under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is timely furnished by the beneficial owner to the IRS.

Certain State, Local and Other Tax Consequences

Investors should consult with their own tax advisors regarding whether the purchase of the Notes, either alone or in conjunction with an investor's other activities, may subject an investor to any state or local taxes based, for example, on an assertion that the investor is either "doing business" in, or deriving income from a source located in, any state or local jurisdiction. Additionally, potential investors should consider the state, local and other tax consequences of purchasing, owning or disposing of the Notes. State and local tax laws may differ substantially from the corresponding federal tax law, and the foregoing discussion does not purport to describe any aspect of the tax laws of any state or other jurisdiction.

CERTAIN CAYMAN ISLANDS TAX CONSIDERATIONS

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

Cayman Islands Taxation

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands Laws:

1. Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
2. No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
3. Certificates evidencing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Company has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and expects to obtain an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

The Tax Concessions Law

1999 Revision

Undertaking as to Tax Concessions

In accordance with the provision of Section 6 of The Tax Concession Law (1999 Revision), the Governor in Cabinet undertakes with the Company:

- (a) That no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) On or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the date on which the undertaking is issued.

CERTAIN ERISA AND OTHER U.S. CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including (but not limited to) regulations relating to prohibited transactions.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. It will be the responsibility of each ERISA Plan fiduciary to ensure that any purchase and holding of a note does not and will not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code.

The U.S. Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the "**Plan Asset Regulation**"), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by "benefit plan investors" is not "significant".

Governmental plans and certain church and other plans, while not necessarily subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to State or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any of the Notes.

Debt Notes

For purposes of the Plan Asset Regulations, an equity interest includes any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features.

If a Class of Debt Notes were treated as equity interests for purposes of the Plan Asset Regulation, and if, by virtue of the acquisition or holding of such Notes by Plans, the underlying assets of the entity were deemed to be Plan assets under the Plan Asset Regulations, then the obligations and other responsibilities of Plan sponsors, Plan fiduciaries, Plan administrators, and parties in interest and disqualified persons under Parts 1 and 4 of Subtitle B of Title I of ERISA and Section 4975 of the Code, as applicable, may be expanded, and there may be an increase in their liability under these and other provisions of ERISA and the Code (except to the extent (if any) that a favorable statutory or administrative exemption or exception applies). In addition, various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, in that event could be deemed to be Plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services.

It is expected that Debt Notes generally will not be equity interests for purposes of the Plan Asset Regulations. By its purchase of a Class of Debt Notes, the purchaser thereof will be deemed to have represented and warranted either that (i) it is not and will not be an ERISA Plan or a plan that is subject to Section 4975 of the Code or any entity whose underlying assets include "plan assets" by reason of such plan investment in the entity, or another employee benefit plan which is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**") or (ii) its purchase and holding of such Class of Debt Notes do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such another plan, result in a violation of any substantially Similar Law) for which an exemption is not available.

Equity Notes

Equity Notes are expected to constitute equity interests for purposes of the Plan Asset Regulations. Unless otherwise provided in the Applicable Supplement in order to attempt to prevent the assets of the relevant Issuer from being considered plan assets for purposes of ERISA and Section 4975 of the Code, no Class of Equity Notes is intended for purchase or holding by certain employee benefit plans and certain other plans. Each purchaser of a Class of Equity Notes will be deemed to have represented and agreed that (i) it is not (and is not deemed for purposes of ERISA or Section 4975 of the Code to be) and for so long as it holds an Equity Note, as applicable, will not be (or be deemed for such purposes to be) a Plan or (ii)(A) it is an employee benefit plan which is subject to any federal, state or local law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("Similar Law") and (B) the purchase and holding of such Equity Notes, as applicable, do not and will not violate any such substantially Similar Law.

The sale of any Notes to an employee benefit plan is in no respect a representation by the Issuers, the Collateral Manager, or any of their respective affiliates that such an investment meets all relevant legal requirements with respect to investments by such plans generally or any particular plan, or that such an investment is appropriate for such plans generally or any particular plan.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE ERISA AND OTHER IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. MOREOVER, THE MATTERS DISCUSSED ABOVE MAY BE AFFECTED BY FUTURE REGULATIONS, RULINGS AND COURT DECISIONS, SOME OF WHICH MAY HAVE RETROACTIVE APPLICATION AND EFFECT. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL AND OTHER ADVISORS PRIOR TO INVESTING TO DETERMINE THE ERISA IMPLICATIONS OF SUCH INVESTMENTS IN LIGHT OF SUCH INVESTOR'S CIRCUMSTANCES.

THE SALE OF NOTES TO A PLAN IS IN NO RESPECT A REPRESENTATION BY THE DISTRIBUTOR, THE TRUSTEE, THE ISSUER OR THE SWAP COUNTERPARTY THAT THIS INVESTMENT MEETS ALL RELEVANT REQUIREMENTS WITH RESPECT TO INVESTMENTS BY PLANS GENERALLY OR ANY PARTICULAR PLAN OR THAT THIS INVESTMENT IS APPROPRIATE FOR PLANS GENERALLY OR ANY PARTICULAR PLAN.

PLAN OF DISTRIBUTION

Except as otherwise provided in the Applicable Supplement, in respect of each Series of Notes, Morgan Stanley & Co. Incorporated ("**MS&Co**") or any of its affiliates (the "**Distributor**") will be appointed as the distributor of the Issuer for the private placement of the Notes of such Series pursuant to a Subscription and Private Placement Agency Agreement (as amended or supplemented from time to time, and together with any replacement agreement, the "**Subscription Agreement**") between the Trustee on behalf of the Issuer and Morgan Stanley.

Each prospective purchaser is hereby offered the opportunity to ask questions of, and receive answers from, the Trustee and the Distributor concerning the terms and conditions of this offering and the Issuer, and to obtain additional information which the Trustee possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of the information furnished in this Private Placement Memorandum. Inquiries concerning such additional information should be directed to LaSalle Bank National Association, 135 S. LaSalle Street, Suite 1625, Chicago, Illinois 60603, Attention: Global Securitization Trust Services Group - Morgan Stanley ACES SPC, (*specify applicable series*), telephone +1 (312) 904-9387 or to Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, New York, 10036, Attention: James Hill (Executive Director)/Fixed Income Division, telephone +1 (212) 761-2514.

No dealer, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Private Placement Memorandum in connection with the offer of the Notes described herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Trustee or the Distributor. This Private Placement Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Note in any jurisdiction where, or to any person to whom, it is not lawful to make any such offer or solicitation. Neither the delivery of this Private Placement Memorandum nor any sale made hereunder shall, under any circumstance, create an implication that there has not been a change in the affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

By acquiring a Note, each Holder appoints the Trustee to act on its behalf pursuant to the terms of the Applicable Indenture and agrees to be bound by the terms and conditions of the Applicable Indenture to the same extent as if such Holder were a signatory thereto.

United States of America

The Notes have not been, and will not be, registered under the Securities Act or the state securities laws of any state of the United States or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, "**U.S. persons**" (as defined in Regulation S under the Securities Act ("**Regulation S**")), except in reliance on Rule 144A under the Securities Act ("**Rule 144A**") to "qualified institutional buyers" (as defined in Rule 144A) ("**QIBs**") who are also "qualified purchasers" ("**Qualified Purchasers**") within the meaning of Section 2(a)(51) of the Investment Company Act.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Distributor acknowledges and agrees that it will offer and sell the Notes (a)(i) as part of its distribution at any time and (ii) otherwise until 40 days after the date of issuance of the Notes (the "**40-Day Distribution Compliance Period**"), only in accordance with Rule 903 of Regulation S or pursuant to Rule 144A or another exemption from the registration requirements under the Securities Act, and (b) it will send to each dealer or person receiving a selling concession, fee or other remuneration in respect of such Notes that purchases Notes from it in reliance on Regulation S a notice stating that such dealer or person receiving a selling concession, fee or other remuneration is subject to the same restrictions during the 40-Day Distribution Compliance Period.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

The Distributor agrees that (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Cayman Islands

The Distributor agrees that it has not made and will not make any invitation to the public in the Cayman Islands to subscribe for any of the Notes.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan, and the Distributor agrees that it will not offer or sell any of the Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offerings or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan.

General

No action is being taken or is contemplated by the Issuer that would permit a public offering of the Notes or possession or distribution of any Private Placement Memorandum (in preliminary or final form) or any amendment thereof, any supplement thereto or any other offering material related to the Notes in any jurisdiction where, or in any other circumstances in which, action for those purposes is required. The Distributor understands and agrees that it is solely responsible for its own compliance with all laws applicable in each jurisdiction in which it offers and sells Notes or distributes any Private Placement Memorandum (in preliminary or final form) or any amendments thereof or supplements thereto or any other such material, and they agree to comply with all these laws.

There is currently no market for the Notes. There can be no assurance that a secondary market in the Notes will develop, or that if a secondary market does develop, it will provide an investor with liquidity or that such market will continue.

MORGAN STANLEY ENTITIES

Morgan Stanley

Morgan Stanley ("MS") is a global financial services firm that maintains leading market positions in each of its three business segments—securities, asset management and credit services. MS combines global strength in investment banking and institutional sales and trading with strength in providing full service and online brokerage services, investment and global asset management services and, primarily through its Discover® Card brand, quality consumer credit products. MS provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

MS's securities business includes securities underwriting, distribution and trading; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; full-service and online brokerage services; research services; the trading of foreign exchange and commodities, as well as derivatives on a broad range of asset categories, rates and indices; securities lending and private equity activities. MS's asset management business includes providing global asset management advice and services to investors through a variety of product lines and brand names, including Morgan Stanley Dean Witter Advisors, Van Kampen Investments, Morgan Stanley Dean Witter Investment Management and Miller Anderson & Sherrerd. MS's credit services business includes the issuance of the Discover® Card and the Morgan Stanley Dean Witter Card and the operation of Discover Business Services (formerly the Discover/NOVUS® Network), a proprietary network of merchant and cash access locations.

MS conducts its business from its headquarters in New York City, its regional offices and branches throughout the United States, and its principal offices in London, Tokyo, Hong Kong and other financial centers throughout the world. MS was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. MS's principal executive offices are at 1585 Broadway, New York, New York 10036, and its telephone number is +1 (212) 761-4000.

MS files annual reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). The public may read and copy any document MS files at the Securities and Exchange Commission's public reference room at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 or at its Regional Office located at Suite 1400, Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0300 for further information on the public reference rooms. In addition, the SEC maintains a Web site that contains reports, proxy statements and other information that MS and its consolidated subsidiaries electronically file. The address of the SEC's Web site is <http://www.sec.gov>. (The SEC's Website does not form part of this Private Placement Memorandum.)

Morgan Stanley Capital Services Inc.

Morgan Stanley Capital Services Inc. ("MSCS"), which was incorporated in Delaware in 1985, is a wholly owned, unregulated, special purpose subsidiary of MS. MSCS conducts business in the over-the-counter derivatives market, engaging in a variety of derivatives products, including interest rate swaps, currency swaps, credit default swaps and interest rate options with institutional clients. MSCS is represented in MS's major operating areas: New York, Tokyo, and London. The obligations of MSCS under the Applicable Swap Agreement, if any, will be guaranteed by MS.

MS Remora Ltd.

MS Remora Ltd. ("MSRL") was incorporated in the Cayman Islands on November 20, 2002. It is an indirectly wholly owned subsidiary of MS. MSRL engages primarily in certain credit related transactions, primarily in connection with structured debt issuances.

GENERAL INFORMATION

Financial Information

Since the date of incorporation or establishment, the Company has not commenced operations (other than in relation to issuing certain other Series of Notes the payments on which are backed by other segregated pools of assets held by the Company) and no financial statements have been made up as at the date of this Base Private Placement Memorandum. The Issuer does not intend to prepare and publish any audited annual financial statements. Accordingly, financial statements of the Issuer will be neither prepared nor made available at the office of the Irish Paying Agent.

Material Adverse Change

The Issuer represents that, as of the date of this Private Placement Memorandum, there has been no material adverse change in its financial position since the date of its creation. The Issuer is not involved, or has been involved since incorporation, in any litigation, governmental or arbitration proceedings relating to claims on amounts which may have or have had a material effect on the Issuer in the context of the issue of the Notes, nor, so far as such Issuer is aware, is any such proceedings are pending or threatened.

Further Information

Further information concerning the Notes, the Applicable Swap Agreement, the Swap Counterparty, any guarantor of the Swap Counterparty, the Reference Entities, if any, the Underlying Securities, the Issuer's Agent and the operations of the Issuer is available from the Trustee or the Distributor upon request.

Resolutions of the Board of Directors

The establishment of the Program for issuance of the Notes shall have been authorized by the board of directors of the Company acting on behalf of the Issuer on or about August 4, 2004.

Inspection of Documents

For so long as the Notes are listed on the Official List of the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, copies of the following documents and the Private Placement Memorandum may be inspected (in either physical or electronic format) during usual business hours on any week day (excluding Saturdays, Sundays and public holidays) from the Irish Paying Agent and at the registered office of the Issuer from the date of the Private Placement Memorandum:

- (a) Articles of Association of the Issuer;
- (b) Indenture;
- (c) Swap Agreement;
- (d) Swap Guarantee; and
- (e) Administration Agreement.

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