



STATE OF NEW YORK  
OFFICE OF THE ATTORNEY GENERAL  
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October 29, 2008

Morgan Stanley Board of Directors  
c/o Secretary of the Board  
1585 Broadway  
New York, NY, 10036

Re: Bonus Pools and Board of Directors Oversight

Dear Members of the Board:

As you may be aware, this Office is conducting an ongoing inquiry into various aspects of executive compensation at Wall Street firms. Most recently, we have been investigating these issues at American International Group ("AIG") pursuant to the fraudulent conveyance laws of New York. Specifically, corporate expenditures and payments, made in the absence of fair consideration by undercapitalized firms, may well violate N.Y. Debtor & Creditor Law § 274, which deems such payments illegal fraudulent conveyances.

Please provide this Office with a detailed accounting regarding your expected payments to top management in the upcoming bonus season. In particular, it is vital that you immediately provide us with any and all information concerning your firm's expected bonus pool for this year, both prior to and after you understood that the firm would be a recipient of taxpayer funds pursuant to the Troubled Asset Relief Program ("TARP"). Obviously, we will have grave concerns if your expected bonus pool has increased in any way as a result of your receipt or expected receipt of taxpayer funds from TARP.

In particular, please provide this Office with the following information:

1. A description of all bonus pools anticipated for this year, including a description of the process by which the pools were or will be established;
2. A description of the process by which the bonus pools will be allocated and distributed, including any documents reflecting discussion of the allocation and distribution process and the justification thereof;

3. A description of how, if at all, the calculation and plans for allocation of the bonus pools have changed as a result of your firm's receipt of TARP funds;
4. For the years 2006 and 2007, a description of the bonuses awarded to employees receiving more than \$250,000 in compensation.

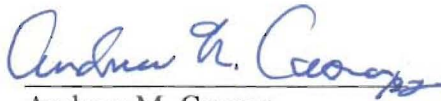
We believe that the Board of Directors is most appropriately positioned to respond to our requests as the firm's top management likely has a significant interest in the size of the bonus pools. In this new era of corporate responsibility we are entering, boards of directors must step up to the plate and prevent wasteful expenditures of corporate funds on outsized executive bonuses and other unjustified compensation.

As my Office has told AIG, now that the American taxpayer has provided substantial funds to your firm, the preservation of those funds is a vital obligation of your company. Taxpayers are, in many ways, now like shareholders of your company, and your firm has a responsibility to them.

Accordingly, we also ask that the Board inform us of the policies, procedures, and protections the Board has instituted that will ensure Board review of all such company expenditures going forward. Please provide this Office with an accounting of the actions the Board plans to take that will protect taxpayer funds.

We ask that you provide the requested information by Wednesday, November 5, 2008.

Very truly yours,



Andrew M. Cuomo  
Attorney General of the  
State of New York

cc: Roy J Bostock  
Erskine B. Bowles  
Sir Howard J. Davies  
C. Robert Kidder  
Donald T. Nicolaisen  
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