

Morgan Stanley

June 19, 2007

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Attention: Nancy M. Morris, Secretary

Re: Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Close-Out Netting Procedures; File No. SR-OCC-2006-19

Dear Ladies and Gentlemen:

Morgan Stanley appreciates the opportunity to respond to the Securities and Exchange Commission's (the "SEC") request for comment on The Options Clearing Corporation's (the "OCC") proposed rule change relating to its close-out netting procedures. We have also contributed to the development of the letter dated June 19, 2007 submitted by the Securities Industry and Financial Markets Association ("SIFMA") regarding this proposed rule change, and we endorse the comments in that letter.

Morgan Stanley strongly supports the OCC's proposed rule change, which would allow the OCC's clearing members to offset their obligations to the OCC on short option positions against their credit exposure to the OCC with respect to long OCC option positions in accordance with the criteria specified in the Financial Accounting Standards Board's Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts, an interpretation of APB Opinion No. 10 and FASB Statement No. 105* ("FIN 39").

Morgan Stanley believes that the OCC's proposed rule change relating to its close-out netting procedures would result in significant improvement in financial reporting, would better align financial reporting with risk management practices and would result in presenting the net credit risk exposure related to derivative instruments cleared through the OCC. We do, however, have a few suggestions on certain items in the Federal Register/Vol.72, No.102 that we believe would improve the clarity of the final rule change.

Fin 39: Offsetting of Amounts Related to Certain Contracts
(page 29572 of Federal Register/Vol.72, No.102)

"It is the obligation of Clearing Members to determine their application of US GAAP but we expect that proposed new Section 27 will allow them to conclude that conditions (a), (b), and (d) will be met. (Condition (c) deals with intent which is a factual question.)"

With respect to the underlined sentence, we understand that the OCC will provide the SEC with amended language to reference the application of paragraph 10 of FIN 39.

Morgan Stanley

Prior Netting Filing and Clearing Member Comments

(page 29571 of Federal Register/Vol.72, No.102)

“2. Provide that upon the occurrence of an event of default or insolvency, any Clearing Member that is neither suspended nor in default with regard to an obligation of OCC may provide a notice to OCC of its intention to terminate all cleared contracts and stock loan and borrow positions in all of its accounts; and”

We recommend changing the underlined phrase in the above paragraph to “an obligation to the OCC”.

Footnote Number 5

(page 29570 of Federal Register/Vol.72, No.102)

We suggest changing “*Financial Account Standards Board*” to “Financial Accounting Standards Board”.

We thank you for the opportunity to provide comments related to the OCC’s rule change addressing its close-out netting procedures and we support proceeding with a final issuance of the rule change in as timely a manner as possible. We would be pleased to discuss our comments with the SEC or the OCC. Please contact Staci Lublin at (212) 276-2456 or me at (212) 276-7716 with any questions or comments.

Sincerely,



Gregory A. Sigrist
Managing Director

GAS/em