

**BASE PROSPECTUS**  
**22 JUNE 2007**

# Morgan Stanley

*as issuer and guarantor*  
*(incorporated under*  
*the laws of the State of Delaware in the United States of America)*

**MORGAN STANLEY (JERSEY) LIMITED**  
*as issuer*  
*(incorporated with limited liability in Jersey, Channel Islands)*

**MORGAN STANLEY B.V.**  
*as issuer*  
*(incorporated with limited liability in The Netherlands)*

## **Program for the Issuance of Notes, Series A and B**

Under the program (the "**Program**") described in this base prospectus (the "**Base Prospectus**"), Morgan Stanley ("**Morgan Stanley**"), Morgan Stanley (Jersey) Limited ("**Morgan Stanley Jersey**") and Morgan Stanley B.V. ("**MSBV**") or any of Morgan Stanley's subsidiaries that accedes to the Program (each, an "**Additional Issuer**" and, together with Morgan Stanley, Morgan Stanley Jersey and MSBV, the "**Issuers**" and each, an "**Issuer**") may offer from time to time Series A Notes and Series B Notes (together, the "**Notes**"). Each Additional Issuer shall prepare a base prospectus. To the extent not set forth in this Base Prospectus, the specific terms of any Note will be included in the appropriate Final Terms.

The payment of all amounts due in respect of Notes issued by Morgan Stanley Jersey, MSBV or an Additional Issuer will, unless specified otherwise in the appropriate Final Terms or, in the case of an Additional Issuer, in the accession agreement pursuant to which such Additional Issuer accedes to the Program, be unconditionally and irrevocably guaranteed by Morgan Stanley (in such capacity, the "**Guarantor**") pursuant to a deed of guarantee dated as of 10 June 2002.

Each Issuer is offering the Notes on a continuing basis through Morgan Stanley & Co. International plc and Morgan Stanley & Co. Incorporated (the "**Distribution Agents**"), who have agreed to use reasonable efforts to solicit offers to purchase the Notes. Each Issuer may also sell Notes to the Distribution Agents as principal for their own accounts at a price to be agreed upon at the time of sale. The Distribution Agents may resell any Notes they purchase as principal at prevailing market prices, or at other prices, as they determine. Each Issuer or the Distribution Agents may reject any offer to purchase Notes, in whole or in part. See "Subscription and Sale" beginning on page 210.

This Base Prospectus has been approved by the Financial Services Authority (the "**FSA**") in its capacity as United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Notes under the Program issued by Morgan Stanley, Morgan Stanley Jersey and MSBV within 12 months following the date of this document. Applications have been made for the Series A Notes to be admitted to listing on the Official List of the FSA and to trading on the London Stock Exchange's regulated market for gilt edged and fixed interest securities during the period from and including the date hereof up to but excluding 22 June 2008.

References herein to "this Base Prospectus" shall, where applicable, be deemed to be references to this Base Prospectus as supplemented or amended from time to time by any Base Prospectus Supplement approved by the FSA and published by the Issuers.

The European Union Transparency Obligations Directive (the "**Directive**") may be implemented in a manner which could be burdensome for companies such as an Issuer or the Guarantor (if applicable). In particular, companies may be required to publish financial statements more frequently than they otherwise would or to prepare financial statements in accordance with accounting standards other than the ones they would otherwise utilise, for example the Guarantor may be required to prepare financial statements in accordance with accounting standards other than U.S. GAAP. None of the Issuers is under any obligation to maintain the listing of any Notes, and prospective purchasers should be aware that, in circumstances where an admission to listing of the Notes by the UK Listing Authority or any other listing authority would require publication by the relevant Issuer or the Guarantor (if applicable) of financial statements more frequently than either would otherwise prepare them or preparation by Morgan Stanley (as Issuer or Guarantor, as applicable) of financial statements in accordance with standards other than U.S. GAAP, or in any other circumstances where the Directive is implemented in a manner that, in the opinion of the Issuer or the Guarantor (if applicable), is burdensome for the relevant Issuer or Guarantor (if applicable), the Notes may be de-listed. In such a case of de-listing, the relevant Issuer may, but is not obliged to, seek an alternative listing for the Notes on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the relevant Issuer or the Guarantor (if applicable), burdensome, an alternative listing for the Notes may not be considered. Although no assurance is made as to the liquidity of the Notes as a result of listing by the UK Listing Authority, de-listing the Notes may have a material effect on a Noteholder's ability to resell the Notes in the secondary market.

The Morgan Stanley base prospectus (the "**Morgan Stanley Base Prospectus**") will comprise this base prospectus with the exception of (i) the information in the sections entitled (a) Morgan Stanley Jersey, (b) MSBV, (c) Jersey Taxation, (d) Netherlands Taxation, and (ii) Morgan Stanley Jersey's Annual Reports for the years ended 30 November 2005 and 30 November 2006, and MSBV's Annual Reports for the years ended 30 November 2005 and 30 November 2006, each of which is incorporated by reference herein.

The Morgan Stanley Jersey base prospectus (the "**Morgan Stanley Jersey Base Prospectus**") will comprise this base prospectus with the exception of the information in the sections entitled (a) MSBV (b) Key Features of the New York Law Notes (c) Description of New York Law Notes (d) Pro Forma Final Terms of the New York Law Notes, (e) Netherlands Taxation and (f) MSBV's Annual Reports for the years ended 30 November 2005 and 30 November 2006, which are incorporated by reference herein.

The MSBV base prospectus (the "**MSBV Base Prospectus**") will comprise this base prospectus with the exception of the information in the sections entitled (a) Morgan Stanley Jersey (b) Key Features of the New York Law Notes (c) Description of New York Law Notes (d) Pro Forma Final Terms of the New York Law Notes, (e) Jersey Taxation and (f) Morgan Stanley Jersey's Annual Reports for the years ended 30 November 2005 and 30 November 2006, which are incorporated by reference herein.

The aggregate principal amount of Notes outstanding issued under the Program shall not at any time exceed U.S.\$30,000,000,000. The Series B Notes will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.

The Notes will be governed by, and construed in accordance with, either the laws of the State of New York ("**New York Law Notes**") or the laws of England and Wales ("**English Law Notes**"), as specified in the applicable Final Terms. Morgan Stanley Jersey, MSBV and each Additional Issuer may issue English Law Notes, but shall not issue New York Law Notes.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 12 of this Base Prospectus.**

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE IN THE UNITED STATES, AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN EITHER REGULATION S UNDER THE SECURITIES ACT OR THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED). SEE "SUBSCRIPTION AND SALE" AND "NO OWNERSHIP BY U.S. PERSONS."**

**Each investor must comply with all applicable laws and regulations in each country or jurisdiction in or from which the investor purchases, offers, sells or delivers the Notes or has in the investor's possession or distributes this Base Prospectus or any accompanying Final Terms.**

**MORGAN STANLEY**

**Morgan Stanley accepts responsibility for information contained in the Morgan Stanley Base Prospectus, Morgan Stanley Jersey accepts responsibility for information contained in the Morgan Stanley Jersey Base Prospectus and MSBV accept responsibility for information contained in the MSBV Base Prospectus. To the best of the knowledge and belief of each of Morgan Stanley, Morgan Stanley Jersey and MSBV (each of which has taken all reasonable care to ensure that such is the case), the information contained in each of the Morgan Stanley Base Prospectus, the Morgan Stanley Jersey Base Prospectus and the MSBV Base Prospectus respectively is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**No person has been authorised by any of Morgan Stanley, Morgan Stanley Jersey or MSBV to give any information or to make any representation not contained or incorporated by reference in this Base Prospectus, and, if given or made, that information or representation should not be relied upon as having been authorised by Morgan Stanley, Morgan Stanley Jersey or MSBV. Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any securities will, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of any of Morgan Stanley, Morgan Stanley Jersey or MSBV since the date hereof or, as the case may be, the date upon which this Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements which have been incorporated into this Base Prospectus by way of a supplement to this Base Prospectus, or that any other information supplied from time to time is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Investors should review, inter alia, the most recent financial statements of Morgan Stanley, Morgan Stanley Jersey and/or MSBV (as applicable) when evaluating any securities or an investment therein (such financial statements shall not form a part of this Base Prospectus unless they have been expressly incorporated herein by way of a supplement to this Base Prospectus).**

**The distribution of this Base Prospectus and the offering, sale and delivery of securities in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by Morgan Stanley, Morgan Stanley Jersey and MSBV to inform themselves about and to observe those restrictions.**

**The Issuers do not intend to provide post-issuance information in respect of the Notes.**

**This Base Prospectus should be read and construed with any amendment or supplement thereto and with any other documents incorporated by reference therein.**

**This Base Prospectus does not constitute an offer of or an invitation to subscribe for or purchase any securities and should not be considered as a recommendation by any of Morgan Stanley, Morgan Stanley Jersey or MSBV that any recipient of this Base Prospectus should subscribe for or purchase any securities. Each recipient of this Base Prospectus will be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of Morgan Stanley, Morgan Stanley Jersey or MSBV (as applicable) and of the particular terms of any offered securities.**

**Neither this Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which that offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.**

**All references in this Base Prospectus to "Sterling" and "£" are to the lawful currency of the United Kingdom, all references to "U.S. dollars," "U.S.\$" and "\$" are to the lawful currency of the United States of America, all references to "Japanese Yen" and "¥" are to the lawful currency of**

Japan, all references to "Australian dollars" and "AUD" are to the lawful currency of the Commonwealth of Australia, all references to "New Zealand dollars" and "NZD" are to the lawful currency of New Zealand, and all references to "euro", "€" and "EUR" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended (the "Treaty").

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE RELEVANT ISSUER AND, WHERE APPLICABLE, THE GUARANTOR AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE NOTES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES UNDER THE PROGRAM, ANY DISTRIBUTION AGENT OR ANY OTHER AGENT SPECIFIED FOR THAT PURPOSE IN THE APPLICABLE FINAL TERMS AS THE STABILIZING MANAGER (OR ANY PERSON ACTING FOR THE STABILIZING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF ANY OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR ANY AGENT OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZING ACTION. ANY STABILIZING ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME BUT MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILIZING ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR ANY PERSON ACTING FOR THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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## SUMMARY

*This summary has been prepared in accordance with Article 5(2) of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read as an introduction to the Base Prospectus relating to the Notes. This summary relates only to Notes with a denomination of less than EUR50,000. Any decision to invest in any Notes should be based on a consideration of the relevant Base Prospectus as a whole, including the documents incorporated by reference. Following implementation of the relevant provisions of the Prospectus Directive in a Member State of the European Economic Area, no civil liability will attach to the Issuer or the Guarantor (as applicable) solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the relevant Base Prospectus. Where a claim relating to the information contained in the relevant Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the relevant Base Prospectus before the legal proceedings are initiated.*

*Words and expressions defined in the "Terms and Conditions of the English Law Notes" below or elsewhere in this Base Prospectus have the same meanings in this summary.*

### **Essential characteristics and risks associated with Morgan Stanley, Morgan Stanley Jersey and MSBV**

#### *Morgan Stanley*

The auditors of Morgan Stanley for the periods 1 December 2003 to 30 November 2004, 1 December 2004 to 30 November 2005 and 1 December 2005 to 30 November 2006 are Deloitte & Touche LLP, an independent registered public accounting firm.

Morgan Stanley was originally incorporated for an unlimited term under the laws of the State of Delaware on 1 October 1981 under registered number 0923632, and its predecessor companies date back to 1924.

On 31 May 1997, Morgan Stanley Group, Inc. was merged with and into Dean Witter Discover & Co. ("**Dean Witter Discover**") in a merger of equals. At that time, Dean Witter Discover changed its corporate name to Morgan Stanley, Dean Witter, Discover & Co. ("**MSDWD**"). On 24 March 1998 MSDWD changed its corporate name to Morgan Stanley Dean Witter & Co, and to Morgan Stanley on 20 June 2002.

As at the date of this Base Prospectus, Morgan Stanley's legal and commercial name is "Morgan Stanley".

Morgan Stanley has its registered office at The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A., and its principal executive offices at 1585 Broadway, New York, New York 10036, U.S.A., telephone number +1 (212) 761-4000.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. It maintains significant market positions in each of its business segments - Institutional Securities, Global Wealth Management Group, Asset Management and Discover. See "Recent events" on page 32 for further details on the Discover business segment.

Morgan Stanley's objects and purposes are set out in Article III of its Certificate of Incorporation and enable it to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware.

The Directors of Morgan Stanley as of the date of this Base Prospectus are the following: John J. Mack, Roy J. Bostock, Erskine B. Bowles, Howard J. Davies, C. Robert Kidder, Donald T. Nicolaisen, Charles H. Noski, Hutham S. Olayan, Charles E. Phillips Jr, O. Griffith Sexton, Laura D'Andrea Tyson and Klaus Zumwinkel.

As at 30 November 2006, Morgan Stanley had 56,310 employees worldwide.

The authorised share capital of Morgan Stanley as at 30 November 2006 comprised 3,500,000,000 ordinary shares of nominal value U.S.\$0.01 and 30,000,000 preferred stock of nominal value U.S.\$0.01.

The issued, non-assessable and fully paid up share capital of Morgan Stanley as at 30 November 2006 comprised 1,211,701,552 ordinary shares of nominal value U.S.\$0.01.

For the year ended 30 November 2006, total assets of Morgan Stanley amounted to U.S.\$1,120,645 million and total liabilities and shareholders' equity amounted to U.S.\$1,120,645 million. For the fiscal year ended 30 November 2005, total assets of Morgan Stanley amounted to U.S.\$898,523 million and total liabilities and shareholders' equity amounted to U.S.\$ 898,523 million.

There are a number of factors which could cause Morgan Stanley's actual results to differ, in some instances materially, from those anticipated. The factors set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties which face Morgan Stanley's business.

The results of Morgan Stanley's operations may be materially affected by market fluctuations and by economic and other factors such as political, economic and market conditions, the availability and cost of capital, the level and volatility of equity prices, commodity prices and interest rates, currency values and other market indices, technological changes and events, the availability and cost of credit, inflation, and investor sentiment and confidence in the financial markets.

Morgan Stanley faces strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect its revenue and profitability.

The financial services industry faces substantial litigation and regulatory risks, and Morgan Stanley may face damage to its professional reputation and legal liability if its services are not regarded as satisfactory or for other reasons.

#### *Morgan Stanley Jersey*

Morgan Stanley Jersey was incorporated in St. Helier, Jersey, Channel Islands (registration number 35857) as a company with unlimited duration on 24 September 1986. It has its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands. Morgan Stanley Jersey's objects and purposes are not specified in any document and are therefore unlimited.

Morgan Stanley Jersey's business primarily consists of issuing financial instruments and the hedging of obligations relating thereto. All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. Morgan Stanley Jersey's auditors are Deloitte & Touche LLP, Chartered Accountants and Registered Auditors.

Morgan Stanley Jersey has no subsidiaries and is wholly owned by Morgan Stanley.

The directors of Morgan Stanley Jersey are Joel Hodes, Charles Edward Crossley Hood and Kevin Woodruff. Morgan Stanley Jersey has no employees.

At 30 November 2006, the authorised share capital of Morgan Stanley Jersey comprised 10,000 ordinary shares with a par value of £1 each all of which are issued, allotted and fully paid up.



The profit or loss before tax for the financial years ended 30 November 2006 and 2005 was nil and nil respectively. The current assets of Morgan Stanley Jersey have risen from U.S.\$3,598,223,000 in 2005 to U.S.\$4,001,459,000 in 2006 with total creditors rising from U.S.\$3,597,767,000 in 2005 to U.S.\$4,001,003,000 in 2006.

All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of Morgan Stanley Jersey pursuant to such hedging transactions are guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to Morgan Stanley Jersey or not) their ability to fulfil their obligations to Morgan Stanley Jersey could be impaired, thereby exposing holders of securities issued by Morgan Stanley Jersey to a risk of loss.

#### *MSBV*

MSBV was incorporated as a private company with limited liability under the laws of The Netherlands on 6 September 2001 for an unlimited duration. MSBV is registered at the commercial register of the Chamber of Commerce and Industries (Kamer van Koophandel) for Amsterdam, The Netherlands under number 34161590. It has its corporate seat at Amsterdam, The Netherlands and its offices are located at Locatellikade 1, 1076 AZ Amsterdam, The Netherlands. Telephone number +31 20 57 55 600.

MSBV's objects are set out in Article 3 of its Articles of Associates and enable it, *inter alia*, to issue notes, warrants and other securities. All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. MSBV's auditors are Deloitte Accountants B.V. (members of the Royal Netherlands Institute of Registered Accountants).

MSBV has no subsidiaries and is ultimately controlled by Morgan Stanley.

The directors of MSBV are C.E.C Hood, J. Solan, G.C. De Boer and TMF Management B.V. MSBV has no employees.

The authorised share capital of MSBV comprises 900 ordinary shares of nominal value EUR100. The issued, allotted and fully paid up share capital of MSBV comprises 180 ordinary shares of nominal value EUR100.

MSBV's net revenue for the financial years ended 30 November 2006 and 2005 was EUR908,000 and EUR1,614,000 respectively, representing issuance fees received on the issuance of financial instruments less guarantee fees payable. The profit or loss before tax for the financial years ended 30 November 2006 and 2005 was a profit of EUR1,075,000 and a loss of EUR1,475,000 respectively. During the period, no dividends were paid. The loss will be carried to reserves.

The current assets of MSBV rose from EUR641,974,000 in 2005 to EUR3,893,257,000 in 2006 with a total amount owing to creditors rising from EUR639,578,000 in 2005 to EUR3,890,086,000 in 2006. The principal reason for the increase in debt was an increase in client demand for financial instruments.

All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of MSBV pursuant to such transactions are substantially guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to MSBV or not) their ability to fulfil their obligations to MSBV could be impaired, thereby exposing holders of securities issued by MSBV to a risk of loss.

#### **Essential characteristics and risks associated with the Notes**

Morgan Stanley, Morgan Stanley Jersey and MSBV may offer from time to time Series A Notes and Series B Notes. Applications have been made for the Series A Notes issued under the Program to be

admitted to the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange's regulated market for gilt edged and fixed interest securities during the period from the date of this document up to but excluding 22 June 2008. The Series B Notes will not be listed.

The payment of all amounts due in respect of Notes issued by Morgan Stanley Jersey or MSBV will, unless specified otherwise in the applicable Final Terms, be unconditionally and irrevocably guaranteed by Morgan Stanley.

Each Issuer is offering the Notes on a continuing basis through the Distribution Agents, who have agreed to use reasonable efforts to solicit offers to purchase the Notes. Each Issuer may also sell Notes to the Distribution Agents as principal for their own accounts at a price to be agreed upon at the time of sale. The Distribution Agents may resell any Notes they purchase as principal at prevailing market prices, or at other prices, as they determine. Each Issuer or the Distribution Agents may reject any offer to purchase Notes, in whole or in part.

Each Issuer will issue Notes in bearer form, which may be in either definitive form or global form. Notes in definitive bearer form will be serially numbered. Notes may be denominated or payable in any currency, be issued at any price and have any maturity, in each case subject to all applicable consents being obtained and compliance with all applicable legal and regulatory requirements.

Notes may be redeemed at par or at such other redemption amount (detailed in a formula or otherwise) or by delivery of securities of an issuer that is not affiliated with Morgan Stanley, as may be specified in the applicable Final Terms.

Early redemption will be permitted for taxation reasons but will otherwise be permitted only to the extent specified in the applicable Final Terms. Notes may be interest-bearing or non-interest-bearing. Interest (if any) may accrue at a fixed rate, which may be zero, or floating rate, or at a rate which varies during the lifetime of the relevant Series.

Notes issued by MSBV will be issued in denominations of at least EUR 1,000 per Note. Notes issued by Morgan Stanley or Morgan Stanley Jersey may have any denomination.

The Notes may be governed by, and construed in accordance with, either the laws of the State of New York or the laws of England and Wales, as specified in the applicable Final Terms. Morgan Stanley Jersey and MSBV may issue English Law Notes, but shall not issue New York Law Notes.

The net proceeds from the sale of Notes will be used by the relevant Issuer for general corporate purposes, in connection with hedging its obligations under the Notes, or both.

Certain documents relating to the Notes will be available, during usual business hours on any week day, for inspection at The Bank of New York, One Canada Square, London E14 5AL and at J.P. Morgan Bank (Ireland) plc c/o BNY Financial Services plc, 4th Floor, Hanover Building, Windmill Lane, Dublin 2, Ireland and also at the principal executive offices of Morgan Stanley and the registered offices of Morgan Stanley Jersey and MSBV.

The Issuers may issue Notes with principal and/or interest determined by reference to the credit of one or more entities not affiliated with the Issuers, to currency prices, commodity prices or to single securities, baskets of securities or indices or other assets or instruments. Any such Notes may entail significant risks not associated with a similar investment in fixed or floating rate debt securities, including a return that may be significantly less than the return available on an investment in fixed or floating rate debt securities. In some cases such Notes may also carry the risk of a total or partial loss of principal.

## RISK FACTORS

*Prospective investors should read the entire Base Prospectus (and where appropriate, any relevant final terms). Words and expressions defined elsewhere in this Base Prospectus have the same meanings in this section. Investing in securities involves certain risks. Prospective investors should consider, among other things, the following:*

### **Risk Relating to Morgan Stanley**

#### **Liquidity Risk**

Liquidity and funding risk refers to the risk that Morgan Stanley will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the ability of Morgan Stanley to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

**Liquidity is essential to Morgan Stanley's businesses and Morgan Stanley relies on external sources to finance a significant portion of its operations.**

Liquidity is essential to Morgan Stanley's businesses. Morgan Stanley's liquidity could be substantially negatively affected by an inability to raise funding in the long-term or short-term debt capital markets or an inability to access the secured lending markets. Factors that Morgan Stanley cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair its ability to raise funding. In addition, Morgan Stanley's ability to raise funding could be impaired if lenders develop a negative perception of its long-term or short-term financial prospects. Such negative perceptions could be developed if Morgan Stanley incurs large trading losses, it is downgraded or put on negative watch by the rating agencies, it suffers a decline in the level of its business activity, regulatory authorities take significant action against it, or it discovers serious employee misconduct or illegal activity, among other reasons. If Morgan Stanley is unable to raise funding using the methods described above, it would likely need to liquidate unencumbered assets, such as its investment and trading portfolios, to meet maturing liabilities. Morgan Stanley may be unable to sell some of its assets, or it may have to sell assets at a discount from market value, either of which could adversely affect its results of operations.

***Morgan Stanley's borrowing costs and access to the debt capital markets depend significantly on its credit ratings.***

The cost and availability of unsecured financing generally are dependent on Morgan Stanley's short-term and long-term credit ratings. Factors that are significant to the determination of Morgan Stanley's credit ratings or otherwise affect its ability to raise short-term and long-term financing include the level and volatility of its earnings; Morgan Stanley's relative competitive position in the markets in which it operates; its geographic and product diversification; its ability to retain key personnel; its risk profile; its risk management policies; its cash liquidity; its capital adequacy; its corporate lending credit risk; and legal and regulatory developments. A deterioration in any of these factors or combination of these factors may lead rating agencies to downgrade Morgan Stanley's credit ratings, thereby increasing its cost of obtaining unsecured funding.

Morgan Stanley's debt ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business, Morgan Stanley would be required to provide additional collateral to certain counterparties in the event of a downgrade by either Moody's Investors Service or Standard & Poor's.

***Morgan Stanley is a holding company and depends on payments from its subsidiaries.***

Morgan Stanley depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Regulatory and other legal restrictions may limit its ability to transfer funds freely, either to or from its subsidiaries. In particular, many of its subsidiaries, including its broker-dealer subsidiaries, are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder Morgan Stanley's ability to access funds that it may need to make payments on its obligations.

***If Morgan Stanley's liquidity and funding policies are not adequate, it may be unable to access sufficient financing.***

Morgan Stanley's liquidity and funding policies have been designed to ensure that it maintains sufficient liquid financial resources to continue to conduct its business for an extended period in a stressed liquidity environment. If its liquidity and funding policies are not adequate or it does not adhere to the policies, Morgan Stanley may be unable to access sufficient financing to service its financial obligations when they come due, which could have a material adverse franchise or business impact.

#### **Market Risk**

Market risk refers to the risk that a change in the level of one or more market prices of commodities or securities, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

***Morgan Stanley's results of operations may be materially affected by market fluctuations and by economic and other factors.***

The amount, duration and range of Morgan Stanley's market risk exposures have been increasing over the past several years, and may continue to do so. Morgan Stanley's results of operations may be materially affected by market fluctuations due to economic factors. Results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including political, economic and market conditions; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; and investor sentiment and confidence in the financial markets. In addition, there have been legislative, legal and regulatory developments related to Morgan Stanley's businesses that potentially could increase costs, thereby affecting future results of operations. These factors also may have an impact on its ability to achieve its strategic objectives.

The results of Morgan Stanley's Institutional Securities business, particularly results relating to its involvement in primary and secondary markets for all types of financial products, are subject to substantial fluctuations due to a variety of factors, such as those enumerated above, that Morgan Stanley cannot control or predict with great certainty. These fluctuations impact results by causing variations in new business flows and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from Morgan Stanley's principal investments.

During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets may also decrease, which would negatively impact the results of its Global Wealth Management Group business. In addition, fluctuations in global market activity could

impact the flow of investment capital into or from assets under management or supervision and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact its Asset Management business. Furthermore, changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence and consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact the results of its Discover business.

***Holding large and concentrated positions may expose Morgan Stanley to losses.***

Concentration of risk may reduce revenues or result in losses in Morgan Stanley's market-making, proprietary trading, investing, block trading, underwriting and lending businesses in the event of unfavorable market movements. Morgan Stanley has committed substantial amounts of capital to these businesses, which often require it to take large positions in the securities of, or make large loans to, a particular issuer or issuers in a particular industry, country or region. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these activities, and Morgan Stanley expects this trend to continue.

***The profitability of certain of Morgan Stanley's commodities marketing activities depends on the availability of supplies of petroleum products. A significant decrease in available supplies for any reason could adversely affect the sales and results of operations of certain businesses within its commodities activities.***

The success of Morgan Stanley's marketing and distribution in its commodities business depends on its ability to generate positive margins on sales of refined petroleum products. In addition, Morgan Stanley's terminal, tug and barge business depends on an active market for refined petroleum products to create demand for terminal services. The availability of supplies of refined petroleum products is essential to Morgan Stanley's pipeline, transport and terminal operations. A material disruption in the flow of refined petroleum product supplies could adversely affect its revenues from rack spot and contract sales, as well as throughput and storage fees. Among such risks are "force majeure" conditions caused by natural disasters, adverse weather conditions, terrorist attacks and other events beyond its control. These conditions also may adversely affect the pipeline and marine operations as well as the shipping and terminaling operations in its commodities business.

***Morgan Stanley may incur significant losses in the real estate sector.***

Morgan Stanley finances and acquires principal positions in a number of real estate and real estate-related products for its own account, for investment vehicles managed by affiliates in which it also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets, and originates loans secured by commercial and residential properties. Morgan Stanley also securitizes and trades in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. These businesses could be adversely affected by a downturn in the real estate sector.

**Credit Risk**

Credit risk refers to the risk of loss arising from the default by a borrower, counterparty or other obligor when it is unable or unwilling to meet its obligations to Morgan Stanley. Morgan Stanley is exposed to three distinct types of credit risk in its businesses.

***Morgan Stanley is exposed to the risk that third parties that are indebted to it will not perform their obligations.***

Morgan Stanley incurs significant, “single-name” credit risk exposure through the Institutional Securities business. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to Morgan Stanley and by extending credit to its clients through various credit arrangements. Morgan Stanley incurs “individual consumer” credit risk in the Global Wealth Management Group business through margin loans to individual investors and loans to small businesses, both of which are generally collateralized. Morgan Stanley incurs “consumer portfolio” credit risk in the Discover business primarily through cardholder receivables. Credit risk in a pool of cardholder receivables is generally highly diversified, without significant individual exposures, and, accordingly, is managed on a portfolio and not a single-name basis.

The amount, duration and range of Morgan Stanley’s credit exposures have been increasing over the past several years, and may continue to do so. In recent years, Morgan Stanley has significantly expanded its use of swaps and other derivatives and it may continue to do so. Corporate clients are increasingly seeking loans or lending commitments from Morgan Stanley in connection with investment banking and other assignments. In addition, Morgan Stanley has experienced, due to competitive factors, increased pressure to assume longer-term credit risk, to extend credit against less liquid collateral and to price derivatives instruments more aggressively based on the credit risks that it takes. As a clearing member firm, Morgan Stanley finances its customer positions and it could be held responsible for the defaults or misconduct of its customers. Although it regularly reviews its credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

***Defaults by another larger financial institution could adversely affect financial markets generally.***

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity problems, losses or defaults by other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which Morgan Stanley interacts on a daily basis, and therefore could adversely affect Morgan Stanley.

### **Operational Risk**

Operational risk refers to the risk of financial or other loss, or potential damage to a firm’s reputation, arising from inadequate or failed internal processes, people, resources and systems or from external events (e.g. external or internal fraud, legal and compliance risks, damage to physical assets, etc.). Morgan Stanley may incur operational risk across its full scope of business activities, including revenue generating activities (e.g. sales and trading) and support functions (e.g. information technology and facilities management). As such, Morgan Stanley may incur operational risk in each of its businesses, as well as within the control groups.

***Morgan Stanley is subject to operational risk and an operational event could adversely affect its businesses.***

Morgan Stanley’s businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions it processes are increasingly complex. Morgan Stanley performs the functions required to operate its different businesses either by itself or through agreements with third parties. Morgan Stanley relies on the ability of its employees, its internal systems and systems at technology centers operated by third parties to process a high volume of transactions. Morgan Stanley also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate its securities transactions. In the event of a breakdown or improper operation of its or third party’s systems or improper action by third parties or employees, Morgan Stanley

could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions or damage to its reputation.

Despite the business contingency plans Morgan Stanley has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its business and the communities where it is located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, electrical, communications or other services used by Morgan Stanley, its employees or third parties with whom Morgan Stanley conducts business.

### **Legal Risk**

Legal risk refers to the risk of non-compliance with applicable legal and regulatory requirements and standards. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable.

***The financial services industry faces substantial litigation and regulatory risks, and Morgan Stanley may face damage to its reputation and legal liability.***

Morgan Stanley has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

Morgan Stanley is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding its business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry, including Morgan Stanley. Like any large corporation, Morgan Stanley is also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against Morgan Stanley could materially adversely affect Morgan Stanley's business, financial condition or results of operations or cause it significant reputational harm, which could seriously harm Morgan Stanley's business.

***Morgan Stanley is subject to extensive regulation in the jurisdictions in which it conducts its businesses.***

Morgan Stanley is subject to extensive regulation globally and faces the risk of significant intervention by regulatory authorities in the jurisdictions in which it conducts its businesses. Among other things, Morgan Stanley could be fined, prohibited from engaging in some of its business activities or subject to limitations or conditions on its business activities. Significant regulatory action against Morgan Stanley could have material adverse financial effects, cause significant reputational harm to it, or harm its business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to Morgan Stanley's clients may also adversely affect Morgan Stanley's business.

***Morgan Stanley's commodities activities subject it to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose it to significant costs and liabilities.***

In connection with the commodities activities in Morgan Stanley's Institutional Securities business, Morgan Stanley engages in the production, storage, transportation, marketing and trading of several commodities, including metals (base and precious), crude oil, oil products, natural gas, electric power,

emission credits, coal and related products. In addition, Morgan Stanley owns three exempt wholesale generators in the U.S. and one electric generation facility in The Netherlands. As a result of these activities, Morgan Stanley is subject to extensive and evolving energy, environmental, safety and other governmental laws and regulations. Morgan Stanley's commodities business also exposes it to the risk of unforeseen and catastrophic events, including leaks, spills and terrorist attacks.

Although Morgan Stanley has attempted to mitigate its pollution and other environmental risks, including those discussed below, by, among other measures, adopting appropriate policies and procedures for power plant operations, monitoring the quality of petroleum storage facilities and transport vessels and implementing emergency response programs, these actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, Morgan Stanley's financial condition and results of operations may be adversely affected by these events.

Morgan Stanley also expects the other laws and regulations affecting its energy business to increase in both scope and complexity. During the past several years, intensified scrutiny of the energy markets by federal, state and local authorities in the U.S. and abroad and the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies engaged in the activities in which Morgan Stanley is engaged. Morgan Stanley may incur substantial costs in complying with current or future laws and regulations and its overall businesses and reputation may be adversely affected by the current legal environment.

*Pipeline, Marine Transport and Terminal Operations.* The risk of substantial environmental costs and liabilities is inherent in pipeline, marine transport and terminal operations. As is the case with respect to Morgan Stanley's other commodities activities, both U.S. and international environmental laws are or may be applicable, including U.S. and foreign oil spill anti-pollution statutes. Liability may be incurred without regard to fault under federal laws and regulations and analogous state laws for the remediation of contaminated areas.

Prior owners, tenants or users of properties now owned by Morgan Stanley or its subsidiaries may have disposed of or released hydrocarbons or solid wastes on or under such assets. Additionally, the acquired pipeline, transport and terminal operations are located near current or former refining and terminal operations. There is a risk that contamination, if ever present, has migrated or could migrate from those properties. Increasingly strict environmental laws, regulations and enforcement policies and claims for damages and other similar developments could result in substantial costs and liabilities.

Certain operations in Morgan Stanley's commodities business are subject to the hazards inherent in the transportation and storage of volatile and sometimes toxic petroleum products, including explosions, the release of toxic substances, fires and accidents on land and at sea that could result in personal injuries, loss of life and suspension of operations. These operations also are subject to risks associated with natural disasters, adverse weather conditions, terrorist attacks and other events beyond Morgan Stanley's control. Although Morgan Stanley maintains substantial insurance coverage, catastrophic events of this kind could exceed such coverage.

*Power Generation Facilities.* The power generation facilities owned by Morgan Stanley are subject to wide-ranging U.S. federal, state and local environmental laws and regulations in the U.S. and abroad relating to air quality, water quality and hazardous and solid waste management. They also are regulated under U.S. health and safety regulations. These laws may require capital expenditures as well as remediation where the facility has failed to comply with environmental, health or safety rules or has released pollutants into the environment. Additionally, the owners of such facilities may be subject to fines or penalties for failure to comply with environmental, health or safety rules.



*Oil Trading Activities.* The U.S. and foreign water pollution laws and numerous specific oil spill anti-pollution statutes apply to Morgan Stanley's oil trading activities to the extent it owns petroleum in storage or during waterborne or overland transit or it arranges for transportation or storage. In the event of an oil spill, one or more entities owned by Morgan Stanley could be held responsible for remediation as well as property and natural resource damages. Other U.S. federal and state laws apply to the specifications of the gasoline and diesel fuel that Morgan Stanley blends and import and provide for substantial penalties in the event of non-compliance. Oil pollution laws in non-U.S. jurisdictions also apply to Morgan Stanley in certain instances when it trades petroleum internationally and/or charter vessels. Like the U.S. statutes, these laws often provide for penalties and damage assessments should a spill event occur.

***Conflicts of interest are increasing and a failure to appropriately deal with conflicts of interest could adversely affect Morgan Stanley's businesses.***

Morgan Stanley's reputation is one of its most important assets. As Morgan Stanley has expanded the scope of its businesses and its client base, Morgan Stanley increasingly has to address potential conflicts of interest, including those relating to its proprietary activities. For example, conflicts may arise between Morgan Stanley's position as a financial advisor in a merger transaction and a principal investment it holds in one of the parties to the transaction. In addition, hedge funds and private equity funds are an increasingly important portion of Morgan Stanley's client base, and also compete with Morgan Stanley in a number of its businesses. Morgan Stanley has procedures and controls that are designed to address conflicts of interest. However, appropriately dealing with conflicts of interest is complex and difficult and Morgan Stanley's reputation could be damaged if it fails, or appears to fail, to deal appropriately with conflicts of interest. In addition, the SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. It is possible that potential or perceived conflicts could give rise to litigation or enforcement actions. It is possible that the regulatory scrutiny of, and litigation in connection with, conflicts of interest will make Morgan Stanley's clients less willing to enter into transactions in which such a conflict may occur, and will adversely affect the businesses of Morgan Stanley.

***Morgan Stanley is subject to tax contingencies that could adversely affect results.***

Morgan Stanley is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which it has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. Morgan Stanley must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when in the future certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit.

## **Competitive Environment**

***Morgan Stanley faces strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect its revenue and profitability.***

The financial services industry, and all of Morgan Stanley's businesses, are intensely competitive, and Morgan Stanley expects them to remain so. Morgan Stanley competes with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet. Morgan Stanley competes on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, reputation and price. Over time, certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad range of financial services

have been acquired by or merged into other firms. This convergence could result in Morgan Stanley's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. Morgan Stanley may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices.

***Morgan Stanley's ability to retain and attract qualified employees is critical to the success of its business and the failure to do so may materially adversely affect its performance.***

Morgan Stanley's people are its most important resource and competition for qualified employees is intense. In order to attract and retain qualified employees, Morgan Stanley must compensate such employees at market levels. Typically, those levels have caused employee compensation to be Morgan Stanley's greatest expense as compensation is highly variable and moves with performance. If Morgan Stanley is unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Morgan Stanley's performance, including its competitive position, could be materially adversely affected.

### **International Risk**

***Morgan Stanley is subject to numerous political, economic, legal, operational and other risks as a result of its international operations which could adversely impact its businesses in many ways.***

Morgan Stanley is subject to political, economic, legal, operational and other risks that are inherent in operating in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for Morgan Stanley to determine the exact requirements of local laws in every market. Morgan Stanley's inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on Morgan Stanley's businesses in that market but also on Morgan Stanley's reputation generally. Morgan Stanley is also subject to the enhanced risk that transactions it structures might not be legally enforceable in all cases.

Morgan Stanley has expanded, and continues to look at opportunities to expand, in the emerging markets. In the last several years, various emerging market countries have experienced severe economic and financial disruptions, including significant devaluations of their currencies, capital and currency exchange controls, and low or negative growth rates in their economies. These conditions could adversely impact Morgan Stanley's businesses and increase volatility in financial markets generally.

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of such an emergency, could create economic and financial disruptions in emerging markets and other areas throughout the world, and could lead to operational difficulties (including travel limitations) that could impair Morgan Stanley's ability to manage its businesses around the world.

### **Acquisition Risk**

***Morgan Stanley may be unable to fully capture the expected value from future acquisitions, joint ventures and minority stakes.***

Morgan Stanley expects to grow in part through acquisitions, joint ventures and minority stakes. To the extent Morgan Stanley makes acquisitions or enters into combinations or joint ventures, it faces numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients and business partners. In the case of joint ventures and minority stakes, Morgan Stanley is subject to additional risks and uncertainties in that it may be dependent upon, and subject to

liability, losses or reputational damage relating to, systems, controls and personnel that are not under Morgan Stanley's control. In addition, conflicts or disagreements between Morgan Stanley and its joint venture partners may negatively impact the benefits to be achieved by the joint venture. There is no assurance that Morgan Stanley's recent acquisitions or any business it acquires in the future will be successfully integrated and result in all of the positive benefits anticipated. If Morgan Stanley is not able to integrate successfully its past and future acquisitions, there is a risk that Morgan Stanley's results of operations may be materially and adversely affected.

### **Credit Card Risk**

*Discover business subjects Morgan Stanley to risks that impact the credit card industry.*

The performance of Morgan Stanley's Discover business is subject to numerous risks that impact the credit card industry, including rising cost of funds pressuring spreads; slow industry growth with rising payment rates; future loan loss rate uncertainty, especially given bankruptcy reform and changing minimum payment requirements; and a consolidating industry with competitive pressures and increasing marketing constraints. Changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence, consumer spending and consumer debt may substantially affect consumer loan levels and credit quality. Morgan Stanley's financial condition and results of operations may be adversely affected by these factors.

### **Risk Management**

*Hedging strategies of Morgan Stanley and other risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk.*

Morgan Stanley has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future. Nonetheless, Morgan Stanley's hedging strategies and other risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of Morgan Stanley's methods of managing risk are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

### **Risks relating to Morgan Stanley Jersey**

All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of Morgan Stanley Jersey pursuant to such transactions are guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to Morgan Stanley Jersey or not) their ability to fulfil their obligations to Morgan Stanley Jersey could be impaired, thereby exposing holders of securities issued by Morgan Stanley Jersey to a risk of loss.

### **Risks relating to MSBV**

All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of MSBV pursuant to such transactions are guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to MSBV or not) their ability to fulfil their obligations to MSBV could be impaired, thereby exposing holders of securities issued by MSBV to a risk of loss.

## **Risks relating to the Notes**

**The Issuers disclaim any responsibility to advise prospective purchasers of any matters arising under the laws of the country in which they reside that may affect the purchase of, or holding of, or the receipt of payments on the Notes. These persons should consult their own legal and financial advisors concerning these matters. This section describes generally the most significant risks of investing in Notes linked to single securities, baskets of securities or indices, to commodity prices, to currency prices, to the credit of one or more entities not affiliated with the Issuers or to other assets. Each investor should carefully consider whether the Notes, as described herein and in the applicable Final Terms, are suited to its particular circumstances before deciding to purchase any Notes.**

### *Notes linked to securities, indices, commodities, currencies and/or underlying credits*

The Issuers may issue Notes with principal and/or interest determined by reference to a single security or index, to baskets of securities or indices, to currency prices, commodity prices, to the credit of one or more entities not affiliated with the Issuers, or other assets or instruments (each, a "**Relevant Underlying**"). In addition, the Issuers may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) they may lose all or a substantial portion of their principal;
- (b) the market price of such Notes may be very volatile;
- (c) they may receive no interest;
- (d) payment of principal or interest may occur at a different time or in a different currency than expected;
- (e) a Relevant Underlying may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Underlying is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Underlying on principal or interest payable is likely to be magnified; and
- (g) the timing of changes in a Relevant Underlying may affect the actual yield to investors, even if the average level is consistent with their expectations.

### *Notes linked to a single security or index, baskets of securities or indices, to currency prices or commodity prices, to the credit of specified entities not affiliated with Morgan Stanley, Morgan Stanley Jersey or MSBV, or other assets or instruments are not ordinary debt securities*

The terms of certain Equity-Linked Notes, Commodity Notes, Currency Notes and Credit-Linked Notes differ from those of ordinary securities because such securities may not pay interest and at maturity may return less than the principal amount or nothing, or may return securities of an issuer that is not affiliated with Morgan Stanley, Morgan Stanley Jersey or MSBV, the value of which is less than the principal amount, depending on the performance of the Relevant Underlying. Prospective investors who consider purchasing the Notes should reach an investment decision only after carefully considering the suitability of the Notes in light of their particular circumstances.

***The value of Notes linked to a single security, or to baskets of securities or indices may be influenced by unpredictable factors***

The value of Equity-Linked Notes may be influenced by several factors beyond the relevant Issuer's and, where applicable, the Guarantor's control, including: (i) the market price or value of the applicable underlying security, index or basket of securities or indices, (ii) the volatility (frequency and magnitude of changes in price) of the underlying security, index or basket of securities or indices, (iii) the dividend rate on any underlying securities, (iv) geopolitical conditions and economic, financial and political, regulatory or judicial events that affect stock markets generally and which may affect the market price of the underlying security, index or basket of securities or indices, (v) interest and yield rates in the market, (vi) the time remaining to the maturity of the Notes, and (vii) the relevant Issuer's and, where applicable, the Guarantor's creditworthiness.

Some or all of these factors will influence the price investors will receive if an investor sells its Notes prior to maturity. For example, investors may have to sell certain Notes at a substantial discount from the principal amount if the market price or value of the applicable underlying security, basket of securities or index is at, below, or not sufficiently above the initial market price or value or if market interest rates rise.

***No affiliation with underlying companies***

The underlying issuer for any single security or basket security, the publisher of an underlying index, or any specified entity with respect to Credit-Linked Notes, will not be an affiliate of Morgan Stanley, Morgan Stanley Jersey or MSBV, unless otherwise specified in the applicable Final Terms. Morgan Stanley or its subsidiaries may presently or from time to time engage in business with any underlying company, or any specified entity, including entering into loans with, or making equity investments in, the underlying company, or specified entity, or its affiliates or subsidiaries or providing investment advisory services to the underlying company, or specified entity, including merger and acquisition advisory services. Moreover, no Issuer has the ability to control or predict the actions of the underlying company, index publisher, or specified entity, including any actions, or reconstitution of index components, of the type that would require the determination agent to adjust the payout to the investor at maturity. No underlying company, index publisher, or specified entity, for any issuance of Notes is involved in the offering of the Notes in any way or has any obligation to consider the investor's interest as an owner of the Notes in taking any corporate actions that might affect the value of the Notes. None of the money an investor pays for the Notes will go to the underlying company, or specified entity, for such Notes.

***Notes linked to the credit of one or more specified entities entail significant risks not associated with similar investments in conventional debt securities***

Because the payment of principal and interest on Credit-Linked Notes is contingent on the credit of one or more specified entities and such specified entities' satisfaction of their present and future financial obligations, investors will take credit risk with respect to such specified entities in addition to credit risk with respect to the relevant Issuer and, where applicable, the Guarantor. If one or more of such specified entities becomes bankrupt or subject to other insolvency procedures or fails to make payments on, repudiates or restructures any of the debt or other obligations described in the applicable Final Terms, a credit event may occur.

If a credit event occurs, the maturity of the Credit-Linked Notes will be accelerated. Upon acceleration of the Credit-Linked Notes, the investor will receive the deliverable obligations, or a cash amount calculated by reference to the value of the certain obligations, each as described in the applicable Final Terms instead of the principal amount of the Credit-Linked Notes and, if so provided in the applicable Final Terms, interest payments on the Credit-Linked Notes will cease. The market value of those deliverable obligations following a credit event will probably be significantly less than the principal amount of the

Credit-Linked Notes. Such obligations may even be worthless. Thus, if a credit event occurs, the investor may lose all of its investment in the Credit-Linked Notes.

Several factors, many of which are beyond the relevant Issuer's and, where applicable, the Guarantor's control will influence the value of the Credit-Linked Notes and the possibility of early acceleration, including: (i) the creditworthiness of the specified entity or entities underlying the Credit-Linked Notes, (ii) the relevant Issuer's and, where applicable, the Guarantor's creditworthiness and (iii) economic, financial and political events that affect the markets in which such specified entity or entities and the relevant Issuer and, where applicable, the Guarantor do business and the markets for the debt or other obligations of such specified entity or entities and of the relevant Issuer and, where applicable, the Guarantor.

***Exchange rates and exchange controls may affect Notes' value or return***

*General Exchange Rate and Exchange Control Risks.* An investment in a Note denominated in, or the payment of which is linked to the value of, currencies other than the investor's home currency entails significant risks. These risks include the possibility of significant changes in rates of exchange between its home currency and the other relevant currencies and the possibility of the imposition or modification of exchange controls by the relevant governmental authorities. These risks generally depend on economic and political events over which the Issuers have no control. Investors should consult their financial and legal advisors as to any specific risks entailed by an investment in Notes that are denominated or payable in, or the payment of which is linked to the value of, a currency other than the currency of the country in which such investor resides or in which such investor conducts its business, which is referred to as their home currency. Such Notes are not appropriate investments for investors who are not sophisticated in foreign currency transactions.

*Exchange Rates Will Affect the Investor's Investment.* In recent years, rates of exchange between some currencies have been highly volatile and this volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of any Note. Depreciation against the investor's home currency or the currency in which a Note is payable would result in a decrease in the effective yield of the Note below its coupon rate and could result in an overall loss to an investor on the basis of the investor's home currency. In addition, depending on the specific terms of a Currency-Linked Note, changes in exchange rates relating to any of the relevant currencies could result in a decrease in its effective yield and in the investor's loss of all or a substantial portion of the value of that Note.

*The Issuers Have No Control Over Exchange Rates.* Currency exchange rates can either float or be fixed. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to each other. However, from time to time governments may use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes, or changes in interest rate to influence the exchange rates of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. These governmental actions could change or interfere with currency valuations and currency fluctuations that would otherwise occur in response to economic forces, as well as in response to the movement of currencies across borders.

As a consequence, these government actions could adversely affect yields or payouts in the investor's home currency for (i) Notes denominated or payable in currencies other than U.S. dollars and (ii) Currency-Linked Notes.

The Issuers will not make any adjustment or change in the terms of the Notes in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or

other regulatory controls or taxes, or in the event of other developments affecting any currency. The investor will bear those risks.

*Some Currencies May Become Unavailable.* Governments have imposed from time to time, and may in the future impose, exchange controls that could also affect the availability of a Specified Currency (as defined herein). Even if there are no actual exchange controls, it is possible that the applicable currency for any security would not be available when payments on that security are due.

*Alternative Payment Method Used If Payment Currency Becomes Unavailable.* If a payment currency is unavailable in respect of Notes, Morgan Stanley would make required payments in U.S. dollars on the basis of the Market Exchange Rate (as defined below under "Description of New York Law Notes — General"). However, if the applicable currency for any Note is not available because the euro has been substituted for that currency, the relevant Issuer would make the payments in euro. Some Notes may specify a different form of payment if a non-U.S. payment currency is unavailable to the relevant Issuer.

#### ***Secondary trading of the Notes may be limited***

There may be little or no secondary market for the Notes. Although an Issuer may apply to have certain issuances of Notes admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange's regulated market for gilt-edged and fixed interest securities or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, approval for any listing is subject to meeting the relevant listing requirements. Even if there is a secondary market, it may not provide enough liquidity to allow the investor to sell or trade the Notes easily. Morgan Stanley & Co. International plc currently intends to, and other affiliates of Morgan Stanley may from time to time, act as a market maker for the Notes, but they are not required to do so. If at any time Morgan Stanley & Co. International plc and other affiliates of the Issuers were to cease acting as market makers, it is likely that there would be little or no secondary market for the Notes.

#### ***Notes may be de-listed***

If the European Union Transparency Obligations Directive (the "**Directive**") is implemented in a manner which is burdensome for an Issuer or the Guarantor, the Notes may be de-listed. In such a case of de-listing, the relevant Issuer may, but is not obliged to, seek an alternative listing for the Notes on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the relevant Issuer or the Guarantor (if applicable), burdensome, an alternative listing for the Notes may not be considered. Although no assurance is made as to the liquidity of the Notes as a result of listing by the UK Listing Authority, de-listing the Notes may have a material effect on a Noteholder's ability to resell the Notes in the secondary market.

#### ***Investors have no shareholder rights***

As an owner of Notes, investors will not have voting rights or rights to receive dividends, interest or other distributions, as applicable, or any other rights with respect to any underlying security or index.

#### ***Exchange rates may affect the value of a judgment***

The English law Notes will be governed by, and construed in accordance with, the laws of England. Although an English court has the power to grant judgment in the currency in which a Note is denominated, it may decline to do so in its discretion. If judgment were granted in a currency other than that in which a Note is denominated, the investor will bear the relevant currency risk.

The New York Law Notes will be governed by and construed in accordance with the laws of the State of New York. If a New York court were to enter a judgment in an action on any securities denominated in a foreign currency, such court would either enter a judgment in U.S. dollars based on the prevailing rate of exchange between the foreign currency and U.S. dollars on the date such judgment is entered or enter

judgment in the foreign currency and convert the judgment or decree into U.S. dollars at the prevailing rate of exchange on the date such judgment or decree is entered.

***Potential conflicts of interest between the investor and the determination agent***

As determination agent for Notes linked to a single security or index or a basket of securities or indices, Credit-Linked Notes, or Notes linked to commodities or other underlying instruments, assets or obligations, Morgan Stanley & Co. International plc or an affiliate will determine the payout to the investor at maturity. Morgan Stanley & Co. International plc and other affiliates may also carry out hedging activities related to any Notes linked to a single security or index or a basket of securities or indices, Credit-Linked Notes, or Notes linked to commodities or to other instruments, assets or obligations including trading in the underlying securities, indices or commodities as well as in other instruments related to the underlying securities, indices or commodities. Morgan Stanley & Co. International plc and some of Morgan Stanley's other subsidiaries may also trade the applicable underlying securities, indices or commodities and other financial instruments related to the underlying securities, indices or commodities on a regular basis as part of their general broker-dealer and other businesses. Any of these activities could influence the determination agent's determination of adjustments made to any Notes linked to single securities or indices or a basket of securities or indices, Credit-Linked Notes, or Notes linked to commodities or other underlying instruments, assets or obligations and any such trading activity could potentially affect the price of the underlying securities, indices, commodities or other underlying instruments, assets or obligations and, accordingly, could affect the investor's payout on any Notes.

***The Notes may be redeemed prior to maturity***

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the relevant Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any relevant jurisdiction, the relevant Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms specify that the Notes are redeemable at the relevant Issuer's option in certain other circumstances the relevant Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

In addition, an optional redemption feature in any particular Tranche of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

***Fixed/Floating Rate Notes***

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.



### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***Because the Global Notes (as defined below) may be held by or on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), investors will have to rely on their procedures for transfer, payment and communication with the relevant Issuer.***

Notes issued under the Program may be represented by one or more temporary global notes (each, a "**Temporary Global Note**") or permanent global notes (each, a "**Permanent Global Note**" and, together with a Temporary Global Note, the "**Global Notes**"). Such Global Notes may be deposited with a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. Neither the relevant Issuer nor the Guarantor has responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg to appoint appropriate proxies.

### *Modification and waiver*

The conditions of the English Law Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the New York Law Notes contain provisions for Noteholder votes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

### *Change of law*

The conditions of the Notes are based on English law or New York law (as applicable) in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, New York law or administrative practice in England or the State of New York after the date of this Base Prospectus.

## WHERE THE INVESTOR CAN FIND MORE INFORMATION ABOUT MORGAN STANLEY

Morgan Stanley files reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). The investor may read and copy any of these documents at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, the SEC maintains a website that contains reports, proxy statements and other information that Morgan Stanley files electronically. The address of the SEC's website is <http://www.sec.gov>. The information contained on this website, and any information available at the SEC's public reference room, shall not form part of this Base Prospectus, unless such information has been expressly incorporated herein by way of a supplement to this Base Prospectus.

Morgan Stanley's common stock, par value US\$0.01 per share, is listed on the New York Stock Exchange, Inc. under the symbol "MS." The investor may inspect annual, quarterly and current reports, proxy statements and other information concerning Morgan Stanley and its consolidated subsidiaries at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005 (such reports, proxy statements and other information shall not form a part of this Base Prospectus unless they have been expressly incorporated herein by way of a supplement to this Base Prospectus).

## INCORPORATION BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- (i) Morgan Stanley's Quarterly Report on Form 10-Q for the quarterly period ended 28 February 2007 (as set out at <http://www.sec.gov>);
- (ii) Morgan Stanley's Current Report on Form 8-K dated 10 April 2007 (as set out at <http://www.sec.gov>);
- (iii) Morgan Stanley's Proxy Statement dated 23 February 2007 (as set out at <http://www.sec.gov>);
- (iv) Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended 30 November 2006 (as set out at <http://www.sec.gov>);
- (v) Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended 30 November 2005 (as set out at <http://www.sec.gov>);
- (vi) Morgan Stanley Jersey's Annual Report for year ended 30 November 2005;
- (vii) Morgan Stanley Jersey's Annual Report for year ended 30 November 2006;
- (viii) MSBV's Annual Report for year ended 30 November 2005; and
- (ix) MSBV's Annual Report for year ended 30 November 2006,

save that any statement contained in this Base Prospectus or any documents incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference and in respect of which a supplement to this Base Prospectus is prepared modifies or supersedes such statement.

The information about Morgan Stanley, Morgan Stanley Jersey and MSBV incorporated by reference in this Base Prospectus (the "**Incorporated Information**") is considered to be part of this Base Prospectus. Future filings of Morgan Stanley with the SEC and future financial statements published by Morgan Stanley Jersey and MSBV may modify or supersede some of the information included or incorporated by reference in this Base Prospectus.

The Issuers will, at their registered offices and at the specified offices of the Paying Agents, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of this Base Prospectus (or any document incorporated by reference in this Base Prospectus and any future filings or financial statements published such Issuer). Written or oral requests for inspection of such documents should be directed to the specified office of any Paying Agent.

## MORGAN STANLEY

### **Auditors**

The auditors of Morgan Stanley for the periods 1 December 2003 to 30 November 2004, 1 December 2004 to 30 November 2005, and 1 December 2005 to 30 November 2006 were Deloitte & Touche LLP, Two World Financial Center, New York, New York 10281, U.S.A., an independent registered public accounting firm (the "**Auditors**").

The Auditors have issued a report dated February 12, 2007 (April 10, 2007 as to the effects of the discontinued operations discussed in Note 30), appearing in the Current Report on Form 8-K of Morgan Stanley dated April 10, 2007, relating to the consolidated financial statements of Morgan Stanley and reports dated February 12, 2007, relating to the financial statement schedule and management's report on the effectiveness of internal control over financial reporting appearing in the Annual Report on Form 10-K for the fiscal year ended November 30, 2006 (which reports on the consolidated financial statements and financial statement schedule express an unqualified opinion and include explanatory paragraphs relating to the adoption, in fiscal 2005, of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" and relating to, in fiscal 2006, Morgan Stanley's change in accounting policy for recognition of equity awards granted to retirement-eligible employees and relating to, in fiscal 2006, the application of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements").

The Auditors are registered with the Public Company Accounting Oversight Board (United States).

### **Risk Factors**

Information about risk factors relating to Morgan Stanley is contained in "Risk Factors" in this Base Prospectus.

### **Information about Morgan Stanley**

#### *History and Development of Morgan Stanley*

Morgan Stanley was originally incorporated for an unlimited term under the laws of the State of Delaware on 1 October 1981 under registered number 0923632, and its predecessor companies date back to 1924. On 31 May 1997, Morgan Stanley Group, Inc. was merged with and into Dean Witter Discover & Co. ("**Dean Witter Discover**") in a merger of equals. At that time, Dean Witter Discover changed its corporate name to Morgan Stanley, Dean Witter, Discover & Co. ("**MSDWD**"). On 24 March 1998 MSDWD changed its corporate name to Morgan Stanley Dean Witter & Co, and to Morgan Stanley on 20 June 2002.

Morgan Stanley has its registered office at The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A., and its principal executive offices at 1585 Broadway, New York, New York 10036, U.S.A., telephone number +1 (212) 761-4000.

As at the date of this Base Prospectus, Morgan Stanley's legal and commercial name is "Morgan Stanley".

#### *Legislation*

Morgan Stanley is subject both to the laws of the United States of America and to the General Corporation Law of the State of Delaware ("**DGCL**"). United States federal laws affect many aspects of corporate affairs in the United States and concern such diverse matters as antitrust, bankruptcy, labor-management relations, the sale of securities and taxation. Certain United States federal securities laws are administered by the SEC and generally prohibit the sale of securities by fraudulent means and require

most corporations that have issued securities, which are publicly held, such as Morgan Stanley, to make periodic financial and other reports to the SEC and to shareholders.

In the United States, business corporations are generally incorporated under the laws of one of the states. Morgan Stanley is incorporated under the laws of the State of Delaware.

Effective 1 December 2005, Morgan Stanley became a consolidated supervised entity (a “CSE”) as defined by the SEC. As such, Morgan Stanley is subject to group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated basis.

Morgan Stanley continues to work with its regulators on the implementation of the CSE rules and the standards of the Basel Committee on Banking Supervision (“**Basel II**”). As rules related to Basel II are released, Morgan Stanley will consult with regulators on the new requirements. Compliance with related EU requirements (capital, oversight and reporting) will be a focus item through 2008.

#### *Recent events*

On 19 December, 2006, Morgan Stanley announced that its Board of Directors had approved the spin-off of Discover Financial Services (“**Discover**”) (the “**Discover Spin-off**”) in order to enhance shareholder value. The Discover Spin-off will allow Morgan Stanley to focus its efforts on more closely aligned firm-wide strategic priorities within its Institutional Securities, Global Wealth Management Group and Asset Management business segments. The Discover Spin-off is subject to regulatory approval and other customary conditions. On June 1, 2007, the Board of Directors of Morgan Stanley announced that the Discover Spin-off will occur on June 30, 2007. At that time, Morgan Stanley stockholders of record as of the close of business on June 18, 2007 will receive one share of Discover common stock for every two shares of Morgan Stanley common stock outstanding as of the record date. Stockholders will receive cash in lieu of fractional shares for amount less than one full Discover share. Following the distribution, Discover will be an independent, publicly traded company.

#### *Investments*

The following is a description of the principal investments made since the date of the last published annual financial statements.

**CityMortgage Bank.** On December 21, 2006, Morgan Stanley acquired CityMortgage Bank (“CityMortgage”), a leading Moscow-based mortgage bank that specializes in originating, servicing and securitizing residential mortgage loans in the Russian Federation. The results of CityMortgage will be included within the Institutional Securities business segment.

**Olco Petroleum Group Inc.** On December 15, 2006, Morgan Stanley acquired a 60% equity stake in Olco Petroleum Group Inc. (“Olco”), a petroleum products marketer and distributor based in eastern Canada. The results of Olco will be included within the Institutional Securities business segment.

**Saxon Capital, Inc.** On December 4, 2006, Morgan Stanley acquired Saxon Capital, Inc. (“Saxon”), a servicer and originator of residential mortgages. The results of Saxon will be included within the Institutional Securities business segment.

**FrontPoint Partners.** On December 4, 2006, Morgan Stanley acquired FrontPoint Partners (“FrontPoint”), a leading provider of absolute return investment strategies. The results of FrontPoint will be included within the Asset Management business segment.

Except as disclosed herein and in the Incorporated Information, so far as Morgan Stanley is aware, there have been no material investments made since the date of its last published financial statements and there are no principal future investments to which Morgan Stanley's management have already made firm commitments.

## **Business Overview**

### *Principal Activities*

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments — Institutional Securities, Global Wealth Management Group, Asset Management and Discover. Morgan Stanley, through its subsidiaries and affiliates, provides a wide array of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

A summary of the activities of each of the segments follows:

*Institutional Securities* includes capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; benchmark indices and risk management analytics; research; and investment activities.

*Global Wealth Management Group* provides brokerage and investment advisory services covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; banking and cash management services; retirement services; and trust and fiduciary services.

*Asset Management* provides global asset management products and services in equity, fixed income, alternative investments and private equity to institutional and retail clients through proprietary and third party retail distribution channels, intermediaries and Morgan Stanley's institutional distribution channel. Asset Management also engages in investment activities.

*Discover* offers Discover<sup>®</sup>-branded credit cards and other consumer products and services and operates the Discover Network, a merchant and cash access network for Discover Network branded cards, and PULSE EFT<sup>®</sup> Association LP ("PULSE"), an automated teller machine/debit and electronic funds transfer network. Discover also offers consumer finance products and services in the U.K. including Morgan Stanley-branded, Goldfish-branded, and various other credit cards issued on the MasterCard<sup>®</sup> and Visa<sup>®</sup> networks.

On 19 December 2006, Morgan Stanley announced that its Board of Directors had approved the spin-off of Discover in order to enhance shareholder value. The Discover Spin-off will allow Morgan Stanley to focus its efforts on more closely aligned firm-wide strategic priorities within its Institutional Securities, Global Wealth Management Group and Asset Management business segments. The Discover Spin-off is subject to regulatory approval and other customary conditions. On June 1, 2007, the Board of Directors of Morgan Stanley announced that the Discover Spin-off will occur on June 30, 2007. At that time, Morgan Stanley stockholders of record as of the close of business on June 18, 2007 will receive one share of Discover common stock for every two shares of Morgan Stanley common stock outstanding as of the record date. Stockholders will receive cash in lieu of fractional shares for amount less than one full Discover share. Following the distribution, Discover will be an independent, publicly traded company.

### *Principal Markets*

Morgan Stanley conducts its business from its headquarters in New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers.

### **Competition**

All aspects of Morgan Stanley's businesses are highly competitive and Morgan Stanley expects them to remain so. Morgan Stanley competes in the U.S. and globally for clients, market share and human talent in all aspects of its business segments. Morgan Stanley's competitive position depends on its reputation, the quality of its products, services and advice. Morgan Stanley's ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain qualified employees while managing compensation and other costs.

*Institutional Securities and Global Wealth Management Group:* Morgan Stanley's competitive position depends on innovation, execution capability and relative pricing. Morgan Stanley competes directly in the U.S. and globally with other securities and financial services firms and broker-dealers, and with others on a regional or product basis. Morgan Stanley competes with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet.

Morgan Stanley's ability to access capital at competitive rates (which is generally dependent on Morgan Stanley's credit ratings) and to commit capital efficiently, particularly in its capital-intensive underwriting and sales, trading, financing and market-making activities, also affects its competitive position. Corporate clients continue to request that Morgan Stanley provide loans or lending commitments in connection with certain investment banking activities.

Over time, certain sectors of the financial services industry have become more concentrated, as financial institutions involved in a broad range of financial services industries have been acquired by or merged into other firms. This convergence could result in Morgan Stanley's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. It is possible that competition may become even more intense as Morgan Stanley continues to compete with financial institutions that may be larger, or better capitalized, or may have a stronger local presence and longer operating history in certain areas. Many of these firms have greater capital than Morgan Stanley and have the ability to offer a wide range of products that may enhance their competitive position and could result in pricing pressure in Morgan Stanley's businesses. The complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for Morgan Stanley to remain competitive.

Morgan Stanley has experienced intense price competition in some of its businesses in recent years. In particular, the ability to execute trades electronically through the internet and other alternative trading systems has increased the pressure on trading commissions. The trend toward the use of alternative trading systems will likely continue. It is possible that Morgan Stanley will experience competitive pressures in these and other areas in the future as some of its competitors may seek to obtain market share by reducing prices.

*Asset Management:* Competition in the asset management industry is affected by several factors, including Morgan Stanley's reputation, investment objectives, quality of investment professionals, performance of investment products relative to peers and an appropriate benchmark index, advertising and sales promotion efforts, fee levels, the effectiveness of and access to distribution channels, and the types and quality of products offered. Morgan Stanley's products compete with the funds and separately managed account products of other asset management firms and other investment alternatives.

*Discover*: Credit cards issued by Discover compete directly with other bank-issued credit cards (the vast majority of which bear the MasterCard or Visa servicemark), charge cards, credit cards issued by travel, entertainment and financial advisory companies and debit cards. Credit cards issued on the Discover Network by third parties may also compete with credit cards offered by Discover. Competition centers on merchant acceptance of credit and debit cards (either directly or through merchant acquirers), account acquisition and customer utilization of credit and debit cards. Merchant acceptance is based on, among other factors, competitive transaction pricing and the volume and usage of cards in circulation. Credit card account acquisition and customer utilization are driven by competitive and appealing credit card features, such as fee levels, interest rates and other customized features targeting specific consumer groups. Credit card industry participants have increasingly used advertising, targeted marketing, account acquisitions and pricing competition in interest rates, annual fees, reward programs and low-priced balance transfer programs to compete and grow.

The Discover Network competes with other card networks, including among others, MasterCard, VISA and American Express. The principal competitive factors that affect the network business include the number of merchants that accept cards, the number of cards in force and the amount of spending on these cards, the quantity and quality of places where cards can be used, the economic attractiveness to card issuers and merchants participating in the network, reputation and brand recognition, innovation in systems, technology and product offerings, and quality of customer service.

### **Organisational Structure**

Morgan Stanley is a holding company that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

Morgan Stanley's U.S. and international subsidiaries include Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International plc (formerly "Morgan Stanley & Co. International Limited"), Morgan Stanley Japan Securities Co., Ltd. (formerly "Morgan Stanley Japan Limited"), Morgan Stanley Investment Advisors Inc. and Discover Financial Services (formerly "NOVUS Credit Services Inc."). On April 1, 2007, Morgan Stanley merged Morgan Stanley DW Inc. into Morgan Stanley & Co. Incorporated. Upon completion of the merger, the surviving entity, Morgan Stanley & Co. Incorporated, became Morgan Stanley's principal U.S. broker-dealer.

### **Trend Information**

There has been no significant change in the financial or trading position of Morgan Stanley and its consolidated subsidiaries since 28 February 2007.



## Management

### *Directors*

The directors of Morgan Stanley as of the date of this Base Prospectus, their offices, if any, within Morgan Stanley, and their principal outside activity, if any, are listed below. The business address of each director is 1585 Broadway, New York, New York 10036, U.S.A.

<b>Name</b>	<b>Function within Morgan Stanley</b>	<b>Principal Outside Activity</b>
John J. Mack	Chairman of the Board and Chief Executive Officer	John J. Mack does not perform other relevant managerial activities outside Morgan Stanley
Roy J. Bostock	Director	Chairman of the Partnership for a Drug-Free America. Member of the board of directors of Northwest Airlines Corporation and Yahoo! Inc.
Erskine B. Bowles	Director	President of the University of North Carolina. Director of General Motors Corporation and Cousins Properties Incorporated
Howard J. Davies	Director	Director of the London School of Economics and Political Science
C. Robert Kidder	Director	Chairman and CEO of 3 Stone Advisors LLC. Director of Schering-Plough Corporation
Donald T. Nicolaisen	Director	Board of Directors of MGIC Investment Corporation, Verizon Communications Inc. and Zurich Financial Services
Charles H. Noski	Director	Director of Microsoft Corporation and Air Products and Chemicals Inc.
Hutham S. Olayan	Director	President, Chief Executive Officer and Director of Olayan America Corporation
Charles E. Phillips, Jr.	Director	Director of Oracle Corporation and Viacom, Inc.

<b>Name</b>	<b>Function within Morgan Stanley</b>	<b>Principal Outside Activity</b>
O. Griffith Sexton	Director	Advisory Director of Morgan Stanley, Adjunct Professor of Finance at Columbia Business School; Visiting Lecturer of Princeton University, Director of Investor AB
Laura D'Andrea Tyson	Director	Professor, Walter A. Haas School of Business, University of California at Berkeley. Director of Eastman Kodak Company and AT&T Inc.
Klaus Zumwinkel	Director	Chairman of the Board of Management, Deutsche Post AG, Director of Deutsche Lufthansa AG (Supervisory Board), Deutsche Telekom AG (Chairman, Supervisory Board), Karstadt Quelle AG (Supervisory Board) and Deutsche Postbank AG (Chairman, Supervisory Board)

### **Related Party Transactions**

During fiscal year 2006, Morgan Stanley's subsidiaries extended credit in the ordinary course of business to certain of Morgan Stanley's directors, officers and employees and members of their immediate families. These extensions of credit were in connection with margin loans, mortgage loans, credit card transactions, revolving lines of credit and other extensions of credit by Morgan Stanley's subsidiaries. The extensions of credit were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons. The extensions did not involve more than the normal risk of collectability or present other unfavorable features. Directors, officers and employees and members of their immediate families who wish to purchase securities and derivative and financial products and financial services may do so through Morgan Stanley's subsidiaries. These subsidiaries may offer them discounts on their standard commission rates or fees. These subsidiaries also, from time to time and in the ordinary course of their business, enter into transactions on a principal basis involving the purchase or sale of securities and derivative products in which Morgan Stanley's directors, officers and employees and members of their immediate families have an interest. These purchases and sales may be made at a discount from the dealer mark-up or mark-down, as the case may be, charged to non-affiliated third parties. Certain employees, including Morgan Stanley's executive officers, may invest on the same terms and conditions as other investors in investment funds that Morgan Stanley may form and manage primarily for client investment, except that Morgan Stanley may waive or lower certain fees and expenses for its employees. In addition, Morgan Stanley may, pursuant to stock repurchase authorizations in effect from time to time, repurchase or acquire shares of Morgan Stanley's common stock in the open market or in privately negotiated transactions, which may include transactions with directors, officers and employees. These transactions are in the ordinary course of business and at prevailing market prices.

During fiscal 2006, Morgan Stanley engaged in transactions in the ordinary course of business with each of State Street and Barclays and certain of their respective affiliates. Each of State Street and Barclays beneficially owned more than 5 % of the outstanding shares of Morgan Stanley common stock as of December 31, 2006. Such transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unrelated third parties. Morgan Stanley also engages in transactions, including entering into financial services transactions (e.g., trading in securities, commodities or derivatives) with, and performs investment banking, financial advisory, brokerage, investment management and other services for, entities for which its directors and members of their immediate family serve as executive officers, and may make loans or commitments to extend loans to such entities. The transactions are conducted, services are performed, and loans and commitments are made in the ordinary course of business and on substantially the same terms, including interest rate and collateral, that prevail at the time for comparable transactions with other persons. The loans do not involve more than the normal risk of collectability or present other unfavorable features.

A son-in-law of director Roy J. Bostock engaged in transactions with Morgan Stanley and became a managing director in the Morgan Stanley's asset management business in connection with Morgan Stanley's acquisition of FrontPoint in December 2006. As a result of Morgan Stanley's acquisition of FrontPoint, Morgan Stanley paid him total compensation for services rendered to FrontPoint in fiscal 2006 of approximately U.S.\$318,000 (consistent with the amount accrued by FrontPoint for his compensation during fiscal 2006).

Eileen Murray is an executive officer of Morgan Stanley. Morgan Stanley employs her brother as a professional level employee in the Business Continuity Planning Department in the Securities Integration Group and paid him compensation for services with respect to fiscal 2006 of approximately U.S.\$170,000.

There are no existing or potential conflicts of interest between any duties owed to Morgan Stanley by its directors or by the members of its principal committees and the private interests and/or other external duties owed by these individuals.

#### ***Board Practices***

Morgan Stanley considers itself to be in compliance with all United States laws relating to corporate governance that are applicable to it.

The Board meets regularly and directors receive information between meetings about the activities of committees and developments in Morgan Stanley's business. All directors have full and timely access to all relevant information and may take independent professional advice if necessary.

The Corporate Governance Policies (including Morgan Stanley's Director Independence Standards), Code of Ethics and Business Conduct, Board Committee charters, Policy regarding Communication by Shareholders and Other Interested Parties with the Board of Directors, Policy regarding Director Candidates Recommended by Shareholders, Policy regarding Corporate Political Contributions, Policy regarding Shareholder Rights Plan, information regarding the Integrity Hotline and the Management Committee Equity Ownership Commitment are available at Morgan Stanley's corporate governance webpage at the "Company Information" link under the "About Morgan Stanley" link at "<http://www.morganstanley.com/about/company/governance/index.html>". The information contained on this webpage, shall not form part of this Base Prospectus, unless such information has been expressly incorporated herein by way of a supplement to this Base Prospectus.

The Lead Director is C. Robert Kidder.

The Board's standing committees include the following:

Committee	Current Members	Primary Responsibilities
Audit	Charles H. Noski (Chair)  Howard J. Davies  Donald T. Nicolaisen  Charles E. Phillips, Jr.	<p>Oversees the integrity of Morgan Stanley's consolidated financial statements, system of internal controls, risk management and compliance with legal and regulatory requirements.</p> <p>Selects, determines the compensation of, evaluates and, when appropriate, replaces the independent auditor, and pre-approves audit and permitted non-audit services.</p> <p>Oversees the qualifications and independence of the independent auditor and performance of Morgan Stanley's internal and independent auditors.</p> <p>After review, recommends to the Board the acceptance and inclusion of the annual audited consolidated financial statements in Morgan Stanley's Annual Report on Form 10-K.</p>
Compensation, Management, Development and Succession	C. Robert Kidder (Chair)  Erskine B. Bowles  Donald T. Nicolaisen	<p>Annually reviews and approves the corporate goals and objectives relevant to the compensation of the Chairman and CEO and evaluates his performance in light of these goals and objectives.</p> <p>Determines the compensation of Morgan Stanley's executive officers and other officers as deemed appropriate.</p> <p>Administers Morgan Stanley's equity-based compensation plans.</p> <p>Oversees plans for management development and succession.</p>
Nominating and Governance	Laura D'Andrea Tyson (Chair)  Roy J. Bostock  Hutham S. Olayan  Klaus Zumwinkel	<p>Identifies and recommends candidates for election to the Board.</p> <p>Establishes procedures for its oversight of the evaluation of the Board.</p> <p>Recommends director compensation and benefits.</p> <p>Reviews annually Morgan Stanley's corporate governance policies.</p>

## Employees

As at 30 November 2006, Morgan Stanley had 56,310 employees worldwide.

## Principal Shareholders

Under SEC regulations applicable to Morgan Stanley, the relevant threshold for disclosure obligation concerning participation interests in listed companies is 5 per cent. of share capital. Therefore, this is the only information available to the public.

Morgan Stanley does not have information about shareholders with participation interests between 2 per cent. and 5 per cent. According to the most recent SEC filings, as at 23 February 2007, the following shareholders owned more than 5 per cent. of Morgan Stanley's common stock:

<u>Name and Address</u>	<b>Shares of Common Stock Beneficially Owned</b>	
	<u>Number</u>	<u>Percent.</u> <sup>(1)</sup>
State Street Bank and Trust Company <sup>(2)</sup> 225 Franklin Street, Boston, MA 02110	127,887,564	12.01%
Barclays Global Investors, N.A., and other reporting entities (Barclays) <sup>(3)</sup> 45 Fremont Street, San Francisco, CA 94105	64,442,639	6.05%

(1) Percentages calculated based upon common stock outstanding as of February 9, 2007 and holdings of common stock set forth in the Schedule 13G Information Statements described in notes 2-3 below. These Information Statements state that State Street and Barclays beneficially owned 12.1% and 6.15%, respectively, of Morgan Stanley's common stock on December 31, 2006.

(2) Based on Schedule 13G Information Statement filed February 12, 2007 by State Street, acting in various fiduciary capacities. The Schedule 13G discloses that State Street had sole voting power as to 47,230,411 shares, shared voting power as to 80,657,153 shares and shared dispositive power as to 127,887,564 shares; that shares held by State Street on behalf of the Trust and Company-sponsored equity-based compensation program amounted to 7.6% of the common stock as of December 31, 2006; and that State Street disclaimed beneficial ownership of all shares reported therein.

(3) Based on a Schedule 13G Information Statement filed on January 23, 2007 (dated January 31, 2007) by Barclays Global Investors, N.A., Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Japan Trust and Banking Company Limited and Barclays Global Investors Japan Limited. In the Schedule 13G, the reporting entities do not affirm the existence of a group. The Schedule 13G discloses that the reporting entities, taken as a whole, had sole voting and sole dispositive power as to 56,284,434 shares and sole dispositive power as to 64,442,639 shares, and did not have shared power as to any shares.

Accordingly, there is no entity owning or controlling, either directly or indirectly, Morgan Stanley.

## Share Capital

The authorised share capital of Morgan Stanley at 30 November 2006 comprised 3,500,000,000 ordinary shares of nominal value U.S.\$0.01 and 30,000,000 preferred stock of nominal value U.S.\$0.01.

The issued, non-assessable and fully paid up share capital of Morgan Stanley at 30 November 2006 comprised 1,211,701,552 ordinary shares of nominal value U.S.\$0.01.

### **Certificate of Incorporation**

Morgan Stanley's objects and purposes are set out on page 1 of its Certificate of Incorporation and enable it to engage in any lawful act or activity for which corporations may be organised and incorporated under the DGCL.

### **Selected Financial Information**

This section incorporates by reference the historical financial information contained in the Current Report on Form 8-K dated 10 April 2007 for the fiscal years ended 30 November 2006 and 30 November 2005, including consolidated statements of financial condition, the consolidated statements of income, consolidated statements of cash flow and notes to the consolidated financial statements.

<b>Financial Information</b>	
Consolidated Statements of Financial Condition	Pages 61-62 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006
Consolidated Statements of Income	Page 63 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006
Consolidated Statements of Cash Flow	Page 65 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006
Notes to the Consolidated Financial Statements	Pages 67-124 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006

The Annual Report on Form 10-K for the fiscal year ended 30 November 2006 has been filed with the SEC on 13 February 2007.

Additional financial information is contained in the Current Report on Form 8-K dated 10 April 2007 and the Annual Report on Form 10-K for the fiscal year ended 30 November 2006, available to the public as indicated in the section headed "Where the Investor can find more information about Morgan Stanley".

There has been no material adverse change in the prospects of Morgan Stanley and its consolidated subsidiaries since 30 November 2006.

### **Auditing of Historical Financial Information**

The Auditors of Morgan Stanley have issued a report dated February 12, 2007 (April 10, 2007 as to the effects of the discontinued operations discussed in Note 30), appearing in the Current Report on Form 8-K of Morgan Stanley dated April 10, 2007, relating to the consolidated financial statements of Morgan Stanley and reports dated February 12, 2007, relating to the financial statement schedule and management's report on the effectiveness of internal control over financial reporting appearing in the Annual Report on Form 10-K for the fiscal year ended 30 November 2006 (which reports on the consolidated financial statements and financial statement schedule express an unqualified opinion and

include explanatory paragraphs relating to the adoption, in fiscal 2005, of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" and relating to, in fiscal 2006, Morgan Stanley's change in accounting policy for recognition of equity awards granted to retirement-eligible employees and relating to, in fiscal 2006, the application of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements").

### **Legal and Arbitration Proceedings**

In addition to the matters described below, in the normal course of business, Morgan Stanley has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

Morgan Stanley is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding Morgan Stanley's business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these reviews, investigations and proceedings has increased in recent years with regard to many firms in the financial services industry, including Morgan Stanley.

Morgan Stanley contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Morgan Stanley cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, and except for the *Coleman Litigation* described below, Morgan Stanley believes, based on current knowledge and after consultation with counsel, that the outcome of all other pending matters will not have a material adverse effect on the consolidated financial condition of Morgan Stanley, although the outcome of such matters could be material to Morgan Stanley's operating results for a particular future period, depending on, among other things, the level of Morgan Stanley's revenues or income for such period. Legal reserves have been established in accordance with SFAS No.5, "Accounting for Contingencies" ("SFAS No.5"). Once established, reserves are adjusted when there is more information available or when an event occurs requiring a change.

On April 1, 2007, Morgan Stanley merged Morgan Stanley DW Inc. into Morgan Stanley & Co. Incorporated, and Morgan Stanley & Co. Incorporated, the surviving entity, became Morgan Stanley's principal U.S. broker-dealer.

### ***Coleman Litigation***

On May 8, 2003, Coleman (Parent) Holdings Inc. ("CPH") filed a complaint against Morgan Stanley in the Circuit Court of the Fifteenth Judicial Circuit for Palm Beach County, Florida. The complaint relates to the 1998 merger between The Coleman Company, Inc. ("Coleman") and Sunbeam, Inc. ("Sunbeam"). The complaint, as amended, alleges that CPH was induced to agree to the transaction with Sunbeam based on certain financial misrepresentations, and it asserts claims against Morgan Stanley for aiding and abetting fraud, conspiracy and punitive damages. Shortly before trial, which commenced in April 2005, the trial court granted, in part, a motion for entry of a default judgment against Morgan Stanley and ordered that portions of CPH's complaint, including those setting forth CPH's primary allegations against

Morgan Stanley, be read to the jury and deemed established for all purposes in the action. In May 2005, the jury returned a verdict in favor of CPH and awarded CPH \$604 million in compensatory damages and \$850 million in punitive damages. On June 23, 2005, the trial court issued a final judgment in favor of CPH in the amount of \$1,578 million, which includes prejudgment interest and excludes certain payments received by CPH in settlement of related claims against others.

On June 27, 2005, Morgan Stanley filed a notice of appeal with the District Court of Appeal for the Fourth District of Florida (the "Court of Appeal") and posted a supersedeas bond, which automatically stayed execution of the judgment pending appeal. Included in cash and securities deposited with clearing organisations or segregated under federal and other regulations or requirements in the consolidated statement of financial condition is \$1,840 million of money market deposits that have been pledged to obtain the supersedeas bond. Morgan Stanley filed its initial brief in support of its appeal on December 7, 2005 and, on June 28, 2006, the Court of Appeal heard oral argument. Morgan Stanley's appeal seeks to reverse the judgment of the trial court on several grounds and asks that the case be remanded for entry of a judgment in favor of Morgan Stanley or, in the alternative, for a new trial.

On March 21, 2007, the District Court of Appeal for the Fourth District of Florida issued an opinion reversing the trial court's award for compensatory and punitive damages and remanding the matter to the trial court for entry of judgment for Morgan Stanley. The opinion will become final upon disposition of any timely filed motions for rehearing.

Until the March 21, 2007 opinion becomes final, the Company is maintaining a reserve for the Coleman litigation. The reserve is presently \$360 million, which the Company believes to be a reasonable estimate, under SFAS No.5, of the low end of the range of its probable exposure in the event the Court of Appeal's March 21, 2007 opinion is reversed or modified as a result of further appellate proceedings and the case remanded for a new trial. If the trial court's compensatory and/or punitive awards are ultimately upheld on appeal, in whole or in part, the Company may incur an additional expense equal to the difference between the amount affirmed on appeal (and post-judgment interest thereon) and the amount of the reserve. While the Company cannot predict with certainty the amount of such additional expense, such additional expense could have a material adverse effect on the condensed consolidated financial condition of the Company and/or the Company's or Institutional Securities' operating results and cash flows for a particular future period, and the upper end of the range could exceed \$1.4 billion.

#### ***IPO Fee Litigation.***

Starting in late 1998, purported class actions, later captioned *In re Public Offering Fee Antitrust Litigation* (the "purchaser actions") and *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation* (the "issuer actions"), were initiated in the U.S. District Court for the Southern District of New York (the "SDNY") against Morgan Stanley and numerous other underwriters. The consolidated proceedings, one on behalf of purchasers and the other on behalf of issuers of certain shares in initial public offerings ("IPOs"), allege that defendants conspired to fix the underwriters' spread at 7% in IPOs of U.S. companies in the \$20 million to \$80 million range, in violation of Section 1 of the Sherman Act. The complaints seek treble damages and injunctive relief. Plaintiffs' claims for damages in the purchaser actions have been dismissed, but the claims for injunctive relief remain. Plaintiffs' claims for damages and injunctive relief remain in the issuer actions. Plaintiffs moved for class certification in both actions, and defendants opposed that motion on May 25, 2005. On October 25, 2005, plaintiffs moved for summary judgment which defendants opposed. On April 18, 2006, the court denied plaintiffs' motion for class certification in the issuer actions. On May 1, 2006, plaintiffs filed a petition pursuant to Federal Rule of Civil Procedure 23(f) for leave to appeal the denial of class certification, and on August 1, 2006,



the U.S. Court of Appeals for the Second Circuit (the “Second Circuit”) granted plaintiffs’ petition. The case is otherwise stayed pending the appeal on class certification.

### ***IPO Allocation Matters.***

In March 2001, a purported class action, now captioned *In re Initial Public Offering Antitrust Litigation*, was initiated in the SDNY against Morgan Stanley and numerous other underwriters of various IPOs. The consolidated amended complaint alleges that defendants required customers who wanted allocations of “hot” IPO securities to pay undisclosed and excessive underwriters’ compensation in the form of increased brokerage commissions and to buy shares of securities offered in the IPOs after the IPOs were completed (“**tie-in purchases**”) at escalating price levels higher than the IPO price (a practice plaintiffs refer to as “**laddering**”). The complaint alleges violations of federal and/or state antitrust laws, including Section 1 of the Sherman Act. On September 28, 2005, the Second Circuit reversed the district court’s dismissal of this matter. On January 12, 2006, the Second Circuit denied defendants’ petition for rehearing *en banc*. On March 8, 2006, defendants filed a petition to the U.S. Supreme Court for writ of certiorari, which was granted on December 7, 2006.

Also beginning in March 2001, numerous purported class actions, now captioned *In re Initial Public Offering Securities Litigation*, were filed in the SDNY against certain issuers of IPO securities, certain individual officers of those issuers, Morgan Stanley and other underwriters of those IPOs, purportedly on behalf of purchasers of stock in the IPOs or the aftermarket. These complaints make factual allegations similar to the complaint in the antitrust action described above, but claim violations of the federal securities laws, including Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended (the “**Securities Act**”) and Section 10(b) of the Exchange Act. Some of the complaints also allege that continuous “buy” recommendations by the defendants’ research analysts improperly increased or sustained the prices at which the securities traded after the IPOs. On February 19, 2003, the underwriter defendants’ joint motion to dismiss was denied, except as to certain specified offerings. On December 5, 2006, the Second Circuit reversed the SDNY’s grant of class certification, and ruled that these cases could not be certified for class treatment. On January 5, 2007, plaintiffs filed a petition for rehearing and rehearing *en banc*.

On June 10, 2004, plaintiffs and issuer defendants entered into a definitive settlement agreement under which insurers of the issuers would guarantee recovery of at least \$1 billion by class members. As part of the settlement, the settling issuer defendants agreed to assign to class members certain claims they had against the underwriters. Starting in late 2004, purported assignees of certain issuers filed suits in the SDNY against several underwriter defendants, including Morgan Stanley, on the ground that underwriters breached the underwriting agreement and related duties by allocating shares in each company’s IPO to customers who allegedly paid the underwriters “excess compensation”. On October 11, 2005, the SDNY dismissed the complaint with leave to replead. Plaintiffs filed a second amended complaint, which was dismissed with prejudice, on February 24, 2006. Plaintiff filed a notice of appeal on May 31, 2006.

On April 2, 2002, a purported class action complaint, captioned *Breakaway Solutions, Inc. v. Morgan Stanley & Co. Incorporated, et al.*, was filed in the Delaware Court of Chancery against Morgan Stanley and two other underwriters. The complaint was brought on behalf of a class of issuers that issued IPO securities from January 1, 1998 to October 31, 2000 pursuant to underwriting agreements with defendants and whose securities increased in value by 15 percent or more within 30 days following the IPO. The complaint alleges that defendants allocated underpriced stock to certain of defendants’ favored clients and, directly or indirectly, shared in portions of the profits of such favored clients pursuant to side agreements or understandings, with the alleged effect of depriving issuers of millions of dollars in IPO proceeds. The complaint alleges breach of contract, breach of covenant of good faith, breach of fiduciary duty, indemnification or contribution and unjust enrichment and restitution. The court dismissed plaintiffs’ claims except for its breach of fiduciary duty claim.

On September 30, 2005, Breakaway Solutions, Inc. (“Breakaway”) filed another complaint in an individual action against Morgan Stanley and two other underwriters in the Supreme Court of the State of

New York. The complaint alleges that defendants underpriced Breakaway's IPO stock, allocated this underpriced stock to favored clients pursuant to a profit sharing arrangement, and that Morgan Stanley improperly sold Breakaway shares before expiration of the lock-up period. The complaint alleges breach of fiduciary duty and breach of the covenant of good faith against all the defendants and fraud and unjust enrichment against Morgan Stanley. This action has been stayed by agreement of the parties.

***Global Wealth Management Group Employment Matters.***

*Wage and Hour Matters.* Complaints raising allegations of unpaid overtime and unlawful wage deductions against Morgan Stanley have been filed in New Jersey, New York, Connecticut, Texas, Florida, Illinois and California seeking damages on behalf of certain current and former employees. In New Jersey, a purported class action, captioned *Steinberg v. Morgan Stanley & Co., Inc. and Morgan Stanley DW Inc.*, was filed in the Superior Court of New Jersey, Law Division, Bergen County ("**New Jersey Superior Court**") on September 1, 2005 and was removed to the U.S. District Court for the District of New Jersey (the "**New Jersey District Court**") on October 7, 2005. A second purported class action, captioned *Robert Adler et al. v. Morgan Stanley & Co., Inc. and Morgan Stanley DW Inc.*, was filed in New Jersey Superior Court on May 22, 2006. On September 25, 2006, a third purported New Jersey class action, captioned *Jeff Quinn and John Volpe v. Morgan Stanley*, was filed in the New Jersey District Court.

On September 9, 2005, a purported class action, captioned *Gasman v. Morgan Stanley*, was filed in the SDNY. On September 23, 2005, another purported class action, captioned *Roles v. Morgan Stanley et al.*, was filed in the U.S. District Court for the Eastern District of New York.

On May 22, 2006, a purported class action, captioned *Janemarie Lenihan v. Morgan Stanley & Co., Inc. and Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the District of Connecticut. On June 23, 2006, a purported class action, captioned *Kyle R. Armitage v. Morgan Stanley & Co., Inc.*, was filed in the U.S. District Court for the Eastern District of Texas. On September 15, 2006, Morgan Stanley filed its answer and affirmative defenses to the *Armitage* complaint. On June 26, 2006, a purported class action, captioned *Jennifer Taub v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the Southern District of Florida. On August 24, 2006, a purported class action, captioned *Joseph Stowell, Jr., v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the Central District of Illinois. On September 8, 2006, plaintiffs in the *Armitage* and *Stowell* matters moved before the Judicial Panel on Multi-District Litigation (the "**Judicial Panel**") to coordinate the various pending matters in the U.S. District Court for the Northern District of Illinois (the "**Northern District of Illinois**").

On October 18, 2006, a purported class action, captioned *Vernon Brown v. Morgan Stanley* was filed in the U.S. District Court for the Southern District of California (the "**Southern District of California**").

On October 9, 2006, Morgan Stanley reached an agreement to resolve the wage and hour claims filed by the *Steinberg, Adler, Gasman, Roles, Lenihan* and *Brown* plaintiffs. The agreement, which is subject to, among other things, court approval, will resolve all claims brought by plaintiffs in New Jersey, New York, Connecticut and California as well as those of all other potential class members nationwide. On November 29, 2006, for purposes of executing the settlement, a consolidated amended complaint, captioned *Steinberg, et al. v. Morgan Stanley* ("**Steinberg II**"), was filed in the Southern District of California.

On November 21, 2006, the *Taub* matter was dismissed with prejudice.

On November 30, 2006, a hearing was held in St. Louis, Missouri before the Judicial Panel on the *Armitage* and *Stowell* plaintiffs' motion for consolidation in the Northern District of Illinois. On December 27, 2006, the Panel issued an order centralizing the *Gasman, Roles, Steinberg, Lenihan, Armitage* and *Stowell* matters in the Southern District of California. The Judicial Panel also treated the *Quinn, Brown* and *Steinberg II* matters as potential "tag along" cases and issued a conditional transfer order transferring those cases to the Southern District of California as well.

*Gender Matters.* Morgan Stanley has also been named in two purported class actions alleging gender discrimination under state and federal law. On June 22, 2006, a purported class action, captioned *Joanne Augst-Johnson et al. v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the District of Columbia. On June 22, 2006, a second purported class action, captioned *Daisy Jaffe v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the Northern District of California. Plaintiffs seek damages in law and in equity.

On October 12, 2006, a first amended complaint adding an additional named plaintiff, Denise Williams, was filed in the *Jaffe* matter. On October 30, 2006, Morgan Stanley filed a motion to stay the class claims and a motion to dismiss certain of plaintiff Williams' claims. On November 13, 2006, plaintiffs agreed to voluntarily dismiss without prejudice the claims which were the subject of Morgan Stanley's motion to dismiss. On January 19, 2007, the court granted Morgan Stanley's motion to stay the class-wide allegations until March 15, 2007.

#### ***Late Trading and Market Timing.***

Starting in July 2003, Morgan Stanley received subpoenas and requests for information from various regulatory and governmental agencies, including the SEC, the NYSE, and various states, in connection with industry-wide investigations of broker-dealers and mutual fund complexes relating to possible late trading and market timing of mutual funds. Morgan Stanley continues to cooperate with and provide information to regulators in connection with their inquiries.

#### ***AOL Time Warner Litigation.***

Since 2003, Morgan Stanley has been named as a defendant in a number of state court actions involving AOL Time Warner, including cases in California, Ohio and West Virginia. All of these cases also name as defendants AOL Time Warner, numerous individual defendants, AOL Time Warner's auditors, and other investment banking defendants. The complaints allege that AOL Time Warner issued false and misleading financial statements by, among other things, inflating advertising revenues. These complaints name Morgan Stanley in its capacity as financial advisor to Time Warner in the merger of America Online and Time Warner and/or as underwriter of bond offerings completed in 2001 and 2002. The complaints allege violations of Section 11 of the Securities Act and Section 14(a) of the Exchange Act (and Rule 14a-9 thereunder) in connection with the merger registration statement, as well as various state and common laws, and violations of Section 11 and 12(a)(2) of the Securities Act in connection with the bond registration statements.

In the coordinated California proceedings, claims based on California common law fraud and Sections 25400 and 25500 of the California Corporations Code remain against Morgan Stanley. In the Ohio action, state securities law claims remain against Morgan Stanley. Motions to dismiss are pending in the West Virginia action.

On January 30, 2006, numerous new individual actions were filed against Morgan Stanley and other defendants by plaintiffs opting out of the class settlement of a previously filed federal class action. The claims against Morgan Stanley in that class action had been dismissed by the SDNY. The new complaints contain similar factual allegations against Morgan Stanley, and assert similar claims, but also include a claim for violation of Section 10(b) of the Exchange Act. These actions were transferred to the SDNY and consolidated. Plaintiffs have filed amended complaints in these actions. On June 30, 2006, defendants filed motions to dismiss the claims common to all complaints.

#### ***Global Wealth Management Group NASD Email Matter.***

On December 19, 2006, the NASD commenced a disciplinary proceeding against MSDWI, alleging that it provided false information regarding the existence of emails and failed to provide such emails to arbitration claimants and regulators in response to discovery obligations and regulatory inquiries, failed to preserve books and records and failed to establish and maintain systems and written procedures

reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests for email, in violation of section 17(a) of the Exchange Act, Rule 17a-4 thereunder, NASD Conduct Rules 2110, 3010 (a) and (b) and 3110, NASD Procedural Rule 8210 and Interpretative Material 10100 under NASD Code of Arbitration Procedure.

#### ***Shareholder Derivative Matters.***

Beginning on July 19, 2005, shareholder plaintiffs filed purported derivative actions on behalf of Morgan Stanley against certain present and former directors and its former chief legal officer based on, among other things, agreements to pay the former CEO and co-President of Morgan Stanley and the handling of a lawsuit resulting in an adverse judgment against Morgan Stanley. Four lawsuits filed in the SDNY have been consolidated, under the heading *In re Morgan Stanley Derivative Litigation*, and on January 23, 2006, plaintiffs filed a second amended consolidated complaint that includes claims for, among other things, violations of Sections 10(b) and 14(a) of the Exchange Act and breach of fiduciary duties and seeks, among other things, rescission of the severance and compensation agreements and damages. On March 9, 2006, defendants moved to dismiss.

On July 19, 2005, a derivative lawsuit was filed in a New York state court challenging the agreement to pay the former co-President of Morgan Stanley and seeking an accounting for losses as a result thereof. This matter has been stayed by agreement of the parties.

#### ***Indonesian Litigation.***

In November 2003, two proceedings were initiated in the Indonesian District Courts by two members of the Asia Pulp & Paper Group (PT Indah Kiat Pulp & Paper Tbk and PT Lontar Papyrus Pulp & Paper Industry, respectively) against Morgan Stanley and 13 other defendants with respect to two bond issues in 1994 and 1995 that were guaranteed by plaintiffs and in which Morgan Stanley acted as underwriter. The claims alleged that the bond issues were invalid and contrary to Indonesian law, and alleged damages in the amount of all principal and interest paid under the bonds as well as other amounts. In November 2006 the Indonesian Supreme Court upheld the decisions at first instance and on appeal in favor of the plaintiff and declared the bond issues to be illegal and void, holding that defendants (including Morgan Stanley) had committed unspecified tortious acts, but awarding no damages.

In April 2004, another proceeding was filed in the Indonesian District Courts by PT Lontar Papyrus against Morgan Stanley and 28 other defendants, alleging that the defendants violated injunctions issued by the Indonesian District Court in the first claim brought by PT Lontar Papyrus and conspired to cause the failure of plaintiff's restructuring negotiations. Plaintiff seeks damages in respect of losses allegedly suffered. On September 28, 2005, the Indonesian District Court rejected the plaintiff's claim against Morgan Stanley. On September 13, 2006, Morgan Stanley filed its counter-arguments to the plaintiff's memorandum of appeal that was filed with the Indonesian High Court on April 19, 2006.

In October 2004, an additional proceeding was filed in the Indonesian District Courts by APP International Finance Company BV, a member of the Asia Pulp & Paper Group and the issuer of the 1995 bond issue, against Morgan Stanley and 18 other defendants, making allegations similar to those in the November 2003 claim brought by PT Lontar Papyrus. Plaintiff seeks damages in respect of losses allegedly suffered. On December 28, 2006, the Indonesian District Court issued its judgment, declaring the bond issue to be illegal and void, holding that defendants (including Morgan Stanley) had committed unspecified tortious acts, but awarding no damages. Morgan Stanley has appealed this decision to the Indonesian High Court.

In January 2005, an additional proceeding was filed in the Indonesian District Courts by Indah Kiat International Finance Company BV, a member of the Asia Pulp & Paper Group and the issuer of the 1994 bond issue, against Morgan Stanley and other defendants, making allegations similar to those in the November 2003 claim brought by PT Indah Kiat. Plaintiff seeks damages in respect of losses allegedly suffered. In October 2006, the Indonesian High Court upheld on appeal the decision of the Indonesian

District Court in favor of the plaintiff, declaring the bond issue to be null and void, holding that defendants (including Morgan Stanley) had committed unspecified tortious acts, but awarding no damages. Morgan Stanley has appealed this decision to the Indonesian Supreme Court in Jakarta.

The following matter was terminated during the quarter ended November 30, 2006:

***General American Litigation.***

On April 24, 2006, a Second Amended Petition, captioned *Finke, et al. v. Morgan Stanley & Co. Incorporated, et al.*, was filed in the Missouri Circuit Court, Twenty-Second Judicial Circuit (St. Louis City), by the Director of the Department of Insurance for the State of Missouri and the Special Deputy Liquidator for General American Mutual Holding Company against MS&Co., Morgan Stanley and a former officer of General American. The amended petition, which updated a petition first filed on or about July 28, 2004, asserts several causes of action against the Morgan Stanley defendants, including claims for fraud, breach of fiduciary duty and negligent misrepresentation. The case arises out of the firm's investment banking work in connection with a potential demutualization and initial public offering of General American in 1998-1999. Plaintiffs sought compensatory damages of over \$1 billion and punitive damages of over \$3 billion. On November 8, 2006, the court granted final approval of a settlement agreement between the parties to resolve the matter.

Save as set out above in this section, Morgan Stanley is not involved in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which Morgan Stanley is aware) during the twelve month period before the date of this Base Prospectus involving Morgan Stanley which may have or have had in the recent past a significant effect on the financial position or profitability of Morgan Stanley.

## **MORGAN STANLEY JERSEY**

### **History and Development**

Morgan Stanley (Jersey) Limited was incorporated in St. Helier, Jersey, Channel Islands (registration number 35857) as a company with unlimited duration on 24 September 1986. It has its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, telephone number +44 (0)1534 609000.

### **Legislation**

Morgan Stanley Jersey is subject to the Companies (Jersey) Law 1991, as amended.

### **Investments**

All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies.

### **Principal Activities**

Morgan Stanley Jersey's business primarily consists of issuing financial instruments and the hedging of obligations relating thereto.

### **Principal Markets**

Morgan Stanley Jersey conducts its business from Jersey. All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. Morgan Stanley Jersey does not undertake such business on a competitive basis, however as a member of the Morgan Stanley group it is indirectly affected by some of the competitive pressures that apply to Morgan Stanley. See "Morgan Stanley" above for further details.

### **Organisational Structure**

Morgan Stanley Jersey has no subsidiaries. It is wholly owned by Morgan Stanley.

### **Trend Information**

Morgan Stanley Jersey intends to continue issuing securities and entering hedges in respect of such issues of securities.

There has been no significant change in the financial or trading position, nor any material adverse change in the prospects of, Morgan Stanley Jersey since 30 November 2006.

### **Management**

The directors of Morgan Stanley Jersey, their respective business addresses and principal outside activities as at the date hereof are:

*Name and Business Address*

*Principal Outside Activity*

Joel Hodes  
Morgan Stanley  
1585 Broadway  
New York, New York 10920  
U.S.A.

Managing Director, Morgan Stanley

Charles Edward Crossley Hood  
Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London E14 4QA

Managing Director, Morgan Stanley

Kevin Woodruff  
240 Riverside Blvd, #3A  
New York  
NY10069, USA

Banker

There are no existing or potential conflicts of interest between any duties owed to Morgan Stanley Jersey by its management (as described above) and the private interests and/or other external duties owed by these individuals.

The secretary of Morgan Stanley Jersey is Mourant & Co. Secretaries Limited of 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands.

#### **Board Practice**

Morgan Stanley Jersey considers itself to be in compliance with all Jersey laws relating to corporate governance that are applicable to it.

As of the date of this Base Prospectus, Morgan Stanley Jersey does not have an audit committee.

#### **Shareholders**

Morgan Stanley Jersey is wholly owned by Morgan Stanley. Morgan Stanley Jersey is not aware of any control measures with respect to such shareholder control. All decisions to issue securities are taken by the Board and Morgan Stanley Jersey earns a spread on all its issues of securities.

#### **Share Capital**

At 30 November 2006, the authorised share capital of Morgan Stanley Jersey comprised 10,000 ordinary shares with a par value of £1 each all of which are issued, allotted and fully paid up.

#### **Memorandum and Articles of Association**

Morgan Stanley Jersey's objects and purposes are not specified in any document and are therefore unlimited.

#### **Selected Financial Information**

The profit or loss before tax for the financial years ended 30 November 2006 and 2005 was nil and nil respectively. The current assets of Morgan Stanley Jersey have risen from U.S.\$3,598,223,000 in 2005 to U.S.\$4,001,459,000 in 2006 with total creditors rising from U.S.\$3,597,767,000 in 2005 to U.S.\$4,001,003,000 in 2006.

## MSBV

### History and Development

Morgan Stanley B.V. was incorporated as a private limited company under the laws of The Netherlands on 6 September 2001 for an unlimited duration. MSBV is registered at the commercial register of the Chamber of Commerce and Industries for Amsterdam under registered number 34161590 with registered offices at Locatellikade 1, 1076 AZ Amsterdam, The Netherlands, telephone number +31 20 57 55 600.

### Legislation

MSBV is incorporated under, and subject to, the laws of The Netherlands.

### Investments

All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. MSBV has not made any principal investments since the date of the last published financial statements.

### Principal Activities

MSBV's objects are, inter alia, to issue notes, warrants and other securities.

### Principal Markets

MSBV conducts its business from the Netherlands. All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. MSBV does not undertake such business on a competitive basis, however as a member of the Morgan Stanley group it is indirectly affected by some of the competitive pressures that apply to Morgan Stanley. See "Morgan Stanley" above for further details.

### Organisational Structure

MSBV has no subsidiaries. It is ultimately controlled by Morgan Stanley.

### Trend Information

MSBV intends to continue issuing securities and entering hedges in respect of such issues of securities.

There has been no significant change in the financial or trading position, nor any material adverse change in the prospects, of MSBV since 30 November 2006.

### Management

The current directors of MSBV, their offices, if any, within MSBV, and their principal outside activity, if any, are listed below. The business address of each director is Locatellikade 1, 1076 AZ Amsterdam, The Netherlands.

<i>Name</i>	<i>Title</i>	<i>Principal Outside Activity</i>
C.E.C. Hood	Managing Director	Managing Director, Morgan Stanley
J. Solan	Executive Director	Executive Director, Morgan Stanley
G.C. De Boer	Managing Director	Executive Director and Sales Director, Morgan Stanley Investment



## Management

TMF Management B.V.                      Managing Director

### **Directors of TMF Management B.V.**

R.W. de Koning	Managing Director	Employee of TMF Nederland B.V.
F.A.J. van Oers	Managing Director	Employee of TMF Nederland B.V.
T.J. van Rijn	Managing Director	Employee of TMF Nederland B.V.
M.C. van der Sluijs-Plantz	Managing Director	Employee of TMF Nederland B.V.
J.R. de Vos van Steenwijk	Managing Director	Employee of TMF Nederland B.V.
J. Versluis	Managing Director	Employee of TMF Nederland B.V.

There are no existing or potential conflicts of interest between any duties owed to MSBV by its management (as described above) and the private interests and/or other external duties owed by these individuals.

### **Board Practice**

MSBV considers itself to be in compliance with all Netherlands laws relating to corporate governance that are applicable to it.

As of the date of this Base Prospectus, MSBV does not have an audit committee. The accounts of MSBV are approved by the Board of Directors.

### **Shareholders**

MSBV is ultimately controlled by Morgan Stanley. MSBV is not aware of any control measures with respect to such shareholder control. All decisions to issue securities are taken by the Board and MSBV earns a spread on all its issues of securities.

### **Share Capital**

The authorised share capital of MSBV comprises 900 ordinary shares of nominal value EUR100.

The issued, allotted and fully paid up share capital of MSBV comprises 180 ordinary shares of nominal value EUR100.

### **Memorandum and Articles of Association**

MSBV's objects and purposes are set out in its Articles of Association and enable it to issue, sell, purchase, transfer and accept warrants, derivatives, certificates, debt securities, equity securities and/or similar securities or instruments and to enter into hedging arrangements in connection with such securities and instruments. Furthermore its objects are to finance businesses and companies, to borrow, to lend and to raise funds as well as to enter into agreements in connection with the aforementioned, to render guarantees, to bind the company and to pledge its assets for obligations of the companies and enterprises with which it forms a group and on behalf of third parties and to trade in currencies, securities and items of property in general.

### **Selected Financial Information**

The net revenue for the financial years ended 30 November 2006 and 2005 was EUR 908,000 and EUR1,614,000 respectively, representing issuance fees received on the issuance of financial instruments less guarantee fees payable. The (loss)/profit before tax for the financial years ended 30 November 2006 and 2005 was a profit of EUR 1,075,000 and a loss of EUR 1,475,000 respectively.

The current assets of MSBV have risen from EUR 641,974,000 in 2005 to EUR 3,893,275,000 in 2006 with total creditors rising from EUR 636,732,000 in 2005 to EUR 3,890,285,000 in 2006. The principal reason for the increase in issuances is an increase in client demand for financial instruments.

## KEY FEATURES OF NEW YORK LAW NOTES

*The following summary describes the key features of the New York Law Notes that Morgan Stanley is offering under the Program in general terms only. Investors should read the summary together with the more detailed information that is contained in this Securities Note and in the applicable Final Terms*

<b>Issuer</b> .....	Morgan Stanley.
<b>Distribution Agents</b> .....	Morgan Stanley & Co. International plc and Morgan Stanley & Co. Incorporated.
<b>Trustee</b> .....	The Bank of New York (as successor Trustee to JPMorgan Chase Bank, N.A., London Branch).
<b>Principal Paying Agent</b> .....	The Bank of New York.
<b>Irish Paying Agent</b> .....	J.P. Morgan Bank (Ireland) plc.
<b>Program Amount</b> .....	U.S.\$30,000,000,000 or the equivalent amount thereof in other currencies. The maximum aggregate amount of Notes permitted to be outstanding at any one time under the Program may be increased from time to time.
<b>General Terms of the Notes</b> .....	<ul style="list-style-type: none"><li>• Final Terms will be produced in relation to each Tranche of Notes issued by Morgan Stanley (each a "<b>Final Terms</b>").</li><li>• The Notes will bear interest at either a fixed rate or a floating rate, which, in either case, may be zero, or at a rate which varies during the lifetime of the relevant Notes, which will be specified in the applicable Final Terms.</li><li>• The Notes will mature on the dates specified in the applicable Final Terms.</li><li>• The Notes may be either callable by Morgan Stanley or puttable by the holder of the Notes (the "<b>Noteholder</b>").</li><li>• The Notes may be optionally or mandatorily exchangeable for securities of an issuer that is not affiliated with Morgan Stanley, for a basket or index of those securities or for the cash value of those securities ("<b>Exchangeable Notes</b>").</li><li>• Payments of principal, interest and/or supplemental amounts on the Notes may be linked to the credit of one or more specified entities not affiliated with Morgan Stanley ("<b>Credit-Linked Notes</b>"), to currency prices ("<b>Currency-Linked Notes</b>"), to commodity prices ("<b>Commodity-Linked Notes</b>") or to single securities, baskets of securities or indices</li></ul>

**("Equity-Linked Notes").**

- Morgan Stanley may from time to time, without the consent of Noteholders, create and issue additional Notes having the same terms as Notes previously issued so that they may be combined with the earlier issuance.
- All of the New York Law Notes issued under the Program will constitute a single series for purposes of certain votes required under the Indenture.
- Morgan Stanley may issue Amortizing Notes (as defined herein) that pay a level amount in respect of both interest and principal amortized over the life of the Notes.

**Forms of Notes** ..... Morgan Stanley will issue Notes in bearer form, which may be in either definitive form or global form. Notes in definitive bearer form will be serially numbered. See "Forms of Notes" below.

Notes issued with maturities of more than 183 days initially will be represented by a temporary global bearer note that Morgan Stanley will deposit with a common depository or (if in New Global Note form) a common safekeeper for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"), and/or any other relevant clearing system. Interests in each temporary global bearer note will be exchangeable for interests in permanent global bearer notes or for definitive bearer notes.

Notes issued with maturities of 183 days or less initially will be represented by a permanent global bearer note that Morgan Stanley will deposit with a common depository or (if in New Global Note form) a common safekeeper for Euroclear, Clearstream, Luxembourg, and/or any other relevant clearing system.

**Specified Currency** ..... Notes may be denominated or payable in any currency, as set out in the applicable Final Terms, subject to all applicable consents being obtained and compliance with all applicable legal and regulatory requirements.

**Status** ..... Notes will be direct and general obligations of Morgan Stanley.

**Issue Price** ..... Notes may be issued at any price as specified in the applicable Final Terms.

**Maturities**..... Notes will have maturities as specified in the applicable Final Terms, subject to compliance with all applicable legal and regulatory requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by Morgan Stanley in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by Morgan Stanley in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("FSMA") by Morgan Stanley.

**Redemption**..... Notes may be redeemed at par or at such other redemption amount (detailed in a formula or otherwise) or by the delivery of securities of an issuer that is not affiliated with Morgan Stanley, as may be specified in the applicable Final Terms.

**Early Redemption**..... Early redemption will be permitted for taxation reasons as described in "Description of New York Law Notes—Tax Redemption," but will otherwise be permitted only to the extent specified in the applicable Final Terms.

**Denominations** ..... Notes will be issued in such denominations as may be specified in the applicable Final Terms, subject to compliance with all applicable legal and regulatory requirements.

**Taxation**..... Payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future Taxes (as defined herein) imposed or levied by or on behalf of the United States or any respective political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of those Taxes is required by law. In that event, Morgan Stanley will (subject to customary exceptions) pay those Additional Amounts (as defined herein) as will result in the Noteholders receiving those amounts as they would have received in respect of the Notes had no withholding or deduction been required.

**Use of Proceeds**..... The net proceeds from the sale of Notes offered by this Base Prospectus will be used by Morgan Stanley for

general corporate purposes, in connection with hedging its obligations under the Notes, or both.

**Listing** ..... Applications have been made to admit the Series A Notes offered under the Program by Morgan Stanley to the Official List of the UK Listing Authority and to trading on the regulated market for gilt edged and fixed interest securities of the London Stock Exchange. The applicable Final Terms will specify whether an issue of Series A Notes will be admitted to the Official List of the UK Listing Authority and to trading on the regulated market for gilt edged and fixed interest securities of the London Stock Exchange or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as Morgan Stanley and any Distribution Agent may agree. The Series B Notes will not be listed on any exchange.

If the European Union Transparency Obligations Directive (the "**Directive**") is implemented in a manner which is burdensome for an Issuer or the Guarantor, the Notes may be de-listed. In such a case of de-listing, the relevant Issuer may, but is not obliged to, seek an alternative listing for the Notes on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the relevant Issuer or the Guarantor (if applicable), burdensome, an alternative listing for the Notes may not be considered. Although no assurance is made as to the liquidity of the Notes as a result of listing by the UK Listing Authority, de-listing the Notes may have a material effect on a Noteholder's ability to resell the Notes in the secondary market.

**Clearing Systems** ..... Euroclear, Clearstream, Luxembourg, and/or any other clearing system as may be specified in the applicable Final Terms.

**Governing Law** ..... If so indicated in the applicable Final Terms, the Notes will be governed by the laws of the State of New York.

**Selling Restrictions** ..... **The Notes may not be offered, sold or delivered at any time, directly or indirectly, within the United States or to or for the account of U.S. Persons (as defined in either Regulation S under the Securities Act or the United States Internal Revenue Code of 1986, as amended (the "Code")).** For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering material in the United States and in certain other countries, see "Subscription and Sale" and "No Ownership by U.S. Persons."

## KEY FEATURES OF THE ENGLISH LAW NOTES

*The following summary describes the key features of the English Law Notes that each Issuer is offering under the Program in general terms only. Investors should read the summary together with the more detailed information that is contained in this Base Prospectus and in the applicable Final Terms.*

<b>Issuers</b> .....	Morgan Stanley, Morgan Stanley Jersey, MSBV and any Additional Issuer
<b>Guarantor</b> .....	In the case of Notes issued by Morgan Stanley Jersey, MSBV or an Additional Issuer, unless specified otherwise in the applicable Final Terms or, in the case of an Additional Issuer, the accession agreement pursuant to which such Additional Issuer accedes to the Program, Morgan Stanley
<b>Distribution Agents</b> .....	Morgan Stanley & Co. International plc and Morgan Stanley & Co. Incorporated
<b>Fiscal Agent</b> .....	The Bank of New York
<b>Irish Paying Agent</b> .....	J.P. Morgan Bank (Ireland) plc.
<b>Program Amount</b> .....	U.S.\$30,000,000,000 or the equivalent amount thereof in other currencies. The maximum aggregate amount of Notes permitted to be outstanding at any one time under this Program may be increased from time to time.
<b>Issuance in Series</b> .....	Notes will be issued in series (each, a " <b>Series</b> "). Each Series may comprise one or more tranches (" <b>Tranches</b> " and each, a " <b>Tranche</b> ") issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches and each Series may comprise Notes of different denominations. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
<b>Forms of Notes</b> .....	Each Issuer will issue Notes in bearer form, which may be in either definitive form or global form. Notes in definitive bearer form will be serially numbered. Notes may also be issued by Morgan Stanley Jersey or MSBV in registered and in uncertificated book entry form with a Swedish Central Securities Depository which is expected to be VPC AB. See "Forms of Notes" below.

Notes issued with maturities of more than 183 days initially will be represented by a temporary global bearer note that the relevant Issuer will deposit (in the case of a temporary global note in New Global Note form) with a common safekeeper, and otherwise with a common depositary for Euroclear, Clearstream, Luxembourg, and/or any other relevant clearing system. Interests in each temporary global bearer note will be exchangeable for interests in permanent global bearer notes or for definitive bearer notes.

Notes issued with maturities of 183 days or less initially will be represented by a permanent global bearer note that the relevant Issuer will deposit with (in the case of a temporary global note in New Global Note form) a common safekeeper, and otherwise with a common depositary for Euroclear, Clearstream, Luxembourg, and/or any other relevant clearing system.

**Terms and Conditions** ..... A Final Terms will be prepared in respect of each Tranche of Notes (each, a "**Final Terms**"). The terms and conditions applicable to each Tranche will be those set out herein under the heading "Terms and Conditions of the English Law Notes", as supplemented, modified or replaced, in each case, by the applicable Final Terms. The terms and conditions applicable to each Tranche issued by an Additional Issuer will be those set out in the relevant Supplemental Base Prospectus, as supplemented, modified or replaced by the applicable Final Terms.

Any Issuer may issue Notes that are Equity-Linked Notes, Commodity Notes, Currency Notes, or Credit-Linked Notes (each as defined in Condition 9 (*Equity-Linked, Commodity, Currency, and Credit-Linked Notes*) of "Terms and Conditions of the English Law Notes").

**Specified Currency** ..... Notes may be denominated or payable in any currency as set out in the applicable Final Terms, subject to all applicable consents being obtained and compliance with all applicable legal and regulatory requirements.

**Status** ..... Notes will be direct and general obligations of the relevant Issuer.



<b>Guarantee</b> .....	The payment of all amounts due in respect of Notes issued by Morgan Stanley Jersey, MSBV or an Additional Issuer will, unless specified otherwise in the applicable Final Terms or, in the case of an Additional Issuer, in the accession agreement pursuant to which such Additional Issuer accedes to the Program, be unconditionally and irrevocably guaranteed by Morgan Stanley pursuant to a deed of guarantee dated as of 10 June 2002.
<b>Issue Price</b> .....	Notes may be issued at any price, as specified in the applicable Final Terms, subject to compliance with all applicable legal and regulatory requirements.
<b>Maturities</b> .....	Notes will have maturities as specified in the applicable Final Terms, subject to compliance with all applicable legal and regulatory requirements.
	Where Notes have a maturity of less than one year and either (i) the issue proceeds are received by the relevant Issuer in the United Kingdom or (ii) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, such Notes must: (a) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (b) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the relevant Issuer.
<b>Redemption</b> .....	Notes may be redeemed at par or at such other redemption amount (detailed in a formula or otherwise) or by delivery of securities of an issuer that is not affiliated with Morgan Stanley, as may be specified in the applicable Final Terms.
<b>Early Redemption</b> .....	Early redemption will be permitted for taxation reasons as mentioned in Condition 13 ( <i>Redemption and Purchase</i> ) of "Terms and Conditions of the English Law Notes" but will otherwise be permitted only to the extent specified in the applicable Final Terms.

**Interest**..... Notes may be interest-bearing or non-interest-bearing. Interest (if any) may accrue at a fixed rate, which may be zero, or floating rate, or at a rate which varies during the lifetime of the relevant Series.

**Denominations** ..... Notes will be issued in such denominations as may be specified in the applicable Final Terms, subject to compliance with all applicable legal and regulatory requirements. Notes issued by MSBV will be issued in denominations of at least EUR 1,000 per Note.

**Taxation**..... Payments made by Morgan Stanley in respect of Notes issued by Morgan Stanley will be made without withholding or deduction for, or on account of, any present or future Taxes (as defined herein) imposed or levied by or on behalf of the United States or any representative political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of those Taxes is required by law. In that event, Morgan Stanley will (subject to customary exceptions) pay those Additional Amounts (as defined herein) as will result in the Noteholders receiving such amounts as they would have received in respect of the Notes had no withholding or deduction been required.

Except as otherwise set out in the relevant Final Terms, all payments of principal and interest by Morgan Stanley Jersey or MSBV and the Guarantor in respect of Notes issued by Morgan Stanley Jersey or MSBV shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by (i) in the case of Morgan Stanley Jersey, Jersey (ii) in the case of MSBV, The Netherlands or (iii) in the case of the Guarantor, the United States of America or, in each case, any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. None of Morgan Stanley Jersey, MSBV or the Guarantor shall be required to make any additional payments on account of such withholding or deduction.

**Use of Proceeds** ..... The net proceeds from the sale of Notes will be used by the relevant Issuer for general corporate purposes, in connection with hedging the relevant Issuer's obligations under the Notes, or both.

**Listing**..... Applications have been made to admit the Series A Notes offered under the Program by Morgan Stanley, Morgan Stanley Jersey or MSBV to the Official List of the UK Listing Authority and to trading on the regulated market for gilt edged and fixed interest securities of the London Stock Exchange. The applicable Final Terms will specify whether an issue of Series A Notes will be admitted to the Official List of the UK Listing Authority and to trading on the regulated market for gilt edged and fixed interest securities of the London Stock Exchange), admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system or will be unlisted, as the relevant Issuer and any Distribution Agent may agree. The Series B Notes will not be listed on any exchange.

If the European Union Transparency Obligations Directive (the “**Directive**”) is implemented in a manner which is burdensome for an Issuer or the Guarantor, the Notes may be de-listed. In such a case of de-listing, the relevant Issuer may, but is not obliged to, seek an alternative listing for the Notes on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the relevant Issuer or the Guarantor (if applicable), burdensome, an alternative listing for the Notes may not be considered. Although no assurance is made as to the liquidity of the Notes as a result of listing by the UK Listing Authority, de-listing the Notes may have a material effect on a Noteholder’s ability to resell the Notes in the secondary market.

**Clearing Systems** ..... Euroclear, Clearstream, Luxembourg and/or any other clearing system as may be specified in the applicable Final Terms.

**Governing Law** ..... Unless otherwise specified in the applicable Final Terms, the Notes will be governed by, and construed in accordance with, English law.

**Enforcement of Notes in Global Form**..... In the case of English Law Notes issued by Morgan Stanley in global form, individual holders' rights will be governed by a deed of covenant entered into by Morgan Stanley dated 10 June 2002 (the "**Morgan Stanley Deed of Covenant**"), in the case of Notes issued by Morgan Stanley Jersey in global form, individual holders' rights will be governed by a deed of covenant entered into by Morgan Stanley Jersey dated 10 June 2002 (the "**MSJ Deed of Covenant**") and in the case of Notes issued by MSBV in global form, individual holders' rights will be governed by a deed of covenant entered into by MSBV dated 4 May 2004 (the "**MSBV Deed of Covenant**"), copies of which, in each case, will be available for inspection at the specified office of the Fiscal Agent and the Irish Paying Agent.

In the case of Notes issued by an Additional Issuer in global form, individual holders' rights will be governed by a deed of covenant to be executed by such Additional Issuer on or around the date on which such Additional Issuer accedes to the Program, a copy of which will be available for inspection at the specified office of the Fiscal Agent and, if appropriate, the Irish Paying Agent.

**Selling Restriction**..... **The Notes may not be offered, sold or delivered at any time, directly or indirectly, within the United States or to or for the account of U.S. Persons (as defined in either Regulation S under the Securities Act or the Code).** For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering material in the United States and in certain other countries, see "Subscription and Sale" and "No Ownership by U.S. Persons."

## DESCRIPTION OF NEW YORK LAW NOTES

The particular terms of any Notes offered herein will be set forth in the applicable Final Terms (which will, in the case of Notes that will be admitted to the Official List of the UK Listing Authority and admitted to trading on the regulated market for gilt edged and fixed income securities of the London Stock Exchange, when appropriate, be comprised in a supplement to the Base Prospectus). **The terms and conditions set forth in this "Description of New York Law Notes" will apply to each New York Law Note as specified in the applicable Final Terms and in that Note.** The Notes will be offered on a continuing basis.

If any Note is not to be denominated in U.S. dollars, the applicable Final Terms will specify the currency or currencies in which the principal, premium, if any, interest, if any, and supplemental amounts, if any, with respect to that Note are to be paid, along with any other terms relating to the non-U.S. dollar denomination, including for certain issuances historical exchange rates for each relevant foreign currency as against the U.S. dollar and any exchange controls affecting any relevant foreign currency. See " — Interest and Principal Payments."

### General

Notes governed by New York law will be issued under a senior debt Indenture dated as of 15 November 2000 between Morgan Stanley and JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), London Branch, as Trustee (the "**Trustee**") (as supplemented from time to time, the "**Indenture**"). The Notes issued under the Indenture will constitute a single series under that Indenture.

The following summaries of certain provisions of the Indenture and the Notes, and the summaries of additional provisions of the Indenture described under the heading "— Indenture," do not purport to be complete and those summaries are subject to the detailed provisions of the Indenture. The Notes offered by this Base Prospectus and the accompanying Final Terms are sometimes referred to herein as the "**Offered Notes.**"

The Indenture does not limit the amount of additional indebtedness that Morgan Stanley or any of its subsidiaries may incur nor does it include a negative pledge provision that would require Morgan Stanley to secure the Notes if it were to secure other senior indebtedness. The Indenture allows Morgan Stanley to "reopen" a previous issue of Notes and issue additional Notes of that issue. The Notes will be direct and general obligations of Morgan Stanley. Most of the assets of Morgan Stanley are owned by its subsidiaries. Therefore, Morgan Stanley's rights and the rights of its creditors, including holders of Notes, to participate in the assets of any subsidiary upon that subsidiary's liquidation or recapitalization will be subject to the prior claims of that subsidiary's creditors, except to the extent that Morgan Stanley may itself be a creditor with recognized claims against the subsidiary. In addition, dividends, loans and advances from certain subsidiaries to Morgan Stanley are restricted by legal requirements, including (in the case of Morgan Stanley & Co. Incorporated ("**MS & Co.**")) net capital requirements under the Exchange Act and under rules of certain exchanges and other regulatory bodies and (in the case of Discover Bank, a Delaware chartered bank and an indirect wholly owned subsidiary of Morgan Stanley, and other bank subsidiaries) by banking regulations.

The Indenture provides that Notes may be issued from time to time in one or more series and may be denominated and payable in currencies other than U.S. dollars. If not described below under "United States Taxation" or "United Kingdom Taxation," any special United States federal income tax considerations or any United Kingdom withholding tax considerations applicable to any Offered Notes will be described in the applicable Final Terms.

The applicable Final Terms (which will, in the case of Notes that will be admitted to the Official List of the UK Listing Authority and admitted to trading on the regulated market for gilt edged and fixed income securities of the London Stock Exchange, when appropriate, be comprised in a supplement to the Base

Prospectus) will contain, where applicable, the following terms of, and information relating to, any Offered Notes:

- the currency in which the Offered Notes are denominated and/or in which principal, and any premium, interest and/or supplemental amounts, will or may be payable (the "**Specified Currency**"), along with any other terms relating to the non-U.S. dollar denomination, including, if applicable, exchange rates for the Specified Currency as against the U.S. dollar at selected times during previous years, and any exchange controls affecting that Specified Currency;
- the stated maturity date and any terms related to any extension of the maturity date;
- whether the Offered Notes are Notes bearing interest at a fixed rate ("**Fixed Rate Notes**"), Notes bearing interest at a floating rate ("**Floating Rate Notes**"), Notes with original issue discount and/or Amortizing Notes;
- for Fixed Rate Notes, the rate per year at which the Notes will bear interest, if any, or the method of calculating that rate and the dates on which interest will be payable;
- for Floating Rate Notes, the Base Rate, the Index Maturity, the Spread, the Spread Multiplier, the Initial Interest Rate, the Interest Reset Periods, the Interest Payment Dates, the Maximum Interest Rate, the Minimum Interest Rate (each as defined below) and any other terms relating to the particular method of calculating the interest rate for the Notes;
- if the Offered Notes are Amortizing Notes, the amortization schedule;
- whether the Offered Notes may be redeemed, in whole or in part, at the option of Morgan Stanley or repaid at the option of the investor, prior to the stated maturity date, and the terms of any redemption or repayment;
- whether the Offered Notes are Currency-Linked Notes, Credit-Linked Notes and/or Notes linked to commodity prices, securities of entities not affiliated with Morgan Stanley, baskets of those securities or indices;
- the terms on which holders of the Offered Notes may convert or exchange them into or for stock or other securities of entities not affiliated with Morgan Stanley (as well as, in the case of Series B Notes, for securities of an entity that is affiliated with Morgan Stanley), or for the cash value of these securities or for any other property, any specific terms relating to the adjustment of the conversion or exchange feature and the period during which the holders may effect the conversion or exchange;
- whether the Offered Notes will be issued in definitive bearer form or in global bearer form;
- whether the Offered Notes will be admitted to the Official List of the UK Listing Authority and admitted to trading on the regulated market for gilt edged and fixed income securities of the London Stock Exchange or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system;
- the place or places for payment of the principal of and any premium, interest and/or supplemental amounts on the Offered Notes;
- any repayment, redemption, prepayment or sinking fund provisions;
- information as to the methods for determining the amount of principal, interest and/or supplemental amounts payable on any date and/or the currencies, securities or baskets of

securities, commodities or indices to which the amount payable on that date is linked;

- any applicable United States federal income tax consequences other than those set forth herein;
- if applicable, any United Kingdom withholding tax consequences; and
- any other specific terms of the Offered Notes, including any additional events of default or covenants, and any terms required by or advisable under applicable laws or regulations.

Holders may present the Notes for exchange or transfer, in the manner, at the places and subject to the restrictions described under the captions "Subscription and Sale" and "No Ownership By U.S. Persons" and in the Notes and in the applicable Final Terms. These services will be provided without charge except for any tax or other governmental charge payable in connection with these services and subject to any limitations provided in the Indenture.

The Notes will be Fixed Rate Notes or Floating Rate Notes or may pay interest at a rate which varies. The Notes, including Notes bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate, may be sold at a discount below their stated principal amount.

Except as may be specified for Notes denominated in currencies other than U.S. dollars, the Notes will be issued in denominations of \$1,000, or as otherwise set forth in the applicable Final Terms. Notes denominated in a Specified Currency other than U.S. dollars will be issued in denominations which are the equivalent of such denominations (rounded to an integral multiple of 1,000 units of that Specified Currency, as applicable), or any amount in excess thereof which is an integral multiple of 1,000 units of such Specified Currency, as determined by reference to the noon U.S. dollar buying rate in The City of New York for cable transfers of that Specified Currency published by the Federal Reserve Bank of New York (the "**Market Exchange Rate**") on the Business Day (as defined below) immediately preceding the date of issuance.

As used herein, the following terms have the meanings set forth below:

"**Amortizing Note**" means a Fixed Rate Note (as defined below) that pays a level amount in respect of both interest and principal amortized over the life of the Note.

"**Business Day**" means any day, other than a Saturday or Sunday, (i) that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close (a) in The City of New York or in London, or (b) for Notes denominated in a Specified Currency other than U.S. dollars, euro or Australian dollars, in the principal financial center of the country of the Specified Currency, or (c) for Notes denominated in Australian dollars, in Sydney and (ii) for Notes denominated in euro, a day that is also a TARGET Settlement Day.

An "**Interest Payment Date**" for any Note means a date on which, under the terms of that Note, regularly scheduled interest is payable.

"**Euro LIBOR Notes**" means LIBOR Notes for which the Index Currency is euros.

"**London banking day**" means any day on which dealings in deposits in the relevant Index Currency (as defined under " — Base Rates — LIBOR Notes" below) are transacted in the London interbank market.

"**Original Issue Discount Note**" means any Note that provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the relevant Indenture.

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

## **Form and Title**

Unless otherwise specified in the applicable Final Terms, the Notes will be issued in global bearer form without coupons attached. For a more complete description of the form of Notes and of the consequences of holding an interest in a global bearer note, see "Forms of Notes" below.

The Notes and any coupons issued with the Notes will be transferable by delivery. The investor may present them for payment and exchange in the manner set forth above.

## **Interest and Principal Payments**

*Global Bearer Notes.* The Principal Paying Agent or any other paying agent will pay interest on a temporary global bearer note to Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system on that portion of the temporary global bearer note held for its account. See "Forms of Notes" above. The Principal Paying Agent or any other paying agent will pay interest to Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system only on that portion of the principal amount of the relevant temporary global bearer note for which it receives an Ownership Certificate, as defined in "Forms of Notes" above, signed by Euroclear or Clearstream, Luxembourg or, as applicable, any other relevant clearing system. The Ownership Certificate must be dated no earlier than such Interest Payment Date. The Ownership Certificate will be based on Ownership Certificates provided to Euroclear or Clearstream, Luxembourg or, as applicable, any other relevant clearing system by its participants. Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system will credit interest received to the accounts of the participants for the beneficial owners of those accounts only if the participants have furnished Ownership Certificates.

The person entitled to receive the principal of, or interest and/or supplemental amounts on, a temporary global bearer note must furnish an Ownership Certificate through the broker or other direct or indirect participant in the clearing systems through which it holds its interest in order to receive any principal or interest and/or supplemental amounts.

On the Exchange Date and upon receipt of the required Ownership Certificates, the Principal Paying Agent or any other paying agent will exchange the temporary global bearer note for the related permanent global bearer note. The Principal Paying Agent or any other paying agent will pay the principal, premium, if any, interest and/or supplemental amounts, if any, on the permanent global bearer note to Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system with respect to that portion of the permanent global bearer note held for its account. At maturity, redemption or repayment or on an Interest Payment Date, Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system will credit the principal, premium, if any, interest and/or supplemental amounts, if any, received to the respective accounts of the beneficial owners of the permanent global bearer note. Payment of principal, premium, if any, interest and/or supplemental amounts, if any, made on any permanent global bearer note will be made to Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system in immediately available funds, subject to any applicable laws and regulations.

*Definitive Bearer Notes.* The Principal Paying Agent or any other paying agent will pay principal, premium, if any, interest and/or supplemental amounts, if any, on a definitive bearer note at maturity, upon redemption or repayment or on any Interest Payment Date only if the Notes and/or any coupons relating to that Interest Payment Date are presented and surrendered. The definitive bearer notes must be presented and surrendered at the offices of a paying agent outside the United States. The holder has the option to receive payment (1) by check or (2) by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States. To elect the second option, the Principal Paying Agent or any other paying agent must receive appropriate wire transfer



instructions not less than 15 calendar days prior to an applicable payment date. Payment will be made in immediately available funds, subject to any applicable laws and regulations.

**Payment on any Note will not be made:**

- at any office or agency of Morgan Stanley in the United States;
- by check mailed to any address in the United States; or
- by wire transfer to an account maintained with a bank located in the United States.

Despite these general prohibitions, payments of principal, premium, if any, interest and/or supplemental amounts, if any, on Notes payable in U.S. dollars will be made at the office of Morgan Stanley's paying agent in the Borough of Manhattan, The City of New York, *if and only if*:

- the payment of the full amount in U.S. dollars at all offices or agencies outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions; and
- under applicable United States law, the paying agent in the Borough of Manhattan, The City of New York, would be able to make the payment without adverse United States federal tax consequences or other adverse consequences to Morgan Stanley.

*Unavailability of Currency.* The relevant Specified Currency may not be available to Morgan Stanley for making payments of principal of, and premium, interest and/or supplemental amounts, if any, on any Note. This could occur due to the imposition of exchange controls or other circumstances beyond the control of Morgan Stanley or if the Specified Currency is no longer used by the government of the country issuing that currency or by public institutions within the international banking community for the settlement of transactions. If the Specified Currency is unavailable, Morgan Stanley may satisfy its obligations to Noteholders by making those payments on the date of payment in U.S. dollars on the basis of the Market Exchange Rate on the date of the payment or of the most recent practicable date, or if that rate of exchange is not then available or is not published for that particular payment currency, the Market Exchange Rate will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 a.m., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers for the purchase by the quoting dealer:

- of the Specified Currency for U.S. dollars for settlement on the payment date;
- in the aggregate amount of the Specified Currency payable to those holders or beneficial owners of Notes; and
- at which the applicable dealer commits to execute a contract.

If those bid quotations are not available, the Exchange Rate Agent will determine the Market Exchange Rate at its sole discretion. All determinations by the Exchange Rate Agent will, in the absence of manifest error, be conclusive for all purposes and binding on Morgan Stanley and the Noteholders. The Exchange Rate Agent will be Morgan Stanley & Co. International plc, an affiliate of Morgan Stanley, unless otherwise noted in the applicable Final Terms. If the Exchange Rate Agent is not an affiliate of Morgan Stanley, it may be one of the dealers providing quotations.

Any payment made in U.S. dollars on the basis of the Market Exchange Rate where the required payment is in an unavailable Specified Currency will not constitute an Event of Default under the Indenture.

These provisions do not apply if a Specified Currency is unavailable because it has been replaced by the euro. If the euro has been substituted for a Specified Currency, we may at our option (or will, if required

by applicable law) without the consent of the holders of the affected Notes, pay the principal of, premium, if any, or interest, if any, on any Note denominated in the Specified Currency in euro instead of the Specified Currency, in conformity with legally applicable measures taken pursuant to, or by virtue of, the Treaty. Any payment made in U.S. dollars or in euro as described above where the required payment is in an unavailable Specified Currency will not constitute an Event of Default under the Indenture.

*Unclaimed Payments.* If Morgan Stanley has made, and the Trustee or the Principal Paying Agent or any other paying agent has held, any payment of the principal of, or any premium, interest and/or supplemental amounts on, any Notes that remains unclaimed at the end of two years after that payment has become due and payable (whether at maturity or upon call for redemption or otherwise):

- the Trustee or such paying agent will notify the holders of such Notes that moneys will be repaid to Morgan Stanley, and any person claiming such moneys will thereafter look only to Morgan Stanley for payment thereof; and
- those moneys will be so repaid to Morgan Stanley.

Upon that repayment all liability of the Trustee or such paying agent with respect to those moneys will thereupon cease, without, however, limiting in any way any obligation that Morgan Stanley may have to pay the principal of, or any premium, interest and/or supplemental amounts on, the Notes as the same will become due.

*Original Issue Discount Notes.* Certain Notes may be Original Issue Discount Notes. Unless otherwise specified in the applicable Final Terms, if the principal of any Note that is considered to be issued with original issue discount is declared to be due and payable immediately as described under "—Events of Default" below or is redeemed as described under "—Tax Redemption" below, the amount of principal due and payable on that Note will be limited to:

- the aggregate principal amount of the Note *multiplied by*
- the sum of its issue price, expressed as a percentage of the aggregate principal amount, *plus*
- the original issue discount amortized from the date of issue to the date of declaration, expressed as a percentage of the aggregate principal amount.

The amortization will be calculated using the "interest method," computed in accordance with generally accepted accounting principles in effect on the date of declaration. See the applicable Final Terms for any special considerations applicable to these Notes.

#### **Exchanges; Paying Agent for the Notes**

Definitive bearer notes and any coupons are transferable by delivery. The investor may exchange definitive bearer notes for other notes in other authorized denominations and in an equal aggregate principal amount. The exchange will take place at the offices of the Principal Paying Agent in London or at the office of any agent that Morgan Stanley designates for that purpose. The terms of, and procedures established under, the Indenture govern any exchange of the definitive bearer notes.

Morgan Stanley has designated The Bank of New York (as successor to JPMorgan Chase Bank, N.A., London Branch) as its Principal Paying Agent for the Notes and J.P. Morgan Bank (Ireland) plc as an additional paying agent for the Notes. Morgan Stanley may at any time appoint additional paying agents for the Notes outside the United States. Any initial designation by Morgan Stanley of an agent may be rescinded at any time, except that, so long as any Notes remain outstanding, Morgan Stanley will maintain a paying agent having a specified office in London, so long as any Notes are admitted to the Official List of the UK Listing Authority and admitted to trading on the regulated market for fixed

income securities of the London Stock Exchange and the UK Listing Authority requires it. If any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, Morgan Stanley will endeavour to maintain a paying agent in a member state of the European Union that will not be obligated to withhold or deduct tax pursuant to any such Directive or law.

**Morgan Stanley will not be required to:**

- exchange notes to be redeemed for a period of fifteen calendar days preceding the publication of the relevant notice of redemption, or
- exchange any definitive bearer note selected for redemption or surrendered for optional repayment.

**Fixed Rate Notes**

Each Fixed Rate Note will bear interest from the date of issuance at the annual rate stated on its face until the principal is paid or made available for payment.

*How Interest Is Calculated.* Interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months.

*How Interest Accrues.* Interest on Fixed Rate Notes will accrue from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from and including the issue date or any other date specified in a Final Terms on which interest begins to accrue. Interest will accrue to but excluding the next Interest Payment Date or, if earlier, excluding the date on which the principal has been paid or duly made available for payment (except as described below under " — If a Payment Date is Not a Business Day").

*When Interest Is Paid.* Payments of interest on Fixed Rate Notes will be made on the Interest Payment Dates specified in the applicable Final Terms. However, if the first Interest Payment Date is less than 15 days after the date of issuance, interest will not be paid on the first Interest Payment Date, but will be paid on the second Interest Payment Date.

*Amount of Interest Payable.* Interest payments for Fixed Rate Notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to but excluding the relevant interest payment date or date of maturity or earlier redemption or repayment, as the case may be.

*If a Payment Date Is Not a Business Day.* If any scheduled Interest Payment Date is not a Business Day, Morgan Stanley will pay interest on the next Business Day, but interest on that payment will not accrue during the period from and after the Interest Payment Date. If the scheduled maturity date or date of redemption or repayment is not a Business Day, Morgan Stanley may pay principal, premium, interest and/or supplemental amounts, if any, on the next succeeding Business Day, but interest on that payment will not accrue during the period from and after the maturity date or date of redemption or repayment.

*Amortizing Notes.* A Fixed Rate Note may pay a level amount in respect of both interest and principal amortized over the life of the Note. Payments of principal and interest on Amortizing Notes will be made on the Interest Payment Dates specified in the applicable Final Terms, and at maturity or upon any earlier date of redemption or repayment. Payments on Amortizing Notes will be applied first to interest due and payable and then to the reduction of the unpaid principal amount. Morgan Stanley will provide to the original purchaser, and will furnish to subsequent holders upon request to Morgan Stanley, a table setting forth repayment information for each Amortizing Note.

## **Floating Rate Notes**

Each Floating Rate Note will mature on the date specified in the applicable Final Terms.

Each Floating Rate Note will bear interest at a floating rate determined by reference to an interest rate or interest rate formula (the "**Base Rate**"). The Base Rate may be one or more of the following:

- the CD Rate
- the Commercial Paper Rate
- EURIBOR
- the Federal Funds Rate
- the Federal Funds (Open) Rate
- LIBOR
- the Prime Rate
- the Treasury Rate
- the CMT Rate, or
- any other rate or interest rate formula specified in the applicable Final Terms and in the Floating Rate Note.

*Formula for Interest Rates.* The interest rate on each Floating Rate Note will be calculated by reference to:

- the specified Base Rate based on the Index Maturity
- *plus* or *minus* the Spread, if any, and/or
- *multiplied by* the Spread Multiplier, if any.

The interest rate on each Floating Rate Note may, during all or any part of the period that it is outstanding, be set at zero.

"**Index Maturity**" means, for any Floating Rate Note, the period of maturity of the instrument or obligation from which the Base Rate is calculated and will be specified in the applicable Final Terms. The "**Spread**" is the number of basis points (one one-hundredth of a percentage point) specified in the applicable Final Terms to be added to or subtracted from the Base Rate for a Floating Rate Note. The "**Spread Multiplier**" is the percentage specified in the applicable Final Terms to be applied to the Base Rate for a Floating Rate Note. The interest rate on any inverse Floating Rate Note will also be calculated by reference to a fixed rate.

*Limitations on Interest Rate.* A Floating Rate Note may also have either or both of the following limitations on the interest rate:

- a maximum limitation, or ceiling, on the rate of interest which may accrue during any interest period ("**Maximum Interest Rate**"); and/or
- a minimum limitation, or floor, on the rate of interest that may accrue during any interest period ("**Minimum Interest Rate**").

Any applicable Maximum Interest Rate or Minimum Interest Rate will be set forth in the applicable Final Terms.

In addition, the interest rate on a Floating Rate Note may not be higher than the maximum rate permitted by New York law, as that rate may be modified by United States federal law of general application. Under current New York law, the maximum rate of interest, subject to some exceptions, for any loan in an amount less than U.S.\$250,000 is 16% and for any loan in the amount of U.S.\$250,000 or more but less than U.S.\$2,500,000 is 25% per annum on a simple interest basis. These limits do not apply to loans of U.S.\$2,500,000 or more.

*How Floating Interest Rates Are Reset.* The interest rate in effect from the date of issue to the first Interest Reset Date for a Floating Rate Note will be the initial interest rate specified in the applicable Final Terms. This rate is the "**Initial Interest Rate.**" The interest rate on each Floating Rate Note may be reset daily, weekly, monthly, quarterly, semiannually or annually. This period is the "**Interest Reset Period**" and the first day of each Interest Reset Period is the "**Interest Reset Date.**" The "**Interest Determination Date**" pertaining to any Interest Reset Date is the day the Calculation Agent (which will be specified for any issue of Floating Rate Notes in the applicable Final Terms) will refer to when determining the new interest rate at which a Floating Rate Note will reset, and is applicable as follows:

- for Federal Funds Rate Notes, Federal Funds (Open) Rate Notes, and Prime Rate Notes, the Interest Determination Date will be on the Business Day prior to the Interest Rate Reset Date;
- for CD Rate Notes, Commercial Paper Rate Notes and CMT Rate Notes, the Interest Determination Date will be the second Business Day prior to the Interest Reset Date;
- for EURIBOR Notes or Euro LIBOR Notes, the Interest Determination Date will be the second TARGET Settlement Day (as defined under "—General") prior to the Interest Reset Date;
- for LIBOR Notes (other than Euro LIBOR Notes), the Interest Determination Date will be the second London Banking Day prior to the Interest Reset Date, except that the Interest Determination Date pertaining to an Interest Reset Date for a LIBOR Note for which the Index Currency is pounds sterling will be the Interest Reset Date;
- for Treasury Rate Notes, the Interest Determination Date will be the day of the week in which the Interest Reset Date falls on which Treasury bills would normally be auctioned; and
- for Notes with two or more Base Rates, the Interest Determination Date will be the latest Business Day that is at least two Business Days before the Interest Reset Date for the applicable Note on which each Base Rate is determinable.

Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday; *provided, however*, that if an auction is held on the Friday of the week preceding the Interest Reset Date, the Interest Determination Date will be that preceding Friday. If an auction falls on a day that is an Interest Reset Date, that Interest Reset Date will be the next following Business Day.

The Interest Reset Dates will be specified in the applicable Final Terms. If an Interest Reset Date for any Floating Rate Note falls on a day that is not a Business Day, it will be postponed to the following Business Day, except that, in the case of a EURIBOR Note or a LIBOR Note, if that Business Day is in the next calendar month, the Interest Reset Date will be the immediately preceding Business Day.

The interest rate in effect for the ten calendar days immediately prior to maturity, redemption or repayment will be the one in effect on the tenth calendar day preceding the maturity, redemption or repayment date.

In the detailed descriptions of the various Base Rates which follow, the "**Calculation Date**" pertaining to an Interest Determination Date means the earlier of (i) the tenth calendar day after the Interest Determination Date, or, if that day is not a Business Day, the next succeeding Business Day, and (ii) the Business Day immediately preceding the applicable Interest Payment Date or maturity date or, for any principal amount to be redeemed or repaid, any redemption or repayment date.

*How Interest Is Calculated.* Interest on Floating Rate Notes will accrue from and include the most recent Interest Payment Date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from and including the issue date or any other date specified in a Final Terms on which interest begins to accrue. Interest will accrue to but exclude the next Interest Payment Date, or, if earlier, the date on which the principal has been paid or duly made available for payment (except as described under " — If a Payment Date Is Not a Business Day" below).

The applicable Final Terms will specify a calculation agent for any issue of Floating Rate Notes (the "**Calculation Agent**"). Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate that will become effective on the next Interest Reset Date for that Floating Rate Note. As long as any Floating Rate Notes have been admitted to the Official List of the UK Listing Authority and admitted to trading on the regulated market for gilt-edged and fixed interest securities of the London Stock Exchange) and the rules of the UK Listing Authority and/or the London Stock Exchange require it, the Calculation Agent will, no later than the first day of the applicable Interest Reset Period, notify the UK Listing Authority and/or the London Stock Exchange as to the interest rate in effect for such Interest Reset Period and will also publish notice of the relevant interest rate and the applicable Interest Reset Period in the manner described below under " — Notices" or make such information available to holders at the offices of the Principal Paying Agent.

For a Floating Rate Note, accrued interest will be calculated by multiplying the principal amount of the Floating Rate Note by an accrued interest factor. This accrued interest factor will be computed by adding the interest factors calculated for each day in the period for which interest is being paid. The interest factor for each day is computed by *dividing* the interest rate applicable to that day:

- by 360, in the case of CD Rate Notes, Commercial Paper Rate Notes, EURIBOR Notes, Federal Funds Rate Notes, Federal Funds (Open) Rate Notes, LIBOR Notes (except for LIBOR Notes denominated in pounds sterling) and Prime Rate Notes;
- by 365, in the case of LIBOR Notes denominated in pounds sterling; or
- by the actual number of days in the year, in the case of Treasury Rate Notes and CMT Rate Notes.

For these calculations, the interest rate in effect on any Interest Reset Date will be the applicable rate as reset on that date. The interest rate applicable to any other day is the interest rate from the immediately preceding Interest Reset Date (or, if none, the Initial Interest Rate).

All percentages used in or resulting from any calculation of the rate of interest on a Floating Rate Note will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005% rounded up to 0.00001%, and all U.S. dollar amounts used in or resulting from these calculations on Floating Rate Notes will be rounded to the nearest cent, with one-half cent rounded upward. All Japanese Yen amounts used in or resulting from such calculations will be rounded downward to the next lower whole Japanese Yen amount. All amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 rounded up to 0.01.

*When Interest Is Paid.* Morgan Stanley will pay interest on Floating Rate Notes on the Interest Payment Dates specified in the applicable Final Terms. However, if the first Interest Payment Date is less than 15

days after the date of issuance, interest will not be paid on the first Interest Payment Date, but will be paid on the second Interest Payment Date.

*If a Payment Date Is Not a Business Day.* If any scheduled Interest Payment Date, other than the maturity date or any earlier redemption or repayment date, for any Floating Rate Note falls on a day that is not a Business Day, it will be postponed to the following Business Day, except that, in the case of a EURIBOR Note or a LIBOR Note, if that Business Day would fall in the next calendar month, the Interest Payment Date will be the immediately preceding Business Day. If the scheduled maturity date or any earlier redemption or repayment date of a Floating Rate Note falls on a day that is not a Business Day, the payment of principal, premium, if any, and interest and/or supplemental amounts, if any, will be made on the next succeeding Business Day, but interest on that payment will not accrue during the period from and after the maturity, redemption or repayment date.

## **Base Rates**

### *CD Rate Notes*

CD Rate Notes will bear interest at the interest rates specified in the CD Rate Notes and in the applicable Final Terms. Those interest rates will be based on the CD Rate and any spread and/or spread multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The "**CD Rate**" means, for any Interest Determination Date, the rate on that date for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms as published by the Board of Governors of the Federal Reserve System in "Statistical Release H.15(519), Selected Interest Rates," or any successor publication of the Board of Governors of the Federal Reserve System ("**H.15(519)**") under the heading "CDs (Secondary Market)."

The following procedures will be followed if the CD Rate cannot be determined as described above:

- If the above rate is not published in H.15(519) by 3:00 p.m., New York City time, on the Calculation Date, the CD Rate will be the rate on that Interest Determination Date set forth in the daily update of H.15(519), available through the world wide website of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update> or any successor site or publication ("**H.15 Daily Update**") for the Interest Determination Date for certificates of deposit having the Index Maturity specified in the applicable Final Terms under the caption "CDs (Secondary Market)."
- If the above rate is not yet published in either H.15(519) or the H.15 Daily Update by 3:00 p.m., New York City time, on the Calculation Date, the Calculation Agent will determine the CD Rate to be the arithmetic mean of the secondary market offered rates as of 10:00 a.m., New York City time, on that Interest Determination Date of three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in The City of New York, which may include the Distribution Agents or their affiliates, selected by the Calculation Agent, after consultation with Morgan Stanley, for negotiable U.S. dollar certificates of deposit of major U.S. money center banks of the highest credit standing in the market for negotiable certificates of deposit with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms in an amount that is representative for a single transaction in that market at that time.
- If the dealers selected by the Calculation Agent are not quoting as set forth above, the CD Rate for that Interest Determination Date will remain the CD Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

### *Commercial Paper Rate Notes*

Commercial Paper Rate Notes will bear interest at the interest rates specified in the Commercial Paper Rate Notes and in the applicable Final Terms. Those interest rates will be based on the Commercial Paper Rate and any Spread and/or Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The "**Commercial Paper Rate**" means, for any Interest Determination Date, the Money Market Yield, calculated as described below, computed using the rate on that date for U.S. dollar commercial paper having the Index Maturity specified in the applicable Final Terms, as that rate is published in H.15(519), under the heading "Commercial Paper — Nonfinancial."

The following procedures will be followed if the Commercial Paper Rate cannot be determined as described above:

- If the above rate is not published by 3:00 p.m., New York City time, on the Calculation Date, then the Commercial Paper Rate will be the Money Market Yield computed using the rate on that Interest Determination Date for commercial paper of the Index Maturity specified in the applicable Final Terms as published in the H.15 Daily Update, or other recognised electronic source used for the purpose of displaying the applicable rate, under the heading "Commercial Paper — Nonfinancial."
- If by 3:00 p.m., New York City time, on that Calculation Date the rate is not yet published in either H.15(519) or the H.15 Daily Update, or other recognised electronic source used for the purpose of displaying the applicable rate, then the Calculation Agent will determine the Commercial Paper Rate to be the Money Market Yield computed using the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on that Interest Determination Date of three leading dealers of U.S. dollar commercial paper in The City of New York, which may include the Distribution Agents or their affiliates, selected by the Calculation Agent, after consultation with Morgan Stanley, for commercial paper of the Index Maturity specified in the applicable Final Terms, placed for an industrial issuer whose bond rating is "Aa," or the equivalent, from a nationally recognized statistical rating agency.
- If the dealers selected by the Calculation Agent are not quoting as set forth above, the Commercial Paper Rate for that Interest Determination Date will remain the Commercial Paper Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

The "**Money Market Yield**" will be a yield calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per year rate for commercial paper quoted on a bank discount basis and expressed as a decimal and "M" refers to the actual number of days in the interest period for which interest is being calculated.

### *EURIBOR Notes*

EURIBOR Notes will bear interest at the interest rates specified in the EURIBOR Notes and in the applicable Final Terms. That interest rate will be based on EURIBOR and any Spread and/or Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.



"**EURIBOR**" means, for any Interest Determination Date, the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI - The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, for the Index Maturity specified in the applicable Final Terms as that rate appears on the display on Reuters Telerate, or any successor service, on page 248 or any other page as may replace page 248 on that service ("**Telerate Page 248**") as of 11:00 a.m., Brussels time.

The following procedures will be followed if the rate cannot be determined as described above:

- If the above rate does not appear, the Calculation Agent will request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market, as selected by the Calculation Agent, after consultation with Morgan Stanley, to provide the Calculation Agent with its offered rate for deposits in euros, at approximately 11:00 a.m., Brussels time, on the Interest Determination Date, to prime banks in the Euro-zone interbank market for the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, and in a principal amount not less than the equivalent of U.S.\$1 million in euro that is representative of a single transaction in euro, in that market at that time. If at least two quotations are provided, EURIBOR will be the arithmetic mean of those quotations.
- If fewer than two quotations are provided, EURIBOR will be the arithmetic mean of the rates quoted by four major banks in the Euro-zone interbank market, as selected by the Calculation Agent, after consultation with Morgan Stanley, at approximately 11:00 a.m., Brussels time, on the applicable Interest Reset Date for loans in euro to leading European banks for a period of time equivalent to the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date in a principal amount not less than the equivalent of U.S.\$1 million in euro.
- If the banks selected by the Calculation Agent are not quoting as set forth above, EURIBOR for that Interest Determination Date will remain EURIBOR for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

"**Euro-zone**" means the region comprising member states of the European Union that have adopted the single currency in accordance with the Treaty.

#### *Federal Funds Rate Notes*

Federal Funds Rate Notes will bear interest at the interest rates specified in the Federal Funds Rate Notes and in the applicable Final Terms. Those interest rates will be based on the Federal Funds Rate and any Spread and/or Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The "**Federal Funds Rate**" means, for any Interest Determination Date, the rate on that date for U.S. dollar Federal Funds as published in H.15(519) under the heading "Federal Funds (Effective)" as displayed on Reuters Telerate, or any successor service, on page 120 or any other page as may replace the applicable page on that service, which is commonly referred to as "Telerate Page 120."

The following procedures will be followed if the Federal Funds Rate cannot be determined as described above:

- If the above rate is not published by 3:00 p.m., New York City time, on the Calculation Date, the Federal Funds Rate will be the rate on that Interest Determination Date as published in the H.15 Daily Update, or other recognised electronic source used for the purpose of displaying the applicable rate, under the heading "Federal Funds (Effective)."

- If the above rate is not yet published in either H.15(519) or the H.15 Daily Update, or other recognised electronic source used for the purpose of displaying the applicable rate, by 3:00 p.m., New York City time, on the Calculation Date, the Calculation Agent will determine the Federal Funds Rate to be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds as of 9:00 a.m., New York City time, on that Interest Determination Date by each of three leading brokers of U.S. dollar Federal Funds transactions in The City of New York, which may include the Distribution Agents or their affiliates, selected by the Calculation Agent, after consultation with Morgan Stanley.
- If the brokers selected by the Calculation Agent are not quoting as set forth above, the Federal Funds Rate for that Interest Determination Date will remain the Federal Funds Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

*Federal Funds (Open) Rate Notes.*

Federal Funds (Open) Rate Notes will bear interest at the interest rates specified in the Federal Funds (Open) Rate Notes and in the Final Terms. Those interest rates will be based on the Federal Funds (Open) Rate and any Spread and/or Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The “Federal Funds (Open) Rate” means, for any Interest Determination Date, the rate on that date for U.S. dollar Federal Funds as published in H.15(519) under the heading “Federal Funds (Open)” as displayed by Reuters Telerate, or any successor service, on page 5 or any other page as may replace the applicable page on that service, which is commonly referred to as Telerate Page 5.

The following procedures will be followed if the Federal Funds (Open) Rate cannot be determined as described above:

- If the above rate is not published by 3.00 p.m., New York City time, on the Calculation Date, the Federal Funds (Open) Rate will be the rate on that Interest Determination Date as published in the H.15 Daily Update, or other recognised electronic source used for the purpose of displaying the applicable rate, under the heading “Federal Funds (Open)”.
- If the above rate is not yet published in either H.15(519) or the H.15 Daily Update, or other recognised electronic source used for the purpose of displaying the applicable rate, by 3.00 p.m., New York City time, on the Calculation Date, the Calculation Agent will determine the Federal Funds (Open) Rate to be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar Federal Funds (based on the Federal Funds (Open) Rate prior to 9.00 a.m., New York City time, on that Interest Determination Date, by each of three leading brokers of U.S. dollar Federal Funds transactions in The City of New York, which may include the agent and its affiliates, selected by the Calculation Agent, after consultation with Morgan Stanley.
- If the brokers selected by the Calculation Agent are not quoting as set forth above, the Federal Funds (Open) Rate for that Interest Determination Date will remain the Federal Funds (Open) Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

*LIBOR Notes*

LIBOR Notes will bear interest at the interest rates specified in the LIBOR Notes and in the applicable Final Terms. That interest rate will be based on London Interbank Offered Rate (“LIBOR”) and any Spread and/or Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The Calculation Agent will determine "LIBOR" for each Interest Determination Date as follows:

- As of the Interest Determination Date, LIBOR will be either:
  - if "LIBOR Reuters" is specified in the applicable Final Terms, the arithmetic mean of the offered rates for deposits in the Index Currency having the Index Maturity designated in the applicable Final Terms, commencing on the second London banking day immediately following that Interest Determination Date, that appear on the Designated LIBOR Page as of 11:00 a.m., London time, on that Interest Determination Date, if at least two offered rates appear on the Designated LIBOR Page; provided that if the specified Designated LIBOR Page, as defined below, by its terms provides only for a single rate, that single rate will be used; or
  - if "LIBOR Telerate" is specified in the applicable Final Terms, the rate for deposits in the Index Currency having the Index Maturity designated in the applicable Final Terms, commencing on the second London banking day immediately following that Interest Determination Date or, if pounds sterling is the Index Currency, commencing on that Interest Determination Date, that appears on the Designated LIBOR Page at approximately 11:00 a.m., London time, on that Interest Determination Date.
- If (i) fewer than two offered rates appear and "LIBOR Reuters" is specified in the applicable Final Terms, or (ii) no rate appears and the applicable Final Terms specifies either (a) "LIBOR Telerate" or (b) "LIBOR Reuters" and the Designated LIBOR page by its terms provides only for a single rate then the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market, as selected by the Calculation Agent, after consultation with Morgan Stanley, to provide the Calculation Agent with its offered quotation for deposits in the Index Currency for the period of the Index Maturity specified in the applicable Final Terms commencing on the second London banking day immediately following the Interest Determination Date or, if pounds sterling is the Index Currency, commencing on that Interest Determination Date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that Interest Determination Date and in a principal amount that is representative of a single transaction in that Index Currency in that market at that time.
- If at least two quotations are provided, LIBOR determined on that Interest Determination Date will be the arithmetic mean of those quotations. If fewer than two quotations are provided, LIBOR will be determined for the applicable Interest Reset Date as the arithmetic mean of the rates quoted at approximately 11:00 a.m., London time, or some other time specified in the applicable Final Terms, in the applicable principal financial center for the country of the Index Currency on that Interest Reset Date, by three major banks in that principal financial center selected by the Calculation Agent, after consultation with Morgan Stanley, for loans in the Index Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms and in a principal amount that is representative of a single transaction in that Index Currency in that market at that time.
- If the banks so selected by the Calculation Agent are not quoting as set forth above, LIBOR for that Interest Determination Date will remain LIBOR for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

The "**Index Currency**" means the currency specified in the applicable Final Terms as the currency for which LIBOR will be calculated, or, if the euro is substituted for that currency, the Index Currency will be the euro. If that currency is not specified in the applicable Final Terms, the Index Currency will be U.S. dollars.

**"Designated LIBOR Page"** means either (i) if "LIBOR Reuters" is designated in the applicable Final Terms, the display on the Reuters Money 3000 Service for the purpose of displaying the London interbank rates of major banks for the applicable Index Currency or its designated successor, or (ii) if "LIBOR Telerate" is designated in the applicable Final Terms, the display on Telerate, or any successor service, on the page specified in the applicable Final Terms, or any other page as may replace that page on that service, for the purpose of displaying the London interbank rates of major banks for the applicable Index Currency.

If neither LIBOR Reuters nor LIBOR Telerate is specified in the applicable Final Terms, LIBOR for the applicable Index Currency will be determined as if LIBOR Telerate were specified, and, if the U.S. dollar is the Index Currency, as if Page 3750, had been specified.

#### *Prime Rate Notes*

Prime Rate Notes will bear interest at the interest rates specified in the Prime Rate Notes and in the applicable Final Terms. That interest rate will be based on the Prime Rate and any Spread and/or Spread Multiplier, and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The **"Prime Rate"** means, for any Interest Determination Date, the rate on that date as published in H.15(519) under the heading "Bank Prime Loan."

The following procedures will be followed if the Prime Rate cannot be determined as described above:

- If the above rate is not published prior to 3:00 p.m., New York City time, on the Calculation Date, the Prime Rate will be the rate on that Interest Determination Date as published in H.15 Daily Update opposite the caption "Bank Prime Loan."
- If the above rate is not published in either H.15(519) or the H.15 Daily Update by 3:00 p.m., New York City time, on the Calculation Date, the Calculation Agent will determine the Prime Rate to be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen USPRIME 1 Page, as defined below, as that bank's Prime Rate or base lending rate as in effect for that Interest Determination Date.
- If fewer than four rates for that Interest Determination Date appear on the Reuters Screen USPRIME 1 Page by 3:00 p.m., New York City time, on the Calculation Date, the Calculation Agent will determine the Prime Rate to be the arithmetic mean of the Prime Rates quoted on the basis of the actual number of days in the year divided by 360 as of the close of business on that Interest Determination Date by at least three major banks in The City of New York, which may include the Distribution Agents or their affiliates, selected by the Calculation Agent, after consultation with Morgan Stanley.
- If the banks selected by the Calculation Agent are not quoting as set forth above, the Prime Rate for that Interest Determination Date will remain the Prime Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

**"Reuters Screen USPRIME 1 Page"** means the display designated as page "USPRIME 1" on the Reuters Money 3000 Service, or any successor service, or any other page as may replace the USPRIME 1 Page on that service for the purpose of displaying Prime Rates or base lending rates of major U.S. banks.

#### *Treasury Rate Notes*

Treasury Rate Notes will bear interest at the interest rates specified in the Treasury Rate Notes and in the applicable Final Terms. That interest rate will be based on the Treasury Rate and any Spread and/or

Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The "**Treasury Rate**" means:

- the rate from the auction held on the applicable Interest Determination Date (the "**Auction**") of direct obligations of the United States ("**Treasury Bills**") having the Index Maturity specified in the applicable Final Terms as that rate appears under the caption "INVESTMENT RATE" on the display on Reuters Telerate, or any successor service, on page 56 or any other page as may replace page 56 on that service ("**Telerate Page 56**") or page 57 or any other page as may replace page 57 on that service ("**Telerate Page 57**"); or
- if the rate described in the first bullet point is not published by 3:00 p.m., New York City time, on the Calculation Date, the bond equivalent yield of the rate for the applicable Treasury Bills as published in the H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or
- if the rate described in the second bullet point is not published by 3:00 p.m., New York City time, on the related Calculation Date, the bond equivalent yield of the auction rate of the applicable Treasury Bills, announced by the United States Department of the Treasury; or
- if the rate referred to in the third bullet point is not announced by the United States Department of the Treasury, or if the Auction is not held, the bond equivalent yield of the rate on the applicable interest determination date of Treasury Bills having the Index Maturity specified in the applicable Final Terms published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or
- if the rate referred to in the fourth bullet point is not published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on the applicable Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or
- if the rate referred to in the fifth bullet point is not published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on the applicable Interest Determination Date calculated by the Calculation Agent as the bond equivalent yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on the applicable Interest Determination Date, of three primary U.S. government securities dealers, which may include the Distribution Agents or their affiliates, selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms; or
- if the dealers selected by the Calculation Agent are not quoting as set forth above, the Treasury Rate for that Interest Determination Date will remain the Treasury Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

The "**bond equivalent yield**" means a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the interest period for which interest is being calculated.

#### *CMT Rate Notes*

CMT Rate Notes will bear interest at the interest rates specified in the CMT Rate Notes and in the applicable Final Terms. That interest rate will be based on the CMT Rate and any Spread and/or Spread Multiplier and will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

The "**CMT Rate**" means, for any Interest Determination Date, the rate displayed on the Designated CMT Telerate Page, as defined below, under the caption "... Treasury Constant Maturities ... Federal Reserve Board Release H.15... Mondays Approximately 3:45 p.m.," under the column for the Designated CMT Maturity Index, as defined below, for:

- (1) the rate on that Interest Determination Date, if the Designated CMT Telerate Page is 7051; and
- (2) the week or the month, as applicable, ended immediately preceding the week in which the related Interest Determination Date occurs, if the Designated CMT Telerate Page is 7052.

The following procedures will be followed if the CMT Rate cannot be determined as described above:

- If the above rate is no longer displayed on the relevant page, or if not displayed by 3:00 p.m., New York City time, on the Calculation Date, then the CMT Rate will be the Treasury Constant Maturity rate for the Designated CMT Maturity Index as published in the relevant H.15(519).
- If the above rate described in the first bullet point is no longer published, or if not published by 3:00 p.m., New York City time, on the related Calculation Date, then the CMT Rate will be the Treasury Constant Maturity Rate for the Designated CMT Maturity Index or other U.S. Treasury rate for the Designated CMT Maturity Index, on the Interest Determination Date for the related Interest Reset Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly displayed on the Designated CMT Telerate Page and published in the relevant H.15(519).
- If the information set forth above is not provided by 3:00 p.m., New York City time, on the related Calculation Date, then the Calculation Agent will determine the CMT Rate to be a yield to maturity, based on the arithmetic mean of the secondary market closing offer side prices as of approximately 3:30 p.m., New York City time, on the Interest Determination Date reported, according to their written records, by three leading primary U.S. government securities dealers (the "**Reference Dealers**") in The City of New York, which may include the Distribution Agents or their affiliates, selected by the Calculation Agent as described in the following sentence. The Calculation Agent will select five Reference Dealers, after consultation with Morgan Stanley, and will eliminate the highest quotation or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for the most recently issued direct noncallable fixed rate obligations of the United States ("**Treasury Notes**") with an original maturity of approximately the Designated CMT Maturity Index, a remaining term to maturity of no more than 1 year shorter than the Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time. If two Treasury Notes with an original maturity as described above have remaining terms to maturity equally close to the Designated CMT Maturity Index, the quotes for the Treasury Note with the shorter remaining term to maturity will be used.

- If the Calculation Agent cannot obtain three Treasury Notes quotations as described in the immediately preceding sentence, the Calculation Agent will determine the CMT Rate to be a yield to maturity based on the arithmetic mean of the secondary market offer side prices as of approximately 3:30 p.m., New York City time, on the Interest Determination Date of three Reference Dealers in The City of New York, selected using the same method described in the immediately preceding sentence, for Treasury Notes with an original maturity equal to the number of years closest to but not less than the Designated CMT Maturity Index and a remaining term to maturity closest to the Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time.
- If three or four, and not five, of the Reference Dealers are quoting as described above, then the CMT Rate will be based on the arithmetic mean of the offer prices obtained and neither the highest nor the lowest of those quotes will be eliminated.
- If fewer than three Reference Dealers selected by the Calculation Agent are quoting as described above, the CMT Rate for that Interest Determination Date will remain the CMT Rate for the immediately preceding Interest Reset Period, or, if there was no Interest Reset Period, the rate of interest payable will be the Initial Interest Rate.

"**Designated CMT Telerate Page**" means the display on Reuters Telerate, or any successor service, on the page designated in the applicable Final Terms or any other page as may replace that page on that service for the purpose of displaying Treasury Constant Maturities as reported in H.15(519). If no page is specified in the applicable Final Terms, the Designated CMT Telerate Page will be 7052, for the most recent week.

"**Designated CMT Maturity Index**" means the original period to maturity of the U.S. Treasury Securities, which is either 1, 2, 3, 5, 7, 10, 20 or 30 years, as specified in the applicable Final Terms, for which the CMT Rate will be calculated. If no maturity is specified in the applicable Final Terms, the Designated CMT Maturity Index will be two years.

### **Exchangeable Notes**

Morgan Stanley may issue Notes that are optionally or mandatorily exchangeable (the "**Exchangeable Notes**") into:

- the securities of an entity not affiliated with Morgan Stanley;
- a basket of those securities;
- an index or indices of those securities; or
- any combination of the above.

The Exchangeable Notes may or may not bear interest or be issued with original issue discount or at a premium. The general terms of the Exchangeable Notes are as described below. The particular terms of any Exchangeable Notes, including the procedures for exercising any exchange right and for calculating and delivering any securities to be delivered upon exchange, will be set forth in the applicable Final Terms.

*Optionally Exchangeable Notes.* The holder of an optionally Exchangeable Note (the "**Optionally Exchangeable Notes**") may, during a period, or at specific times, exchange the Notes for the underlying property at a specified rate of exchange. If specified in the applicable Final Terms, Morgan Stanley will have the option to redeem the Optionally Exchangeable Note prior to maturity. If the holder of an Optionally Exchangeable Note does not elect to exchange the Note prior to maturity or any applicable

redemption date, the holder will receive the principal amount of the Note plus any accrued interest at maturity or upon redemption.

*Credit-linked Notes.* Morgan Stanley may issue Credit-Linked Notes. The terms of Credit-Linked Notes will be specified in the applicable Final Terms.

*Mandatorily Exchangeable Notes.* At maturity, the holder of a mandatorily Exchangeable Note (the "**Mandatorily Exchangeable Notes**") must exchange the Note for the underlying property at a specified rate of exchange, and, therefore, depending upon the value of the underlying property at maturity, the holder of a Mandatorily Exchangeable Note may receive less than the principal amount of the Note at maturity. If so indicated in the applicable Final Terms, the specified rate at which a Mandatorily Exchangeable Note may be exchanged may vary depending on the value of the underlying property so that, upon exchange, the holder participates in a percentage, which may be less than, equal to, or greater than 100% of the change in value of the underlying property. Mandatorily Exchangeable Notes may include Notes where Morgan Stanley has the right, but not the obligation, to require holders of Notes to exchange the Notes for the underlying property.

*Payments upon Exchange.* The applicable Final Terms will specify if upon exchange, at maturity or otherwise, the holder of an Exchangeable Note may receive, at the specified exchange rate, either the underlying property or the cash value of the underlying property. The underlying property may be the securities of either U.S. or foreign entities or both. The Exchangeable Notes may or may not provide for protection against fluctuations in the exchange rate between the currency in which that Note is denominated and the currency or currencies in which the market prices of the underlying security or securities are quoted. Exchangeable Notes may have other terms, which will be specified in the applicable Final Terms. Exchangeable Notes for which a holder may receive the underlying property will not be admitted to the Official List of the UK Listing Authority or admitted to trading on the regulated market for fixed income securities of the London Stock Exchange unless a supplement to the Base Prospectus about the underlying property has been approved by the UK Listing Authority.

*Special Requirements for Exchange of Global Notes.* If an Optionally Exchangeable Note is represented by a global bearer note or by definitive bearer notes that remain on deposit with a common depository or common safekeeper, or specified depository, as the case may be, for Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system, the beneficial owner must exercise the right to exchange through Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system. In order to ensure that Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system will timely exercise a right to exchange a particular Optionally Exchangeable Note or any portion of a particular Optionally Exchangeable Note, the beneficial owner of the Optionally Exchangeable Note must instruct the broker or other direct or indirect participant through which it holds an interest in that Optionally Exchangeable Note to notify Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system of its desire to exchange in accordance with the then applicable operating procedures of Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system. Different firms have different deadlines for accepting instructions from their customers. Each beneficial owner should consult the broker or other participant through which it holds an interest in an Optionally Exchangeable Note in order to ascertain the deadline for ensuring that timely notice will be delivered to Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system.

*Payments upon Acceleration of Maturity or upon Tax Redemption.* If the principal amount payable at maturity of any Exchangeable Note is declared due and payable prior to maturity as a result of an acceleration or tax redemption, the amount payable on:

- an Optionally Exchangeable Note will equal the face amount of the Note plus accrued but unpaid interest, if any, to but excluding the date of payment, except that if a holder has exchanged an



Optionally Exchangeable Note prior to the date of declaration without having received the amount due upon exchange, the amount payable will be an amount of cash equal to the amount due upon exchange and will not include any accrued but unpaid interest; and

- a Mandatorily Exchangeable Note will equal an amount in cash determined as if the date of declaration were the maturity date, plus accrued interest, if any, to but excluding the date of payment.

### **Credit-Linked Notes, Commodity-Linked Notes and Equity-Linked Notes**

Morgan Stanley may issue Notes with the principal amount payable on any principal payment date and/or the amount of interest payable on any Interest Payment Date to be determined by reference to the credit of one or more specified entities not affiliated with Morgan Stanley, to one or more commodity prices, securities of entities not affiliated with Morgan Stanley (as well as, in the case of Series B Notes, securities of an entity that is affiliated with Morgan Stanley), baskets of those securities or indices of those securities. These Notes may include other terms, which will be specified in the applicable Final Terms.

### **Currency-Linked Notes**

Morgan Stanley may issue Notes with the principal amount payable on any principal payment date, and/or the amount of interest payable on any interest payment date to be determined by reference to the value of one or more currencies as compared to the value of one or more other currencies. The applicable Final Terms will specify the following:

- information as to the one or more currencies to which the principal amount payable on any principal payment date or the amount of interest payable on any interest payment date is linked or indexed;
- the currency in which the face amount of the Currency-Linked Note is denominated (the "**Denominated Currency**");
- the currency in which principal on the Currency-Linked Note will be paid (the "**Payment Currency**");
- the interest rate per annum and the dates on which Morgan Stanley will make interest payments;
- specific historic exchange rate information and any currency risks relating to the specific currencies selected; and
- additional United States federal income tax considerations, if any.

The Denominated Currency and the Payment Currency may be the same currency or different currencies. Interest on Currency-Linked Notes will be paid in the Denominated Currency.

### **Redemption and Repurchase of Notes**

*Optional Redemption by Morgan Stanley.* The applicable Final Terms will indicate either that the Notes cannot be redeemed prior to maturity, other than as provided under " — Tax Redemption" below, or will indicate the terms of Morgan Stanley's option to redeem the Notes subject always to compliance with all applicable laws and regulations and the requirements of each listing authority, stock exchange and/or quotation system (if any) by which the relevant Notes have been admitted to listing, trading and/or quotation. Morgan Stanley will give notice of redemption as described below. The Notes, except for Amortizing Notes, will not be subject to any sinking fund.

*Notice of Redemption.* Unless otherwise specified in the applicable Final Terms, notice of redemption to holders of Notes will be published in the manner described under "Notices" below; *provided* that such notice of redemption shall also be given to holders of Notes who have filed their names and addresses with the Trustee within two years preceding such notice of redemption by first-class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption, or within the redemption notice period designated in the applicable Final Terms, to the address of each holder as that address appears upon the books maintained by the Trustee. The publication will not be less than 30 nor more than 60 days prior to the date fixed for redemption. The notice to the beneficial owners of Notes held only in global form may be made through the customary notice procedures of Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system. If a series of Notes is admitted to the Official List of the UK Listing Authority and admitted to trading on the regulated market for fixed income securities of the London Stock Exchange, appropriate notice will be published in London as required by the UK Listing Authority.

*Repayment at Option of Holder.* If applicable, the applicable Final Terms will indicate that the holder has the option to have Morgan Stanley repay the Notes on a date or dates specified prior to their maturity date. The repayment price will be equal to 100% of the principal amount of the Notes, together with accrued interest to the date of repayment. For Notes issued with original issue discount, the applicable Final Terms will specify the amount payable upon a repayment.

For Morgan Stanley to repay a Note, the applicable paying agent must receive at least 15 days but not more than 30 days prior to the repayment date, or within the repayment notice period designated in the applicable Final Terms, the Note with the form entitled "Option to Elect Repayment" on the reverse of the Note duly completed, together with any unmatured coupons.

Exercise of the repayment option by the holder of a Note will be irrevocable. The holder may exercise the repayment option for less than the entire principal amount of the Note but, in that event, the principal amount of the Note remaining outstanding after repayment must be an authorized denomination.

*Special Requirements for Optional Repayment of Global Notes.* If a Note is represented by a global bearer note or by definitive Notes that remain on deposit with a common depository or common safekeeper, or specified depository, as the case may be, for Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system, the beneficial owner must exercise the right to have Morgan Stanley repay that Note through Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system. In order to ensure that Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system will timely exercise a right to have Morgan Stanley repay a particular Note or any portion of a particular Note, the beneficial owner of the Note must instruct the broker or other direct or indirect participant through which it holds an interest in that Note to notify Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system of its desire to have Morgan Stanley repay such Note or any portion of such Note in accordance with the then applicable operating procedures of Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system. Different firms have different deadlines for accepting instructions from their customers. Each beneficial owner should consult the broker or other participant through which it holds an interest in a Note in order to ascertain the deadline for ensuring that timely notice will be delivered to Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system.

*Open Market Purchases by Morgan Stanley.* Morgan Stanley may purchase Notes at any price in the open market or otherwise. Notes so purchased by Morgan Stanley may, at the discretion of Morgan Stanley, be held or resold or surrendered to the Trustee for cancellation.

## **Redenomination**

*Application.* The following is applicable to the Notes only if specified in the applicable Final Terms as being applicable.

*Notice of redenomination.* If the country of the Specified Currency becomes or, announces its intention to become, a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty (a "**Participating Member State**"), Morgan Stanley may, without the consent of the Noteholders, on giving at least 30 days' prior notice to the Noteholders and the paying agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

*Redenomination.* From the Redenomination Date:

- the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the specified currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however*, that, if Morgan Stanley determines that the then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and Morgan Stanley shall promptly notify the Noteholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have been admitted to listing, trading and/or quotation and the paying agents of such deemed amendments;
- if Notes have been issued in definitive form:
  - all unmatured coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which Morgan Stanley gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and coupons denominated in euro are available for exchange (provided that such Notes and coupons are available) and no payments will be made in respect thereof;
  - the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of Morgan Stanley thereunder shall remain in full force and effect; and
  - new Notes and coupons denominated in euro will be issued in exchange for Notes and coupons denominated in the Specified Currency in such manner as the Trustee may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- all payments in respect of the Notes (other than, unless the redenomination date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by check drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial center of any Member State of the European Communities.

*Interest.* Following redenomination of the Notes where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which coupons are presented) for payment by the relevant holder.

*Interest Determination Date.* If the Note is a Floating Rate Note, with effect from the redenomination date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

### **Tax Redemption**

*All Notes.* Notes may be redeemed as a whole (but not in part), at the option of Morgan Stanley at any time prior to maturity, upon the giving of a notice of redemption as described below if Morgan Stanley determines that, as a result of:

- any change in or amendment to the laws, (including a holding, judgment or order by a court of competent jurisdiction), or any regulations or rulings promulgated under the laws, of the United States or of any political subdivision or taxing authority of or in the United States affecting taxation, or
- any change in official position regarding the application or interpretation of the laws, regulations or rulings referred to above,

which change or amendment becomes effective on or after the date of the applicable Final Terms in connection with the issuance of the Notes or any other date specified in the applicable Final Terms, Morgan Stanley is or will become obligated to pay Additional Amounts with respect to the Notes, as described below under " — Payment of Additional Amounts." The redemption price will be equal to 100% of the principal amount of the Notes, except as otherwise specified in the applicable Final Terms or unless the Note is a Discount Note or an Exchangeable Note, together with accrued interest to the date fixed for redemption. See "Description of New York Law Notes — Interest and Principal Payments— Original Issue Discount Notes" and "Exchangeable Notes—Payments upon Acceleration of Maturity or upon Tax Redemption" above for information on Exchangeable Notes. Morgan Stanley will give notice of any tax redemption.

Prior to giving notice of tax redemption, Morgan Stanley will deliver to the Trustee, with a copy to the Principal Paying Agent:

- a certificate stating that Morgan Stanley is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to the right of Morgan Stanley to so redeem have occurred (the date on which that certificate is delivered to the Trustee is the "**Redemption Determination Date**"); and
- an opinion of independent legal counsel of recognized standing to that effect based on the statement of facts.

Notice of redemption will be given not less than 30 nor more than 60 days prior to the date fixed for redemption. The date and the applicable redemption price will be specified in the notice, which will be given in accordance with " — Notices" below.

If any date fixed for redemption is a date prior to the date (the "**Exchange Date**") that is 40 days after the date on which Morgan Stanley receives the proceeds of the sale of a Note, definitive bearer notes will be issuable on and after that redemption date as if that redemption date had been the Exchange Date. Receipt of Ownership Certificates described under " — Forms of Notes," is a condition precedent to delivery of definitive bearer notes.

*Special Tax Redemption.* If Morgan Stanley determines that any payment made outside the United States by Morgan Stanley or any paying agent of principal, premium, interest and/or supplemental amounts, if any, due on any bearer note or coupon would, under any present or future laws or regulations of the United States, be subject to any certification, identification or other information reporting requirement of

any kind, the effect of which is the disclosure to Morgan Stanley, any paying agent or any governmental authority of the nationality, residence or identity of a beneficial owner of that bearer note or coupon who is a United States Alien (as defined below) other than such a requirement that:

- would not be applicable to a payment made by Morgan Stanley or any paying agent
  - directly to the beneficial owner or
  - to a custodian, nominee or other agent of the beneficial owner, unless the payment by the custodian, nominee or agent to the beneficial owner would otherwise be subject to any similar requirement, or
- can be satisfied by the custodian, nominee or other agent certifying to the effect that the beneficial owner is a United States Alien, unless the payment by the custodian, nominee or agent to the beneficial owner would otherwise be subject to any similar requirement,

Morgan Stanley will (i) redeem the Notes, as a whole, at a redemption price equal to 100% of the principal amount thereof (except as otherwise specified in the applicable Final Terms or unless the Note is an Original Issue Discount Note or Exchangeable Note), together with accrued interest to the date fixed for redemption, or (ii) at the election of Morgan Stanley, if the conditions described below in " —Election to Pay Additional Amounts Rather than Redeem," are satisfied, pay the Additional Amounts specified in that paragraph.

The term "**United States Alien**" means any person who, for United States federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

Morgan Stanley will make the determination and election described above as soon as practicable and publish prompt notice thereof (the "**Determination Notice**") stating:

- the effective date of the certification, identification or other information reporting requirements;
- whether Morgan Stanley will redeem the Notes or has elected to pay the additional amounts specified in " — Election to Pay Additional Amounts Rather than Redeem" below; and
- if Morgan Stanley elects to redeem, the last date by which the redemption of the Notes must take place.

If Morgan Stanley redeems the Notes for this reason, the redemption will take place on a date not later than one year after the publication of the Determination Notice. Morgan Stanley will elect the date fixed for redemption by notice to the Trustee, with a copy to the Principal Paying Agent, at least 60 days prior to the date fixed for redemption, or within the redemption notice period specified in the applicable Final Terms. Notice of the redemption of the Notes will be given to the Noteholders not more than 60 nor less than 30 days prior to the date fixed for redemption, or within the redemption notice period specified in the applicable Final Terms.

Notwithstanding the foregoing, Morgan Stanley will not redeem the Notes if Morgan Stanley subsequently determines, not less than 30 days prior to the date fixed for redemption, or prior to the last day of the specified redemption notice period in the applicable Final Terms, that subsequent payments would not be subject to any certification, identification or other information reporting requirement, in which case Morgan Stanley will publish prompt notice of the determination and revoke any earlier redemption notice.

*Election to Pay Additional Amounts Rather than Redeem.* If and so long as the certification, identification or other information reporting requirements referred to in " — Special Tax Redemption" would be fully satisfied by payment of a withholding tax or similar charge, Morgan Stanley may elect to pay such additional amounts as may be necessary so that every net payment made outside the United States following the effective date of those requirements by Morgan Stanley, the Principal Paying Agent or any other paying agent of principal, premium, interest and/or supplemental amounts, if any, due in respect of any Note or any coupon of which the beneficial owner is a United States Alien will not be less than the amount provided for in the bearer note or coupon to be then due and payable after deduction or withholding for or on account of the withholding tax or similar charge, other than a withholding tax or similar charge that:

- would not be applicable in the circumstances referred to in the bullet points in the first paragraph following the heading " — Special Tax Redemption"; or
- is imposed as a result of presentation of the Note or Coupon for payment more than 15 days after the date on which the payment becomes due and payable or on which payment thereof is duly provided for, whichever occurs later.

Morgan Stanley's ability to elect to pay additional amounts as described in this paragraph is conditioned on there not being a requirement that the nationality, residence or identity of the beneficial owner be disclosed to Morgan Stanley, any paying agent or any governmental authority, as a result of the payment of the additional amounts.

If Morgan Stanley elects to pay any additional amounts as described in " — Election to Pay Additional Amounts Rather than Redeem," Morgan Stanley will have the right to redeem the bearer notes as a whole at any time by meeting the same conditions described in " — Special Tax Redemption," and the redemption price of the bearer notes will not be reduced for applicable withholding taxes. If Morgan Stanley elects to pay additional amounts as described in " — Election to Pay Additional Amounts Rather than Redeem," and the condition specified in the first sentence of " — Election to Pay Additional Amounts Rather than Redeem," should no longer be satisfied, then Morgan Stanley will redeem the bearer notes as a whole under the applicable provisions of " — Special Tax Redemption."

#### **Payment of Additional Amounts**

*Additional Amounts.* Except as otherwise provided in the applicable Final Terms, Morgan Stanley will, subject to certain exceptions and limitations set forth below, pay those additional amounts (the "**Additional Amounts**") to the Noteholders or holders of any coupon issued with a bearer note who is a United States Alien as may be necessary in order that every net payment of the principal of and interest on the Note and any other amounts payable on the Note after withholding for or on account of any present or future tax, assessment or governmental charge imposed upon or as a result of that payment by the United States or any political subdivision or taxing authority thereof or therein, will not be less than the amount provided for in the Note or Coupon to be then due and payable under the Notes.

Morgan Stanley will not, however, be required to make any payment of Additional Amounts to any holder for or on account of:

- any present or future tax, assessment or other governmental charge that would not have been so imposed but for
  - the existence of any present or former connection between the holder, or between a fiduciary, settlor, beneficiary, member or shareholder of the holder, if the holder is an estate, a trust, a partnership or a corporation, and the United States and its possessions, including, without limitation, the holder, or such fiduciary, settlor, beneficiary, member or shareholder, being or having been a citizen or resident of the United States or being or

having been engaged in a trade or business or present in the United States or having, or having had, a permanent establishment in the United States, or

- the presentation by the holder of any Note or Coupon for payment on a date more than 15 days after the date on which payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- any estate, inheritance, gift, sales, transfer, capital gains, corporation, income or personal property tax or any similar tax, assessment or governmental charge;
- any tax, assessment or other governmental charge imposed by reason of the holder's past or present status as a personal holding company or foreign personal holding company or controlled foreign corporation or passive foreign investment company with respect to the United States or as a corporation that accumulates earnings to avoid United States federal income tax or as a private foundation or other tax-exempt organization;
- any tax, assessment or other governmental charge that is payable otherwise than by withholding from payments on or in respect of any Note;
- any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal of, or interest on, any Note, if that payment can be made without withholding by any other paying agent in a city in Western Europe;
- any tax, assessment or other governmental charge that would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the holder or beneficial owner of that Note, if compliance is required by statute or by regulation of the United States or of any political subdivision or taxing authority thereof or therein as a precondition to relief or exemption from the tax, assessment or other governmental charge;
- any tax, assessment or other governmental charge imposed by reason of the holder's past or present status as the actual or constructive owner of 10% or more of the total combined voting power of all classes of stock entitled to vote of Morgan Stanley or as a direct or indirect subsidiary of Morgan Stanley; or
- any combination of the items listed above.

In addition, Morgan Stanley will not be required to make any payment of Additional Amounts with respect to any Note or Coupon presented for payment:

- where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another paying agent in a member state of the European Union.

Nor will Additional Amounts be paid with respect to any payment on a Note to a United States Alien who is a fiduciary or partnership or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of the United States (or any political subdivision thereof) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary or a

member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Noteholder.

### **Replacement of Notes and Coupons**

Any Notes or coupons that become mutilated, destroyed, lost or stolen or are apparently destroyed, lost or stolen will be replaced by Morgan Stanley at the expense of the holder upon delivery of those Notes or coupons or satisfactory evidence of the destruction, loss or theft thereof to Morgan Stanley, the Principal Paying Agent or any other paying agent and the Trustee. In each case, an indemnity satisfactory to Morgan Stanley, the Principal Paying Agent or any other paying agent and the Trustee may be required at the expense of the holder of that Note or Coupon before a replacement Note or Coupon will be issued.

### **Notices**

*Notices to Holders of Bearer Notes.* Except as provided in the next sentence, Morgan Stanley will publish notices to holders of bearer notes in a newspaper in the English language of general circulation in The City of London. Morgan Stanley may give notice to the beneficial owners of bearer notes held only in global form through the customary notice procedures of Euroclear, Clearstream, Luxembourg or, as applicable, any other relevant clearing system, in which case Morgan Stanley will not publish the notice in a newspaper unless required to by law or stock exchange or other relevant authority regulation. Those notices will be deemed to have been given on the date of that publication (or other transmission, as applicable) or, if published in those newspapers on different dates, on the date of the first publication.

### **Governing Law**

The New York Law Notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

### **Indenture**

References in parentheses below are to sections in the Indenture. Wherever particular sections or defined terms of the Indenture are referred to, those sections or defined terms of the Indenture that are incorporated herein by reference as part of the statement made, and the statement is qualified in its entirety by such reference.

### **Covenants Restricting Mergers and Other Significant Actions**

*Merger, Consolidation, Sale, Lease or Conveyance.* The Indenture provides that Morgan Stanley will not merge or consolidate with any other person and will not sell, lease or convey all or substantially all of its assets to any person, unless:

- Morgan Stanley will be the continuing corporation
- or
- the successor corporation or person that acquires all or substantially all of its assets:
    - if a successor to Morgan Stanley, will be a corporation organized under the laws of the United States, a state of the United States or the District of Columbia; and
    - will expressly assume all of the obligations of Morgan Stanley under the Indenture and the Notes issued under the Indenture; and



- immediately after the merger, consolidation, sale, lease or conveyance, Morgan Stanley, that person or that successor corporation will not be in default in the performance of the covenants and conditions of the Indenture applicable to Morgan Stanley. (Section 9.01)

*Absence of Protections Against All Potential Actions of Morgan Stanley.* There are no covenants or other provisions in the Indenture that would afford Noteholders additional protection in the event of a recapitalization transaction, a change of control of Morgan Stanley or a highly leveraged transaction. The merger covenant described above would only apply if the recapitalization transaction, change of control or highly leveraged transaction were structured to include a merger or consolidation of Morgan Stanley or a sale, lease or conveyance of all or substantially all of the assets of Morgan Stanley. However, Morgan Stanley may provide specific protections, such as a put right or increased interest, for particular Notes, which Morgan Stanley would describe in the applicable Final Terms.

### **Events of Default**

The Indenture provides Noteholders with certain remedies if Morgan Stanley fails to perform specific obligations, such as making payments on the Notes or other indebtedness, or if Morgan Stanley becomes bankrupt. Holders should review these provisions and understand which of Morgan Stanley's actions trigger an Event of Default and which actions do not. The Indenture provisions permit the issuance of Notes in one or more series, and, in many cases, whether an Event of Default has occurred is determined on a series by series basis.

An Event of Default is defined under the Indenture, with respect to any series of Notes issued under the Indenture, as being:

- default in payment for seven days of any principal, premium of the Notes of that series, either at maturity or upon any redemption, by declaration or otherwise;
- default for 30 days in payment of any interest and/or supplemental amount payable in accordance with the terms of the Notes of that series;
- default in the observance or performance of any other covenant of Morgan Stanley or agreement in the Notes of that series or the Indenture other than a covenant included solely for the benefit of a different series of Notes and continuance of that default for a period of 60 days after written notice thereof to Morgan Stanley by the Trustee, or to Morgan Stanley and the Trustee by the holders of not less than 25% in principal amount of the outstanding Notes affected thereby; and
- events of bankruptcy, insolvency or reorganization.

*Acceleration of Notes upon Event of Default.* The Indenture provides that:

- if an Event of Default due to the default in payment of principal of, or any premium or interest on or supplemental amount due with respect to, any series of Notes issued under the Indenture, or due to the default in the performance or breach of any other covenant or warranty of Morgan Stanley applicable to the Notes of that series but not applicable to all outstanding Notes issued under that Indenture occurs and is continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes of each affected series issued under the Indenture (treated as one class) by notice in writing to Morgan Stanley may declare the principal of all Notes of each affected series and interest accrued thereon to be due and payable immediately; and
- if an Event of Default due to a default in the performance of any other covenants or agreements in the Indenture applicable to all outstanding Notes issued under the Indenture or due to certain events of bankruptcy, insolvency or reorganization of Morgan Stanley will have occurred and be

continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of all outstanding Notes issued under the Indenture (treated as one class) may declare the principal of all those Notes and interest accrued thereon to be due and payable immediately. (Section 5.01)

*Annulment of Acceleration and Waiver of Defaults.* In some circumstances, if any and all Events of Default under the Indenture, other than the non-payment of the principal of the Notes that has become due as a result of an acceleration, have been cured, waived or otherwise remedied, then the holders of a majority in principal amount of all series of outstanding Notes affected (voting as one class) may annul past declarations of acceleration of or waive past defaults of the Notes. However, any continuing default in payment of principal of or any premium or interest on those Notes may not be waived. (Sections 5.01 and 5.10)

*Indemnification of Trustee for Certain Actions.* The Indenture contains a provision entitling the Trustee, subject to the duty of the Trustee during a default to act with the required standard of care, to be indemnified by the Noteholders issued under the Indenture before proceeding to exercise any right or power under the Indenture at the request of such holders. (Section 6.02) Subject to these provisions and some other limitations, the holders of a majority in principal amount of each series of outstanding Notes of each affected series, voting as one class, issued under the Indenture may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee. (Section 5.09)

In connection with the exercise of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the holders of the relevant series of Notes affected or of all outstanding Notes affected, as the case may be, as a class. In particular, but without limitation, the Trustee shall not have regard to the consequences of such exercise for individual holders of the relevant series of Notes affected or of all outstanding Notes affected, as the case may be, resulting from such individual holders being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Trustee shall not be entitled to require, nor shall any holder of the relevant series of Notes affected or of all outstanding Notes affected (as the case may be) be entitled to claim, from Morgan Stanley any indemnification or payment in respect of any tax consequence of any such exercise upon individual holders of the relevant series of Notes affected or of all outstanding Notes affected, as the case may be. (Sections 5.06 and 5.09)

*Limitation on Actions by an Individual Holder.* The Indenture provides that no individual holder of Notes issued under the Indenture may institute any action against Morgan Stanley under the Indenture, except actions for payment of overdue principal and interest, unless each of the following actions have occurred:

- the holder must have previously given written notice to the Trustee of the continuing default;
- the holders of not less than 25% in aggregate principal amount of each affected series of the outstanding Notes treated as one class, must have (i) requested the Trustee to institute that action and (ii) offered the Trustee reasonable indemnity;
- the Trustee must have failed to institute that action within 60 days of the request referred to above; and
- the holders of a majority in principal amount of the outstanding Notes of each affected series, treated as one class, must not have given directions to the Trustee inconsistent with those of the holders referred to above. (Sections 5.06 and 5.09)

*Annual Certification.* The Indenture contains a covenant that Morgan Stanley will file annually with the Trustee a certificate of no default or a certificate specifying any default that exists. (Section 3.05)

## Discharge, Defeasance and Covenant Defeasance

Morgan Stanley has the ability to eliminate most or all of its obligations on any series of Notes prior to maturity if it complies with the following provisions. (Section 10.01)

*Discharge of Indenture.* Morgan Stanley may discharge all of the obligations, other than as to transfers and exchanges, in the Indenture after Morgan Stanley has:

- paid or caused to be paid the principal and interest on all of the outstanding Notes in accordance with their terms;
- delivered to the Trustee for cancellation all of the outstanding Notes; or
- irrevocably deposited with the Trustee cash or U.S. government obligations in trust for the benefit of the holders of any series of Notes issued under the Indenture that have either become due and payable, or are by their terms due and payable, or are scheduled for redemption, within one year, in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of and interest on, and any mandatory sinking fund payments for, those Notes, except that the deposit of cash or U.S. government obligations for the benefit of holders of a series of Notes that are due and payable, or are scheduled for redemption, within one year will discharge obligations under the Indenture relating only to that series of Notes.

*Defeasance of Notes at Any Time.* Morgan Stanley may also discharge all obligations, other than as to transfers and exchanges, under any series of Notes at any time ("**defeasance**"). However, Morgan Stanley may not, by defeasance, avoid any duty to register the transfer or exchange that series of Notes, to replace any mutilated, defaced, destroyed, lost, or stolen Notes of that series or to maintain an office or agency in respect of that series of Notes.

Morgan Stanley may be released with respect to any outstanding series of Notes from the obligations imposed by Sections 3.06 and 9.01, which Sections contain the covenants described above limiting liens and consolidations, mergers, asset sales and leases, and elect not to comply with those Sections without creating an Event of Default. Discharge under those procedures is called "covenant defeasance."

Defeasance or covenant defeasance may be effected only if, among other things:

- Morgan Stanley irrevocably deposits with the Trustee cash or, in the case of Notes payable only in U.S. dollars, U.S. government obligations, as trust funds in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of and interest on, and any mandatory sinking fund payments for, all outstanding Notes of the series being defeased; and
- Morgan Stanley delivers to the Trustee an opinion of counsel to the effect that:
  - the holders of the series of Notes being defeased will not recognize income, gain or loss for United States federal income tax purposes as a result of the defeasance or covenant defeasance; and
  - the defeasance or covenant defeasance will not otherwise alter those holders' United States federal income tax treatment of principal and interest payments on the series of Notes being defeased.

In the case of a defeasance, this opinion must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law occurring after the date of this Base Prospectus, since such a result would not occur under current tax law.

### **Substitution for Morgan Stanley**

Subject to such amendment of the Indenture and such other conditions as Morgan Stanley may agree with the Trustee, but without the consent of the Noteholders or any series or the holders of the coupons appertaining thereto (if any), Morgan Stanley may, subject to such Notes and the coupons appertaining thereto being unconditionally and irrevocably guaranteed by Morgan Stanley, substitute a subsidiary of Morgan Stanley in place of Morgan Stanley as principal debtor under such Notes and the coupons appertaining thereto (if any) and the Indenture. (Sections 8.01 and 13.01)

Any Notes issued by a substitute issuer will be fully and unconditionally guaranteed pursuant to a guarantee of Morgan Stanley as to the payment of principal of, premium, interest and supplemental amounts, if any, and any Additional Amounts (as defined above) on those Notes when and as the same will become due and payable, whether at maturity or otherwise. See "Description of New York Law Notes—Payment of Additional Amounts." Under the terms of the guarantee, Noteholders will not be required to exercise their remedies against the substitute issuer prior to proceeding directly against Morgan Stanley. (Section 13.01)

### **Modification of the Indenture**

*Modification Without Consent of Holders.* Morgan Stanley and the Trustee may enter into supplemental indentures without the consent of the Noteholders to:

- secure any Notes;
- evidence the assumption by a successor corporation of the obligations of Morgan Stanley;
- evidence the assumption of a substitute issuer, in accordance with the provision described under "— Substitution for Morgan Stanley" above;
- add covenants for the protection of the Noteholders;
- cure any ambiguity or correct any inconsistency;
- establish the forms or terms of Notes of any series; and
- evidence the acceptance of appointment by a successor Trustee. (Section 8.01)

*Modification with Consent of Holders.* Morgan Stanley and the Trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of each affected series of outstanding Notes (voting as one class), add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the holders of those Notes. However, none of the following changes may be made to any outstanding Note without the consent of each holder that would be affected by such change:

- extend the final maturity of the principal;
- reduce the principal amount;
- reduce the rate or extend the time of payment of interest;
- reduce any amount payable on redemption;
- change the currency in which the principal, including any amount of original issue discount, premium, or interest thereon is payable;

- modify or amend the provisions for conversion of any currency into another currency;
- reduce the amount of any original issue discount security payable upon acceleration or provable in bankruptcy;
- alter the terms on which Noteholders may convert or exchange Notes for stock or other securities of Morgan Stanley or of other entities or for other property or the cash value of the property, other than in accordance with the antidilution provisions or other similar adjustment provisions included in the terms of the Notes;
- alter the terms by which any supplemental amounts are determined, other than in accordance with the antidilution provisions or other similar adjustment provisions included in the terms of the Notes;
- impair the right to institute suit for the enforcement of any payment on any debt security when due; or
- reduce the percentage of Notes the consent of whose owners is required for modification of the Indenture.

## TERMS AND CONDITIONS OF THE ENGLISH LAW NOTES

*The following is the text of the terms and conditions which, as supplemented by the applicable Final Terms, will be endorsed on each Note in definitive form issued by Morgan Stanley, Morgan Stanley (Jersey) Limited or Morgan Stanley B.V. under the Program that is specified as being governed by English law. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.*

### 1. INTRODUCTION

- 1.1 *Program:* Morgan Stanley ("**Morgan Stanley**"), Morgan Stanley (Jersey) Limited ("**Morgan Stanley Jersey**") and Morgan Stanley B.V. ("**MSBV**") have established a Program (the "**Program**") for the issuance of up to U.S.\$30,000,000,000 in aggregate principal amount, *inter alia*, of notes which are expressed to be governed by, and construed in accordance with, English law (the "**Notes**"). References to the "**Issuer**" in these terms and conditions shall mean (i) if the Notes to which these terms and conditions apply are issued by Morgan Stanley, Morgan Stanley (ii) if the Notes to which these terms and conditions apply are issued by Morgan Stanley Jersey, Morgan Stanley Jersey or (iii) if the Notes to which these terms and conditions apply are issued by MSBV, MSBV. The payment obligations of each of Morgan Stanley Jersey and MSBV in respect of Notes issued by it under the Program are (unless otherwise specified in the applicable Final Terms) guaranteed by Morgan Stanley (in its capacity as Guarantor (the "**Guarantor**")) under the terms of a guarantee dated 10 June 2002 (the "**Guarantee**").
- 1.2 *Final Terms:* Notes issued under the Program are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a set of Final Terms (each, "**Final Terms**") which supplement these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented by the applicable Final Terms. In the event of any inconsistency between these Conditions and the applicable Final Terms, the applicable Final Terms shall prevail.
- 1.3 *Issue and Paying Agency Agreement:* The Notes are the subject of an issue and paying agency agreement dated 30 November 2000 (such issue and paying agency agreement as modified and restated on 4 December 2001, 14 June 2005 and 11 July 2006 and as further modified and restated on 22 June 2007 and as from time to time further modified and/or restated, the "**Issue and Paying Agency Agreement**") between Morgan Stanley, Morgan Stanley Jersey, MSBV, The Bank of New York (as successor to JPMorgan Chase Bank, N.A., London Branch,) as fiscal agent (the "**Fiscal Agent**," which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), and J.P. Morgan Bank (Ireland) plc as paying agent (together with the Fiscal Agent and any additional paying agents appointed pursuant thereto, the "**Paying Agents**," which expression includes any successor paying agents appointed from time to time in connection with the Notes). The Fiscal Agent is also appointed as initial calculation agent.
- 1.4 *The Notes:* All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the applicable Final Terms. Copies of the applicable Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Fiscal Agent, the initial Specified Office of which is set out below.
- 1.5 *Summaries:* Certain provisions of these Conditions are summaries of the Issue and Paying Agency Agreement and are subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of

the Issue and Paying Agency Agreement applicable to them. Copies of the Issue and Paying Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

## 2. INTERPRETATION

2.1 *Definitions:* In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the applicable Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the applicable Final Terms;

"**Business Day**" means any day, other than a Saturday or Sunday, (a) that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close (x) in The City of New York or in London, or (y) for Notes denominated in a Specified Currency other than U.S. dollars, euro or Australian dollars, in the principal financial centre of the country of the Specified Currency, or (z) for Notes denominated in Australian dollars, in Sydney and (b) for Notes denominated in euro, a day that is also a TARGET Settlement Day;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the applicable Final Terms and, if so specified in the applicable Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the applicable Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
  - (a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified

number of months after the calendar month in which the preceding such date occurred; and

- (v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means, in respect of any Notes, the Fiscal Agent or such other Person specified in the applicable Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or, if agreed between Morgan Stanley and the Fiscal Agent, such other amount(s) as may be specified in the applicable Final Terms;

"**Cash Settlement Notes**" means Notes specified as being Notes to which Cash Settlement applies in the applicable Final Terms or Notes specified as being Notes to which either Physical Settlement or Cash Settlement applies in the applicable Final Terms and in respect of which the Noteholder or the Issuer, as the case may be, has not elected for Physical Settlement to apply;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means (subject as provided in Condition 5), in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the applicable Final Terms and:

- (vi) if "**Actual/Actual**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (vii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (viii) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (ix) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (x) if "**30E/360**" or "**Eurobond Basis**" is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (xi) if "**Actual/ISMA**" is so specified, means:
- (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the



product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

- (b) where the Calculation Period is longer than one Regular Period, the sum of:
  - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year.

For this purpose, “**Regular Period**” means each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls.

“**Determination Agent**” means the entity specified as such in the applicable Final Terms. The Determination Agent shall act as an expert and not as an agent for the Issuer or the Noteholders. All determinations, considerations and decisions made by the Determination Agent shall, in the absence of manifest error, wilful default or bad faith, be final and conclusive and the Determination Agent shall have no liability in relation to such determinations except in the case of its wilful default or bad faith;

“**Early Redemption Amount**” means, in respect of any Note, its principal amount or such other amount payable by the Issuer in respect of such Note on early redemption as may be specified in, or determined in accordance with, these Conditions or the applicable Final Terms;

“**Extraordinary Resolution**” has the meaning given in the Issue and Paying Agency Agreement;

“**Final Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

“**Fixed Coupon Amount**” has the meaning given in the applicable Final Terms;

“**Interest Amount**” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“**Interest Commencement Date**” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the applicable Final Terms;

“**Interest Determination Date**” has the meaning given in the applicable Final Terms;

“**Interest Payment Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the applicable Final Terms and, if a Business Day Convention is specified in the applicable Final Terms:

- (xii) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (xiii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the applicable Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest

Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**"Interest Period"** means, subject as otherwise provided in these Conditions or the applicable Final Terms, each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

**"ISDA Definitions"** means the 2006 ISDA Definitions, as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the applicable Final Terms) as published by the International Swaps and Derivatives Association, Inc.;

**"Issue Date"** has the meaning given in the applicable Final Terms;

**"Margin"** has the meaning given in the applicable Final Terms;

**"Maturity Date"** has the meaning given in the applicable Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the applicable Final Terms;

**"Minimum Redemption Amount"** has the meaning given in the applicable Final Terms;

**"Morgan Stanley Notes"** means all notes issued by Morgan Stanley;

**"MSBV Notes"** means all Notes issued by Morgan Stanley B.V.;

**"MSJ Notes"** means all Notes issued by Morgan Stanley (Jersey) Limited;

**"Optional Redemption Amount (Call)"** means, in respect of any Cash Settlement Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms and, in respect of any Physical Settlement Note, the Physical Delivery Amount as may be specified in, or determined in accordance with, the applicable Final Terms;

**"Optional Redemption Amount (Put)"** means, in respect of any Cash Settlement Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms and, in respect of any Physical Settlement Note, the Physical Delivery Amount as may be specified in, or determined in accordance with, the applicable Final Terms;

**"Optional Redemption Date (Call)"** has the meaning given in the applicable Final Terms;

**"Optional Redemption Date (Put)"** has the meaning given in the applicable Final Terms;

**"Participating Member State"** means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

**"Payment Business Day"** means:

- (i) if the currency of payment is euro, any day which is:
  - (a) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (b) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

- (ii) if the currency of payment is not euro, any day which is:
  - (c) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (d) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having separate legal personality;

**"Physical Settlement Notes"** means Notes specified as being Notes to which Physical Settlement applies, or Notes specified as being Notes to which either Physical Settlement or Cash Settlement applies in the applicable Final Terms and in respect of which the Noteholder or the Issuer, as the case may be, has not elected for Cash Settlement to apply;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means Sydney and Melbourne and, in relation to New Zealand dollars, it means Wellington and Auckland;

**"Put Option Notice"** means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Put Option Receipt"** means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Rate of Interest"** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Redemption Amount, Physical Delivery Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

**"Redemption Expenses"** means, in respect of any Note or Notes, any expenses (other than in relation to Taxes) payable on or in respect of or in connection with the redemption of such Note or Notes;

**"Reference Asset"** means in respect of any Note, any Underlying Share or other non-cash asset, the price or level of which determines the Redemption Amount of such Note;

**"Reference Banks"** has the meaning given in the applicable Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**"Reference Price"** has the meaning given in the applicable Final Terms;

**"Reference Rate"** has the meaning given in the applicable Final Terms;

**"Relevant Clearing System"** means, as appropriate, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system, as the case may be, through which interests in Notes are to be held and through an account at which the Notes are to be cleared, as specified in the applicable Final Terms;

**"Relevant Date"** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**"Relevant Financial Centre"** has the meaning given in the applicable Final Terms;

**"Relevant Screen Page"** means the page, section or other part of a particular information service (including, without limitation, the Reuters Money 3000 Service and the Reuters Telerate Service) specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**"Relevant Time"** has the meaning given in the applicable Final Terms;

**"Reserved Matter"** means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

**"Specified Currency"** has the meaning given in the applicable Final Terms;

**"Specified Denomination(s)"** has the meaning given in the applicable Final Terms;

**"Specified Office"** has the meaning given in the Issue and Paying Agency Agreement;

**"Specified Period"** has the meaning given in the applicable Final Terms;

**"Subsidiary"** means, in relation to any Person (the **"first Person"**) at any particular time, any other Person (the **"second Person"**):

- (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

“**Swedish CSD**” means a duly authorised Swedish central securities depository (Sw.: *central värdepappersförvarare*) under the Swedish Financial Instruments Accounts Act (Sw.: *lag (1998:1479) om kontoföring av finansiella instrument*), which is expected to be VPC AB, Regeringsgatan 65, Box 7822, SE-103 97 Stockholm, Sweden;

“**Swedish CSD Rules**” means the Swedish Financial Instruments Accounts Act (Sw.: *lag (1998:1479) om kontoföring av finansiella instrument*) and any regulations, rules and operating procedures applicable to and/or issued by the Swedish CSD;

“**Swedish Issuing Agent**” means a duly authorised issuing agent (Sw.: *emissionsinstitut*) under the Swedish CSD Rules and designated as such by the Issuer in Part B, paragraph 11 of the relevant Final Terms;

“**Swedish Notes**” means any Tranche of Notes issued by Morgan Stanley (Jersey) Limited or Morgan Stanley B.V. and designated by the Issuer as “Swedish Notes” in paragraph 29 (“Form of the Notes”) of the relevant Final Terms;

“**Swedish Register**” means the book entry register maintained by the Swedish CSD on behalf of the Issuer and in respect of the relevant Tranche of Swedish Notes;

“**Talon**” means a talon for further Coupons;

“**TARGET Settlement Day**” means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

“**Taxes**” means any tax, duty, impost, levy, charge or contribution in the nature of taxation or any withholding or deduction for or on account thereof, including (but not limited to) any applicable stock exchange tax, turnover tax, stamp duty, stamp duty reserve tax and/or other taxes chargeable or payable in connection with any redemption of a Note and/or payment of the Redemption Amount and/or delivery of the Physical Delivery Amount and/or the transfer or delivery of Underlying Shares and/or the relevant Transfer Documentation;

“**Trade Date**” means in relation to any series of Notes, the date specified as such in the applicable Final Terms;

“**Transfer Documentation**” means, for each Series of Notes, such documentation as is generally acceptable for settlement of transfer of Underlying Shares on the relevant Exchange or through the Clearing System including, without limitation, stock notes and/or stock transfer forms in the case of settlement on the London Stock Exchange;

“**Treaty**” means the Treaty establishing the European Community, as amended;

“**Zero Coupon Note**” means a Note specified as such in the applicable Final Terms.

## 2.2 *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the applicable Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the applicable Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 17 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 17 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being "outstanding" shall be construed in accordance with the Issue and Paying Agency Agreement; and
- (vii) if an expression is stated in Condition 2.1 to have the meaning given in the applicable Final Terms, but the applicable Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes.

### 3. FORM, DENOMINATION AND TITLE

3.1 *General:* The Notes are in bearer form, serially numbered, in the Specified Denomination(s) with Coupons and, if specified in the applicable Final Terms, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. In the case of MSBV, each MSBV Note will be issued with a Specified Denomination of at least EUR 1,000 (or its equivalent in the currency in which such MSBV Note is denominated). Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder.

3.2 *Swedish Notes:* Notes designated as "Swedish Notes" in the applicable Final Terms will be issued in uncertificated and dematerialised book-entry form in accordance with the Swedish CSD Rules. In respect of Swedish Notes, "Noteholder" and "holder" means the person in whose name a Swedish Note is registered in the Swedish Register and the reference to a person in whose name a Swedish Note is registered shall include also any person duly authorised to act as a nominee (*Sw. förvaltare*) and so registered for the Swedish Note. Title to Swedish Notes shall pass by registration in the Swedish Register. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined above) of any Swedish Note shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it and no person shall be liable for so treating the holder. The Issuer shall be entitled to obtain information from the Swedish Register in accordance with the Swedish CSD Rules.

No physical notes or certificates will be issued in respect of Swedish Notes and the provisions relating to presentation, surrendering or replacement of such bearer instruments shall not apply, provided that if holders of at least 20 per cent. in aggregate principal amount of the relevant Swedish Notes (the "**Definitive Notes Threshold**") give notice (a "**Definitive Notes Request Notice**") to the Issuer that they require their Notes to be issued in definitive bearer form, all the Notes shall, with effect from the date of the Definitive Notes Request Notice (not later than 90 days thereafter) as the Issuer shall notify Noteholders (the "**Definitive Notes Exchange Date**"), be issued in definitive bearer form and the Notes shall be Bearer Notes. The Issuer shall on the Definitive Notes Exchange Date provide the Swedish Issuing Agent with the relevant Swedish Notes in definitive bearer form and the Swedish Issuing Agent shall hold such Notes available at

its specified office for collection by the respective Noteholder or, as the case may be, any other person entitled to receive the Notes in definitive bearer form, in each case pursuant to registrations made in the records of the Swedish CSD as of the fifteenth day before the Definitive Notes Exchange Date. No transfers of Notes as Swedish Notes shall be permitted on or after such fifteenth day. With effect from the Definitive Notes Exchange Date the Notes shall cease to be Swedish Notes (provided that the amendments regarding calculation of interest shall continue to apply to any Swedish Notes which have been exchanged for Bearer Notes as set out above) and the Swedish CSD shall cease to be the registrar. On the date of receipt of the Definitive Notes Request Notice, the Issuer shall determine whether the Definitive Notes Threshold has been reached on the basis of the aggregate principal amount of Notes held on that date by those Noteholders who have on or prior to that date given a Definitive Notes Request Notice. Promptly after receipt of any Definitive Notes Request Notice, the Issuer shall notify the Swedish CSD and the Fiscal Agent. Any Definitive Notes Request Notice to the Issuer pursuant to this paragraph shall be given by the relevant Noteholders by notice in writing in English to the Issuer at its registered office, and shall take effect upon receipt. All Swedish Notes are subject to and any Notes issued in definitive bearer form following a Definitive Notes Request Notice will contain the following legend: ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE OF THE UNITED STATES. In addition, all Swedish Notes are subject to the provisions under "Forms of Notes - Limitations on Issuance of, Payment on, and Delivery of Bearer Notes and Swedish Notes" below.

#### 4. STATUS

- 4.1 *Status of the Notes:* The Notes constitute direct and general obligations of the Issuer which rank *pari passu* among themselves.
- 4.2 *Status of Guarantee:* The Guarantor's obligations in respect of the Notes (other than Notes the Final Terms relating to which specifies that such Notes are not guaranteed by Morgan Stanley) constitute direct and general obligations of the Guarantor which rank *pari passu* among themselves.

#### 5. FIXED RATE NOTE PROVISIONS

- 5.1 *Application:* This Condition 5 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the applicable Final Terms as being applicable.
- 5.2 *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 14 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (as well after as before judgment) until whichever is 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 Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- 5.3 *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

- 5.4 *Regular Interest Periods:* If all of the Interest Payment Dates fall at regular intervals between the Issue Date and the Maturity Date, then:
- 5.4.1 the Notes shall for the purposes of this Condition 5 be "**Regular Interest Period Notes**";
  - 5.4.2 the day and month (but not the year) on which any Interest Payment Date falls shall for the purposes of this Condition 5 be a "**Regular Date**"; and
  - 5.4.3 each period from and including a Regular Date falling in any year to but excluding the next succeeding Regular Date shall for the purposes of this Condition 5 be a "**Regular Period**".
- 5.5 *Irregular first or last Interest Periods:* If the Notes would be Regular Interest Period Notes but for the fact that either or both of:
- 5.5.1 the interval between the Issue Date and the first Interest Payment Date; and
  - 5.5.2 the interval between the Maturity Date and the immediately preceding Interest Payment Date
- is longer or shorter than a Regular Period, then the Notes shall nevertheless be deemed to be Regular Interest Period Notes *provided, however*, that if the interval between the Maturity Date and the immediately preceding Interest Payment Date is longer or shorter than a Regular Period, the day and month on which the Maturity Date falls shall not be a "Regular Date".
- 5.6 *Irregular Interest Amount:* If the Notes are Regular Interest Period Notes, the amount of interest payable in respect of each Note for any period which is not a Regular Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- 5.7 *Day Count Fraction:* In respect of any period which is not a Regular Period the relevant day count fraction (the "**Day Count Fraction**") shall be determined in accordance with the following provisions:
- 5.7.1 if the Day Count Fraction is specified in the applicable Final Terms as being 30/360, the relevant Day Count Fraction will be the number of days in the relevant period (calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed) divided by 360;
  - 5.7.2 if the Day Count Fraction is specified in the applicable Final Terms as being Actual/Actual (Bond) and the relevant period falls during a Regular Period, the relevant Day Count Fraction will be the number of days in the relevant period divided by the product of (A) the number of days in the Regular Period in which the relevant period falls and (B) the number of Regular Periods in any period of one year; and
  - 5.7.3 the Day Count Fraction is specified in the applicable Final Terms as being Actual/Actual (Bond) and the relevant period begins in one Regular Period and ends in the next succeeding Regular Period, interest will be calculated on the basis of the sum of:
    - (a) the number of days in the relevant period falling within the first such Regular Period divided by the product of (1) the number of days in the first such Regular Period and (2) the number of Regular Periods in any period of one year; and



- (b) the number of days in the relevant period falling within the second such Regular Period divided by the product of (1) the number of days in the second such Regular Period and (2) the number of Regular Periods in any period of one year.

5.8 *Number of days:* For the purposes of this Condition 5, unless the Day Count Fraction is specified in the applicable Final Terms as being 30/360 (in which case the provisions of paragraph 5.7.1 above shall apply), the number of days in any period shall be calculated on the basis of actual calendar days from and including the first day of the relevant period to but excluding the last day of the relevant period.

5.9 *Irregular Interest Periods:* If the Notes are not Regular Interest Period Notes and interest is required to be calculated for any period other than an Interest Period, interest shall be calculated on such basis as is described in the applicable Final Terms.

5.10 *Interest on Swedish Notes:* For the purposes of calculation of any amount of interest on Swedish Notes, the provisions of this Condition shall be amended so that all periods shall consist of the period from (but excluding) the first day of the relevant period up to (and including) the last day of the relevant period.

## 6. **FLOATING RATE NOTE AND INDEX-LINKED INTEREST NOTE PROVISIONS**

6.1 *Application:* This Condition 6 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the applicable Final Terms as being applicable.

6.2 *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 14 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is 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 Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment). The Rate of Interest in respect of all or any Interest Periods shall if so specified in the applicable Final Terms be zero.

6.3 *Screen Rate Determination:* If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

6.3.1 if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

6.3.2 in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

6.3.3 if, in the case of 6.3.1 above, such rate does not appear on that page or, in the case of 6.3.2 above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

- (a) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
    - (b) determine the arithmetic mean of such quotations; and
  - 6.3.4 if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,
- and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate (or as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.
- 6.4 *ISDA Determination:* If ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
    - 6.4.1 the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the applicable Final Terms;
    - 6.4.2 the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the applicable Final Terms; and
    - 6.4.3 the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the applicable Final Terms.
  - 6.5 *Index-Linked Interest:* If the Index-Linked Interest Note Provisions are specified in the applicable Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the applicable Final Terms.
  - 6.6 *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the applicable Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
  - 6.7 *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the

Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction.

- 6.8 *Calculation of other amounts:* If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.
- 6.9 *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
- 6.10 *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- 6.11 *Interest on Swedish Notes:* For the purposes of calculation of any amount of interest on Swedish Notes, the provisions of this Condition shall be amended so that all periods shall consist of the period from (but excluding) the first day of the relevant period up to (and including) the last day of the relevant period.

## 7. ZERO COUPON NOTE PROVISIONS

- 7.1 *Application:* This Condition 7 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the applicable Final Terms as being applicable.
- 7.2 *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
- 7.2.1 the Reference Price; and
- 7.2.2 the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is 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 Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

- 7.3 *Interest on Swedish Notes:* For the purposes of calculation of any amount of interest on Swedish Notes, the provisions of this Condition shall be amended so that the relevant period shall consist of the period from (but excluding) the Issue Date up to (and including) the earlier of the dates specified in Condition 7.2.2(i) and (ii).

## 8. DUAL CURRENCY NOTE PROVISIONS

- 8.1 *Application:* This Condition 8 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the applicable Final Terms as being applicable.
- 8.2 *Rate of Interest:* If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

## 9. EQUITY-LINKED, COMMODITY, CURRENCY AND CREDIT-LINKED NOTES

- 9.1 Morgan Stanley, Morgan Stanley Jersey or MSBV may issue Notes:
- 9.1.1 the payment of principal of which and/or interest on which are linked to the shares of an entity or a basket of shares of entities not affiliated with the Issuer and/or to a single index or indices of shares (respectively, “**Single Share Notes**”, “**Share Basket Notes**”, “**Single Index Notes**” and “**Index Basket Notes**”, and together, “**Equity-Linked Notes**”);
  - 9.1.2 the payment of principal of which and/or interest on which are to be determined by reference to one or more commodity prices (“**Commodity Notes**”);
  - 9.1.3 the payment of principal of which and/or interest on which are to be determined by reference to one or more currencies as compared to the value of one or more other currencies (“**Currency Notes**”); or
  - 9.1.4 the payment of principal of which and/or interest on which are linked to the credit of one or more specified entities (“**Credit-Linked Notes**”);
  - 9.1.5 upon any other terms and conditions,

in each case, in accordance with the Conditions herein which are specified as applicable to Equity-Linked Notes, Commodity Notes, Currency Notes or Credit-Linked Notes, as the case may be, and the detailed terms and conditions set out in the applicable Final Terms.

## 10. PROVISIONS RELATING TO EQUITY-LINKED NOTES

This Condition 10 is applicable only in relation to Notes specified in the relevant Final Terms as being Single Share Notes, Share Basket Notes, Single Index Notes or Index Basket Notes.

- 10.1 *Valuation, Market Disruption and Averaging Dates:*
- 10.1.1 “**Valuation Date**” means each date specified as such in the applicable Final Terms or, if no date is specified, each date specified as an Observation Date or a Determination Date in the applicable Final Terms (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day), subject to the provisions of Condition 10.1.2. If any Valuation Date is a Disrupted Day, then:
    - (a) in the case of a Single Index Note or Single Share Note, the Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless

each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date (and, as the case may be, the relevant Observation Date or Determination Date) is a Disrupted Day. In that case, (1) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine in its sole and absolute discretion:

- (i) in respect of a Single Index Note, the level of the Index as of the Determination Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Determination Time on that eighth Scheduled Trading Day of each security or other property comprised in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security as of the Determination Time on that eighth Scheduled Trading Day); and
  - (ii) in respect of a Single Share Note, its good faith estimate of the value for the Underlying Share as of the Determination Time on that eighth Scheduled Trading Day;
- (b) in the case of an Index Basket Note, the Valuation Date for each Index not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and for each Index affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Index, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to that Index. In that case, (1) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for the relevant Index, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine, in its sole and absolute discretion, the level of that Index as of the Determination Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating that Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Determination Time on that eighth Scheduled Trading Day of each security comprised in that Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security as of the Determination Time on that eighth Scheduled Trading Day); and
- (c) in the case of a Share Basket Note, the Valuation Date for each Underlying Share not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and for each Underlying Share affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Underlying Share, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to that Underlying Share. In that case, (1) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for the relevant Underlying Share, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine, in its sole and absolute discretion,

its good faith estimate of the value for that Underlying Share as of the Determination Time on that eighth Scheduled Trading Day.

10.1.2 For the purposes hereof:

"**Scheduled Valuation Date**" means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date.

10.1.3 If Averaging Dates are specified in the applicable Final Terms as being applicable, then, notwithstanding any other provisions of these Conditions, the following provisions will apply to the valuation of the relevant Index, Underlying Share, Basket of Indices or Basket of Shares in relation to a Valuation Date:

(a) "**Averaging Date**" means, in respect of each Valuation Date, each date specified or otherwise determined as provided in the applicable Final Terms (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day).

(b) For purposes of determining the Settlement Price in relation to a Valuation Date, the Settlement Price will be:

(i) in respect of a Single Index Note or a Single Share Note, the arithmetic mean of the Relevant Prices of the Index or the Underlying Shares on each Averaging Date;

(ii) in respect of an Index Basket Note, the arithmetic mean of the amounts for the Basket of Indices determined by the Determination Agent in its sole and absolute discretion as provided in the applicable Final Terms as of the relevant Determination Time(s) on each Averaging Date or, if no means for determining the Settlement Price are so provided, the arithmetic mean of the amounts for the Basket calculated on each Averaging Date as the sum of the Relevant Prices of each Index comprised in the Basket (weighted or adjusted in relation to each Index as provided in the applicable Final Terms); and

(iii) in respect of a Share Basket Note, the arithmetic mean of the amounts for the Basket of Shares determined by the Determination Agent in its sole and absolute discretion as provided in the applicable Final Terms as of the relevant Determination Time(s) on each Averaging Date or, if no means for determining the Settlement Price is so provided, the arithmetic mean of the amounts for the Basket calculated on each Averaging Date as the sum of the values calculated for the Underlying Shares of each Underlying Share Issuer as the product of (1) the Relevant Price of such Underlying Share and (2) the number of such Underlying Shares comprised in the Basket.

(c) If an Averaging Date is a Disrupted Day, then if, in relation to "**Averaging Date Disruption**", the consequence specified in the relevant Final Terms is:

(i) "**Omission**", then such Averaging Date will be deemed not to be a relevant Averaging Date for the purposes of determining the

relevant Settlement Price provided that, if through the operation of this provision no Averaging Date would occur with respect to the relevant Valuation Date, then Condition 10.1.1 will apply for purposes of determining the relevant level, price or amount on the final Averaging Date in respect of that Valuation Date as if such final Averaging Date were a Valuation Date that was a Disrupted Day;

- (ii) **"Postponement"**, then Condition 10.1.1 will apply for the purposes of determining the relevant level, price or amount on that Averaging Date as if such Averaging Date were a Valuation Date that was a Disrupted Day irrespective of whether, pursuant to such determination, that deferred Averaging Date would fall on a day that already is or is deemed to be an Averaging Date for the relevant Notes; or
- (iii) **"Modified Postponement"**, then:
  - (1) in the case of a Single Index Note or a Single Share Note, the Averaging Date shall be the first succeeding Valid Date. If the first succeeding Valid Date has not occurred as of the Determination Time on the eighth Scheduled Trading Day immediately following the original date that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in relation to the relevant Scheduled Valuation Date, then (A) that eighth Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether that eighth Scheduled Trading Day is already an Averaging Date), and (B) the Determination Agent shall determine, in its sole and absolute discretion, the relevant level or price for that Averaging Date in accordance with (x) in the case of a Single Index Note, Condition 10.1.1(a)(i) and (y) in the case of a Single Share Note, Condition 10.1.1(a)(ii);
  - (2) in the case of an Index Basket Note or a Share Basket Note, the Averaging Date for each Underlying Share or Index not affected by the occurrence of a Disrupted Day shall be the date specified in the applicable Final Terms as an Averaging Date in relation to the relevant Valuation Date, and the Averaging Date for an Underlying Share or Index affected by the occurrence of a Disrupted Day shall be the first succeeding Valid Date in relation to such Underlying Share or Index. If the first succeeding Valid Date in relation to such Underlying Share or Index has not occurred as of the Determination Time on the eighth Scheduled Trading Day immediately following the original date that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in relation to the relevant Scheduled Valuation Date, then (A) that eighth Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether

that eighth Scheduled Trading Day is already an Averaging Date) in relation to such Underlying Share or Index, and (B) the Determination Agent shall determine, in its sole and absolute discretion, the relevant level or amount for that Averaging Date in accordance with (x) in the case of an Index Basket Note, Condition 10.1.1(b) and (y) in the case of a Share Basket Note, Condition 10.1.1(c); and

(3) "**Valid Date**" shall mean a Scheduled Trading Day that is not a Disrupted Day and on which another Averaging Date in respect of the relevant Valuation Date does not, or is not deemed to, occur.

(d) If any Averaging Dates in relation to a Valuation Date occur after that Valuation Date as a result of the occurrence of a Disrupted Day, then (i) the relevant Maturity Date or, as the case may be, the relevant Physical Settlement Date or (ii) the occurrence of an Extraordinary Event or a Potential Adjustment Event shall be determined by reference to the last such Averaging Date as though it were that Valuation Date.

## 10.2 *Adjustments to Indices:*

This Condition 10.2 is applicable only in relation to Notes specified in the relevant Final Terms as being Single Index Notes or Index Basket Notes.

### 10.2.1 *Successor Index:*

If a relevant Index is (a) not calculated and announced by the Index Sponsor, but is calculated and announced by a successor sponsor acceptable to the Determination Agent in its sole and absolute discretion or (b) replaced by a successor index using, in the determination of the Determination Agent (such determination to be at the Determination Agent's sole and absolute discretion), the same or a substantially similar formula for and method of calculation as used in the calculation of that Index, then in each case that index (the "**Successor Index**") will be deemed to be the Index.

### 10.2.2 *Index Adjustment Events:*

If (i) on or prior to any Valuation Date, or any Averaging Date, a relevant Index Sponsor announces that it will make a material change in the formula for or the method of calculating that Index or in any other way materially modifies that Index (other than a modification prescribed in that formula or method to maintain that Index in the event of changes in constituent securities and capitalisation and other routine events) (an "**Index Modification**") or permanently cancels the Index and no Successor Index exists (an "**Index Cancellation**") or (ii) on any Valuation Date, or any Averaging Date, the Index Sponsor fails to calculate and announce a relevant Index (an "**Index Disruption**" and together with an Index Modification and an Index Cancellation, each an "**Index Adjustment Event**"), then (A) in the case of an Index Modification or an Index Disruption, the Determination Agent shall determine if such Index Adjustment Event has a material effect on the Notes and, if so, shall calculate in its sole and absolute discretion the relevant Settlement Price using, *in lieu* of a published level for that Index, the level for that Index as at that Valuation Date or, as the case may be, that Averaging Date as determined by the Determination Agent in its sole and absolute discretion in accordance with the formula for and method of calculating that Index last in effect prior to that change, failure or cancellation, but using only those securities that comprised that Index



immediately prior to that Index Adjustment Event and (B) in the case of an Index Cancellation, the Issuer may, at any time thereafter and in its sole and absolute discretion, determine that the Notes shall be redeemed as of any later date. If the Issuer so determines that the Notes shall be redeemed, then the Issuer shall give not less than five Business Days' notice to the Noteholders to redeem the Notes and upon redemption the Issuer will pay in respect of each Note an amount which the Determination Agent, in its sole and absolute discretion, determines is equal to the fair value of a Note less the proportion attributable to that Note of the reasonable cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion. The Issuer's obligations under the Notes shall be satisfied in full upon payment of such amount. If the Issuer determines that the relevant Notes shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the formula for the Final Redemption Amount or the Settlement Price set out in the applicable Final Terms and any other variable relevant to the settlement or payment terms of the Notes, which change or adjustment shall be effective on such date as the Determination Agent shall determine.

#### 10.2.3 *Correction of Index Levels:*

If the level of an Index published by the Index Sponsor and which is utilised by the Determination Agent for any calculation or determination (the "**Original Determination**") under the Notes is subsequently corrected and the correction (the "**Corrected Value**") is published by the Index Sponsor by such time as may be specified in the relevant Final Terms (or, if none is so specified, within one Settlement Cycle after the original publication and prior to the Maturity Date), then the Determination Agent will notify the Issuer and the Fiscal Agent of the Corrected Value as soon as reasonably practicable and shall determine the relevant value (the "**Replacement Determination**") using the Corrected Value. If the result of the Replacement Determination is different from the result of the Original Determination, to the extent that it determines to be necessary and practicable, the Determination Agent may adjust any relevant terms accordingly.

#### 10.2.4 *Currency Inconvertibility*

If the Issuer in good faith determines that a Currency Inconvertibility Event has occurred, it may at any time thereafter, in its sole discretion give notice to the holders stating whether the Issuer's obligations under the Notes will be suspended or terminated (any election to suspend shall not preclude the Issuer at any time thereafter giving notice to redeem the Notes), all as more fully set out in Condition 24 (*Notices*). If the Issuer elects to redeem the Notes the Issuer shall give not less than five Business Days' notice to the Noteholders to redeem the Notes and upon redemption the Issuer will pay in respect of each Note an amount which the Determination Agent, in its sole and absolute discretion, determines is equal to the fair value of a Note, less the cost to the Issuer of, or loss realised by the Issuer as, including any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion. The Issuer's obligations under the Notes shall be satisfied in full upon payment of such amount. Upon the occurrence of any event that constitutes both a Currency Inconvertibility Event and a Market Disruption Event or an event causing a Disrupted Day, it will be deemed to be a Market Disruption Event or an event causing a Disrupted Day and will not constitute a Currency Inconvertibility Event.

### 10.3 *Adjustments affecting Underlying Shares:*

This Condition 10.3 is applicable only in relation to Single Share Notes or Share Basket Notes.

#### 10.3.1 *Adjustments for Potential Adjustment Events:*

Following the declaration by the Underlying Issuer of the terms of a Potential Adjustment Event, the Determination Agent will determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the relevant Underlying Shares and, if so, will (i) make such adjustment as it in its sole and absolute discretion considers appropriate, if any, to the formula for the Final Redemption Amount and/or the Settlement Price set out in the relevant Final Terms, the number of Underlying Shares to which each Note relates, the number of Underlying Shares comprised in a Basket of Shares, the amount, the number of or type of shares or other securities which may be delivered in respect of such Notes and/or any other adjustment and, in any case, any other variable relevant to the exercise, settlement, payment or other terms of the relevant Notes as the Determination Agent determines, in its sole and absolute discretion, to be appropriate to account for that diluting or concentrative effect and (ii) determine, in its sole and absolute discretion, the effective date(s) of such adjustment(s).

#### 10.3.2 *Correction of Underlying Share Prices:*

If any price published on the Exchange and which is utilised by the Determination Agent for any calculation or determination (the "**Original Determination**") under the Notes is subsequently corrected and the correction (the "**Corrected Value**") is published by the Exchange by such time as may be specified in the relevant Final Terms (or, if none is so specified, within one Settlement Cycle after the original publication and prior to the Maturity Date), then the Determination Agent will notify the Issuer and the Fiscal Agent of the Corrected Value as soon as reasonably practicable and shall determine the relevant value (the "**Replacement Determination**") using the Corrected Value. If the result of the Replacement Determination is different from the result of the Original Determination, to the extent that it determines to be necessary and practicable, the Determination Agent may adjust any relevant terms accordingly.

### 10.4 *Extraordinary Events:*

This Condition 10.4 is applicable only in relation to Notes specified in the relevant Final Terms as being Single Share Notes or Share Basket Notes.

#### 10.4.1 *Merger Event or Tender Offer:*

- (a) Following the occurrence of any Merger Event or Tender Offer, the Issuer will, in its sole and absolute discretion, determine whether the relevant Notes shall continue or shall be redeemed early.
- (b) If the Issuer determines that the relevant Notes shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the formula for the Final Redemption Amount and/or the Settlement Price set out in the applicable Final Terms, the number of Underlying Shares to which each Note relates, the number of Underlying Shares comprised in a Basket of Shares, the amount, the number of or type of shares or other securities which may be delivered under such Notes and, in any case, any other variable relevant to the exercise, settlement, or

payment terms of the relevant Notes and/or any other adjustment (including without limitation, in relation to Share Basket Notes, the cancellation of terms applicable in respect of Underlying Shares affected by the relevant Merger Event or Tender Offer) which adjustment shall be effective on such date as the Determination Agent shall determine.

- (c) If the Issuer determines that the relevant Notes shall be redeemed early, then the Issuer shall give not less than five Business Days' notice to the Noteholders to redeem the Notes and the Issuer's obligations under the Notes shall be satisfied in full upon payment of the Merger Event Settlement Amount (as defined below) (in the case of a Merger Event) or Tender Offer Settlement Amount (in the case of a Tender Offer).
- (d) For the purposes hereof:

**"Merger Event"** means, in respect of any relevant Underlying Shares, as determined by the Determination Agent, acting in a commercially reasonable manner, any: (i) reclassification or change of such Underlying Shares that results in a transfer of or an irrevocable commitment to transfer all of such Underlying Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of the Underlying Issuer with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Underlying Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Shares outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the outstanding Underlying Shares of the Underlying Issuer that results in a transfer of or an irrevocable commitment to transfer all such Underlying Shares (other than such Underlying Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Underlying Issuer or its subsidiaries with or into another entity in which the Underlying Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Shares outstanding but results in the outstanding Underlying Shares (other than Underlying Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Underlying Shares immediately following such event (a **"Reverse Merger"**), in each case if the Merger Date is on or before, (A) in respect of Physical Settlement Notes, the later to occur of the Maturity Date and the Physical Settlement Date or, (B) in any other case, the final Valuation Date.

**"Merger Event Settlement Amount"** means in respect of each Note, an amount equal to the fair value of such Note, on such day as is selected by the Determination Agent in its sole and absolute discretion, less the proportion attributable to that Note of the reasonable cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related hedging arrangements, all as calculated by the Determination Agent in its sole and absolute discretion.

**"Tender Offer"** means, in respect of any Underlying Shares, as determined by the Determination Agent, acting in a commercially reasonable manner, a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than

10% and less than 100% of the outstanding voting shares of the Underlying Issuer, as determined by the Determination Agent, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Determination Agent deems relevant.

**"Tender Offer Date"** means, in respect of a Tender Offer, the date on which voting shares in the amount of the applicable percentage threshold are actually purchased or otherwise obtained, as determined by the Determination Agent in its sole and absolute discretion.

**"Tender Offer Settlement Amount"** means in respect of each Note, an amount equal to the fair value of such Note, on such day as is selected by the Determination Agent in its sole and absolute discretion, less the proportion attributable to that Note of the reasonable cost to the Issuer of unwinding, or the loss realised by the Issuer on, any related hedging arrangements, all as calculated by the Determination Agent in its sole and absolute discretion.

10.4.2 *Nationalisation, Insolvency and Delisting:*

- (a) If in the determination of the Determination Agent, acting in a commercially reasonable manner:
- (A) all the Underlying Shares or all or substantially all the assets of an Underlying Issuer are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof ("**Nationalisation**"); or
  - (B) by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting an Underlying Issuer, (1) all the Underlying Shares of that Underlying Issuer are required to be transferred to a trustee, liquidator or other similar official or (2) holders of the Underlying Shares of that Underlying Issuer become legally prohibited from transferring them ("**Insolvency**"); or
  - (C) the Exchange announces that pursuant to the rules of such Exchange, the Underlying Shares cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union) ("**Delisting**"),
- then the Issuer will, in its sole and absolute discretion, determine whether or not the Notes shall continue.
- (b) If the Issuer determines that the relevant Notes shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the formula for the Final Redemption Amount and/or the Settlement Price set out in the applicable Final Terms, the number of Underlying Shares to which each Note relates, the number of Underlying Shares comprised in a Basket of Shares, the amount, the number of or type of shares or other securities which may be delivered under such Notes and,

in any case, any other variable relevant to the settlement or payment terms of the relevant Notes and/or any other adjustment (including without limitation, in relation to Share Basket Notes, the cancellation of terms applicable in respect of Underlying Shares affected by the relevant Extraordinary Event) which change or adjustment shall be effective on such date as the Determination Agent shall determine.

- (c) If the Issuer determines that the relevant Notes shall be redeemed early, then the Issuer shall give not less than five Business Days' notice to redeem the Notes. The Issuer's obligations under the Notes shall be satisfied in full upon payment of, in respect of each Note, an amount equal to the fair value of such Note, on such day as is selected by the Determination Agent in its sole and absolute discretion, less the proportion attributable to that Note of the reasonable cost to the Issuer of unwinding, or the loss realised by the Issuer on, any related hedging arrangements, all as calculated by the Determination Agent in its sole and absolute discretion.

#### 10.5 *Additional Disruption Events*

- (a) Following the occurrence of an Additional Disruption Event, the Issuer will, in its sole and absolute discretion, determine whether or not the relevant Notes shall continue or be redeemed early.
- (b) If the Issuer determines that the relevant Notes shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the formula for the Final Redemption Amount and/or the Settlement Price set out in the relevant Final Terms, the number of Underlying Shares to which each Note relates, the number of Underlying Shares comprised in a Basket, the amount, the number of or type of shares or other securities which may be delivered under such Notes and, in any case, any other variable relevant to the redemption, settlement, or payment terms of the relevant Notes and/or any other adjustment (including without limitation, in relation to Share Basket Notes or Index Basket Notes, the cancellation of terms applicable in respect of any Underlying Shares or Index, as the case may be, affected by the relevant Additional Disruption Event) which change or adjustment shall be effective on such date as the Determination Agent shall determine.
- (c) If the Issuer determines that the relevant Notes shall be redeemed early, then the Issuer shall give not less than five Business Days' notice to redeem the Notes and the Issuer's obligations under the Notes shall be satisfied in full upon payment in respect of each Note of an amount which the Determination Agent, in its sole and absolute discretion, determines is equal to the fair value of a Note less the proportion attributable to that Note of the reasonable cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion.
- (d) The Issuer shall as soon as reasonably practicable under the circumstances notify the Fiscal Agent and the Determination Agent of the occurrence of an Additional Disruption Event.
- (e) For the purposes hereof:

**"Additional Disruption Event"** means with respect to any Series of Notes (unless otherwise specified in the applicable Final Terms) a Change in Law, Hedging Disruption, Increased Cost of Hedging and Loss of Stock Borrow, and any further event

or events as may be specified in the applicable Final Terms as an Additional Disruption Event with respect to such Notes.

#### 10.6 *Definitions applicable to Equity-Linked Notes*

In relation to Equity-Linked Notes, the following expressions have the meanings set out below:

**"Basket"** means in relation to any Share Basket Notes, the Underlying Shares specified in the applicable Final Terms as comprising the Basket, and in relation to Index Basket Notes, the Indices specified in the applicable Final Terms as comprising the Basket, in each case in the relative proportions specified in such Final Terms;

**"Basket of Indices"** means, in relation to a particular Series, a basket comprising the Indices specified in the applicable Final Terms in the relative proportions specified in such Final Terms;

**"Basket of Shares"** means, in relation to a particular Series, a basket comprising Underlying Shares of each Underlying Issuer specified in the applicable Final Terms in the relative proportion or number of Underlying Shares of each Underlying Issuer specified in such Final Terms;

**"Change in Law"** means that, on or after the Trade Date (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Issuer determines that (x), in the case of Single Share Notes or Basket of Shares Notes, it has become illegal to hold, acquire or dispose of any relevant Underlying Shares, or (y) it will incur a materially increased cost in performing its obligations with respect to the Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position);

**"Component"** means in relation to an Index, any security which comprises such Index;

**"Currency Inconvertibility Event"** means it has become impracticable, illegal or impossible: (i) for the Determination Agent to determine a rate at which any Local Currency (defined below) can be lawfully exchanged for U.S. dollars; or (ii) to convert the currency in which any of the securities which comprise the Index is denominated (a **"Local Currency"**) into U.S. dollars; or (iii) to exchange or repatriate any funds outside of any jurisdiction in which any of the securities which comprise the Index is issued due to the adoption of or any change in any applicable law, regulation, directive or decree of any Governmental Authority or otherwise; or (iv) for the Issuer or any of its affiliates to hold, purchase, sell or otherwise deal in any Notes or any other property in order for the Issuer or any of its affiliates to perform, or for the purposes of the Issuer or any affiliate of the Issuer performing its obligations in respect of any Notes or in respect of any related hedging arrangements. For the purposes hereof, **"Governmental Authority"** means any governmental, administrative, legislative or judicial authority or power;

**"Determination Time"** means the time specified as such in the applicable Final Terms, or if no such time is specified, (a) save with respect to a Multi-exchange Index, the Scheduled Closing Time on the relevant Exchange in relation to each Index or Underlying Share to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Determination Time is after the actual closing time for its regular trading session, then the Determination Time shall be such actual closing time; and (b) with respect to any Multi-exchange Index, (i) for the purposes of determining whether a Market Disruption Event has occurred: (x) in respect of any Component, the Scheduled Closing Time on the Exchange in respect of such Component and (y) in respect of any option contracts or futures contracts on the Index, the close of trading on the

Related Exchange; and (ii) in all other circumstances, the time at which the official closing level of the Index is calculated and published by the Index Sponsor;

**"Disrupted Day"** means (a) except with respect to a Multi-exchange Index, any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred, and (b) with respect to any Multi-exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor fails to publish the level of the Index; (ii) the Related Exchange fails to open for trading during its regular trading session or (iii) a Market Disruption Event has occurred;

**"Early Closure"** means (a) except with respect to a Multi-exchange Index, the closure on any Exchange Business Day of the relevant Exchange (or in the case of a Single Index Note or Index Basket Note, any relevant Exchange(s) relating to securities that comprise 20 percent or more of the level of the relevant Index) or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or Related Exchange(s) at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s) on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Determination Time on such Exchange Business Day and (b) with respect to any Multi-exchange Index, the closure on any Exchange Business Day of the Exchange in respect of any Component or the Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or Related Exchange (as the case may be) at least one hour prior to the earlier of: (i) the actual closing time for the regular trading session on such Exchange or Related Exchange (as the case may be) on such Exchange Business Day; and (ii) the submission deadline for orders to be entered into such Exchange or Related Exchange system for execution at the relevant Determination Time on such Exchange Business Day;

**"Exchange"** means:

- (a) (i) in respect of an Index relating to Single Index Notes or Index Basket Notes other than a Multi-exchange Index, each exchange or quotation system specified as such for such Index in the applicable Final Terms or, if none is specified, the principal exchange or quotation system for trading in such Index, as determined by the Determination Agent, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the shares underlying such Index has temporarily relocated, provided that the Determination Agent has determined that there is comparable liquidity relative to the shares underlying such Index on such temporary substitute exchange or quotation system as on the original Exchange, and (ii) with respect to any Multi-exchange Index, and in respect of each Component, the principal stock exchange on which such Component is principally traded, as determined by the Determination Agent; and
- (b) in respect of an Underlying Share relating to Single Share Notes or Share Basket Notes, each exchange or quotation system specified as such for such Underlying Share in the applicable Final Terms or, if none is specified, the principal exchange or quotation system for trading in such Underlying Share, as determined by the Determination Agent, any successor to such Exchange or quotation system or any substitute exchange or quotation system to which trading in the Underlying Share has temporarily relocated, provided that the Determination Agent has determined that there is comparable liquidity relative to such Underlying Share on such temporary substitute exchange or quotation system as on the original Exchange.

**"Exchange Business Day"** means (a) except with respect to a Multi-exchange Index, any Scheduled Trading Day on which each Exchange and Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time and (b) with respect to any Multi-exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor publishes the level of the Index and (ii) the Related Exchange is open for trading during its regular trading session, notwithstanding any Exchange or the Related Exchange closing prior to its Scheduled Closing Time;

**"Exchange Disruption"** means (a) except with respect to a Multi-exchange Index, any event (other than an Early Closure) that disrupts or impairs (as determined by the Determination Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Underlying Shares on the Exchange (or in the case of Single Index Notes or Index Basket Notes, on any relevant Exchange(s) relating to securities that comprise 20 percent or more of the level of the relevant Index), or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Underlying Shares or the relevant Index on any relevant Related Exchange and (b) with respect to any Multi-exchange Index, any event (other than an Early Closure) that disrupts or impairs (as determined by the Determination Agent) the ability of market participants in general to effect transactions in, or obtain market values for, (i) any Component on the Exchange in respect of such Component; or (ii) futures or options contracts relating to the Index on the Related Exchange;

**"Extraordinary Dividend"** means the dividend per Underlying Share, or portion thereof, to be characterised as an Extraordinary Dividend as determined by the Determination Agent.

**"Extraordinary Event"** means a Merger Event, Tender Offer, Nationalisation, Insolvency or Delisting.

**"Hedging Disruption"** means that the Issuer is unable, after using commercially reasonable efforts, to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the risk of entering into and performing its obligations under the Notes, or (B) realise, recover or remit the proceeds of any such transactions or asset(s);

**"Increased Cost of Hedging"** means that the Issuer would incur a materially increased (as compared with circumstances existing on the Trade Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the risk of entering into and performing its obligations with respect to the Notes or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s) provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer shall not be deemed an Increased Cost of Hedging;

**"Index"** means any index specified as such in the applicable Final Terms, subject to Condition 10.2 (*Adjustments to Indices*);

**"Index Sponsor"** means, in respect of an Index, the corporation or other entity that (a) is responsible for setting and reviewing the rules and procedures and methods of calculation and adjustments, if any, related to the relevant Index and (b) announces (directly or through an agent) the level of the relevant Index on a regular basis during each Scheduled Trading Day;

**"Loss of Stock Borrow"** means that the Issuer is unable, after using commercially reasonable efforts, to borrow (or maintain a borrowing of) the Underlying Shares with respect to the Notes in an amount which the Issuer deems necessary to hedge the risk of entering into and performing its



obligations with respect to the Notes (not to exceed the number of shares underlying the Notes) at a rate determined by the Issuer;

**"Market Disruption Event"** means (a) in respect of an Underlying Share or an Index other than a Multi-exchange Index, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the Determination Agent determines is material, at any time during the one-hour period that ends at the relevant Determination Time, or (iii) an Early Closure. For the purpose of determining whether a Market Disruption Event exists in respect of an Index at any time, if a Market Disruption Event occurs in respect of a security included in the Index at any time, then the relevant percentage contribution of that security to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that security and (y) the overall level of the Index, in each case immediately before the Market Disruption Event occurred; and (b) with respect to any Multi-exchange Index either (i)(A) the occurrence or existence, in respect of any Component, of (1) a Trading Disruption, (2) an Exchange Disruption, which in either case the Determination Agent determines is material, at any time during the one hour period that ends at the relevant Determination Time in respect of the Exchange on which such Component is principally traded, OR (3) an Early Closure; AND (B) the aggregate of all Components in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists comprises 20 per cent. or more of the level of the Index; OR (ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (A) a Trading Disruption, (B) an Exchange Disruption, which in either case the Determination Agent determines is material, at any time during the one hour period that ends at the relevant Determination Time in respect of the Related Exchange; or (c) an Early Closure;

For the purposes of determining whether a Market Disruption Event exists in respect of a Component at any time, if a Market Disruption Event occurs in respect of such Component at that time, then the relevant percentage contribution of that Component to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that Component to (y) the overall level of the Index, in each case using the official opening weightings as published by the Index Sponsor as part of the market "opening data";

**"Multi-exchange Index"** means any Index specified as such in the relevant Final Terms;

**"Potential Adjustment Event"** means, in respect of Single Share Notes or Share Basket Notes:

- (i) a subdivision, consolidation or reclassification of an Underlying Share (unless resulting in a Merger Event), or a free distribution or dividend of Underlying Shares to existing holders by way of bonus, capitalisation or similar issue;
- (ii) a distribution, issue or dividend to existing holders of relevant Underlying Shares of (A) such Underlying Shares, or (B) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Underlying Issuer equally or proportionately with such payments to holders of such an Underlying Shares, or (C) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Underlying Issuer as a result of a spin-off or other similar transaction, or (D) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Determination Agent;
- (iii) an Extraordinary Dividend;
- (iv) a call by the Underlying Issuer in respect of relevant Underlying Shares that are not fully paid;

- (v) a repurchase by an Underlying Issuer or any of its subsidiaries of Underlying Shares, whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (vi) in respect of an Underlying Issuer, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of the Underlying Issuer pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides, upon the occurrence of certain events, for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value, as determined by the Determination Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (vii) any other event that may have a diluting or concentrative effect on the theoretical value of the relevant Underlying Shares.

**"Related Exchange"**, in respect of an Index relating to Single Index Notes or Index Basket Notes or an Underlying Share relating to Single Share Notes or Share Basket Notes, means the Exchange specified as the Relevant Exchange in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures and options contracts relating to such Index or Underlying Shares has temporarily relocated (provided that the Determination Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Index or Underlying Shares on such temporary substitute exchange or quotation system as on the original Related Exchange) or, if none is specified, each exchange or quotation system where trading has a material effect (as determined by the Determination Agent) on the overall market for futures or options contracts relating to such Index or Underlying Shares, as the case may be;

**"Relevant Price"** on any day means:

- (i) in respect of an Underlying Share to which a Single Share Note or a Share Basket Note relates, the price per Underlying Share determined by the Determination Agent in the manner provided in the applicable Final Terms as of the Determination Time on the relevant day, or, if no means for determining the Relevant Price are so provided: (a) in respect of any Underlying Share for which the Exchange is an auction or "open outcry" exchange that has a price as of the Determination Time at which any trade can be submitted for execution, the Relevant Price shall be the price per Underlying Share as of the Determination Time on the relevant day, as reported in the official real-time price dissemination mechanism for such Exchange; and (b) in respect of any Underlying Share for which the Exchange is a dealer exchange or dealer quotation system, the Relevant Price shall be the mid-point of the highest bid and lowest ask prices quoted as of the Determination Time on the relevant day (or the last such prices quoted immediately before the Determination Time) without regard to quotations that "lock" or "cross" the dealer exchange or dealer quotation system; and
- (ii) in respect of an Index to which a Single Index Note or an Index Basket Note relates, the level of such Index determined by the Determination Agent as provided in the relevant Final Terms as of the Determination Time on the relevant day or, if no method for determining the Relevant Price is so provided, the level of the Index as of the Determination Time on the relevant day;

**"Scheduled Closing Time"** means in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related

Exchange on such Scheduled Trading Day, without regard to after-hours or any other trading outside of regular trading session hours;

**"Scheduled Trading Day"** means (a) except with respect to a Multi-exchange Index, any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading session, and (b) with respect to any Multi-exchange Index, any day on which (i) the Index Sponsor is scheduled to publish the level of the Index and (ii) the Related Exchange is scheduled to be open for trading for its regular trading session;

**"Settlement Cycle"** means, in respect of an Underlying Share or Index, the period of Settlement Cycle Days following a trade in such Underlying Share or the securities underlying such Index, as the case may be, on the Exchange in which settlement will customarily occur according to the rules of such exchange (or, in respect of any Multi-Exchange Index, the longest such period) and for this purpose **"Settlement Cycle Day"** means, in relation to a clearing system any day on which such clearing system is (or but for the occurrence of a Settlement Disruption Event would have been) open for acceptance and executions of settlement instructions;

**"Settlement Price"** means in respect of a Single Share Note, a Share Basket Note, an Index Note or an Index Basket Note, the price, level or amount as determined by the Determination Agent, in its sole and absolute discretion, in accordance with the relevant Final Terms;

**"Trading Disruption"** means (a) except with respect to a Multi-exchange Index, any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange, Related Exchange or otherwise (i) relating to the Underlying Share on the Exchange, or, in the case of a Single Index Note or Index Basket Note, on any relevant Exchange(s) relating to securities that comprise 20 per cent or more of the level of the relevant Index or (ii) in futures or options contracts relating to the Underlying Share or the relevant Index or Indices on any relevant Related Exchange, and (b) with respect to any Multi-exchange Index, any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to any Component on the Exchange in respect of such Component; or (ii) in futures or options contracts relating to the Index on the Related Exchange;

**"Underlying Issuer"** means the entity that is the issuer of the Underlying Share specified in the applicable Final Terms; and

**"Underlying Share"** means, in relation to a particular Series of Notes, a share specified as such in the applicable Final Terms, or, in the case of a Share Basket Note, a share forming part of a basket of shares to which such Note relates.

## 11 PROVISIONS RELATING TO COMMODITY NOTES

This Condition 11 is applicable only in relation to Notes specified in the relevant Final Terms as being Commodity Notes.

- 11.1 *Corrections to published prices:* For the purposes of determining the Relevant Price for any Pricing Date, if applicable, as specified in the relevant Final Terms for the purposes of calculating the Final Redemption Amount or any other amount in respect of a Commodity Note, if the price published or announced on a given day and used or to be used by the Determination Agent to determine such Relevant Price is subsequently corrected and the correction is published or announced by the person responsible for that publication or announcement by such time as may be specified in the relevant Final Terms (or, if none is so specified, within thirty calendar days after the original publication or announcement) and in any

event prior to the Maturity Date for the relevant Notes the Determination Agent shall determine (in its sole and absolute discretion) the adjustment to the Relevant Price so calculated and will adjust the terms of the relevant Notes to account for such correction to the extent that it determines to be necessary and practicable.

#### 11.2 *Commodity Disruption Events:*

11.2.1 If so specified in the Final Terms relating to any Series of Commodity Notes, the following shall constitute "Commodity Disruption Events" for the purposes of such Series:

- (a) **"Price Source Disruption"**, which means (i) the failure of the Price Source to announce or publish the Specified Price (or the information necessary for determining the Specified Price) for the relevant Commodity Reference Price, (ii) the temporary or permanent discontinuance or unavailability of the Price Source, (iii) if the Commodity Reference Price is "Commodity-Reference Dealers," the failure to obtain at least three quotations from the relevant Reference Dealers or (iv) if Price Materiality Percentage is specified in the applicable Final Terms, the Specified Price for the relevant Commodity Reference Price differs from the Specified Price determined in accordance with the Commodity Reference Price "Commodity-Reference Dealers" by such Price Materiality Percentage;
- (b) **"Trading Disruption"**, which means the material suspension of, or the material limitation imposed on, trading in the Futures Contract or the Commodity on the Exchange or in any additional futures contract, options contract or commodity on any Exchange as specified in the applicable Final Terms. The determination of whether a suspension of or limitation on trading is material shall be made by the Determination Agent in its sole and absolute discretion;
- (c) **"Disappearance of Commodity Reference Price"**, which means (i) the permanent discontinuation of trading in the relevant Futures Contract on the relevant Exchange or (ii) the disappearance of, or of trading in, the relevant Commodity or (iii) the disappearance or permanent discontinuance or unavailability of a Commodity Reference Price, notwithstanding the availability of the related Price Source or the status of trading in the relevant Futures Contract or the relevant Commodity;
- (d) **"Material Change in Formula"** means the occurrence since the Trade Date of a material change in the formula for or method of calculating the relevant Commodity Reference Price;
- (e) **"Material Change in Content"**, which means the occurrence since the Trade Date of a material change in the content, composition or constitution of the relevant Commodity or relevant Futures Contract;
- (f) **"Tax Disruption"**, which means the imposition of, change in or removal of an excise, severance, sales, use, value-added, transfer, stamp, documentary, recording or similar tax on, or measured by reference to, the relevant Commodity (other than a tax on, or measured by reference to, overall gross or net income) by any government or taxation authority after the Trade Date, if the direct effect of such imposition, change or removal is to raise or lower the Relevant Price on the day that would otherwise be a Pricing Date from what it would have been without that imposition, change or removal;

- (g) "**Trading Limitation**" which means the material limitation imposed on trading in the Futures Contract or Commodity on the Exchange or in any additional futures contract, options contract or commodity on any exchange or principal trading market as specified in the applicable Final Terms; and
- (h) any other (if any) Commodity Disruption Event specified in the relevant Final Terms.

11.2.2 If the applicable Final Terms for a Series of Commodity Notes specifies that any Commodity Disruption Event shall be applicable to such Series, then, where the Determination Agent determines, acting in a commercially reasonable manner, that such Commodity Disruption Event has occurred and is continuing in respect of such Series on the Pricing Date in respect of such Series (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the Price Source), or on any other day as may be specified for this purpose in the relevant Final Terms, then the Relevant Price will be determined in accordance with the terms of the Commodity Disruption Fallback applicable pursuant to Condition 11.3 (*Commodity Disruption Fallbacks*).

### 11.3 *Commodity Disruption Fallbacks:*

Where one or more Commodity Disruption Event occurs or exists, then, unless the applicable Final Terms specifies that any other Commodity Disruption Fallback shall apply in respect of any such Commodity Disruption Event, "Determination Agent Determination" shall apply.

"**Determination Agent Determination**" means that the Determination Agent will determine, in its sole and absolute discretion, the Relevant Price (or a method for determining the Relevant Price), taking into consideration the latest available quotation for the relevant Commodity Reference Price and any other information that it deems relevant.

### 11.4 *Common Pricing:*

With respect to Notes relating to a basket of Commodities, if "Common Pricing" has been selected in the applicable Final Terms as:

- (i) "Applicable", then no date will be a Pricing Date unless such date is a day on which all referenced Commodity Reference Prices (for which such date would otherwise be a Pricing Date) are scheduled to be published or announced, as determined as of the time of issue of the Notes.
- (ii) "Inapplicable", then if the Determination Agent determines that a Commodity Disruption Event has occurred or exists on the Pricing Date in respect of any Commodity in the basket (the "**Affected Commodity**"), the Relevant Price of each Commodity within the basket which is not affected by the occurrence of a Commodity Disruption Event shall be determined on its scheduled Pricing Date and the Relevant Price for the Affected Commodity shall be determined in accordance with the first applicable Commodity Disruption Fallback that provides a Commodity Reference Price.

### 11.5 *Commodity Index Disruption Events:*

11.5.1 The following shall constitute "**Commodity Index Disruption Events**" for the purposes of any Series of Notes with respect to a Commodity Index:

- (a) a temporary or permanent failure by the applicable exchange or other price source to announce or publish the final settlement price for the relevant Commodity Index; or
- (b) the occurrence in respect of any Component of the relevant Commodity Index of a Commodity Disruption Event (as defined in Condition 11.2.1).

11.5.2 Where the Determination Agent determines, acting in a commercially reasonable manner, that a Commodity Index Disruption Event has occurred and is continuing in respect of a Series on the Pricing Date in respect of such Series (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the Price Source), or on any other day as may be specified for this purpose in the applicable Final Terms, then (unless Condition 11.5.3 (*Physical Hedging Fallback*) applies) the following provisions shall apply:

- (a) with respect to each Component which is not affected by the Commodity Index Disruption Event, the Relevant Price will be determined by the Determination Agent based on the closing prices of each such Component on the applicable Pricing Date;
- (b) with respect to each Component which is affected by the Commodity Index Disruption Event, the Relevant Price will be determined by the Determination Agent (in the case of any Dow Jones-AIG Commodity Index) as set out in the DJ-AIGCI Manual or (in the case of any GS Commodity Index) as set out in the GSCI Manual, and in respect of any other Commodity Index as set out in the applicable Final Terms, in each case based on the closing prices of each such Component on the first day following the applicable Pricing Date on which no Commodity Index Disruption Event occurs with respect to such Component;
- (c) subject to (d) below, the Determination Agent shall determine the Relevant Price by reference to the closing prices determined in (a) and (b) above using the then-current method for calculating the relevant Commodity Index; and
- (d) where a Commodity Index Disruption Event with respect to one or more Components continues to exist (measured from and including the first day following the applicable determination date) for five consecutive Trading Days, the Determination Agent shall determine the Relevant Price acting in good faith and in a commercially reasonable manner. In calculating the Relevant Price as set out in this paragraph, the Determination Agent shall use the formula for calculating the relevant Commodity Index last in effect prior to the Commodity Index Disruption Event. For the purposes of this paragraph (d), "**Trading Day**" shall mean a day when the exchanges for all Components included in the relevant Commodity Index are scheduled to be open for trading.

11.5.3 *Physical Hedging Fallback*. Where the Determination Agent determines that a Commodity Index Disruption Event has occurred and is continuing in respect of a Series on the Pricing Date in respect of such Series and "Physical Hedging Fallback" is specified as applicable in the relevant Final Terms, then the following provisions shall apply;

- (a) with respect to each Component included in the Commodity Index which is not affected by the Commodity Index Disruption Event, the Relevant Price will be based on the closing prices of each such Component on the applicable determination date;
- (b) with respect to each Component included in the Commodity Index which is affected by the Commodity Index Disruption Event, the Relevant Price will be based on the closing price of each such Component on the first day following the applicable determination date on which no Commodity Index Disruption Event occurs with respect to such Component;
- (c) subject to (d) below, the Determination Agent shall determine the Relevant Price by reference to the closing prices determined in (a) and (b) above using the then-current method for calculating the Relevant Price; and
- (d) where a Commodity Index Disruption Event with respect to one or more Components included in the Commodity Index continues to exist (measured from and including the first day following the applicable determination date) for five consecutive Trading Days, the Determination Agent shall determine the Relevant Price in good faith and in a commercially reasonable manner. For the purposes of this paragraph (d), "**Trading Day**" shall mean a day when the exchanges for all Components included in the relevant Commodity Index are scheduled to be open for trading with respect to each Component included in the Commodity Index which is not affected by the Commodity Index Disruption Event, the Relevant Price will be based on the closing prices of each such Component on the applicable determination date.

#### 11.6 *Adjustments to Commodity Index:*

- 11.6.1 If a Commodity Index with respect to a Commodity Reference Price is permanently cancelled or is not calculated and announced by the sponsor of such Commodity Index or any of its affiliates (together the "**Sponsor**") but (i) is calculated and announced by a successor sponsor (the "**Successor Sponsor**") acceptable to the Determination Agent, or (ii) replaced by a successor index (the "**Successor Index**") using, in the determination of the Determination Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of such Commodity Index, then the Commodity Reference Price will be determined by reference to the Index so calculated and announced by that Successor Sponsor or that Successor Index, as the case may be.
- 11.6.2 If, for a Commodity Index with respect to a Commodity Reference Price, on or prior to the Maturity Date or Early Redemption Date, (i) the Sponsor makes a material change in the formula for or the method of calculating such Commodity Index or in any other way materially modifies such Commodity Index (other than a modification prescribed in that formula or method to maintain the Commodity Index in the event of changes in constituent commodities and weightings and other routine events), or (ii) the Sponsor permanently cancels the Commodity Index or (iii) the Sponsor fails to calculate and announce the Commodity Index for a continuous period of three Trading Days and the Determination Agent determines that there is no Successor Sponsor or Successor Index, then the Determination Agent may at its option (in the case of (i)) and shall (in the case of (ii) and (iii)) (such events (i) (ii) & (iii) to be collectively referred to as "**Index Adjustment Events**") calculate the Relevant Price using in lieu of the published level

for that Commodity Index (if any), the level for that Commodity Index as at the relevant determination date as determined by the Determination Agent in accordance with the formula for and method of calculating that Commodity Index last in effect prior to the relevant Index Adjustment Event (as the case may be), but using only those Futures Contracts that comprised that Index immediately prior to the relevant Index Adjustment Event (as the case may be) (other than those futures contracts that have ceased to be listed on any relevant exchange).

#### 11.7 *Definitions applicable to Commodity Notes*

In relation to Commodity Notes, the following expressions have the meanings set out below:

**"Commodity"** means each commodity specified as such in the applicable Final Terms;

**"Commodity Business Day"** means:

- (i) in the case where the Commodity Reference Price is a price announced or published by an Exchange, a day that is (or, but for the occurrence of a Commodity Disruption Event, would have been) a day on that Exchange is open for trading during its regular trading session, notwithstanding any such Exchange closing prior to its scheduled closing time; and
- (ii) in the case where the Commodity Reference Price is not a price announced or published by an Exchange, a day in respect of which the relevant Price Source published (or, but for the occurrence of a Commodity Disruption Event, would have published) a price.

**"Commodity Index"** means an index comprising commodities specified as such in the relevant Final Terms;

**"Commodity Reference Price"** means the commodity reference price(s) specified as such in the applicable Final Terms;

**"Component"** means in relation to a Commodity Index, any commodity or Futures Contract the price of which is included in such Commodity Index;

**"Delivery Date"** means the relevant date or month for delivery of the underlying Commodity (which must be a date or month reported or capable of being determined from information reported in or by the relevant Price Source) specified as such in, or determined in accordance with the provisions in, the applicable Final Terms. In relation to any underlying Commodity which is specified in the applicable Final Terms to be a "Non Metal" and each Pricing Date, the relevant Delivery Date shall be the month of expiration of the first Futures Contract to expire following such Pricing Date. In relation to any underlying Commodity which is specified in the applicable Final Terms to be a "Base Metal" or a "Precious Metal" and each Pricing Date, the Delivery Date shall be such Pricing Date;

**"DJ-AIG Commodity Index"** means the Dow Jones-AIG Commodity Index and any other Commodity Index, in each case which is calculated and sponsored by Dow Jones Inc, or any successor to such sponsor;

**"DJ-AIGCI Manual"** means the manual or handbook in respect of a DJ-AIG Commodity Index published by the sponsor of the relevant Commodity Index and in effect from time to time;

**"Exchange"** means each exchange or principal trading market specified as such in relation to a Commodity in the applicable Final Terms or in the applicable Commodity Reference Price;



**"Futures Contract"** means either (a) the contract for future delivery in respect of the relevant Delivery Date relating to the relevant Commodity referred to in the relevant Commodity Reference Price or (b) each futures contract underlying or included in a Commodity Index;

**"GS Commodity Index"** means the Goldman Sachs Commodity Index and any other Commodity Index, in each case which is calculated and sponsored by Goldman, Sachs & Co., or any successor to such sponsor;

**"GSCI Manual"** means the manual or handbook in respect of a GS Commodity Index published by the sponsor of the relevant Commodity Index and in effect from time to time;

**"Price Source"** means the publication (or such other origin of reference, including an Exchange) containing (or reporting) the Specified Price (or prices from which the Specified Price is calculated) specified as such in the applicable Final Terms;

**"Pricing Date"** means, subject as provided in this Condition 11 each date specified as such (or determined pursuant to a method specified for such purpose) in the applicable Final Terms;

**"Relevant Price"** on any day means in respect of a unit of measure of the Commodity to which a Commodity Note relates, the price, expressed as a price per unit, determined by the Determination Agent as provided in the applicable Final Terms with respect to such day for the applicable Commodity Reference Price; and

**"Specified Price"** means any of the following prices of a Commodity or Commodities or levels of a Commodity Index (which must be a price reported or capable of being determined from information reported in or by the relevant Price Source), as specified in the applicable Final Terms (and, if applicable, as of the time so specified) (a) the high price (b) the low price (c) the average of the high price and the low price (d) the closing price (e) the opening price (f) the bid price (g) the asked price (h) the average of the bid price and the asked price (i) the settlement price (j) the official settlement price (which shall be the Specified Price for any Commodity Index, and for any Commodity specified in the applicable Final Terms as a "Non Metal") (k) the official price (l) the morning fixing (m) the afternoon fixing (which shall be the Specified Price in respect of any Commodity specified in the applicable Final Terms as a "Precious Metal") (n) the spot price or (o) any other price specified in the applicable Final Terms. The Specified Price for any Commodity specified in the applicable Final Terms as a "Precious Metal" shall be the official cash bid price.

## 12 PROVISIONS RELATING TO CURRENCY NOTES

This Condition 12 is applicable only in relation to Notes specified in the relevant Final Terms as being Currency Notes.

12.1 *Valuation Date:* **"Valuation Date"** means, in respect of any Series of Currency Notes, the date(s) specified as such or otherwise determined as provided in the applicable Final Terms provided that where the Valuation Date is not a Currency Business Day then the Valuation Date shall be the first preceding day that is a Currency Business Day, unless otherwise specified in the relevant Final Terms. Unless otherwise specified in the relevant Final Terms and subject to Condition 12.2 (*Averaging*), the Valuation Date will be the date falling two Currency Business Days prior to the Maturity Date.

12.2 *Averaging:* If Averaging Dates are specified in the relevant Final Terms, then notwithstanding any other provisions of these Conditions, the following provisions will apply to the determination of the Settlement Rate in relation to a Valuation Date:

- 12.2.1 "**Averaging Date**" means, in respect of a Valuation Date, each date specified as such or otherwise determined as provided in the applicable Final Terms, provided that if any such date is not a Currency Business Day, such date shall be the first preceding day that is a Currency Business Day, unless otherwise specified in the relevant Final Terms.
- 12.2.2 For purposes of determining the Settlement Rate in relation to a Valuation Date, the Settlement Rate will be the arithmetic mean of the Spot Rates on each Averaging Date (or, if different, the day on which rates for each Averaging Date would, in the ordinary course, be published or announced by the relevant price source).
- 12.2.3 Unless otherwise specified in the applicable Final Terms, in the case where it becomes impossible to obtain the Spot Rate on an Averaging Date (or, if different, the day on which rates for that Averaging Date would, in the ordinary course, be published or announced by the relevant price source), such Averaging Date will be deemed not to be a relevant Averaging Date for purposes of determining the relevant Settlement Rate. If through the operation of this Condition 12.2.3, there would not be an Averaging Date with respect to the relevant Valuation Date, the provisions of Conditions 12.3 (*Currency Disruption Events*) and 12.4 (*Currency Disruption Fallbacks*) shall apply for purposes of determining the relevant Spot Rate on the final Averaging Date with respect to that Valuation Date as if such Averaging Date were a Valuation Date on which a Price Source Disruption had occurred.

12.3 *Currency Disruption Events:*

- 12.3.1 If so specified in the Final Terms relating to any Series of Notes, the following shall constitute "Currency Disruption Events" for the purposes of such Series:
- (a) "**Price Source Disruption**", which means it becomes impossible, as determined by the Determination Agent, acting in a commercially reasonable manner, to determine the Settlement Rate on the Valuation Date (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced by the applicable price source in accordance with the relevant price source); and
  - (b) any other (if any) currency disruption event specified in the applicable Final Terms.
- 12.3.2 If the applicable Final Terms specifies that any Currency Disruption Event shall be applicable to such Series, then, where the Determination Agent determines, acting in a commercially reasonable manner, that such Currency Disruption Event has occurred and is continuing in respect of such Series:
- (a) in the case of Price Source Disruption, on the day that is the Valuation Date in respect of such Series (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced by the relevant price source); and
  - (b) in the case of any other Currency Disruption Event, on such day as may be specified for this purpose in the relevant Final Terms,

then the Settlement Rate for such Series will be determined in accordance with the terms of the Currency Disruption Fallback first applicable pursuant to Condition 12.4 (*Currency Disruption Fallbacks*).

#### 12.4 *Currency Disruption Fallbacks:*

12.4.1 If so specified in the Final Terms relating to any Series of Notes, the following shall constitute "Currency Disruption Fallbacks" for the purposes of such Series, and the applicable Final Terms shall specify which Currency Disruption Fallback(s) shall apply to such Series, to which Currency Disruption Event each such Currency Disruption Fallback shall apply and, where more than one Currency Disruption Fallback may apply to a Currency Disruption Event, the order in which such Currency Disruption Fallback(s) shall apply to such Currency Disruption Event.

- (a) "**Determination Agent Determination of Settlement Rate**" means that the Determination Agent will determine, in its sole and absolute discretion, the Settlement Rate (or a method for determining the Settlement Rate), taking into consideration all available information that it deems relevant;
- (b) "**Fallback Reference Price**" means that the Determination Agent will determine, in its sole and absolute discretion, the Settlement Rate for such Series on the relevant Valuation Date (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced) pursuant to the Settlement Rate Option referred to as Currency-Reference Dealers, or pursuant to such other Settlement Rate Option as may be specified as the Fallback Reference Price in the relevant Final Terms; and
- (c) any other provisions specified as Currency Disruption Fallbacks in the relevant Final Terms.

12.4.2 Where more than one Currency Disruption Event occurs or exists or is deemed to occur or exist, then, unless the relevant Final Terms has specified which Currency Disruption Fallback shall apply in such circumstances, the Determination Agent shall determine, in its sole and absolute discretion, which Currency Disruption Fallback shall apply.

#### 12.5 *Definitions applicable to Currency Notes*

In relation to Currency Notes, the following expressions have the meanings set out below:

"**Currency Business Day**" means, unless otherwise specified in the relevant Final Terms, for the purposes of:

- (i) the definition of Valuation Date in Condition 12.1 (*Valuation Date*), in respect of any Series of Currency Notes: (1) a day on which commercial banks are (or but for the occurrence of a Currency Disruption Event, would have been) open for business (including dealings in foreign exchange in accordance with the market practice of the foreign exchange market) in the Principal Financial Centre(s) of the Reference Currency or (2) where the currency to be valued is euro, a day that is a TARGET Settlement Day and a Business Day; and
- (ii) for any other purpose, in respect of any Series of Currency Notes: (1) a day on which commercial banks are open for general business (including dealings in foreign exchange in accordance with the market practice of the foreign exchange market) in the Principal Financial Centre(s) of the Reference Currency and (2) where one of the Currency Pair is euro, a day that is a TARGET Settlement Day;

**"Currency Pair"** means the Reference Currency and the Settlement Currency;

**"Currency-Reference Dealers"** is a Settlement Rate Option which means that the Spot Rate for a Rate Calculation Date will be determined on the basis of quotations provided by Reference Dealers on that Rate Calculation Date of that day's Specified Rate, expressed as the amount of Reference Currency per one unit of Settlement Currency for settlement on the Maturity Date (or other relevant date for payment under the Notes). The Determination Agent will request each of the Reference Dealers to provide a firm quotation of its Specified Rate for a transaction where the amount of Reference Currency equals the Specified Amount. If four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the Specified Rates, without regard to the Specified Rates having the highest and lowest value. If exactly three quotations are provided, the rate for a Rate Calculation Date will be the Specified Rate provided by the Reference Dealer that remains after disregarding the Specified Rates having the highest and lowest values. For this purpose, if more than one quotation has the same highest value or lowest value, then the Specified Rate of one of such quotations shall be disregarded. If exactly two quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the Specified Rates. If only one quotation is provided, the rate for a Rate Calculation Date will be the Specified Rate quoted by that Reference Dealer. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each case at the Specified Time on that Rate Calculation Date;

**"Rate Calculation Date"** means any Valuation Date or Averaging Date (as defined in Conditions 12.1 (*Valuation Date*) and 12.2 (*Averaging*) respectively);

**"Reference Currency"** means the currency specified as such in the applicable Final Terms;

**"Reference Currency Jurisdiction"** means the jurisdiction specified as such in the relevant Final Terms;

**"Reference Dealers"** means the reference dealers specified as such in the relevant Final Terms;

**"Settlement Currency"** means the currency specified as such in the applicable Final Terms;

**"Settlement Rate"** means the rate as determined by the Determination Agent, in its sole and absolute discretion, in accordance with the relevant Final Terms and, where applicable shall be determined in accordance with Condition 12.2 (*Averaging*);

**"Settlement Rate Option"** means for the purposes of calculating the Settlement Rate, the Settlement Rate Option specified in the applicable Final Terms (or which is applicable pursuant to Condition 12.4 (*Currency Disruption Fallbacks*));

**"Specified Amount"** means the amount of Reference Currency specified as such in the relevant Final Terms;

**"Specified Rate"** means any of the following rates, as specified in the relevant Final Terms: (i) the Reference Currency bid exchange rate, (ii) the Reference Currency offer exchange rate, (iii) the average of the Reference Currency bid and offer exchange rates, (iv) the Settlement Currency bid exchange rate, (v) the Settlement Currency offer exchange rate, (vi) the average of the Settlement Currency bid and offer exchange rates, (vii) the official fixing rate or (viii) any other exchange rate specified in the relevant Final Terms. If no such rate is specified, the Specified Rate will be deemed to be the average of the Reference Currency bid and offer rate;

**"Specified Time"** means, in respect of any series of Notes and the determination of the Spot Rate, the time specified as such in the applicable Final Terms or if no such time is specified the time chosen by the Determination Agent;

**"Spot Rate"** means for any Valuation Date, the relevant currency exchange rate determined in accordance with the applicable Settlement Rate Option and, if a Settlement Rate Option is not applicable, the currency exchange rate at the time at which such rate is to be determined for foreign exchange transactions in the Currency Pair for value on the Maturity Date (or other relevant date for payment under the Notes), as determined in good faith and in a commercially reasonable manner by the Determination Agent.

### **13 REDEMPTION AND PURCHASE**

13.1 *Scheduled Redemption.* Save in the case of Credit-Linked Notes, unless previously redeemed, or purchased and cancelled, and unless otherwise specified in the relevant Final Terms, (i) Cash Settlement Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 14 (*Payments*) and (ii) Physical Settlement Notes shall be redeemed by delivery of the Physical Delivery Amount on the Physical Settlement Date, subject as provided in Condition 15. Credit-Linked Notes shall be redeemed as set out in Condition 16.

13.2 *Tax Redemption - Morgan Stanley Notes.* Notes issued by Morgan Stanley may be redeemed in whole (but not in part), at the option of Morgan Stanley at any time prior to maturity, upon the giving of a notice of redemption as described below, if Morgan Stanley determines that, as a result of:

13.2.1 any change in or amendment to the laws, or any regulations or rulings promulgated under the laws, of the United States or of any political subdivision or taxing authority of or in the United States affecting taxation, or

13.2.2 any change in official position regarding the application or interpretation of the laws, regulations or rulings referred to above,

which change or amendment becomes effective on or after the date of the applicable Final Terms in connection with the issuance of the Notes or any other date specified in the applicable Final Terms, Morgan Stanley is or will become obligated to pay Additional Amounts with respect to the Notes as described in Condition 17 (*Taxation*). The redemption price will be specified in the applicable Final Terms. Morgan Stanley will give notice of any tax redemption.

13.3 *Tax Redemption - MSBV Notes and MSJ Notes.* MSBV Notes and MSJ Notes may be redeemed as a whole (but not in part), at the option of the relevant Issuer at any time prior to maturity, upon the giving of a notice of redemption as described below, if the Issuer determines that, as a result of:

13.3.1 any change in or amendment to the laws, or any regulations or rulings promulgated under the laws of The Netherlands, Jersey or the United States or of any political subdivision or taxing authority of or in The Netherlands, Jersey or the United States affecting taxation, or

13.3.2 any change in official position regarding the application or interpretation of the laws, regulations or rulings referred to above,

which change or amendment becomes effective on or after the date of the applicable Final Terms in connection with the issuance of the Notes or any other date specified in the applicable

Final Terms, the Issuer or the Guarantor is or will become required by law to make any withholding or deduction with respect to the Notes, as described in Condition 17 (*Taxation*). The redemption price will be specified in the applicable Final Terms. The Issuer will give notice of any tax redemption.

13.4 Prior to the relevant Issuer giving notice of redemption under Condition 13.2 or 13.3, it will deliver to the Fiscal Agent:

13.4.1 a certificate stating that it is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to its right to so redeem have occurred (the date on which that certificate is delivered to the Fiscal Agent is the "**Redemption Determination Date**"); and

13.4.2 an opinion of independent legal counsel of recognised standing to that effect based on the statement of facts.

Notice of redemption will be given not less than 30 nor more than 60 days prior to the date fixed for redemption. The date and the applicable redemption price will be specified in the notice.

If any date fixed for redemption is a date prior to the date (the "**Exchange Date**") that is 40 days after the date in which the Issuer receives the proceeds of the sale of a Note, definitive bearer notes will be issuable on and after that redemption date as if that redemption date had been the Exchange Date. Receipt of Ownership Certificates, as described in "Forms of Notes" above, is a condition to delivery of definitive bearer notes.

13.5 *Special Tax Redemption*. If the Issuer determines that any payment made outside the United States by the Issuer, the Guarantor (in the case of MSBV Notes or MSJ Notes) or any Paying Agent of principal, premium, interest and/or supplemental amounts, if any, due on any bearer note or coupon would, under any present or future laws or regulations of the United States, be subject to any certification, identification or other information reporting requirement of any kind, the effect of which is the disclosure to the Issuer, the Guarantor (in the case of MSBV Notes or MSJ Notes), any Paying Agent or any governmental authority of the nationality, residence or identity of a beneficial owner of that bearer note or coupon who is a United States Alien other than such a requirement that:

13.5.1 would not be applicable to a payment made by the Issuer, the Guarantor or any Paying Agent

(a) directly to the beneficial owner; or

(b) to a custodian, nominee or other agent of the beneficial owner, unless the payment by the custodian, nominee or agent to the beneficial owner would otherwise be subject to any similar requirement, or

13.5.2 can be satisfied by the custodian, nominee or other agent certifying to the effect that the beneficial owner is a United States Alien, unless the payment by the custodian, nominee or agent to the beneficial owner would otherwise be subject to any similar requirement,

the Issuer will (1) redeem the Notes, as a whole, at the redemption price specified in the applicable Final Terms, or (2) at the election of the Issuer, if the conditions described below are satisfied, pay the additional amounts specified in that paragraph.

The relevant Issuer will make the determination and election described above as soon as practicable and publish prompt notice thereof (the "**Determination Notice**") stating:

- 13.5.3 the effective date of the certification, identification or other information reporting requirements,
- 13.5.4 whether the Issuer will redeem the Notes or has elected to pay the additional amounts specified below and
- 13.5.5 if the Issuer elects to redeem, the last date by which the redemption of the Notes must take place.

If the Issuer redeems the Notes for this reason, the redemption will take place on a date, not later than one year after the publication of the Determination Notice. The Issuer will elect the date fixed for redemption by notice to the Fiscal Agent at least 60 days prior to the date fixed for redemption, or within the redemption notice period specified in the applicable Final Terms. Notice of the redemption of the Notes will be given to the Noteholders not more than 60 nor less than 30 days prior to the date fixed for redemption, or within the redemption notice period specified in the applicable Final Terms.

Notwithstanding the foregoing, the relevant Issuer will not redeem the Notes if such Issuer subsequently determines, not less than 30 days prior to the date fixed for redemption, or prior to the last day of the specified redemption notice period in the applicable Final Terms, that subsequent payments would not be subject to any certification, identification or other information reporting requirement, in which case the Issuer will publish prompt notice of the determination and revoke any earlier redemption notice.

13.6 *Election to pay additional amounts rather than redeem.* If and so long as the certification, identification or other information reporting requirements referred to in Condition 13.5 (*Special Tax Redemption*) would be fully satisfied by payment of a backup withholding tax or similar charge, the relevant Issuer may elect to pay such additional amounts as may be necessary so that every net payment made outside the United States following the effective date of those requirements by the Issuer, the Guarantor (if applicable) or any Paying Agent of principal, premium, interest and/or supplemental amounts, if any, due in respect of any bearer note or any coupon of which the beneficial owner is a United States Alien will not be less than the amount provided for in the Note or Coupon to be then due and payable after deduction or withholding for or on account of the backup withholding tax or similar charge, other than a backup withholding tax or similar charge that:

- (a) would not be applicable in the circumstances referred to in Conditions 13.5.1 and 13.5.2 or
- (b) is imposed as a result of presentation of the Note or Coupon for payment more than 15 days after the date on which the payment becomes due and payable or on which payment thereof is duly provided for, whichever occurs later.

The Issuer's ability to elect to pay additional amounts as described in this paragraph is conditioned on there not being a requirement that the nationality, residence or identity of the beneficial owner be disclosed to the Issuer, the Guarantor, any paying agent or any governmental authority, as a result of the payment of the additional amounts.

If the Issuer elects to pay any additional amounts as described in this Condition 13.6, the Issuer will have the right to redeem the Notes as a whole at any time by meeting the same conditions described in Condition 13.5 (*Special Tax Redemption*), and the redemption price of the Notes will not be reduced for applicable withholding taxes. If the Issuer elects to pay additional amounts as described in this Condition 13.6 and the condition specified in the first sentence of

this Condition 13.6 should no longer be satisfied, then the Issuer will redeem the Notes as a whole under the applicable provisions of Condition 13.5 (*Special Tax Redemption*).

- 13.7 *Redemption at the option of the Issuer.* If the Call Option is specified in the applicable Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the applicable Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- 13.8 *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 13.7 (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 13.7 (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. In respect of a partial redemption of Swedish Notes, the notice shall also specify the Swedish Notes or amounts of the Swedish Notes to be redeemed and the Record Date in respect of the relevant Swedish Notes and the procedures for partial redemption laid down in the then applicable Swedish CSD Rules will be observed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the applicable Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- 13.9 *Redemption at the option of Noteholders:* If the Put Option is specified in the applicable Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 13.8, the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. In respect of Swedish Notes, the Put Notice shall not take effect against the Issuer before the date on which the relevant Swedish Notes have been transferred to the account designated by the Swedish Issuing Agent and blocked for further transfer by the Swedish Issuing Agent. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 13.8, may be withdrawn; *provided, however*, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 13.8, the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.



13.10 *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the applicable Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

13.10.1 the Reference Price; and

13.10.2 the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the applicable Final Terms for the purposes of this Condition 13.10 or, if none is so specified, a Day Count Fraction of 30E/360.

13.11 *Purchase:* Morgan Stanley, Morgan Stanley Jersey, MSBV or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

13.12 *Cancellation:* All Notes so redeemed shall, and all Notes so purchased by Morgan Stanley, Morgan Stanley Jersey, MSBV or any of their respective Subsidiaries may, at the discretion of relevant purchaser, be cancelled (together with all unmatured Coupons attached to or surrendered with them). All Notes so redeemed, and all Notes so purchased and cancelled, may not be reissued or resold.

## 14 PAYMENTS

14.1 *Principal:* Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

14.2 *Interest:* Payments of interest shall, subject to Condition 14.8 below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 14.1 above.

14.3 *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law without adverse United States federal tax consequences or other adverse consequences to the Issuer or the Guarantor (if applicable).

14.4 *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 17 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

14.5 *Deductions for unmatured Coupons*: If the applicable Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

14.5.1 if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however*, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

14.5.2 if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(a) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however*, that where this subparagraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(b) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

14.6 *Unmatured Coupons void*: If the applicable Final Terms specifies that this Condition 14.6 is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 13.2 or Condition 13.3 (*Tax Redemption*), Condition 13.5 (*Special Tax Redemption*), Condition 13.8 (*Redemption at the option of Noteholders*), Condition 13.7 (*Redemption at the option of the Issuer*) or Condition 18 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

14.7 *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

14.8 *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 14.3 above).

14.9 *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

14.10 *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent during regular business hours for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 19 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

14.11 *Unavailability of Currency*. If the Specified Currency is not available to the Issuer for making payments of principal of, and premium, interest and/or additional amounts, if any, on any Note (whether due to the imposition of exchange controls or other circumstances beyond the control of the Issuer, or if the Specified Currency is no longer used by the government of the country issuing that currency or by public institutions within the international banking community for the settlement of transactions). If the Specified Currency is unavailable, the Issuer may satisfy its obligations to Noteholders by making payments on the date of payment in U.S. dollars on the basis of the prevailing exchange rate on the date of the payment or of the most recent practicable date, such rate being based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 a.m., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers for the purchase by the quoting dealer:

- (i) of the Specified Currency for U.S. dollars for settlement on the payment date;
- (ii) in the aggregate amount of the Specified Currency payable to those holders or beneficial owners of Notes; and
- (iii) at which the applicable dealer commits to execute a contract.

If those bid quotations are not available, the Exchange Rate Agent will determine the Market Exchange Rate at its sole discretion. All determinations by the Exchange Rate Agent will, in the absence of manifest error, be conclusive for all purposes and binding on the Issuer, the Guarantor (if applicable) and the Noteholders. The Exchange Rate Agent will be Morgan Stanley & Co. International plc, an affiliate of Morgan Stanley, unless otherwise noted in the applicable Final Terms. If the Exchange Rate Agent is not an affiliate of Morgan Stanley, it may be one of the dealers providing quotations.

Any payment made in U.S. dollars on the basis of the prevailing exchange rate where the required payment is in an unavailable Specified Currency will not constitute an Event of Default.

The foregoing provisions do not apply if a Specified Currency is unavailable because it has been replaced by the euro. If the euro has been substituted for a Specified Currency, the Issuer may (or will, if required by applicable law) without the consent of the holders of the affected Notes, pay the principal of, premium, if any, or interest, if any, on any Note denominated in the Specified Currency in euro instead of the Specified Currency, in conformity with legally applicable measures taken pursuant to, or by virtue of, the Treaty. Any payment made in U.S. dollars or in euro as described above where the required payment is in an unavailable Specified Currency will not constitute an Event of Default.

14.12 *Payments of Principal and Interest in respect of Swedish Notes*: Payments of principal, interest and/or any other amount payable under these Conditions in respect of Swedish Notes shall be made to the Noteholders recorded as such on the fifth business day (as defined by the then applicable Swedish CSD Rules) before the due date for such payment, or such other business day falling closer to the due date as may then be stipulated in said Rules. Such day shall be the Record Date in respect of the Swedish Notes. All payments made in respect of Swedish Notes shall be subject to the provisions under "Forms of Notes - Limitations on Issuance of, Payment on, and Delivery of Bearer Notes and Swedish Notes below."

## 15 PHYSICAL SETTLEMENT

### 15.1 *Delivery Notice*

- (i) Each Noteholder in respect of Physical Settlement Notes, shall, on or before the scheduled date for redemption thereof (or such earlier date as the Issuer shall (i) determine is necessary for the Issuer, the Fiscal Agent, Euroclear, and/or Clearstream, Luxembourg to perform their respective obligations hereunder and (ii) notify to the Fiscal Agent and the Noteholders) send to Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with its then applicable operating procedures, and the Fiscal Agent an irrevocable notice (the "**Delivery Notice**") in the form from time to time approved by the Issuer, which must:
  - (a) specify the name and address of the Noteholder;
  - (b) specify the number of Notes in respect of which he is the Noteholder;
  - (c) specify the number of the Noteholder's account at Euroclear or Clearstream, Luxembourg, as the case may be, to be debited with such Notes;
  - (d) irrevocably instruct and authorise Euroclear or Clearstream, Luxembourg, as the case may be, (A) to debit the Noteholder's account with such Notes on the Physical Settlement Date and (B) that no further transfers of the Notes specified in the Delivery Notice may be made;
  - (e) contain a representation and warranty from the Noteholder to the effect that the Notes to which the Delivery Notice relates are free from all liens, charges, encumbrances and other third party rights;
  - (f) specify the number and account name of the account at the Clearing System to be credited with the Physical Delivery Amount if Physical Settlement is applicable;
  - (g) contain an irrevocable undertaking to pay the Redemption Expenses and Taxes (if any) and an irrevocable instruction to Euroclear or Clearstream, Luxembourg, as the case may be, to debit on or after the Physical Settlement Date the cash or other account of the Noteholder with Euroclear or, as the case may be, Clearstream, Luxembourg specified in the Delivery Notice with such Redemption Expenses and Taxes;
  - (h) include a certificate of non-U.S. beneficial ownership in the form required by the Issuer; and
  - (i) authorise the production of the Delivery Notice in any applicable administrative or legal proceedings.

- (ii) A Delivery Notice, once delivered to Euroclear or Clearstream, Luxembourg, shall be irrevocable and may not be withdrawn without the consent in writing of the Issuer. A Noteholder may not transfer any Note which is the subject of a Delivery Notice following delivery of such Delivery Notice to Euroclear or Clearstream, Luxembourg. A Delivery Notice shall only be valid to the extent that Euroclear or Clearstream, Luxembourg have not received conflicting prior instructions in respect of the Notes which are the subject of the Delivery Notice.
- (iii) Failure properly to complete and deliver a Delivery Notice may result in such notice being treated as null and void. Any determination as to whether such notice has been properly completed and delivered as provided shall be made by Euroclear or Clearstream, Luxembourg, as the case may be, after consultation with the Fiscal Agent and shall be conclusive and binding on the Issuer and the Noteholder.
- (iv) The Fiscal Agent shall promptly on the Business Day following receipt of such notice send a copy of the Delivery Notice to the Issuer or such person as the Issuer may previously have specified.

## 15.2 *Delivery obligation*

- 15.2.1 Subject to the other provisions of this Condition 15.2, the Issuer shall discharge its obligation to deliver the Physical Delivery Amount in respect of any Notes by delivering, or procuring the delivery of, the relevant Underlying Shares on the Physical Settlement Date to the Clearing System for credit to the account with the Clearing System specified in the Delivery Notice of the relevant Noteholder.
- 15.2.2 The number of Underlying Shares to be delivered to or for the account of each Noteholder on redemption of any Physical Settlement Notes shall be as determined in accordance with the relevant Final Terms. The Issuer may pay a residual cash amount to each Noteholder representing any fractions of Underlying Shares comprising the Physical Delivery Amount.
- 15.2.3 After delivery to or for the account of a Noteholder of the relevant Physical Delivery Amount and for such period of time as the transferor or its agent or nominee shall continue to be registered in any clearing system as the owner of the Underlying Shares comprised in such Physical Delivery Amount (the "**Intervening Period**"), none of such transferor or any agent or nominee for the Issuer or such transferor shall (i) be under any obligation to deliver to such Noteholder or any other person any letter, certificate, notice, circular, dividend or any other document or payment whatsoever received by the Issuer or such transferor, agent or nominee in its capacity as holder of such Underlying Shares, (ii) be under any obligation to exercise any rights (including voting rights) attaching to such Underlying Shares during the Intervening Period, or (iii) be under any liability to such Noteholder or any other person in respect of any loss or damage which the Noteholder or any other person may sustain or suffer as a result, whether directly or indirectly, of the Issuer or such transferor, agent or nominee being registered in the Clearing System during such Intervening Period as legal owner of such Underlying Shares.
- 15.2.4 Any amounts in respect of dividends and interest on the Underlying Shares comprising the Physical Delivery Amount to be delivered will be payable to the party that would receive such amounts according to market practice for a sale of such Underlying Shares executed on the Exchange Business Day following the Determination Date in respect of the Notes. Any such amounts will be paid to or for credit to the account specified by the

Noteholder in the relevant Delivery Notice. No right to dividends or interest on the Underlying Shares will accrue to Noteholders prior to the Determination Date.

### 15.3 *Settlement Disruption of Physical Settlement*

- 15.3.1 This Condition 15.3 shall apply only where Physical Settlement is applicable.
- 15.3.2 The Determination Agent shall determine whether or not at any time a Settlement Disruption Event has occurred in respect of Underlying Shares comprised in the Physical Delivery Amount (the "Affected Securities") and where it determines such an event has occurred and so has prevented delivery of such Affected Securities on the original day that but for such Settlement Disruption Event would have been the Physical Settlement Date, then the Physical Settlement Date will be the first succeeding day on which delivery of such Affected Securities can take place through the Clearing System unless a Settlement Disruption Event prevents settlement on each of the ten Clearing System Business Days immediately following the original date that, but for the Settlement Disruption Event, would have been the Physical Settlement Date. In that case, (a) if such Affected Securities can be delivered in any other commercially reasonable manner, then the Physical Settlement Date will be the first day on which settlement of a sale of such Affected Securities executed on that tenth Clearing System Business Day customarily would take place using such other commercially reasonable manner of delivery (which other manner of delivery will be deemed the Clearing System for the purposes of delivery of such Affected Securities), and (b) if such Affected Shares cannot be delivered in any other commercially reasonable manner, then the Physical Settlement Date will be postponed until delivery can be effected through the Clearing System or in any other commercially reasonable manner.
- 15.3.3 For the purposes hereof "**Settlement Disruption Event**" means, as determined by the Determination Agent, an event which is beyond the control of the Issuer or the transferor of any relevant Underlying Shares and as a result of which the Clearing System cannot receive or clear the transfer of such Underlying Shares.

### 15.4 *Delivery Disruption of Physical Settlement*

- 15.4.1 This Condition 15.4 shall apply only where Physical Settlement is applicable.
- 15.4.2 If the Determination Agent determines that a Delivery Disruption Event has occurred, the Determination Agent shall notify the Issuer who shall promptly notify the Noteholders, and the Issuer will then deliver, or procure the delivery of, on the Physical Settlement Date such number of Underlying Shares comprised in the Physical Delivery Amount (if any) as it can deliver, or procure the delivery of, on that date and pay such amount as in the opinion of the Determination Agent is appropriate in the circumstances by way of compensation for the non-delivery of the remainder of the Underlying Shares comprised in the Physical Delivery Amount (assuming satisfaction of each applicable condition precedent) to which the Noteholders would have been entitled under the Notes but for the occurrence of such Delivery Disruption Event, in which event the entitlements of the respective Noteholders to receive Underlying Shares on redemption shall cease and the Issuer's obligations under the Notes shall be satisfied in full upon delivery of such number of Underlying Shares and payment of such amount.
- 15.4.3 Where this Condition 15.4 falls to be applied, insofar as the Determination Agent determines to be practical, the same shall be applied as between the Noteholders on a *pro rata* basis, but subject to such rounding down (whether of the amount of a payment or of a number of Underlying Shares to be delivered) and also to such other adjustments as the

Determination Agent determines to be appropriate to give practical effect to such provisions.

15.4.4 For the purposes hereof "**Delivery Disruption Event**" means, as determined by the Determination Agent, the failure or inability, due to illiquidity in the market for the Underlying Shares comprised in the Physical Delivery Amount, by or of the Issuer to deliver, or procure the delivery of, on the Physical Settlement Date all the Underlying Shares comprised in the Physical Delivery Amount to be delivered on that date.

15.5 *Additional Definitions:* For the purposes of this Conditions 15:

"**Clearing System**" means, in respect of an Underlying Share relating to a Physical Settlement Note, the clearing system specified as such for such Underlying Share in the applicable Final Terms or any successor to such clearing system as determined by the Determination Agent. If the Final Terms do not specify a clearing system, the Clearing System will be the principal domestic system customarily used for settling trades in the relevant Underlying Shares. If the Clearing System ceases to settle trades in such Underlying Shares, the Determination Agent will, acting in good faith and in a commercially reasonable manner, select another method of delivery;

"**Clearing System Business Day**" means, in respect of a Clearing System, any day on which such Clearing System is (or, but for the occurrence of a Settlement Disruption Event, would have been) open for the acceptance and execution of settlement instructions;

"**Physical Delivery Amount**" means in respect of any Series of Physical Settlement Notes, the securities to be delivered by the Issuer to Noteholders on redemption of each Note, as provided in the applicable Final Terms;

"**Physical Settlement Date**" means, in relation to Underlying Shares to be delivered, subject to Condition 15.3 (*Settlement Disruption of Physical Settlement*), in respect of any Notes, the date following the Maturity Date or any other applicable redemption date, as the case may be, which is the first day on which settlement of a sale of such Underlying Shares executed on that Maturity Date or other redemption date, as the case may be, customarily would take place through the Applicable Clearing System, unless otherwise specified in the applicable Final Terms;

"**Settlement Disruption Event**" means, in relation to an Underlying Share, an event beyond the control of the parties as a result of which the Clearing System cannot clear the transfer of such Underlying Share.

## 16 CREDIT-LINKED NOTES

16.1 This Condition 16 is applicable only in relation to Notes specified in the relevant Final Terms as being Credit-Linked Notes

16.2 *Generally:* The terms and conditions of the Notes relating to the calculation of the Final Price of the relevant Reference Obligation, the Credit Event Redemption Amount and the Valuation Method, in the event that Conditions to Settlement are satisfied during the Notice Delivery Period, shall be set out in the applicable Final Terms. Terms used in the Final Terms for Credit-Linked Notes shall, unless otherwise defined herein or in the applicable Final Terms and where the context so permits, have the meanings given thereto in the 2003 ISDA Credit Derivatives Definitions, as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series, as published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Credit Derivatives Definitions**").

- 16.3 *Maturity*: Subject to the provisions of and in accordance with Conditions 16.4 and 16.5 and unless previously redeemed or purchased and cancelled, each Credit-Linked Note will mature and will be redeemed on the Scheduled Maturity Date, and the Issuer will on the Scheduled Maturity Date at the option of the Issuer either (a) pay or cause to be paid, for value on the Scheduled Maturity Date, the Final Redemption Amount in respect of such Note to the holder thereof or (b) subject to Condition 15 (*Physical Settlement*) deliver the Deliverable Amount in respect of such Note to the holder thereof on the Physical Settlement Date, in each case subject to any applicable fiscal or other laws or regulations and subject to and in accordance with the terms and conditions set out herein and in the applicable Final Terms. Payment of any applicable Taxes and Redemption Expenses shall be made by the relevant Noteholder, and the Issuer shall not have any liability in respect thereof.
- 16.3.1 Credit-Linked Notes do not give the Noteholder any right to acquire any of the Reference Obligations or Deliverable Obligations, and the Issuer is not obliged to purchase, hold or deliver any of such Reference Obligations or Deliverable Obligations. However, if so specified in the relevant Final Terms, the Issuer may, on the redemption of such a Note, elect to deliver the Deliverable Amount on the relevant Physical Settlement Date and the Noteholder shall be obliged to accept such Deliverable Amount.
- 16.3.2 If the Issuer does not elect to deliver the Deliverable Amount, the Issuer and Paying Agent shall give notice to the relevant Noteholders in accordance with Condition 24 of the Redemption Amount payable in cash in respect of each Note as soon as practicable after calculation of such amount.
- 16.4 *Cash Settlement*: If Cash Settlement is specified in the applicable Final Terms and the Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction the "**Credit Event Determination Date**"), the Issuer may, at its option, give notice (such notice a "**Settlement Notice**") to the Noteholders in accordance with Condition 24 and redeem all of the relevant Credit-Linked Notes, each Note being redeemed by the Issuer at the Credit Event Redemption Amount on the Credit Event Redemption Date.
- 16.4.1 If the Conditions to Settlement are satisfied and the relevant Credit-Linked Notes become redeemable in accordance with this Condition 16.4, upon payment of the Credit Event Redemption Amount in respect of such Notes the Issuer shall have discharged its obligations in respect of such Notes and shall have no other liability or obligation whatsoever in respect thereof. The Credit Event Redemption Amount may be less than the principal amount of such a Note. Any shortfall shall be borne by the Noteholders, and no liability shall attach to the Issuer.
- 16.5 *Physical Settlement*: If Physical Settlement is specified in the applicable Final Terms and Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction the "**Credit Event Determination Date**"), the Issuer may, at its option, give notice (such notice a "**Notice of Physical Settlement**") to the Noteholders in accordance with Condition 24 and redeem all but not some only of the Notes, each Note being redeemed by delivery of the Deliverable Obligations comprising the Deliverable Amount, subject to and in accordance with Condition 15. If the Issuer elects not to give a Notice of Physical Settlement, Condition 16.4 shall apply.
- 16.5.1 In the Notice of Physical Settlement the Issuer shall specify the Deliverable Obligations comprising the Deliverable Amount that it reasonably expects to deliver. For the avoidance of doubt, the Determination Agent shall be entitled to select any of the Deliverable Obligations to constitute the Deliverable Amount, irrespective of their market value.



- 16.5.2 If Conditions to Settlement are satisfied and the Credit-Linked Notes become redeemable in accordance with this Condition 16.5, upon delivery of the Deliverable Amount, the Issuer shall have discharged its obligations in respect of such Notes and shall have no other liability or obligation whatsoever in respect thereof. The value of such Deliverable Amount may be less than the principal amount of such Note. Any shortfall shall be borne by the Noteholders, and no liability shall attach to the Issuer.
- 16.6 *Repudiation/Moratorium Extension:* Where Repudiation/Moratorium is a Credit Event specified in the applicable Final Terms and Conditions to Settlement have not been satisfied on or prior to the Scheduled Maturity Date but the Repudiation/Moratorium Extension Condition has been satisfied on or prior to the Scheduled Maturity Date and the Repudiation/Moratorium Evaluation Date in respect of such Potential Repudiation/Moratorium will in the sole determination of the Determination Agent fall after the Scheduled Maturity Date, then the Determination Agent shall notify the Noteholders in accordance with Condition 24 that a Potential Repudiation/Moratorium has occurred, and:
- 16.6.1 where a Repudiation/Moratorium has not occurred on or prior to the Repudiation/Moratorium Evaluation Date, each Credit-Linked Note will be redeemed by the Issuer by payment of the Redemption Amount on the second Business Day following the final day of the Notice Delivery Period; and
- 16.6.2 where a Repudiation/Moratorium has occurred on or prior to the Repudiation/Moratorium Evaluation Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 16.4 or 16.5 as applicable shall apply to such Credit-Linked Notes.
- 16.7 *Grace Period Extension:* If "Grace Period Extension" is specified as applying in the relevant Final Terms, the provisions of this Condition 16.7 shall apply.

Where Conditions to Settlement have not been satisfied on or prior to the Scheduled Maturity Date but a Potential Failure to Pay has occurred with respect to one or more Obligations in respect of which a Grace Period is applicable on or prior to the Scheduled Maturity Date (and such Grace Period(s) is/are continuing as of the Scheduled Maturity Date), then:

- 16.7.1 where a Failure to Pay has not occurred on or prior to the Grace Period Extension Date each Credit-Linked Note will be redeemed by the Issuer by payment of the Redemption Amount on the second Business Day following the final day of the Notice Delivery Period; and
- 16.7.2 where a Failure to Pay has occurred on or prior to the Grace Period Extension Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 16.4 or 16.5 as applicable shall apply to such Notes.
- 16.8 *Maturity Date Extension:* If on (1) the Scheduled Maturity Date or (2) the Repudiation/Moratorium Evaluation Date, or (3) if "Grace Period Extension" is specified as applying in the applicable Final Terms, the Grace Period Extension Date, as the case may be, Conditions to Settlement have not been satisfied but, in the opinion of the Determination Agent, a Credit Event may have occurred, the Determination Agent may notify the Noteholders in accordance with Condition 24 that the Scheduled Maturity Date, the Grace Period Extension Date or the Repudiation/Moratorium Evaluation Date, as the case may be, has been postponed to a date (such date the "**Postponed Maturity Date**") specified in such notice falling not more than 15 calendar days after the Scheduled Maturity Date, the Grace Period Extension Date or the Repudiation/Moratorium Evaluation Date, as the case may be, and:

16.8.1 where Conditions to Settlement are not satisfied on or prior to the Postponed Maturity Date subject as provided below each Credit-Linked Note will be redeemed by the Issuer by payment of the Redemption Amount on the Postponed Maturity Date; and

16.8.2 where Conditions to Settlement are satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 16.4 or 16.5 as applicable shall apply to such Notes.

16.9 *Definitions applicable to Credit-Linked Notes*

In relation to Credit-Linked Notes, the following expressions have the meanings set out below:

**"Conditions to Settlement"** means the delivery by the Determination Agent to the Issuer of a Credit Event Notice that is effective during the Notice Delivery Period and the further conditions, if any, set out in the applicable Final Terms;

**"Credit Event"** means the occurrence during the Notice Delivery Period of any one or more of the Credit Events specified in the applicable Final Terms, as determined by the Determination Agent;

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon:

- (a) any lack or alleged lack of authority or capacity of a Reference Entity to enter into any Obligation;
- (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation however described;
- (c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described; or
- (d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described.

**"Credit Event Determination Date"** means the date on which the Conditions to Settlement in respect of a Credit-Linked Note are satisfied;

**"Credit Event Notice"** means, subject as provided in the applicable Final Terms, an irrevocable notice from the Determination Agent to the Issuer that describes a Credit Event that occurred during the Notice Delivery Period. A Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective;

**"Credit Event Redemption Amount"** means the amount calculated in the manner and in accordance with the formula specified in the applicable Final Terms;

**"Credit Event Redemption Date"** means the Business Day following the number of Business Days specified in the applicable Final Terms after the calculation of the Final Price or the Credit Event Determination Date, as the case may be;

**"Default Requirement"** means the amount specified as such in the applicable Final Terms, or if none is specified, US\$10,000,000 or its equivalent as calculated by the Determination Agent in the relevant currency as of the occurrence of the relevant Credit Event;

**"Deliverable Amount"** means, in respect of each nominal amount of Notes equal to the lowest denomination, Deliverable Obligations as selected by the Determination Agent in its sole discretion with:

- (a) in the case of Deliverable Obligations that are Borrowed Money, an outstanding principal balance (including accrued but unpaid interest (as determined by the Determination Agent) if "Include Accrued Interest" is specified as applying in the applicable Final Terms, but excluding accrued but unpaid interest if "Exclude Accrued Interest" is specified as applying in the applicable Final Terms, and if neither "Include Accrued Interest" nor "Exclude Accrued Interest" is specified as applying in the applicable Final Terms, excluding accrued but unpaid interest); or
- (b) in the case of Deliverable Obligations that are not Borrowed Money, a Due and Payable Amount

(or, in the case of either (a) or (b), the equivalent Currency Amount of any such amount), in an aggregate amount as of the relevant Delivery Date equal to the lowest denomination of a Note less Deliverable Obligations with a market value determined by the Determination Agent in its sole discretion on the Business Day selected by the Determination Agent falling during the period from and including the Credit Event Determination Date to and including the Delivery Date equal to any costs which the applicable Final Terms specify are to be deducted from the Deliverable Amount (which may, without limitation, include the costs of the Issuer incurred in connection with the redemption of the Notes and related termination or re-establishment of any hedge or related trading position).

If an obligation by its terms represents or contemplates an obligation to pay an amount greater than the outstanding principal balance of such obligation as of the Delivery Date as a result of the occurrence or non-occurrence of an event or circumstance, the outstanding principal balance of such obligation shall not include any additional amount that would be payable upon the occurrence or non-occurrence of such event or circumstance;

**"Deliverable Obligations"** has the meaning set out in the applicable Final Terms;

**"Delivery Date"** means the date on which Deliverable Obligations are delivered;

**"Due and Payable Amount"** means the amount that is due and payable under (and in accordance with the terms of) a Deliverable Obligation on the Delivery Date, whether by reason of acceleration, maturity, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts);

**"Failure to Pay"** has the meaning specified in the applicable Final Terms or, if no such meaning is so specified, means, following the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure;

**"Final Price"** means, in respect of a Series, the price of the Reference Obligation, expressed as a percentage, determined in accordance with the Valuation Method specified in the relevant Final Terms;

**"Grace Period"** means:

- (a) subject to paragraphs (b) and (c) below, the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred.
- (b) if Grace Period Extension is specified as applying in the applicable Final Terms, a Potential Failure to Pay has occurred on or prior to the Scheduled Maturity Date and the applicable grace period cannot, by its terms, expire on or prior to the Scheduled Maturity Date, the Grace Period shall be deemed to be the lesser of such grace period and the period specified as such in the applicable Final Terms or, if no period is specified in the applicable Final Terms, 30 calendar days; and
- (c) if, at the later of the Trade Date and the date as of which an Obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period Business Days shall be deemed to apply to such Obligation; provided that, unless Grace Period Extension is specified as applying in the applicable Final Terms, such deemed Grace Period shall expire no later than the Scheduled Maturity Date;

**"Grace Period Business Day"** means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation;

**"Grace Period Extension Date"** means, if:

- (a) Grace Period Extension is specified as applying in the applicable Final Terms, and
- (b) a Potential Failure to Pay occurs on or prior to the Scheduled Maturity Date,

the day that is the number of days in the Grace Period after the date of such Potential Failure to Pay;

**"Notice Delivery Period"** means the period from and including the Issue Date to and including (a) the Scheduled Maturity Date; (b) the date that is fourteen calendar days after the Grace Period Extension Date if (i) Grace Period Extension is specified as applicable in the applicable Final Terms, (ii) the Credit Event that is the subject of the Credit Event Notice is a Failure to Pay that occurs after the Scheduled Maturity Date and (iii) the Potential Failure to Pay with respect to such Failure to Pay occurs on or prior to the Scheduled Maturity Date; or (c) the date that is fourteen calendar days after the Repudiation/Moratorium Evaluation Date if (i) the Credit Event that is the subject of the Credit Event Notice is a Repudiation/Moratorium that occurs after the Scheduled Maturity Date, (ii) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs on or prior to the Scheduled Maturity Date and (iii) the Repudiation/Moratorium Extension Condition is satisfied;

**"Obligations"** has the meaning set out in the applicable Final Terms;

**"Payment Requirement"** means the amount specified as such in the applicable Final Terms or, if a Payment Requirement is not specified in the applicable Final Terms, US\$1,000,000, or its equivalent in the relevant currency as calculated by the Determination Agent, in either case, as of the occurrence of the relevant Failure to Pay or Potential Failure to Pay, as applicable;

**“Physical Delivery Amount”** means in respect of any Series of Physical Settlement Notes, the securities to be delivered by the Issuer to Noteholders on redemption of each Note, as provided in the applicable Final Terms;

**“Physical Settlement Date”** means, in relation to Underlying Shares to be delivered, subject to Condition 15.3 (*Settlement Disruption of Physical Settlement*), in respect of any Notes, the date following the Maturity Date or any other applicable redemption date, as the case may be, which is the first day on which settlement of a sale of such Underlying Shares executed on that Maturity Date or other redemption date, as the case may be, customarily would take place through the applicable Clearing System, unless otherwise specified in the applicable Final Terms;

**“Potential Failure to Pay”** means the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligations, in accordance with the terms of such Obligations at the time of such failure;

**“Reference Entity”** means each entity named as such in the applicable Final Terms (if any are so specified or described);

**“Reference Obligation”** means each obligation specified or of a type described as such in the applicable Final Terms (if any are so specified or described);

**“Repudiation/Moratorium”** has the meaning set out in the applicable Final Terms;

**“Repudiation/Moratorium Evaluation Date”** has the meaning set out in the applicable Final Terms;

**“Repudiation/Moratorium Extension Condition”** has the meaning set out in the applicable Final Terms;

**“Scheduled Maturity Date”** has the meaning specified in the applicable Final Terms;

**“Valuation Method”** means, in respect of a Credit-Linked Note, the valuation method specified as such in the applicable Final Terms; and

## 17 TAXATION

17.1 *Notes issued by Morgan Stanley: Additional Amounts.* In respect of a Series of Morgan Stanley Notes and except as otherwise provided in the applicable Final Terms, Morgan Stanley will, subject to certain exceptions and limitations set forth below, pay those additional amounts (the **“Additional Amounts”**) to any Noteholder or Couponholder who is a United States Alien as may be necessary in order that every net payment of the principal of and interest on the Note or Coupon and any other amounts payable on the Note or Coupon after withholding for or on account of any present or future tax, assessment or governmental charge imposed upon or as a result of that payment by the United States or any political subdivision or taxing authority thereof or therein, will not be less than the amount provided for in the Note or Coupon to be then due and payable.

Morgan Stanley will not, however, be required to make any payment of Additional Amounts to any Noteholder or Couponholder for or on account of::

17.1.1 any present or future tax, assessment or other governmental charge that would not have been so imposed but for:

- (a) the existence of any present or former connection between the Noteholder or Couponholder, or between a fiduciary, settlor, beneficiary, member or shareholder of the Noteholder or Couponholder, if the Noteholder or Couponholder is an estate, a trust, a partnership or a corporation, and the United States and its possessions, including, without limitation, the Noteholder or Couponholder, or such fiduciary, settlor, beneficiary, member or shareholder, being or having been a citizen or resident of the United States or being or having been engaged in a trade or business or present in the United States or having, or having had, a permanent establishment in the United States, or
  - (b) the presentation by the Noteholder or Couponholder for payment on a date more than 15 days after the date on which payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- 17.1.2 any estate, inheritance, gift, sales, transfer, capital gains, corporation, income or personal property tax or any similar tax, assessment or governmental charge;
  - 17.1.3 any tax, assessment or other governmental charge imposed by reason of the Noteholder's or Couponholder's past or present status as a personal holding company or foreign personal holding company or controlled foreign corporation or passive foreign investment company with respect to the United States or as a corporation that accumulates earnings to avoid United States federal income tax or as a private foundation or other tax-exempt organization;
  - 17.1.4 any tax, assessment or other governmental charge that is payable otherwise than by withholding from payments on or in respect of any Note;
  - 17.1.5 any tax, assessment or other governmental charge that would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the holder or beneficial owner of that Note, if compliance is required by statute or by regulation of the United States or of any political subdivision or taxing authority thereof or therein as a precondition to relief or exemption from the tax, assessment or other governmental charge;
  - 17.1.6 any tax, assessment or other governmental charge imposed by reason of the Noteholder's or Couponholder's past or present status as the actual or constructive owner of 10% or more of the total combined voting power of all classes of stock entitled to vote of Morgan Stanley or as a direct or indirect subsidiary of Morgan Stanley;
  - 17.1.7 presented for payment by or on behalf of a Noteholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;
  - 17.1.8 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive 2003/48/EC on the taxation of savings income (the "**Directive**") or any law implementing or complying with or introduced in order to conform to the Directive; or
  - 17.1.9 any combination of the items listed above.

Nor will Additional Amounts be paid with respect to any payment on a Note to a United States Alien who is a fiduciary or partnership or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of the United States (or any political subdivision thereof) to be included in the income, for tax purposes, of a

beneficiary or settlor with respect to the fiduciary or a member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Noteholder or Couponholder.

The term "United States Alien" means any person who, for United States federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

17.2 *MSJ Notes and MSBV Notes.* Except as otherwise provided in the applicable Final Terms, all payments of principal and interest by Morgan Stanley Jersey or MSBV and the Guarantor in respect of MSJ Notes or MSBV Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied collected, withheld or assessed by (i) in the case where the Issuer is Morgan Stanley Jersey, Jersey; (ii) in the case where the Issuer is MSBV, The Netherlands; or (iii) in the case of the Guarantor, the United States of America or, in each case, any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. Neither Morgan Stanley Jersey nor MSBV nor (in respect of MSJ Notes or MSBV Notes) the Guarantor shall be required to make any additional payments on account of any such withholding or deductions.

## 18 EVENTS OF DEFAULT

18.1 If any of the following events (each, an "Event of Default") occurs and is continuing:

- 18.1.1 *Non-payment:* in the case of Morgan Stanley Notes, the Issuer or, in the case of MSBV Notes and MSJ Notes, either the Issuer or Guarantor fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within thirty days of the due date for payment thereof; or
- 18.1.2 *Breach of other obligations:* in the case of Morgan Stanley Notes, the Issuer or, in the case of MSBV Notes and MSJ Notes, either the Issuer or Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for sixty days after written notice thereof, addressed to the Issuer by Noteholders of not less than twenty-five per cent. in principal amount of the relevant Series, has been delivered to the Issuer and to the Specified Office of the Fiscal Agent; or
- 18.1.3 *Insolvency etc:* (i) in the case of Morgan Stanley Notes, the Issuer or, in the case of MSBV Notes and MSJ Notes, either the Issuer or the Guarantor becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or the whole or a substantial part of the undertaking, assets and revenues of the Issuer or the Guarantor is appointed (otherwise than for the purposes of or pursuant to an amalgamation, reorganization or restructuring while solvent), (iii) the Issuer or the Guarantor takes any action for a composition with or for the benefit of its creditors generally, or (iv) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or the Guarantor (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent),

then Noteholders of not less than 25% in aggregate principal amount of the Notes may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified

Office of the Fiscal Agent, declare the Notes to be immediately (or, in the case of Swedish Notes, on such later date on which the relevant Swedish Notes have been transferred to the account designated by the Swedish Issuing Agent and blocked for further transfer by such Agent) due and payable, whereupon they shall become so due and payable at their Early Termination Amount together with accrued interest (if any) (or in accordance with any other provisions specified in the applicable Final Terms or unless such Notes are Exchangeable Notes) without further action or formality. Notice of any such declaration shall promptly be given to the Noteholders.

- 18.2 *Annulment of Acceleration and Waiver of Defaults.* In some circumstances, if any or all Events of Default, other than the non-payment of the principal of the Notes of a Series that has become due as a result of an acceleration, have been cured, waived or otherwise remedied, then the holders of a majority in principal amount of such Series of Notes (voting as one class) may annul past declarations of acceleration of or waive past defaults of the Notes. However, any continuing default in payment of principal of or any premium or interest on those Notes may not be waived.

## **19 PRESCRIPTION**

A5.4.7

- 19.1 Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.
- 19.2 Prescription in respect of Swedish Notes: Claims for principal in respect of the Swedish Notes shall become void unless made within a period of ten years after the appropriate Relevant Date. Claims for interest in respect of the Swedish Notes shall become void unless made within a period of five years after the appropriate Relevant Date.

## **20 REPLACEMENT OF NOTES AND COUPONS**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent during normal business hours (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **21 AGENTS**

- 21.1 In acting under the Issue and Paying Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.
- 21.2 The initial Fiscal Agent and its initial Specified Office are listed below on the inside back cover of this Base Prospectus. The initial Calculation Agent is the Fiscal Agent. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor Fiscal Agent or Calculation Agent and additional or successor paying agents; *provided, however, that:*



- 21.2.1 there shall at all times be a Fiscal Agent appointed in respect of the Notes;
  - 21.2.2 if a Calculation Agent is specified in the applicable Final Terms, the Issuer shall at all times maintain a Calculation Agent;
  - 21.2.3 if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system;
  - 21.2.4 the Issuer will at all times maintain a Paying Agent with a Specified Office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to that Directive; and
  - 21.2.5 so long as there is any Tranche of Swedish Notes outstanding, there will at all times be a Swedish CSD duly authorised as a central securities depository under the Swedish Financial Instruments Accounts Act and a Swedish Issuing Agent in respect of the relevant Tranche of Swedish Notes.
- 21.3 Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

## **22 MEETINGS OF NOTEHOLDERS AND MODIFICATION**

22.1 *Meetings of Noteholders:* The Issue and Paying Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

22.2 *Modification:* The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error or to effect a modification which is of a formal, minor or technical nature or which, in the opinion of the Issuer and the Fiscal Agent, is not materially prejudicial to the interest of the Noteholders. In addition, the parties to the Issue and Paying Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it

is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

- 22.3 In connection with the Conditions, the Issuer and the Fiscal Agent shall have regard to the interests of the Noteholders and the Couponholders as a class. In particular, but without limitation, the Issuer and the Fiscal Agent shall not have regard to the consequences for individual Noteholders or Couponholders resulting from such individual Noteholders or Couponholders being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

## 23 FURTHER ISSUES

Any of the Issuers may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## 24 NOTICES

Notices to the Noteholders shall be valid if published in leading English language daily newspapers published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. All notices to holders of Swedish Notes shall be valid if so published or mailed to their registered addresses appearing on the Swedish Register. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers) or, in the case of notice mailed to holders of Swedish Notes, on the first date on which such notice would, in the ordinary course of business, be delivered. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

## 25 CURRENCY INDEMNITY

- 25.1 If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

- 25.2 This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

## 26 ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the applicable Final Terms), (a) all percentages resulting from such

calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005% rounded up to 0.00001%), (b) all U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent rounded upward), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downward to the next lower whole Japanese Yen amount and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency (with 0.005 rounded up to 0.01).

## 27 REDENOMINATION, RENOMINALISATION AND RECONVENTIONING

27.1 *Application:* This Condition 27 (*Redenomination, Renominalisation and Reconventioning*) is applicable to the Notes only if it is specified in the applicable Final Terms as being applicable.

27.2 *Notice of redenomination:* If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

27.3 *Redenomination:* Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

27.3.1 the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Fiscal Agent that the then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

27.3.2 if Notes have been issued in definitive form:

- (a) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
- (b) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 27) shall remain in full force and effect; and
- (c) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as

the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

- (d) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

27.4 *Interest:* Following redenomination of the Notes pursuant to this Condition 27, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

27.5 *Interest Determination Date:* If the Floating Rate Note Provisions are specified in the applicable Final Terms as being applicable and Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

## **28 SUBSTITUTION**

28.1 *Notes issued by Morgan Stanley:* Subject to such conditions as Morgan Stanley may agree with the Fiscal Agent, but without the consent of the holders of Notes or the Coupons appertaining thereto (if any), Morgan Stanley may, subject to the Notes and the Coupons appertaining thereto being unconditionally and irrevocably guaranteed by Morgan Stanley, substitute a subsidiary of Morgan Stanley in place of Morgan Stanley as principal debtor under the Notes and the Coupons appertaining thereto (if any) where Morgan Stanley is the Issuer.

28.2 *MSJ Notes and MSBV Notes:* Subject to such amendment of the deed of covenant entered into by the Issuer relating to the Notes dated (i) where the Issuer is Morgan Stanley Jersey, 10 June 2002 or (ii) where the Issuer is MSBV, 4 May 2004 and such other conditions as the Issuer may agree with the Fiscal Agent (provided, in respect of Swedish Notes, the Swedish CSD has given its consent to the substitution (which consent shall not be unreasonably withheld or delayed)) but without the consent of the holders of Notes of the Coupons appertaining thereto (if any), the Issuer may, subject to the Notes and the Coupons appertaining thereto being unconditionally and irrevocably guaranteed by Morgan Stanley, substitute a subsidiary of Morgan Stanley in place of the Issuer as principal debtor under the Notes and the Coupons appertaining thereto (if any) or may substitute Morgan Stanley in place of the Issuer.

Any Notes in respect of which such a substitution is effected will be fully and unconditionally guaranteed pursuant to a guarantee of Morgan Stanley as to the payment of principal of, premium, interest and supplemental amounts, if any, and any Additional Amounts on those Notes when and as the same will become due and payable, whether at maturity or otherwise. Under the terms of the guarantee, holders of the Notes will not be required to exercise their remedies against the substitute issuer prior to proceeding directly against Morgan Stanley.

## **29 GOVERNING LAW AND JURISDICTION**

29.1 *Governing law:* The Notes are governed by, and shall be construed in accordance with, English law.

- 29.2 *Jurisdiction*: Each of Morgan Stanley, Morgan Stanley Jersey and MSBV agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.
- 29.3 *Appropriate forum*: Each of Morgan Stanley, Morgan Stanley Jersey and MSBV irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
- 29.4 *Process agent*: Each of Morgan Stanley, Morgan Stanley Jersey and MSBV agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Morgan Stanley & Co. International plc, 25 Cabot Square, Canary Wharf, London E14 4QA or, if different, its registered office for the time being or at any address of Morgan Stanley in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of any Issuer, such Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.
- 29.5 *Non-exclusivity*: The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

### **30 RIGHTS OF THIRD PARTIES**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

**PRO FORMA FINAL TERMS FOR THE NEW YORK LAW NOTES**

**FINAL TERMS NO. [•]  
(To Base Prospectus Dated [•])**

**MORGAN STANLEY  
NOTES, SERIES [A/B]  
[Description of Notes]**

This document constitutes Final Terms relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 22 June 2007 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a Base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

We, Morgan Stanley, may not redeem these Notes, Series [A/B] (*Description of Notes*) (the "**Notes**") prior to the maturity date other than under the circumstances described under "Description of New York Law Notes - Tax Redemption" in the accompanying Base Prospectus.

We will issue the Notes only in bearer form, which form is further described under "Forms of Notes" in the accompanying Base Prospectus. You may not exchange Notes in bearer form at any time for Notes in registered form.

We will apply to the [*name of stock exchange*] for the listing and quotation of the Notes, subject to meeting the applicable listing requirements. The [*name of stock exchange*] assumes no responsibility for the correctness of any of the statements or opinions made or reports contained in this document. Admission to the official list of and quotation of the Notes on the [*name of stock exchange*] is not to be taken as an indication of the merits of the issuer or the Notes.

We described the basic feature of this type of Note in the section called "Description of New York Law Notes - [Fixed/Floating] Rate Notes" in the accompanying Base Prospectus, subject to and as modified by the provisions described below.

Principal Amount:	[•]	Annual Redemption percentage Reduction:	[•]
Maturity Date:	[•]	Denomination:	[•]
Settlement Date (original Issue Date):	[•]	Interest Payment Dates:	[•]
Interest Accrual Date:	[•]	Optional Repayment Date(s):	[•]
Issue Price:	[•]	Distribution Agent:	[•]
Specified	[•]	Paying Agent:	[•]

Currency:			
Interest Payment: Period:	[•]	Common Code:	[•]
Interest Rate:	[•]	ISIN:	[•]
Redemption Percentage at Maturity:	[•]	Business Days:	[•]
Initial Redemption Percentage:	[•]	Other Provisions:	[•]
Additional provisions for Floating Rate Notes			
Base Rate:	[•]	Spread (Plus or Minus):	[•]
Spread Multiplier:	[•]	Index Currency:	[•]
Index Maturity:	[•]	Maximum Interest Rate:	[•]
Minimum Interest Rate:	[•]	Initial Interest Rate:	[•]
Interest Reset Dates:	[•]	Interest Determination Dates	[•]
Reporting Service:	[•]		
Additional provisions for Index Linked Notes			
The Index:	[•]	Index Performance:	[•]
Index Value:	[•]	Initial Index Value:	[•]
Adjustment Amount:	[•]	Valuation Date:	[•]
Relevant Exchange:	[•]	Successor Index:	[•]
Trading Day	[•]	Additional Events of Default:	[•]
Market Disruption Event:	[•]	Other Provisions:	[•]
New Global Note Form	Yes/No		

Terms not defined above have the meaning given to those terms in the accompanying Base Prospectus.

**THE NOTES DESCRIBED HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAW OF ANY STATE IN THE UNITED STATES, AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES DESCRIBED HEREIN MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN EITHER REGULATIONS UNDER THE SECURITIES ACT OR THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED), SEE "SUBSCRIPTION AND SALE" AND "NO OWNERSHIP BY U.S. PERSONS" IN THE ACCOMPANYING BASE PROSPECTUS.**

**Taxation**

[•]

**Additional Selling Restrictions**

[•]

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the Program for the Issuance of Notes, Series A and B of [Morgan Stanley/Morgan Stanley (Jersey) Limited/Morgan Stanley B.V.]

**RESPONSIBILITY**

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [• has been extracted from •. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by •, no facts have been omitted which would render the reproduced inaccurate or misleading. ]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

[Signed on behalf of the Guarantor:

By: .....  
Duly authorised]



## PART B – OTHER INFORMATION

### 1. LISTING

Listing: [London/ other (specify)/None]

Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)

[Estimate of total [ ]]1  
expenses related to  
admission to trading:

### 2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [ ]]

[Moody's: [ ]]

[[Other]: [ ]]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]2

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)

### 3. [NOTIFICATION]

The [*include name of competent authority in home Member State*] [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Program and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

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<sup>1</sup> Delete for Notes with a denomination per Note of less than EUR50,000

<sup>2</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

## 5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

(i) Reasons for the [ ] offer

(If reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

(ii) Estimated net •  
proceeds:

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

(iii) Estimated total • [Include breakdown of expenses.]  
expenses:

(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

## 6. [Fixed Rate Notes only – YIELD

Indication of yield: •

[Calculated as [include details of method of calculation in summary form] on the Issue Date.

As set out above,]<sup>3</sup> the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

## 7. [[Floating Rate Notes only - HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]<sup>4</sup>

## 8. [Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, [EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS]<sup>5</sup> AND OTHER INFORMATION CONCERNING THE UNDERLYING

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained [and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident]<sup>6</sup>. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to*

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<sup>3</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>4</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>5</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>6</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

*include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. ]*

**9. [Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE [AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT]<sup>7</sup>**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained [and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]]<sup>8</sup>

**10. OPERATIONAL INFORMATION**

ISIN Code: [ ]

Common Code: [ ]

New Global Note Yes/No

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [ ]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]

[Note that designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either on issue or subsequently. Such recognition will depend on satisfaction of Eurosystem eligibility criteria][include this text if "yes" selected, in which case the Notes must be issued in NGN form

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<sup>7</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>8</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

## PRO FORMA FINAL TERMS FOR THE ENGLISH LAW NOTES

Final Terms dated [•]

[Name of Issuer]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

[Guaranteed by Morgan Stanley]

under the Program for the Issuance of Notes, Series A and B,

### PART A – CONTRACTUAL TERMS

THE NOTES DESCRIBED HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE IN THE UNITED STATES, AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES DESCRIBED HEREIN MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN EITHER REGULATIONS UNDER THE SECURITIES ACT OR THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED). SEE "SUBSCRIPTION AND SALE" AND "NO OWNERSHIP BY U.S. PERSONS" IN THE BASE PROSPECTUS DATED 12 JULY 2006. IN PURCHASING THE NOTES, PURCHASERS WILL BE DEEMED TO REPRESENT AND WARRANT THAT THEY ARE NEITHER LOCATED IN THE UNITED STATES NOR A U.S. PERSON AND THAT THEY ARE NOT PURCHASING FOR, OR FOR THE ACCOUNT OR BENEFIT OF, ANY SUCH PERSON. THE NOTES ARE NOT RATED.

This document constitutes Final Terms relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 22 June 2007 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. Copies of the Base Prospectus are available from the offices of Morgan Stanley & Co. International plc at 25 Cabot Square, Canary Wharf, London E14 4QA.

#### **Information Concerning Investment Risk**

[ ]

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [original date] [and the supplemental Base Prospectus dated [•]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [current date] [and the supplemental Base Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original

date] [and the supplemental Base Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [current date] [and the supplemental Base Prospectuses dated [•] and [•]]. [The Base Prospectuses [and the supplemental Base Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

1.	[(i)] Issuer:	[Morgan Stanley/Morgan Stanley (Jersey) Limited/Morgan Stanley B.V.]
	[(ii)] [Guarantor:]	[Morgan Stanley]
2.	[(i)] Series Number:	[ ]
	[(ii)] [Tranche Number:]	[ ]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	
3.	Specified Currency or Currencies:	<i>["Swedish Notes: SEK, € or any other currency as may be approved by the Swedish CSD Rules"]</i>
4.	Aggregate Principal Amount of the Notes:	[ ]
	[(i)] Series:	[ ]
	[(ii)] Tranche:	[ ]
5.	Issue Price	[ ] per cent of Par per Note
6.	Specified Denominations (Par):  (Condition 3)	[ ]
7.	(i) Issue Date:	[ ]
	(ii) Trade Date	[ ]
	(iii) Interest Commencement Date	[ ]
8.	Maturity Date:	[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9.	Interest Basis:	[• % Fixed Rate]  [[specify reference rate] +/- • % Floating Rate]

	<p>[Zero Coupon]</p> <p>[Index Linked Interest]</p> <p>[Other (specify)]</p> <p>(further particulars specified below)</p>
10. Redemption/Payment Basis:	<p>[Redemption at par]</p> <p>[Index Linked Redemption]</p> <p>[Dual Currency]</p> <p>[Partly Paid]</p> <p>[Instalment]</p> <p>[Equity Linked Redemption]</p> <p>[Commodity Linked Redemption]</p> <p>[Credit Linked Redemption]</p> <p>[Other (specify)]</p>
11. Change of Interest or Redemption/Payment Basis:	[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
12. Put/Call Options:	
(i) Redemption at the option of the Noteholders: (Condition 13.7)	[Applicable/Not Applicable]
(ii) Redemption at the option of the Noteholders: (Condition 13.9)	[Applicable/Not Applicable]
(iii) Other Put/Call Options:	[Applicable/Not applicable]
13 [(i)] Status of the Notes:  (Condition 4)	[Senior/Subordinated]
[(ii)] Status of the Guarantee:	[Senior/Subordinated]]
[(iii)] [Date [Board] approval for issuance of Notes [and Guarantee] obtained:	[ ] [and [ ], respectively]] <i>(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)]</i>
14. Method of distribution:	[Syndicated/Non-syndicated]

**PROVISIONS RELATING TO**

**INTEREST (IF ANY) PAYABLE**

15. <b>Fixed Rate Note Provisions</b> (Condition 5)	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Rate[(s)] of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii) Interest Payment Date(s):	[ ] in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i> /not adjusted]
(iii) Fixed Coupon Amount[(s)]:	[ ] per [ ] in Nominal Amount
(iv) Broken Amount(s):	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]</i>
(v) Day Count Fraction:	[Actual/Actual; Actual/365(Fixed); Actual/360; 30/360; 30E/360, Eurobond Basis; Actual/ISMA; other]
(vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/ <i>give details</i> ]
16. <b>Floating Rate Note Provisions</b> (Condition 6)	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Specified Interest Payment Dates:	[ ]
(ii) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other ( <i>give details</i> )]
(iii) Additional Business Centre(s):	[ ]
(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other ( <i>give details</i> )]
(v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the	[ ]

	Calculation Agent):	
(vi)	Screen Rate Determination:	
–	Reference Rate:	[ ]
–	Interest Determination Date(s):	[ ]
–	Relevant Screen Page:	[ ]
(vii)	ISDA Determination	
–	Floating Rate Option:	[ ]
–	Designated Maturity:	[ ]
–	Reset Date:	[ ]
(viii)	Margin(s):	[+/-][ ] per cent per annum
(ix)	Minimum Rate of Interest:	[ ] per cent per annum
(x)	Maximum Rate of Interest:	[ ] per cent per annum
(xi)	Day Count Fraction:	[ ]
(xii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
17.	<b>Index-Linked Interest Note/other variable-linked interest Note Provisions</b>  (Condition 6)	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i)	Index/Formula/other variable:	[give or annex details]
(ii)	Calculation Agent responsible for calculating the interest due:	[ ]
(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	
(iv)	Determination Date(s):	[ ]



(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[ ] <i>(Need to include a description of market disruption or settlement disruption events and adjustment provisions)</i>
(vi) Interest or calculation periods(s):	[ ]
(vii) Specified Interest Payment Dates:	[ ]
(viii) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i> ]
(ix) Business Centre(s):	[ ]
(x) Minimum Rate/Amount of Interest:	[ ] per cent per annum
(xi) Maximum Rate/Amount of Interest:	[ ] per cent per annum
(xii) Day Count Fraction:	[ ]
18. <b>Zero Coupon Note Provisions</b>  (Condition 7)	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) [Amortisation/Accrual] Yield:	[ ] per cent per annum
(ii) Reference Price:	[ ]
(iii) Any other formula/basis of determining amount payable:	[ ]
19. <b>Dual Currency Note Provisions</b>  (Condition 8)	[Applicable/Not Applicable]  <b>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</b>
(i) Rate of Exchange/method of calculating Rate of Exchange:	[give details]
(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[ ]
(iii) Provisions applicable where	[Need to include a description of market

calculation by reference to Rate of Exchange impossible or impracticable:	disruption or settlement disruption events and adjustment provisions.]
(iv) Person at whose option Specified Currency(ies) is/are payable:	[ ]
(v) Other special terms	
20. <b>Equity Linked Note provisions;</b> (Condition 10);	
<b>(A) (i) Single Share Notes, Share Basket Notes:</b>	<i>(if not applicable, delete sub-paragraph (A))</i>
(ii) Whether the Notes relate to a single share or a basket of shares (each an "Underlying Share") and the identity of the relevant issuer(s) and class of the Underlying Share (each an "Underlying Issuer"):	[Single Share]  [Basket of Shares]
(iii) Whether redemption of the Notes will be by (a) Cash Settlement or (b) Physical Settlement or (c) in certain circumstances depending on the closing price of the Underlying Shares, Cash Settlement or Physical Delivery at the option of the Issuer:	[Cash Settlement/Physical Settlement]  [In the event of <i>(describe triggers linked to the closing price of the Underlying Shares)</i> , Cash Settlement or Physical Settlement at the option of the Issuer]
(iv) Exchange[s]:	[ ]
(v) Related Exchange[s]:	[ ] [None specified]
(vi) Weighting for each Underlying Share comprising the basket:	<i>[Insert details]</i> [N/A]
(vii) Delivery provisions for Underlying Shares (including details of who is to make such delivery):	[ ] <i>(only where Physical Settlement is applicable)</i>
(viii) Physical Settlement:	[Applicable / Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
Type and Class of Underlying Share:	[ ]

Legislation under which the Underlying Shares are created:	[ ]
Form of the Underlying Shares:	bearer/registered form certificate / uncertificated form  [If in uncertificated form, specify entity responsible for record keeping]
Currency of the Underlying Shares:	[ ]
Description of the rights, including limitations thereon, attached to the Underlying Shares:	[dividend rights]  [voting rights]  [pre-emption rights]  [right to share of profits]  [share in surplus of liquidation]  [redemption/conversion rights]
Where the Underlying Shares are admitted to trading:	[ ]
Restrictions, if any, on the free transferability of the Underlying Shares:	[ ]
Details of existence of any mandatory takeover bids/squeeze-out/sell-out rules:	[ ]
Details of public takeover bids by third parties during the previous financial year and the current financial year:	[if applicable, terms and outcome to be specified ]
(ix) Additional Disruption Events	Change in Law, Hedging Disruption, Loss of Stock Borrow and Increased Cost of Hedging shall apply [ <i>specify if any are <u>not</u> applicable, or any further Additional Disruption Events</i> ]
(x) Other terms or special conditions	[ ]
<b>(B) Index/Index Basket Notes:</b>	<i>(If not applicable, delete sub-paragraph (B))</i>
(i) Types of Notes:	Index Notes

	(specify Index if applicable)  Index Basket Notes (specify Indices if applicable)
(i) Exchange[s]:	[specify Exchange, or “Multi-exchange Index”, in relation to each Index]
(ii) Related Exchanges[s]:	[ ] [None specified]
(iii) Weighting for each Index:	[insert details] [Not Applicable]
(iv) Other terms or special conditions:	[ ]
21 <b>Commodity Notes</b>	[Applicable] [Not Applicable]  (if not applicable, delete the remaining subparagraphs of this paragraph)
(i) Commodity/ies or Commodity Index/Indices:	[ ] [if applicable, specify whether Non Metal, Base Metal or Precious Metal]
(ii) Commodity Reference Price:	[specify Commodity Reference Price]
(iii) Exchange	[specify for each Commodity]
(iv) Price Source	[specify for each Commodity]
(iv) Specified Price:	[[high][low][average of high and low][closing price][opening price][bid] [asked] [average of high and low prices][settlement price][official settlement price][official price][morning fixing][afternoon fixing][spot price][Other (specify)]  (if appropriate, specify time as of which the price will be determined)
(v) Delivery Date:	[ ] (specify whether price based on spot market, First Nearby Month, Second Nearby Month, etc.)
(vi) Pricing Date:9	[ ]
(vii) Common Pricing:	[Applicable] [Not Applicable](include only if Basket of Commodities)
(vii) Commodity Disruption	[Price Source Disruption] [Trading Disruption]

Events:	[Disappearance of Commodity Reference Price] [Material Change in Formula] [Material Change in Content] [Tax Disruption] [Trading Limitation] [specify any applicable additional Commodity Disruption Events][Not Applicable]
Commodity Disruption Fallback:	[Determination Agent Determination as defined in Condition 11.3][Other]
(viii) Other Terms and Conditions:	[ ]
<b>22. Currency Notes</b>	[Applicable] [Not Applicable]  <i>(if not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Settlement Currency:	[ ]
(ii) Reference Currency:  Specified Amount:  Reference Currency Jurisdiction:	[ ]  [ ]  [ ]
(iii) Specified Rate:	<i>Specify one of:</i>  Reference Currency bid exchange rate; Reference Currency offer exchange rate; Average of Reference Currency bid and offer exchange rates; Settlement Currency bid exchange rate; Settlement Currency offer exchange rate; Average of Settlement Currency bid and offer exchange rates; Official fixing rate;  Other
(iv) Settlement Rate Option:	[Currency Reference Dealers]
(v) Valuation Date:	[ ]
(vi) Averaging Dates:	[ ] [Not Applicable]
(vii) Currency Disruption Events:	Price Source Disruption [Applicable/Not Applicable]  [Other]
Currency Disruption	Determination Agent Determination of

Fallbacks:	Settlement Rate; Fallback Reference Price; Other <i>(where applicable, specify which Currency Disruption Fallback applies to which Currency Disruption Event, and if more than one Currency Disruption Fallback may apply to a Currency Disruption Event, the order in which such Currency Disruption Fallbacks will apply)</i>
(viii) Other special terms and conditions:	[ ]
23. <b>Credit-Linked Note provisions</b>	[Applicable/ Not Applicable] <i>(if applicable, insert relevant provisions)</i>
<b>PROVISIONS RELATING TO REDEMPTION</b>	
24. <b>Call Option</b>  (Condition 13.7)	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[ ] per Note of [ ] specified denomination
(iii) If redeemable in part:	[ ]
(a) Minimum Redemption Amount:	
(b) Maximum Redemption Amount	[ ]
(iv) Notice period:	[ ]
25. <b>Put Option</b>  (Condition 13.9)	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[ ] per Note of [ ] specified denomination

(iii) Notice period	[ ]
26. <b>Final Redemption Amount of each Note</b>  (Condition 13.1)	[[ ] per Note of [ ] specified denomination /other/see Appendix]
(i) Underlying asset/ index:	[ ]
(ii) Determination Agent responsible for calculating the Final Redemption Amount:	[ ]
(iii) Provisions for determining Final Redemption Amount:	[ ]
(iv) Determination Date:	[ ]
(v) Determination Time:	[ ] [As specified in the Conditions]
(vi) Observation Dates:	[Applicable/Not Applicable]
(vii) Averaging Dates:	[Applicable/Not Applicable]  [if Applicable, specify consequences of Averaging Date Disruption as Omission, Postponement or Modified Postponement]
(viii) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[ ]
(ix) Payment Date:	[ ]
(x) Minimum Final Redemption Amount:	[ ]
(xi) Maximum Final Redemption Amount:	[ ]
27. <b>Early Termination Amount and Redemption Amount upon early redemption</b>  (Condition 13.2, 13.5, 13.10, 13.11 and 17)	
Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default or other early redemption	[ ]

	and/or the method of calculating the same (if required or if different from that set out in the Conditions):	
28.	Governing Law:	[English law/other]
<b>GENERAL PROVISIONS APPLICABLE TO THE NOTES</b>		
29.	Form of Notes:  (Condition 3)	Bearer Notes:
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]
		[Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice]
		[Permanent Global Note exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]  [Swedish Notes]
30.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15 (ii), 16(iv) and 17(i) relates]
31.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. <i>If yes, give details</i> ]
32.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/ <i>give details</i> ]
33.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/ <i>give details</i> ]
34.	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition •] [annexed to these Final Terms] apply]



35.	Consolidation provisions:	[Not Applicable/The provisions [in Condition •] [annexed to these Final Terms] apply]
36.	Other final terms:	[Not Applicable/give details]
		<i>(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)</i>
<b>DISTRIBUTION</b>		
37.	(i) If syndicated, names [and addresses] <sup>10</sup> of Managers [and underwriting commitments] <sup>11</sup> ; and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.) <sup>12</sup>	[Not Applicable/give names[, addresses and underwriting commitments] <sup>13</sup>  [(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis
	(ii) [Date of [Subscription] Agreement:	[ ] <sup>14</sup>
	(iii) Stabilising Manager(s) (if any):	[Not Applicable/give name]
38.	If non-syndicated, name [and address] <sup>8</sup> of Dealer:	[Not Applicable/give name [and address] <sup>15</sup>
39.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules applicable:	[ ]
40.	[Total commission and concession:	[ ] per cent. of the Aggregate Nominal Amount] <sup>16</sup>
41.	Additional selling restrictions:	[Not Applicable/give details]

<sup>10</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>11</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>12</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>13</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>14</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>15</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>16</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

**[LISTING AND ADMISSION TO TRADING APPLICATION]**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the Program for the Issuance of Notes, Series A and B of [Morgan Stanley/Morgan Stanley (Jersey) Limited/Morgan Stanley B.V.]

**RESPONSIBILITY**

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [● has been extracted from ●. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by ●, no facts have been omitted which would render the reproduced inaccurate or misleading. ]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

[Signed on behalf of the Guarantor:

By: .....  
Duly authorised]

## PART B – OTHER INFORMATION

### 1. LISTING

Listing: [London/ other (specify)/None]

Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)

[Estimate of total [ ]]17  
expenses related to  
admission to trading:

### 2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [ ]]

[Moody's: [ ]]

[[Other]: [ ]]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]18

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)

### 3. [NOTIFICATION

The [*include name of competent authority in home Member State*] [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Program and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

### 5. TERMS AND CONDITIONS OF THE OFFER

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<sup>17</sup> Delete for Notes with a denomination per Note of less than EUR50,000

<sup>18</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

[All Annex 5.5 requirements to be addressed here for non-exempt public offers]

**6. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i) Reasons for the [ ] offer

(If reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii)] Estimated net • proceeds:

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total • [Include breakdown of expenses.] expenses:

(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

**7. [Fixed Rate Notes only – YIELD**

Indication of yield: •

[Calculated as [include details of method of calculation in summary form] on the Issue Date.

As set out above,]<sup>19</sup> the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

**8. [[Floating Rate Notes only - HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].] <sup>20</sup>

**9. [Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, [EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS] <sup>21</sup> AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained [and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident]<sup>22</sup>. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. ]*

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<sup>19</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>20</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>21</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>22</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

10. **[Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE [AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT]]**<sup>23</sup>

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained [and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]]<sup>24</sup>

11. **OPERATIONAL INFORMATION**

ISIN Code: “[Swedish Notes, specify Swedish CSD (expected to be VPC AB) and Issuing Agent (expected to be [●]). ISIN code applies but additional VPC code may be inserted if deemed appropriate: Swedish CSD: VPC AB, Regeringsgatan 65, Box 7822, SE-103 97 Stockholm  
Swedish Issuing Agent: [●] Stockholm, Sweden  
/give name(s) and number(s)]”

Common Code: [ ]

New Global Note Yes/No

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [ ]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]  
[Note that designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either on issue or subsequently. Such recognition will depend on satisfaction of Eurosystem eligibility criteria][include this text if "yes" selected, in which case the Notes must be issued in NGN form

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<sup>23</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

<sup>24</sup> Delete for Notes with a denomination per Note of EUR50,000 or more

## FORMS OF NOTES

Unless otherwise specified in the Conditions or the applicable Final Terms, each issuance of Notes having a maturity of more than 183 days (and any Tranche thereof) will initially be in the form of a temporary global note (a "**Temporary Global Note**"), without interest coupons. Each Temporary Global Note will be deposited on or around the issue date of such Notes (or any Tranche thereof) either;

- (a) if the Temporary Global Note is intended to be issued in New Global Note ("**NGN**") form, as stated in the applicable Final Terms, with a common safekeeper (the "**Common Safekeeper**") for Euroclear and/or Clearstream, Luxembourg; and
- (b) if the Temporary Global Note is not intended to be issued in NGN form, with a depositary or a common depositary (together with a "**Common Safekeeper**", "a "**Bearer Note Depositary**") for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Upon deposit of each Temporary Global Note, Euroclear or Clearstream, Luxembourg or, as applicable, any other relevant clearing system, will credit each subscriber with a principal amount of Notes equal to the principal amount for which it has subscribed and paid.

The interests of the beneficial owner or owners in a Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (a "**Permanent Global Note**" and, together with a Temporary Global Note, the "**Global Notes**"), without interest coupons, to be held by a Bearer Note Depositary after the date (the "**Exchange Date**") that is 40 days after the date on which the relevant Issuer receives the proceeds of the sale of that Note (or the relevant Tranche thereof) (the "**Closing Date**") only upon certification as to non-U.S. beneficial ownership. The Exchange Date for any Note held by a Distribution Agent as part of an unsold allotment or subscription more than 40 days after the Closing Date for that Note will be the day after the date that Note is sold by that Distribution Agent. However, that exchange will be made only upon receipt of Ownership Certificates (as defined below). No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. Each issuance of Notes having a maturity of 183 days or less will be in the form of a Permanent Global Note.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the relevant Issuer shall procure (in the case of the first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (a) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent (in the case of New York Law Notes) or the Fiscal Agent (in the case of English Law Notes); and
- (b) receipt by the Principal Paying Agent (in the case of New York Law Notes) or the Fiscal Agent (in the case of English Law Notes) of a certificate or certificates of non-U.S. beneficial ownership,

within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however*, that in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**"), which will be serially numbered, with coupons, if any, attached:

- (a) in the case of Notes issued by Morgan Stanley, if a beneficial owner gives 30 days' written notice to the Principal Paying Agent (in the case of New York Law Notes) or the Fiscal Agent (in the case of English Law Notes) through either Euroclear or Clearstream, Luxembourg or, as applicable, any other relevant clearing system; upon receipt of an initial request to exchange an interest in a Permanent Global Note for Definitive Notes, all other interests in that Permanent Global Note will be exchanged for Definitive Notes; or
- (b) in the case of Notes issued by Morgan Stanley, Morgan Stanley Jersey, MSBV or an Additional Issuer, if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any Note is accelerated following any of the circumstances described in "Description of the New York Law Notes—Events of Default" or in Condition 18 (Events of Default) of "Terms and Conditions of the English Law Notes".

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons (as defined in "Terms and Conditions of the English Law Notes" below) and Talons attached (if so specified in the applicable Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent (in the case of New York Law Notes) or the Fiscal Agent (in the case of English Law Notes) within 30 days of the bearer requesting such exchange. The Bearer Note Depository for Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system will instruct the Principal Paying Agent for the Notes (in the case of New York Law Notes) or the Fiscal Agent (in the case of English Law Notes) regarding the aggregate principal amount and denominations of Definitive Notes that must be authenticated and delivered to each of Euroclear and Clearstream, Luxembourg or, as applicable, any other relevant clearing system. Definitive Notes may not be delivered in the United States. Definitive Notes will be serially numbered.

#### **Terms and Conditions Applicable to the Notes**

The terms and conditions applicable to any Definitive Note that is a New York Law Note will be set forth in such Definitive Note. The terms and conditions of any Definitive Note that is an English Law Note will be endorsed on that Definitive Note and will consist of the terms and conditions set out under "Terms and Conditions of the English Law Notes" as set out below (or in the relevant Supplemental Base Prospectus) and the provisions of the applicable Final Terms, which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any English Law Note in global form will differ from those terms and conditions which would apply to the English Law Note were it in definitive form to the extent described under "Summary of Provisions Relating to the English Law Notes while in Global Form" below.

#### **Swedish Notes**

Notes issued by Morgan Stanley Jersey or MSBV and designated as "Swedish Notes" in the applicable Final Terms will be issued in uncertificated and dematerialised book-entry form in accordance with the Swedish Financial Instruments Accounts Act (Sw. lag (1998:1479) om kontoföring av finansiella instrument) and all other applicable Swedish laws, regulations and operating procedures applicable to and/or issued by the Swedish central securities depository (Sw. central värdepappersförvarare) from time to time (the "**Swedish CSD Rules**") designated as registrar for the Swedish Notes in the relevant Final Terms (which is expected to be VPC AB) (the "**Swedish CSD**"). No physical global or definitive Notes or certificates will be issued in respect of Swedish Notes (other than following a Definitive Note Threshold Notice as described in Condition 3.2) and the provisions relating to presentation, surrender or



replacement of such physical bearer instruments shall not apply. Payments of principal, interest (if any) or any other amounts on any Swedish Note will be made through the Swedish CSD in accordance with the Swedish CSD Rules.

All Swedish Notes will be subject to the legend concerning United States Persons referred to in the section "Legend Concerning United States Persons" below, including but not limited to any definitive notes issued following a Definitive Notes Request Notice pursuant to Condition 3.2. In addition, all Swedish Notes will be subject to the provisions under "Limitations on Issuance of, Payment on, and Delivery of Bearer Notes and Swedish Notes" below. Investors in Swedish Notes should note that an exchange into definitive notes following a Definitive Notes Request Notice will result in deregistration from the Swedish clearing system and is likely to result in de-listing from the relevant Swedish exchange or authorised place where the Swedish Notes are traded, if any. In such a case of de-listing, the relevant Issuer may, but is not obliged to, seek an alternative listing for the Notes on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the relevant Issuer or the Guarantor (if applicable), burdensome, an alternative listing for the Notes may not be considered.

#### **Legend Concerning United States Persons**

In the case of Notes (or any Tranche thereof) having a maturity of more than 183 days, the Global Notes, the Definitive Notes and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE."

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realized on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterized as capital gain) recognized on such sale, exchange or redemption will be treated as ordinary income.

Any Notes (or any Tranche thereof) having a maturity of 183 days or less must have a minimum face and principal amount of \$500,000 and bear the following legend:

"By accepting this obligation, the holder represents and warrants that it is not a United States person (other than an exempt recipient described in Section 6049(b)(4) of the Internal Revenue Code and regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in Section 6049(b)(4) of the Internal Revenue Code and regulations thereunder)."

#### **Limitations on Issuance of, Payment on, and Delivery of Bearer Notes and Swedish Notes**

In compliance with United States federal income tax laws and regulations, bearer notes, including bearer notes in global form, and Swedish Notes will not be offered, sold or delivered, directly or indirectly, in the United States or its possessions or to United States persons, as defined below, except as otherwise permitted by United States Treasury Regulations Section 1.163-5(c)(2)(i)(D). Any underwriters, agents or dealers participating in the offerings of bearer notes or of Swedish Notes, directly or indirectly, must agree that (i) they will not, in connection with the original issuance of any bearer notes or of Swedish Notes or during the restricted period with respect to such notes (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)) (the "**Restricted Period**"), offer, sell or deliver, directly or indirectly, any bearer notes or Swedish Notes in the United States or its possessions or to United States persons, other than as permitted by the applicable Treasury Regulations described above; and (ii) they will not, at any time offer, sell or deliver, directly or indirectly, any bearer notes or Swedish Notes in the United States or its possessions or to United States persons, other than as permitted by the applicable Treasury Regulations above.

In addition, any underwriter, agent or dealer must have procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling bearer notes or Swedish Notes are aware of the above restrictions on the offering, sale or delivery of bearer notes and Swedish Notes.

Bearer notes and Swedish Notes, other than bearer notes and Swedish Notes that satisfy the requirements of United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(3)(iii) and any coupons or talons appertaining thereto, will not be delivered in definitive form, and no interest will be paid thereon, unless the relevant Issuer has received a signed certificate in writing, or an electronic certificate described in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(3)(ii), (an "**Ownership Certificate**") stating that on the date of the Ownership Certificate that bearer note or Swedish Note:

- (1) is owned by a person that is not a United States person;
- (2) is owned by a United States person that is described in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6); or
- (3) is owned by a United States or foreign financial institution for the purposes of resale during the Restricted Period,

and, in addition, if the owner of the bearer note or of the Swedish Note is a United States or foreign financial institution described in clause (3) above, whether or not also described in clause (1) or clause (2) above, the financial institution certifies that it has not acquired the bearer note or Swedish Note for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

The relevant Issuer will make payments on bearer notes and on Swedish Notes only outside the United States and its possessions except as permitted by the above regulations.

As used herein, "**United States person**" means, for United States federal income tax purposes, (i) a citizen or resident of the United States; (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof; (iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust.

## **SUMMARY OF PROVISIONS RELATING TO THE ENGLISH LAW NOTES WHILE IN GLOBAL FORM**

### **Clearing System Accountholders**

Each Global Note will be in bearer form. Consequently, in relation to any Notes (or any Tranche thereof) represented by a Global Note, references in "Terms and Conditions of the English Law Notes" to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a Bearer Note Depository, will be that Bearer Note Depository.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the relevant Issuer to the bearer of such Global Note and in relation to all other rights arising under the Global Note, including any right to exchange any exchangeable Notes or any right to require the relevant Issuer to repurchase such Notes. The respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time will determine the extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note and the timing requirements for meeting any deadlines for the exercise of those rights. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the relevant Issuer in respect of payments due under the Notes and such obligations of the relevant Issuer will be discharged by payment to the bearer of the Global Note.

### **Exchange of Temporary Global Notes**

If:

- (a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5:00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the terms and conditions of such Temporary Global Note as set out in "Terms and Conditions of the English Law Notes" or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof, as the case may be) will become void at 5:00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5:00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have in respect of English Law Notes under (i) in respect of English Law Notes issued by Morgan Stanley, the Morgan Stanley Deed of Covenant; (ii) in respect of English Law Notes issued by Morgan Stanley Jersey, the MSJ Deed of Covenant; (iii) in respect of English Law Notes issued by an Additional Issuer, a deed of covenant to be executed by such Additional Issuer on or prior to the date on which such Additional Issuer accedes to the Program (an "**Additional Deed of Covenant**")). Under the Morgan Stanley Deed of Covenant, the MSJ Deed of Covenant or, as the case may be, any Additional Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note in respect of English Law Notes will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before such Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of English Law Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

### **Exchange of Permanent Global Notes**

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the applicable Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) in the case of Notes issued by Morgan Stanley, Definitive Notes have not been delivered by 5:00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) a Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) a Permanent Global Note (or any part of it) has become due and payable in accordance with the terms and conditions of such Permanent Global Note as set out in "Terms and Conditions of the English Law Notes" or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5:00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have in respect of English Law Notes under the Morgan Stanley Deed of Covenant, the MSJ Deed of Covenant, the MSBV Deed of Covenant or, as the case may be, any Additional Deed of Covenant). Under the Morgan Stanley Deed of Covenant, the MSJ Deed of Covenant, the MSBV Deed of Covenant or, as the case may be, any Additional Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system in force as being entitled to an interest in a Permanent Global Note in respect of English Law Notes will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before such Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of English Law Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

### **Specified Denomination of Notes issued by MSBV**

Each Note issued by MSBV (the "**MSBV Notes**") will be issued with the Specified Denomination of at least EUR 1,000 per MSBV Note (or its equivalent in the currency in which such MSBV Note is denominated). For so long as the MSBV Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the MSBV Notes shall be tradeable in minimum nominal amounts of at least EUR 1,000 per MSBV Note (or its equivalent) and integral multiples of any amount thereafter, as specified in the applicable Final Terms. If Definitive Notes are required to be issued in the limited circumstances specified in the Permanent Global Note they will only be printed and issued in denominations of at least EUR 1,000 per MSBV Note (or its equivalent). Accordingly, if Definitive Notes are required to be issued, a Noteholder holding MSBV Notes having an original nominal amount which cannot be fully represented by Definitive Notes in the denomination of at least at least EUR 1,000 per MSBV Note (or its equivalent) will not be able to receive a Definitive Note in respect of the original nominal amount of the MSBV Notes by which the original nominal amount of such holding of MSBV

Notes exceeds the next lowest integral multiple of at least EUR 1,000 per MSBV Note (or its equivalent), the "**Excess Amount**") and will not be able to receive interest or principal in respect of such Excess Amount. Furthermore, at any meetings of Noteholders while MSBV Notes are represented by a Global Note any vote cast shall only be valid if it is in respect of at least EUR 1,000 (or its equivalent) in nominal amount and no vote may be cast in respect of any smaller nominal amount.

#### **Conditions Applicable to Global Notes**

Each Global Note will contain provisions which modify the terms and conditions set out in "Terms and Conditions of the English Law Notes" as they apply to the Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Note (except in the case of Global Notes in NGN form) will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the Specified Office of any paying agent and will be effective to satisfy and discharge the corresponding liabilities of the relevant Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the relevant Issuer shall procure that the same is noted in a schedule thereto.

*Exercise of put option:* In order to exercise the Noteholder's put option set out in Condition 13.9 (*Redemption at the option of Noteholders*) of "Terms and Conditions of the English Law Notes", the bearer of the Permanent Global Note must, within the period specified therein for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent and/or such other person as is specified in the relevant Final Terms specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 13.7 (*Redemption at the option of the Issuer*) of "Terms and Conditions of the English Law Notes" in relation to some but not all of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the relevant Issuer in accordance with the provisions set out therein and the Notes to be redeemed will not be selected as provided therein.

*Notices:* Notwithstanding Condition 24 (*Notices*) of "Terms and Conditions of the English Law Notes", while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and the Temporary Global Note are) deposited with a Bearer Note Depository, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 24 (*Notices*) of "Terms and Conditions of the English Law Notes", on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

*Redenomination:* If the Notes are redenominated pursuant to Condition 27 (*Redenomination, Renominalisation and Reconventioning*) of "Terms and Conditions of the English Law Notes" then following redenomination:

- (a) if Definitive Notes are required to be issued, they shall be issued at the expense of the relevant Issuer in the denominations of euro 0.01, euro 1,000, euro 10,000, euro 100,000 and such other denominations as the relevant Fiscal Agent shall determine and notify to the Noteholders; and
- (b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest euro 0.01.

## ERISA

The Notes may not be acquired or held by, or acquired with the assets of, any employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any individual retirement account or plan subject to Section 4975 of the Code.

## UNITED STATES FEDERAL TAXATION

**This discussion is limited to the Federal tax issues addressed below. Additional issues may exist that are not addressed in this discussion and that could affect the Federal tax treatment of the transaction. Because this tax disclosure was written in connection with the marketing of the Program for the Issuance of Notes, Series A and B, it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder. Holders should seek their own advice based upon their particular circumstances from an independent tax advisor.**

*References to "Notes" herein refer only to Notes issued by Morgan Stanley, Morgan Stanley Jersey or MSBV, not to Notes issued by an Additional Issuer.*

In the opinion of Davis Polk and Wardwell, counsel to us, the following are the material U.S. federal tax consequences of ownership and disposition of the Notes by Non-U.S. Holders (as defined below). This summary is based on the Internal Revenue Code of 1986 (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described herein.

This summary does not discuss all of the tax consequences that may be relevant to holders in light of their particular circumstances or to holders subject to special rules, such as:

- persons other than Non-U.S. Holders;
- nonresident alien individuals who have lost their United States citizenship or who have ceased to be treated as resident aliens; or
- corporations that are treated as foreign or domestic personal holding companies, controlled foreign corporations, or passive foreign investment companies.

Persons considering the purchase of Notes should consult their own tax advisors with regard to the application of the United States federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Note that is for United States federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation;
- a nonresident alien fiduciary of a foreign estate or trust; or
- a foreign partnership one or more of the members of which is a nonresident alien individual, a foreign corporation or a nonresident alien fiduciary of a foreign trust or estate; or
- "Non-U.S. Holder" does not include a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes. Such a holder is urged to consult his or her own tax advisors regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of a Note.

## Notes

Except as otherwise discussed below or indicated in the applicable Final Terms, a Non-U.S. Holder will generally not be subject to United States federal income tax, including withholding tax, on payments of principal, or interest (including original issue discount, if any) on a Note, or on proceeds from the sale or other disposition of a Note, provided that for purposes of United States federal income tax law:

- the Note is treated as indebtedness for United States federal income purposes; Notes may be issued at a premium, which could make them non-debt for tax purposes;
- the payments or proceeds are not effectively connected with the conduct of a trade or business within the United States by the holder;
- the holder does not own (directly or by attribution) ten percent or more of the total combined voting power of all classes of stock of Morgan Stanley entitled to vote;
- the holder is not a bank holding the Note in the context of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and
- the holder does not have a "tax home" (as defined in section 911(d)(3) of the Code) or an office or other fixed place of business in the United States.

## Exchangeable Notes

Except as otherwise indicated in the applicable Final Terms, a Non-U.S. Holder will generally not be subject to United States federal income tax, including withholding tax, with regard to an Exchangeable Note if:

- the Note is treated as indebtedness for United States federal income tax purposes;
- the Note is exchangeable only into securities that are actively traded, into a basket of securities that are actively traded or an index or indices of securities that are actively traded; and
- the other requirements for exemption from tax listed above under "Notes" are met.

With regard to the above requirements, Optionally Exchangeable Notes for which the principal amount payable in cash equals or exceeds the issue price (i.e. the first price at which a substantial amount of the Optionally Exchangeable Notes is sold to the public) will generally be treated as indebtedness for United States federal income tax purposes. No opinion is expressed herein as to the impact of the "United States real property holding corporation" rules, which could affect the taxation of Non-U.S. Holders of Exchangeable Notes in certain circumstances. Non-U.S. Holders intending to purchase Exchangeable Notes should refer to the discussion relating to taxation in the applicable Final Terms for disclosure, if any is deemed necessary, concerning the applicability of those rules. For information regarding the United States federal income tax consequences of the ownership and disposition of the property received in exchange for the Note, please refer to the documents described in the applicable Final Terms.

## Notes Linked to Commodity Prices, Single Securities, Baskets of Securities or Indices, Currencies and Credit-Linked Notes

Except to the extent discussed above under "Exchangeable Notes," the United States federal income tax consequences to a Non-U.S. Holder of the ownership and disposition of Notes that have principal or interest determined by reference to commodity prices, securities of entities not affiliated with the relevant Issuer, baskets of securities or indices, currencies or the credit of entities not affiliated with the relevant Issuer may vary depending upon the exact terms of the Notes and related factors. Notes containing any of those features may be subject to rules that differ from the general rules discussed above. In these instances, the applicable Final Terms will disclose such special rules. Non-U.S. Holders intending to purchase such Notes should refer to the discussion relating to taxation in the applicable Final Terms, if deemed necessary, for disclosure concerning the applicability of the rules.

## **Backup Withholding and Information Reporting**

With respect to Notes that are treated as indebtedness for U.S. federal income tax purposes, a Non-U.S. Holder of a Note will generally not be subject to backup withholding or information reporting with respect to payments on, or proceeds from the sale or redemption of, the Note.

Non-U.S. Holders of Notes should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom and the procedure for obtaining the exemption, if available. Any amounts withheld from a payment to a Non-U.S. Holder under the backup withholding rules will be allowed as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the United States Internal Revenue Service.

## **Estate Tax**

Subject to benefits provided by an applicable estate tax treaty, a Note that is treated as indebtedness for U.S. federal income tax purposes will generally be excluded from the gross estate of a Non-U.S. Holder for U.S. federal estate tax purposes upon the individual's death unless, at such time, interest payments on the Note would have been:

- subject to U.S. federal withholding tax without regard to any certification that such holder is not a "United States person" within the meaning of Section 7701(a)(30) of the Code, not taking into account an elimination of such U.S. federal withholding tax due to the application of an income tax treaty; or
- effectively connected to the conduct by the holder of a trade or business in the United States.

Non-U.S. Holders should consult their own tax advisors regarding the U.S. federal estate tax consequences of an investment in the Notes and the availability of benefits provided by an applicable estate tax treaty, if any.



## UNITED KINGDOM TAXATION

*The following disclosure applies only in respect of Notes issued by Morgan Stanley, Morgan Stanley Jersey or MSBV and not in respect of Notes issued by an Additional Issuer or any substitute issuer. References in this section on United Kingdom taxation to "Notes" refer only to Notes issued by Morgan Stanley, Morgan Stanley Jersey or MSBV, and references to Noteholders should be construed accordingly. The following assumes that Morgan Stanley, Morgan Stanley Jersey and MSBV are not resident in the United Kingdom for United Kingdom tax purposes and are not issuing the Notes for the purposes of a trade or other business carried on by them in the United Kingdom and that the interest on the Notes does not have a United Kingdom source.*

*The following disclosure applies only when any interest on Notes issued by Morgan Stanley, Morgan Stanley Jersey or MSBV is paid and the payment of such interest is entrusted to any person in the United Kingdom for payment, distribution or collection.*

The following is a summary of the obligations in certain circumstances to provide information to Her Majesty's Revenue and Customs at the date hereof in relation to payments of principal and interest in respect of the Notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. Prospective Noteholders should be aware that the particular terms of issue of any series of Notes as specified in the applicable Final Terms may affect the tax treatment of that and other series of Notes. The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers.

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by any person in the United Kingdom acting on behalf of Morgan Stanley (in the case of Notes issued by Morgan Stanley) or Morgan Stanley Jersey (in the case of Notes issued by Morgan Stanley Jersey) or MSBV (in the case of Notes issued by MSBV) (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than, if a bank or similar institution, solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to Her Majesty's Revenue and Customs details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to Her Majesty's Revenue and Customs may, in certain cases, be passed by Her Majesty's Revenue and Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

For the purposes of the paragraph above, references to "interest" should be taken, for practical purposes, as including payments made by Morgan Stanley as guarantor in respect of interest on the Notes.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

The references to "interest" in this section on United Kingdom taxation mean "interest" as understood in United Kingdom tax law. The statements in this section on United Kingdom taxation do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

## JERSEY TAXATION

Prospective purchasers of Notes issued by Morgan Stanley Jersey should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Jersey/United States of America of acquiring, holding and disposing of such securities and receiving payments of interest, principal and/or other amounts under such securities.

The following summary is based on the laws and practices currently in force in Jersey at the date of this document and is subject to changes therein.

Holders of Notes issued by Morgan Stanley Jersey (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of such securities. So long as Morgan Stanley Jersey maintains its "exempt company" status, interest on such securities may be paid by Morgan Stanley Jersey without withholding or deduction for or on account of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, redemption, sale or other disposal of such securities. Stamp duty of up to 0.75% is payable on the grant of probate or letters of administration in Jersey in respect of a deceased natural person (i) who died domiciled in Jersey, on the value of the entire estate and (ii) otherwise, on the value of so much of the estate as is situate in Jersey.

As part of an agreement reached in connection with the European Union (the "EU") directive on the taxation of savings income in the form of interest payments, and in line with steps taken by other relevant third countries, Jersey introduced with effect from 1 July 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey. Based on these provisions and our understanding of the current practice of the Jersey tax authorities (and subject to the transitional arrangement described above), Morgan Stanley Jersey would not be obliged to levy retention tax in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

**Expected changes to the Jersey corporate tax regime:** Legislation has been adopted by the States of Jersey which (subject to sanction by the Crown) will, on and from 1 January 2009, introduce a standard rate of corporate tax of 0% applicable to all companies (other than any "financial services company" (as defined therein) and certain specified Jersey utility companies). As at the date hereof, Morgan Stanley Jersey is neither a "financial services company" nor such a specified utility company.

## NETHERLANDS TAXATION

*The following disclosure applies only in respect of Notes issued by MSBV and not in respect of Notes issued by Morgan Stanley, Morgan Stanley Jersey or an Additional Issuer or any substitute issuer. References in this section on Netherlands taxation to "Notes" refer only to Notes issued by MSBV and references to holders of Notes should be construed accordingly.*

The following disclosure outlines certain Netherlands tax consequences to holders of Notes. It is based on the current law and practice of the Netherlands, which is subject to changes that could prospectively or retrospectively affect the stated tax consequences. The disclosure does not purport to be complete. Prospective holders of Notes should consult their own appropriate independent professional advisors with respect to the tax consequences of an investment in the Notes in their particular circumstances without delay.

### **Withholding Tax**

All payments under Notes may be made free of withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that (i) the Notes have a maturity of not more than 50 years, (ii) the Notes are not subordinated, and/or (iii) none of the Notes will carry interest that is – legally or de facto – fully or almost fully contingent on the profits of MSBV, the Guarantor or any other entity related to MSBV and/or the Guarantor.

### **Taxes on Income and Capital Gains**

A holder of Notes will not be subject to any Netherlands taxes on income or capital gains in respect of Notes, including such tax on any payment under Notes or in respect of any gain realised on the disposal, deemed disposal or exchange of Notes, provided that:

- (a) such holder is neither a resident nor deemed to be a resident of the Netherlands, nor, if he is an individual, has elected to be taxed as a resident of the Netherlands;
- (b) such holder does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise, as the case may be, Notes are attributable;
- (c) if such holder is an individual, neither such holder nor any of his spouse, his partner, a person deemed to be his partner, or other persons sharing such person's house or household, or certain other of such persons' relatives (including foster children), (a) has indirectly the disposition of the proceeds of Notes, nor (b) has a substantial interest in MSBV, Morgan Stanley and/or any other entity that legally or de facto, directly or indirectly, has the disposition of the proceeds of Notes. For purposes of this clause (c), a substantial interest is generally not present if a holder does not hold, alone or together with his spouse or partner, whether directly or indirectly, the ownership of, or certain other rights (including rights to acquire shares, whether or not already issued) over, (a) shares representing five percent or more of the total issued and outstanding capital (or of the issued and outstanding capital of any class of shares) of a company, (b) profit sharing certificates, or membership rights in a co-operative association, entitling the holder to five percent or more of the profits or of the liquidation distributions of a company or co-operative association, or (c) membership rights representing five percent or more of the voting rights in a co-operative association's general meeting;
- (d) if such holder is a company, such holder does not have a substantial interest in MSBV or if such holder does have such a substantial interest, it can be allocated to the holder's business assets. For purpose of this clause (d), a substantial interest is generally not present if a holder does not hold, whether directly or indirectly, the ownership of, or certain other rights (including the rights to acquire shares, whether or not already issued) over shares representing five percent or more of the total issued and outstanding capital (or of the issued and outstanding capital of any class of

shares) of MSBV, or (b) profit sharing certificates, entitling the holder to five per cent. or more of the profits or of the liquidation distributions of MSBV; and

- (e) if such holder is an individual, such income or capital gain do not form "benefits from miscellaneous activities in the Netherlands" ("resultaat uit overige werkzaamheden in Nederland"), which would for instance be the case if the activities in the Netherlands with respect to Notes exceed "normal active asset management" ("normaal, actief vermogensbeheer").

A holder of Notes will not be subject to taxation in the Netherlands by reason only of the execution, delivery and/or enforcement of the documents relating to an issue of Notes or the performance by MSBV of its obligations thereunder or under Notes.

#### **Gift, Estate and Inheritance Taxes**

No gift, estate or inheritance taxes will arise in the Netherlands with respect to an acquisition of Notes by way of a gift by, or on the death of, a holder of Notes who is neither resident nor deemed to be resident in the Netherlands, unless:

- (a) such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise, as the case may be, Notes are or were attributable; or
- (b) in the case of a gift of Notes by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

#### **Turnover Tax**

No Netherlands turnover tax will arise in respect of any payment in consideration for the issue of Notes, with respect to any payment by MSBV of principal, interest or premium (if any) on the Notes.

#### **Other Taxes and Duties**

No Netherlands capital tax, registration tax, custom duty, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the Courts of the Netherlands) of the documents relating to the issue of Notes or the performance by MSBV of its obligations thereunder or under Notes.

## EUROPEAN UNION SAVINGS DIRECTIVE

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income (the "**EU Savings Tax Directive**") which applies from 1 July 2005. Under the EU Savings Tax Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg will, unless they elect otherwise, instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction, to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provisions of information or transitional withholding arrangements with certain of these dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such person for, an individual resident in one of these territories.

## SUBSCRIPTION AND SALE

Each Issuer is offering the Notes on a continuing basis through Morgan Stanley & Co. International plc of 25 Cabot Square, Canary Wharf, London E14 4QA and Morgan Stanley & Co. Incorporated whose principal executive offices are at 1585 Broadway, New York, New York 10036, U.S.A., (the "**Distribution Agents**"), who have agreed to use reasonable efforts to solicit offers to purchase the Notes. Each Issuer will have the sole right to accept offers to purchase Notes and may reject any offer in whole or in part. The Distribution Agents will have the right to reject any offer to purchase Notes solicited by it in whole or in part. Each Issuer may pay the Distribution Agents, in connection with sales of the Notes resulting from a solicitation the Distribution Agents made or an offer to purchase received by the Distribution Agents, a commission, which may be in the form of a discount from the purchase price if the Distribution Agents are purchasing the Notes for their own account.

The price and amount of Notes to be issued under the Program will be determined by the relevant Issuer and the Distribution Agent at the time of issue in accordance with prevailing market conditions. Payment of the purchase price of the Notes will be required to be made in immediately available funds.

Each Issuer may also sell Notes to a Distribution Agent as principal for its own account at a price to be agreed upon at the time of sale. The Distribution Agents may resell any Notes they purchase as principal at prevailing market prices, or at other prices, as the Distribution Agents determine.

The arrangements for the offer and sale of the Notes from time to time are set out in the Regulation S Euro Distribution Agreement dated 22 June 2007 (as modified and restated from time to time, the "**Distribution Agreement**") among Morgan Stanley, Morgan Stanley Jersey, MSBV and the Distribution Agents (and any Additional Issuer that accedes to the Program). Pursuant to the Distribution Agreement, Morgan Stanley, Morgan Stanley Jersey, MSBV and the Distribution Agents have agreed (and any Additional Issuer that accedes to the Program shall agree) to indemnify each other against certain liabilities, or to contribute payments made in respect thereof. Morgan Stanley, Morgan Stanley Jersey and MSBV have also agreed (and any Additional Issuer that accedes to the Program shall agree) to reimburse the Distribution Agents for certain expenses. The Distribution Agreement makes provision for the appointment of additional Distribution Agents who may agree to become bound by its terms (either in relation to the Program generally or in relation to a particular Series of Notes) in an accession letter provided by such additional Distribution Agent to the Issuers.

In order to facilitate the offering of the Notes, the Distribution Agents may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes or any other securities the prices of which may be used to determine payments on those Notes. Specifically, the Distribution Agents may overallocate in connection with any offering of the Notes, creating a short position in the Notes for their own accounts. In addition, to cover overallocations or to stabilize the price of the Notes or of any other securities, the Distribution Agents may bid for, and purchase, Notes or any other securities in the open market. Finally, in any offering of the Notes through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the Notes in the offering if the syndicate repurchases previously distributed Notes in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Distribution Agents are not required to engage in these activities and may end any of these activities at any time.

### **United States of America**

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered, *at any time*, within the United States or to, or for the account or benefit of, U.S. Persons. Each Distribution Agent (1) has acknowledged that the Notes have not been and will not be registered under the Securities Act, or any securities laws of any state in the United States, are subject to U.S. tax law requirements, and the Notes are not being offered or sold and may not be offered, sold or delivered at any time, directly or indirectly, within the United States or to or for the account or benefit of U.S. Persons (as defined either in Regulation S under the Securities Act or the Code); (2) has represented, as a condition to acquiring any interest in the Notes, that neither it nor any persons for whose account or

benefit the Notes are being acquired is a U.S. Person, is located in the United States, or was solicited to purchase Notes while present in the United States; (3) has agreed not to offer, sell or deliver any of the Notes, directly or indirectly, in the United States to any U.S. Person; (4) has agreed that, at or prior to confirmation of sale of any Notes (whether upon original issuance or in any secondary transaction), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it a written notice containing language substantially the same as the foregoing. As used herein, "**United States**" means the United States of America (including the states and the District of Columbia), its territories and possessions.

In addition, the Distribution Agents have represented and agreed that they have not offered or sold Notes and will not offer or sell Notes *at any time* except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, the Distribution Agents have represented and agreed that neither they, their affiliates (if any) nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to Notes, and it and they have complied and will comply with the offering restrictions requirements of Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

In compliance with United States federal income tax laws and regulations, bearer notes, including bearer notes in global form, are subject to U.S. tax law requirements and may not be offered, sold or delivered, directly or indirectly, within the United States or its possessions or to U.S. Persons. The Notes will be issued in accordance with the provisions of United States Treasury Regulation § 1.163-5(c)(2)(i)(D). Terms used in this paragraph have the meanings given to them by the Code.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Distribution Agent has represented and agreed, and each further Distribution Agent appointed under the Program will be required to represent and agree, in relation to each Tranche of Notes that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last (or, in the case of Sweden, last two) annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Distribution Agent nominated by the Issuer for any such offer; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (e) above shall require the Issuer or any Distribution Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

In relation to each Tranche of Notes, each Distribution Agent subscribing for or purchasing such Notes has represented to, warranted and agreed with, or will represent to, warrant and agree with, the relevant Issuer and, if the Notes are issued by Morgan Stanley Jersey or MSBV, the Guarantor that:

- (a) *Notes with maturities of less than one year*: in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;
- (b) *Financial promotion*: 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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person, apply to the relevant Issuer; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Ireland**

Each Distribution Agent has represented and agreed that:

- (a) to the extent applicable, it will not underwrite the issue of or place the Notes otherwise than in conformity with the provisions of the Irish Investment Intermediaries Act, 1995 (as amended), including, without limitation, Sections 9 and 50 and will conduct itself in accordance with any code of conduct drawn up pursuant to Section 37; and
- (b) in relation to any Notes having a maturity of less than one year, it has ensured compliance with the requirements of the Notice of the Central Bank of Ireland of Exemptions granted under Section 8(2) of the Central Bank Act 1971, as amended and any other successor or related requirements with respect to the issue of Securities of such maturity.



**Jersey**

Each Distribution Agent has severally represented to, and agreed with, Morgan Stanley Jersey that it will not take any action on behalf of Morgan Stanley Jersey that would result in Morgan Stanley Jersey being required to become registered under the Financial Services (Jersey) Law 1998, as amended.

#### **NO OWNERSHIP BY U.S. PERSONS**

**The Notes may not be legally or beneficially owned by U.S. Persons at any time. Each holder and each beneficial owner of a Note hereby represents, as a condition to purchasing or owning the Note or any beneficial interest therein, that neither it nor any person for whose account or benefit the Notes are being purchased is located in the United States, is a U.S. Person or was solicited to purchase the Notes while present in the United States. Each holder and each beneficial owner of a Note hereby agrees not to offer, sell or deliver any of the Notes, at any time, directly or indirectly in the U.S. or to any U.S. Person. The term "U.S. Person" will have the meaning ascribed to it in both Regulation S under the Securities Act and the Code.**

## GENERAL INFORMATION

Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate code for each issue allocated by Euroclear and Clearstream, Luxembourg will be contained in the applicable Final Terms. Transactions will normally be effected for settlement not earlier than two business days after the date of the transaction.

For so long as this Base Prospectus remains in effect or any securities issued by Morgan Stanley, Morgan Stanley Jersey or MSBV remain outstanding, the following documents will be available from the date hereof in physical or electronic form, during usual business hours on any week day, for inspection at The Bank of New York, One Canada Square, London E14 5AL and also at the principal executive offices of Morgan Stanley and the registered offices of Morgan Stanley Jersey and MSBV:

- (a) copies of the Distribution Agreement, the Issue and Paying Agency Agreement dated 30 November 2000 (as modified and restated on 4 December 2001, 30 June 2005 and 11 July 2006, and as further modified and restated on 22 June 2007 and as from time to time further modified and/or restated), the accession agreement dated as of 10 June 2002 relating to Morgan Stanley Jersey, the accession agreement dated as of 16 April 2004 relating to MSBV, the Morgan Stanley Deed of Covenant, the MSJ Deed of Covenant, the MSBV Deed of Covenant, the guarantee dated 10 June 2002 provided by Morgan Stanley, all of Morgan Stanley Jersey's and MSBV's future published financial statements and all of Morgan Stanley's future Annual, Quarterly and Current Reports. Morgan Stanley's Quarterly Reports on Form 10 Q contain unaudited quarterly financial statements;
- (b) the Certificate of Incorporation and Memorandum and Articles of Association of Morgan Stanley Jersey (these shall not be available at the registered office of MSBV);
- (c) the Deed of Incorporation of MSBV (this shall not be available at the registered office of Morgan Stanley Jersey);
- (d) the Certificate of Incorporation and Amended and Restated By-laws of Morgan Stanley;
- (e) all reports, letters and other documents, historical financial information, valuations and statements by any expert any part of which is included or referred to herein;
- (f) the audited accounts of MSBV for the financial years ended 30 November 2005 and 30 November 2006 (these shall not be available at the registered office of Morgan Stanley Jersey);
- (g) the audited accounts of Morgan Stanley Jersey for the financial years ended 30 November 2006 and 30 November 2005 (these shall not be available at the registered office of MSBV);
- (h) Morgan Stanley's Annual Report on Form 10-K for the year ended 30 November 2006, including any amendments thereto, which contain the audited consolidated financial statements of Morgan Stanley for the years ended 30 November 2006 and 30 November 2005;
- (i) a copy of this Base Prospectus and any document incorporated by reference herein;
- (j) any supplement to this Base Prospectus; and
- (k) any Final Terms (relating to listing and outstanding issues of Notes, issued after the date of this Base Prospectus.

Any statement contained in this Base Prospectus or in a document incorporated or deemed to be incorporated by reference in this Base Prospectus will be deemed to be modified or superseded for purposes of this Base Prospectus, to the extent that a statement contained in this Base Prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference in this Base

Prospectus and in respect of which a supplement to this Base Prospectus has been prepared modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus.

### **Morgan Stanley**

The Program was authorised by Morgan Stanley pursuant to resolutions adopted at a meeting of the Board of Directors of Morgan Stanley held on 17 June 2003, as amended and updated pursuant to resolutions adopted at a meeting of the Board of Directors of Morgan Stanley held on 14 December 2004, and further amended by resolutions dated 20 September 2005, 12 December 2006 and 19 June 2007.

### **Morgan Stanley Jersey**

There are no, nor have there been any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which Morgan Stanley Jersey is aware), during the 12 month period before the date of this Base Prospectus, involving Morgan Stanley Jersey which may have or have had in the recent past, a significant effect on the financial position or profitability of Morgan Stanley Jersey.

Deloitte & Touche LLP, Chartered Accountants and Registered Auditors of PO Box 403, Lord Coutanche House, 66-68 Esplanade, St Helier, Jersey JE4 8WA have audited the financial statements of Morgan Stanley Jersey for the years ended 30 November 2004, 2005 and 2006 and unqualified opinions have been reported thereon.

Morgan Stanley Jersey does not publish interim financial figures.

The role of Morgan Stanley Jersey as issuer under the Program was authorised by resolutions of the Board of Directors of Morgan Stanley Jersey passed on 7 June 2002 and 20 June 2007.

Morgan Stanley Jersey has obtained or will obtain all necessary consents, approvals and authorisations in connection with the issue and performance of Notes. In particular, the Jersey Financial Services Commission (the “**Commission**”) has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of Notes under the Program by Morgan Stanley Jersey. The Commission is protected by the Control of Borrowing (Jersey) Law 1947 against liability arising from the discharge of its functions under that law.

A copy of this document has been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and has not withdrawn, consent to its circulation.

It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Commission takes any responsibility for the financial soundness of Morgan Stanley Jersey or for the correctness of any statements made, or opinions expressed, with regard to it.

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.

It should be remembered that the price of securities and the income from them can go down as well as up.

### **Financial Services (Jersey) Law 1998**

Nothing in this Base Prospectus, any Final Terms or anything communicated to the holders of Notes issued by Morgan Stanley Jersey or potential holders of such securities by or on behalf of Morgan Stanley Jersey is intended to constitute or should be construed as advice on the merits of the purchase of or subscription for such securities or the exercise of any rights attached thereto for the purpose of the Financial Services (Jersey) Law 1998, as amended.

### **Collective Investment Funds (Restriction of Scope) (Jersey) Order 2000**

**The investments described in this document do not constitute a collective investment fund for the purpose of the Collective Investment Funds (Jersey) Law 1988, as amended, on the basis that they are investment products designed for financially sophisticated investors with specialist knowledge of, and experience of investing in, such investments, who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments. These investments are not regarded by the Jersey Financial Services Commission as suitable investments for any other type of investor.**

**Any individual intending to invest in any investment described in this document should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.**

### **MSBV**

There are no, nor have there been any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which MSBV is aware), during the 12 month period before the date of this Base Prospectus, involving MSBV which may have or have had in the recent past, a significant effect on the financial position or profitability of MSBV.

Deloitte Accountants B.V., independent auditors and certified public accountants of Orlyplein 50, 1040 HC Amsterdam, The Netherlands have audited the financial statements of MSBV for the years ended 30 November 2004, 30 November 2005 and 30 November 2006 and an unqualified opinion has been reported thereon.

MSBV does not publish interim financial statements.

The role of MSBV as issuer under the Program was authorised by resolutions of the Board of Directors of MSBV passed on 16 April 2004 and 20 June 2007.

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**PRINCIPAL PAYING AGENT AND FISCAL AGENT AND EXCHANGE  
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