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WASHINGTON, D.C. 20220

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JAN 29 2002



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ANNUAL ADDED REPORT  
FORM G-405  
PART III

FACING PAGE  
Information Required of Government Securities  
Brokers and Dealers  
Pursuant to Section 15C of the Securities  
Exchange Act of 1934, SEC Rule 17a-5 and 17CFR 405.2

SEC FILE NO.  
8-37795

REPORT FOR THE PERIOD BEGINNING 12/01/00 AND ENDING 11/30/01  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF GOVERNMENT SECURITIES BROKER OR DEALER:

Morgan Stanley Market Products Inc.

Official Use Only  
FIRM ID. NO

ADDRESS OF PRINCIPAL PLACE OF BUSINESS:

(Do not use P.O. Box No.)

1585 Broadway

(No. and Street)

New York,

(City)

New York

(State)

PROCESSED

APR 29 2002

THOMSON0036  
FINANCIAL Zip Code

NAME AND TELEPHONE OF PERSON TO CONTACT IN REGARD TO THIS REPORT:

Frederick M. Kormann

(212) 537-2434

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

(Name -- if individual, state last, first, middle name)

Deloitte & Touche LLP

Two World Financial Center

(ADDRESS); Name and Street

New York,

(City)

New York

(State)

10281-1414

Zip Code

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions

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\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See 17 CFR 240.17a-5(e)(2), 17 CFR 405.2.

**MORGAN STANLEY MARKET PRODUCTS INC.  
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**This report contains (check all applicable boxes):**

Independent Auditors' Report.

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholder's Equity.
- (f) Statement of Changes in Subordinated Liabilities.

Notes to Statement of Financial Condition.

- (g) Computation of Liquid Capital Pursuant to Section 402.2 of the Regulations under Section 15C of the Securities Exchange Act of 1934.
- (h) Computation for Determination of Reserve Requirements Pursuant to Section 403.4 of the Regulations under Section 15C of the Securities Exchange Act of 1934.
- (i) Information for Possession or Control Requirements Pursuant to Section 403.4 of the Regulations under Section 15C of the Securities Exchange Act of 1934.
- (j) A Reconciliation, including appropriate explanations, of the Computation of Liquid Capital Pursuant to Section 402.2 and the Computation of Determination of the Reserve Requirements Pursuant to Section 403.4 of the Regulations under Section 15C of the Securities Exchange Act of 1934.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Affirmation.
- (m) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit (Supplemental Report on Internal Control).

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Morgan Stanley Market Products Inc.

We have audited the accompanying statement of financial condition of Morgan Stanley Market Products Inc. as of November 30, 2001, that you are filing pursuant to Section 405.2 of the Regulations under Section 15C of the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of financial condition presents fairly, in all material respects, the financial position of Morgan Stanley Market Products Inc. at November 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

January 11, 2002

**MORGAN STANLEY MARKET PRODUCTS INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**November 30, 2001**  
(In thousands of dollars, except share data)

**ASSETS**

Cash	\$ 111,041
Securities segregated under federal regulations (securities at fair value of \$19,386)	19,000
Financial instruments owned:	
U.S. government and federal agency securities – pledged to an affiliate	9,315,730
Derivative contracts	395,858
Securities purchased under agreements to resell	9,340,316
Receivables:	
Brokers, dealers and clearing organizations	667,895
Customers	99,916
Interest	117,842
Affiliate	<u>266</u>
Total assets	<u>\$20,067,864</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Financial instruments sold, not yet purchased:	
U.S. government and federal agency securities	\$ 1,431,155
Derivative contracts	299,899
Securities sold under agreements to repurchase	17,621,873
Payables:	
Brokers, dealers and clearing organizations	94,059
Customers	208,343
Interest	18,699
Affiliates	<u>97,593</u>
	<u>19,771,621</u>
Subordinated liabilities	<u>200,000</u>
Stockholder's equity:	
Preferred stock (no par value, 100 shares authorized; 20 shares issued and outstanding)	20,000
Common stock (\$1 par value, 1,000 shares authorized, issued and outstanding)	1
Paid-in capital	170,060
Accumulated deficit	<u>(93,818)</u>
Total stockholder's equity	<u>96,243</u>
Total liabilities and stockholder's equity	<u>\$20,067,864</u>

See Notes to Statement of Financial Condition.

**MORGAN STANLEY MARKET PRODUCTS INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**November 30, 2001**  
**(In thousands of dollars, except where noted)**

**Note 1 – Introduction and Basis of Presentation**

**The Company**

Morgan Stanley Market Products Inc. (the “Company”) is a wholly owned subsidiary of Morgan Stanley Dean Witter & Co. (“MSDW”). The Company is registered with the Securities and Exchange Commission as a government securities broker-dealer and is governed by the provisions of the Government Securities Act of 1986.

The Company is primarily engaged in the trading, on a principal basis, of U.S. government agency mortgage-backed securities, mortgage-backed securities forward contracts (“TBAs”) and over-the-counter (“OTC”) options on U.S. government securities. The Company also trades in U.S. government securities and interest rate futures contracts.

**Basis of Financial Information**

The statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions regarding certain trading inventory valuations and other matters that affect the financial statement and related disclosures. Management believes that the estimates utilized in the preparation of the statement of financial condition is prudent and reasonable. Actual results could differ materially from these estimates.

**Related Party Transactions**

Morgan Stanley & Co. Incorporated (“MS”), a wholly owned subsidiary of MSDW, charges the Company for its occupancy, equipment rental, trade processing, communications, and other overhead, and performs certain administrative services for the Company, all of which are charged to the Company on an agreed-upon basis. Eligible employees of the Company are included in the benefit plans of MS, the cost of which is allocated to the Company. At November 30, 2001, securities purchased under agreements to resell (“reverse repurchase agreements”) of \$9,359,316, including securities segregated under federal regulations, and securities sold under agreements to repurchase (“repurchase agreements”) of \$17,621,873, are with MS.

**Note 2 - Summary of Significant Accounting Policies**

**Financial Instruments Used for Trading**

Financial instruments, including derivatives (futures, forwards and options), used in the Company’s trading activities are recorded at fair value. The fair values of the trading positions are generally based on listed market prices. If listed market prices are not available, or if liquidating the Company’s positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets. Fair values for certain derivative contracts are derived from pricing models which consider current market and contractual prices for the underlying financial instruments, as well as time value and yield curve or volatility factors underlying the positions. Purchases and sales of financial instruments are recorded in the accounts on trade date. Unrealized gains and losses arising from the Company’s dealings in OTC financial

instruments, including derivative contracts related to financial instruments, are presented in the accompanying statement of financial condition on a net-by-counterparty basis, when appropriate. In the normal course of business, the Company pledges its financial instruments owned to collateralize repurchase agreements.

### **Customer Transactions**

Customers' securities transactions are recorded on a settlement date basis with related revenues and expenses recorded on trade date.

### **Income Taxes**

Income tax expense is provided using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax bases of assets and liabilities, using currently enacted tax rates.

### **New Accounting Pronouncement**

In September 2000, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125." While SFAS No. 140 carries over most of the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," it provides new guidelines for reporting financial assets transferred as collateral and new guidelines for the derecognition of financial assets, in particular transactions involving the use of special purposes entities. SFAS No. 140 prescribes additional disclosures for collateral transactions and for securitization transactions accounted for as sales. The new guidelines for collateral transactions were effective for fiscal years ending after December 15, 2000, while the new guidelines for the derecognition of financial assets were effective for transfers made after March 31, 2001.

### **Note 3 - Securities Financing Transactions**

Reverse repurchase agreements and repurchase agreements, principally U.S. government and mortgage-backed agency securities, are treated as financing transactions and are carried at the amounts at which the securities will subsequently be resold or reacquired as specified in the respective agreements; such amounts include accrued interest. Reverse repurchase and repurchase agreements are presented on a net-by-counterparty basis, when appropriate. It is the Company's policy to take possession of securities purchased under agreements to resell.

The Company may pledge its financial instruments owned to collateralized repurchase agreements and other securities financing. Pledged securities that can be resold or repledged by the secured party are identified as financial instruments owned pledged to an affiliate on the statement of financial condition. At November 30, 2001, an affiliate had the right to resell or repledge all securities owned that were pledged as collateral by the Company.

The Company enters into reverse repurchase agreements and repurchase agreements to, among other things, finance the Company's inventory positions, and to acquire securities to cover short positions and settle other securities obligations. Under these agreements, the Company either receives or provides collateral, including U.S. government and mortgage-backed agency securities. The Company receives collateral in the form of securities in connection with reverse repurchase agreements. In all cases, the Company is permitted to sell or repledge these securities held as collateral to secure repurchase agreements. At November 30, 2001, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$9,786,996, all of which has been sold or repledged.

The Company monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralized.

#### **Note 4 - Subordinated Liabilities**

Subordinated liabilities are with MSDW and consist of a Cash Subordination Agreement and a Subordinated Revolving Credit Agreement.

The Cash Subordination Agreement, amended on November 26, 2001, is for \$100,000. It bears interest based upon the London Interbank Offered Rate and has a maturity date of December 31, 2011. Additionally, \$100,000 is payable under the Company's \$250,000 Subordinated Revolving Credit Agreement, amended on November 26, 2001, which has an availability termination date of December 31, 2010 and a maturity date of December 31, 2011. Interest on this borrowing is payable at such rates as shall have been agreed upon by the counterparties at the time of each advance.

#### **Note 5 - Commitments and Contingencies**

The Company had approximately \$51,100 of letters of credit outstanding at November 30, 2001 to satisfy various collateral requirements.

Financial instruments sold, not yet purchased represent obligations of the Company to deliver specified financial instruments at contracted prices, thereby creating commitments to purchase the financial instruments in the market at prevailing prices. Consequently, the Company's ultimate obligation to satisfy the sale of financial instruments sold, not yet purchased may exceed the amounts recognized in the statement of financial condition.

#### **Note 6 - Trading Activities**

##### **General**

The Company is a market maker for U.S. government agency mortgage-backed securities and trades in U.S. government securities. In addition, the Company is a dealer in OTC options on U.S. government securities and TBAs.

The Company uses TBAs in its role as a dealer and facilitates customer trades by taking positions in the TBA market. Typically, these positions are hedged by offsetting TBAs or underlying cash positions.

##### **Risk Management**

The Company's risk management policies and related procedures are integrated with those of MSDW and its other consolidated subsidiaries. These policies and related procedures are administered on a coordinated global basis with consideration given to each subsidiary's, including the Company's, specific capital and regulatory requirements. For the discussion which follows, the term "Company" includes MSDW and its subsidiaries.

Risk management at the Company is a multi-faceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. The Company's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the financial services business, the Company's risk management policies and procedures are evolutionary in nature and are subject to ongoing review and modification. Many of the Company's risk management and control practices are subject to periodic review by the Company's internal auditors as well as to interactions with various regulatory authorities.

The Management Committee, composed of the Company's most senior officers, establishes the overall risk management policies for the Company and reviews the Company's performance relative to these policies. The Management Committee has created several Risk Committees to assist it in monitoring and reviewing the Company's risk management practices. These Risk Committees, as well as other committees established to monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Company's market and credit risk profile, sales practices, legal enforceability, and operational and systems risks. The Credit Risk, Market Risk, Controllers, Treasury and Law and Compliance Departments, which are all independent of the Company's business units, assist senior management and the Risk Committees in monitoring and controlling the Company's risk profile. The Credit and Market Risk Departments have operational responsibility for measuring and monitoring aggregate credit risk and market risk with respect to the Company's institutional trading activities and are responsible for risk policy development, risk analysis and risk reporting to senior management and the Risk Committees. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Company's operations and control environment. The Company continues to be committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company's risk management and monitoring systems and processes.

#### Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other factors, such as liquidity, will result in losses for a specified position or portfolio.

The Company manages the market risk associated with its trading activities on a Company-wide basis, on a trading division level and on an individual product basis. Aggregate market risk limits have been approved for the Company and for each major trading division. Additional market risk limits are assigned to trading desks and, as appropriate, products. Trading division risk managers, desk risk managers, traders and the Market Risk Department monitor market risk measures against limits in accordance with policies set by senior management.

The Market Risk Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measures and analyses. The Company's trading businesses and the Market Risk Department also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to estimate market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Market Risk Department. Reports summarizing material risk exposures are produced by the Market Risk Department and disseminated to senior management.

## Credit Risk

The Company's exposure to credit risk arises from the possibility that a customer or counterparty to a transaction might fail to perform under its contractual commitment, which could result in the Company incurring losses. The Company has credit guidelines which limit the Company's current and potential credit exposure to any one counterparty and to aggregates of counterparties by type of business activity.

The Credit Department administers limits, monitors credit risk exposure, and periodically reviews the financial soundness of customers and counterparties. The Company manages the credit exposure relating to its trading activities in various ways, including entering into master netting agreements, collateral arrangements, and limiting the duration of exposure. Risk is mitigated in certain cases by closing out transactions, entering into risk reducing transactions, assigning transactions to other parties, or purchasing credit protection.

## Concentration Risk

The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer. Financial instruments owned by the Company include U.S. government and government agency mortgage-backed securities. In addition, all of the collateral held by the Company for reverse repurchase agreements, which represent approximately 47% of the Company's total assets at November 30, 2001, consists of securities issued by the U.S. government or federal agencies. The Company seeks to limit concentration risk through the use of the systems and procedures described in the preceding discussions of market and credit risk.

## Customer Activities

The Company's customer activities involve the execution and settlement of various financial instrument transactions on behalf of customers. Customer securities activities are transacted on a cash basis.

The Company's customer activities may expose it to off-balance sheet credit risk. The Company may have to purchase or sell financial instruments at prevailing market prices in the event of the failure of a customer to settle a trade on its original terms or in the event cash and securities in customer accounts are not sufficient to fully cover customer losses. The Company seeks to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulations and Company policies.

## Derivative Contracts

In the normal course of business, the Company enters into a variety of derivative contracts related to financial instruments. The Company uses forward and option contracts and futures in its trading activities. None of these products have maturities extending beyond one year. In addition, financial futures and forward contracts are actively traded by the Company and are used to hedge proprietary inventory.

These derivative instruments involve varying degrees of off-balance sheet market risk. Future changes in interest rates or the fair values of the financial instruments underlying these contracts ultimately may result in cash settlements less than or exceeding fair value amounts recognized in the statement of financial condition, which, as described in Note 2, are recorded at fair value, representing the cost of replacing those instruments.

The Company's exposure to credit risk with respect to these derivative instruments at any point in time is represented by the fair value of the contracts reported as assets. These amounts are presented on a net-by-counterparty basis (when appropriate) but are not reported net of collateral, which the Company obtains with respect to certain of these transactions to reduce its exposure to credit losses.

The credit quality of the Company's trading-related derivatives at November 30, 2001 is summarized in the table below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Department:

<u>(Dollars in millions)</u>	<u>AAA</u>	<u>AA (1)</u>	<u>A</u>	<u>BBB</u>	<u>Non Investment Grade</u>	<u>Totals</u>
Mortgage-backed securities forward contracts	\$56	\$131	\$173	\$ 8	\$ 1	\$ 369
Other fixed income securities contracts (options)	-	18	7	2	-	27
Totals	<u>\$56</u>	<u>\$149</u>	<u>\$180</u>	<u>\$10</u>	<u>\$ 1</u>	<u>\$396</u>
Percent of total	<u>14%</u>	<u>38%</u>	<u>45%</u>	<u>3%</u>	<u>0%</u>	<u>100%</u>

(1) Includes approximately \$7 of derivative transactions with affiliates.

#### **Note 7 - Income Taxes**

The Company is included in the consolidated federal income tax return filed by MSDW. The Company is also included in the combined state and local income tax returns with MSDW and certain other subsidiaries. Pursuant to the applicable tax sharing agreement, loss members of the federal consolidated group and state combined group will be paid for any losses generated. The evaluation of negative evidence for a potential valuation allowance has been performed on a consolidated federal and state combined basis.

In accordance with the terms of the Tax Allocation Agreement with MSDW, all current and deferred taxes are offset with all other intercompany balances with MSDW.

#### **Note 8 - Stockholder's Equity and Liquid Capital Requirements**

On October 25, 2001, MSDW made a capital contribution of \$80,000 to the Company.

The preferred stock is non-cumulative, participating preferred stock valued at liquidation preference and pays dividends semi-annually contingent upon a certain level of net income. The dividend rate is based upon the six-month U.S. Treasury bill yield and is dependent upon the Company's net income.

As a registered government securities dealer, the Company is subject to the financial responsibility requirements of Section 402.2 of the regulations under Section 15C of the Securities Exchange Act of 1934. Under the capital requirements of Section 402.2 of the regulations, the Company's liquid capital, as defined, must exceed the greater of 120% of its total haircuts, as defined, or its total haircuts plus \$250. At November 30, 2001, the Company's liquid capital was \$283,293, which exceeded the amount required by \$158,538. Pursuant to Section 402.2 of the regulations, no equity capital may be withdrawn if, after giving effect to such withdrawal, the ratio of liquid capital to total haircuts would be less than 1.5 to 1. Total haircuts at November 30, 2001 were \$103,962 which resulted in a ratio of liquid capital to total haircuts of 2.72 to 1.

Advances to MSDW and its affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the capital rules under Section 15C of the Securities Exchange Act of 1934.



January 11, 2002

Morgan Stanley Market Products Inc.  
1585 Broadway  
New York, NY 10036

In planning and performing our audit of the financial statements of Morgan Stanley Market Products Inc. (the "Company") for the year ended November 30, 2001 (on which we issued our report dated January 11, 2002), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Company's internal control.

Also, as required by Section 405.2 of the Regulations under Section 15C of the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Section 405.2: (1) in making the periodic computations of total haircuts and liquid capital under Section 402.2 and the reserve required by Section 403.4; (2) in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Section 404.5; and (3) in obtaining and maintaining physical possession or control of all fully paid securities of customers as required by Section 403.4.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Department of the Treasury's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Section 405.2 lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Company's internal control and its operations, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Department of the Treasury to be adequate for its purposes in accordance with the Regulations under Section 15C of the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at November 30, 2001, to meet the Department of the Treasury's objectives.

This report is intended solely for the information and use of the board of directors, management, the Department of the Treasury, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., the Federal Reserve Bank of New York and other regulatory agencies that rely on Section 405.2 of the Regulations under Section 15C of the Securities Exchange Act of 1934 in their regulation of registered government securities brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*

**MORGAN STANLEY MARKET PRODUCTS INC.**  
**(SEC I.D. No. 8-37795)**



**STATEMENT OF FINANCIAL CONDITION**  
**AS OF NOVEMBER 30, 2001**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**AND**  
**SUPPLEMENTAL REPORT ON INTERNAL CONTROL**

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**Filed pursuant to Section 405.2 of the Regulations under Section 15C of**  
**the Securities Exchange Act of 1934 as a**  
**PUBLIC DOCUMENT.**