MEMORANDUM

TO: File No. S7-41-11

FROM: Michael E. Coe
Office of Commissioner Luis A. Aguilar

DATE: March 27, 2012

SUBJECT: Meeting with Representatives of Morgan Stanley

On March 27, 2012, Commissioner Aguilar and Michael E. Coe, Counsel to the Commissioner, met with the following representatives of Morgan Stanley:

Jim Rosenthal, Chief Operating Officer;
Soo-Mi Lee, Managing Director and Legal Head of Regulatory Reform Implementation;
Matt Berke, Global Head of Risk Management, Institutional Equity Division; and
Kathryn E. Dick, Managing Director, Promontory Financial Group, LLC.

The discussion included, among other things, the issues raised in Morgan Stanley's February 13, 2012 comment letter in response to the Commission's proposed rules regarding Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, commonly referred to as the "Volcker Rule."

In addition, Morgan Stanley provided the attached document, "Concerns & Recommendations: Volcker Rule Proposals" in advance of the meeting.

Morgan Stanley

March 6, 2012

Concerns & Recommendations
Volcker Rule Proposals

- Greatly appreciate time of senior agency officials to address these very important considerations regarding a critically important rulemaking.

- Existing proposals, unless amended, will go beyond what the statute compels and in doing so will cause unnecessary and severe disruptions in financial and commodity markets, in addition to constraining the ability of banking entities to safely mitigate risk exposures.

- Many of the key problems with the proposals and our recommended changes to address these issues will be summarized by Morgan Stanley in the meeting.

- Morgan Stanley has filed a comment letter with the SEC and other agencies with specific recommendations on important changes to the proposals.

- Some of the specific comments and recommendations contained in the comment letter regarding the market making-related criteria include:

    - Textual edits to address the less liquid markets which are a substantive part of client serving activities at banking entities.
    - Eliminating the revenue criterion that is neither compelled by statute nor serves as a reliable indicator of prohibited proprietary trading.
    - Postponing the issuance of Appendix B until after the regulators have had time to analyze the data and qualitative implications of implementing these rules.

- The hedging criteria should – whether by way of textual edits to the proposals or adoption of a new section – be amended to allow necessary flexibility for hedging activity designed to increase the safety and soundness of the banking entity.

- The compliance program expectations will benefit from additional clarity relating to two specific areas:
    - Providing for a full two-year conformance period for U.S. operations to enable banking organizations to develop and implement the required policies and procedures.
    - Providing for an additional one-year implementation period for a banking organization's operations outside of the U.S. to enable the establishment of infrastructure required to conform across multiple local jurisdictions.

- Commodity markets represent a unique asset class, and the statute does not cover commodity forwards and options on forwards and spot. The final rules should give full effect to this exclusion.

- Regulators should coordinate to ensure that final rules are consistent because such coordination will minimize the likelihood of unnecessary market disruptions during the critical implementation period.