DIVISION OF
CORPORATION FINANCE

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

May 11, 2007

Mr. Kevin McEnery
Wilmer Cutler Pickering Hale and Dorr, LLP
1875 Pennsylvania Avenue, NW
Washington, D.C. 20006

Re: Order Routing Practices of Certain Broker-Dealers (P-01220)
Morgan Stanley – Waiver Request of Ineligible Issuer Status under Rule 405 of the Securities Act

Dear Mr. McEnery:

This is in response to your letter dated March 23, 2007, written on behalf of Morgan Stanley (Company) and constituting an application for relief from the Company being considered an "ineligible issuer" under Rule 405(1)(vi) of the Securities Act of 1933 (Securities Act). The Company requests relief from being considered an "ineligible issuer" under Rule 405, due to the entry on May 9, 2007, of a Commission Order (Order) pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (Exchange Act), naming Morgan Stanley & Co., Incorporated (MS & Co.), a subsidiary of the Company, as a respondent. The Order finds, among other things, that the MS & Co. violated Section 15(c)(1)(A) of Exchange Act and requires that MS & Co. cease and desist from committing or causing any violations and any future violations of Section 15(c)(1)(A) of the Exchange Act.

Based on the facts and representations in your letter, and assuming the Company and MS & Co. comply with the Order, the Commission, pursuant to delegated authority has determined that the Company has made a showing of good cause under Rule 405(2) and that the Company will not be considered an ineligible issuer by reason of the entry of the Order. Accordingly, the relief described above from the Company being an ineligible issuer under Rule 405 of the Securities Act is hereby granted and the effectiveness of such relief is May 9, 2007. Any different facts from those represented or non-compliance with the Order might require us to reach a different conclusion.

Sincerely,

Mary Kosterlitz

Mary Kosterlitz
Chief, Office of Enforcement Liaison
Division of Corporation Finance

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March 23, 2007

BY HAND DELIVERY

Mary J. Kosterlitz, Esq.
Office Chief
Office of Enforcement Liaison
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0506

Re: In the Matter of Order Routing Practices of Certain Broker-Dealers (P-01220)

Dear Ms. Kosterlitz:

I am writing on behalf of our client, Morgan Stanley, in connection with the anticipated settlement of the above-referenced investigation by the Securities and Exchange Commission (the "Commission"). The anticipated settlement will result in the issuance of an order that is described below against Morgan Stanley & Co. Incorporated ("MS&Co."), a subsidiary of Morgan Stanley (the "Order").

Morgan Stanley seeks a determination by the Commission that it will not be deemed an ineligible issuer under Rule 405 of the Securities Act of 1933 ("Securities Act"), 17 C.F.R. § 230.405, for any purposes, including the definition of "well-known seasoned issuer," as a result of the Order. Relief from the ineligible issuer provisions is appropriate in the circumstances of this case for the reasons given below. Morgan Stanley further requests that this determination be effective upon the entry of the Order. It is our understanding that the Philadelphia District Office does not object to the Division of Corporation Finance providing the requested determination.

BACKGROUND

The staff of the Philadelphia District Office has engaged in settlement discussions with MS&Co. in connection with the contemplated administrative proceedings arising out of the above-captioned investigation, which will be brought pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act"). As a result of these discussions, MS&Co. has submitted an Offer of Settlement of Morgan Stanley & Co. Incorporated (the "Offer") to be presented to the Commission.

In the Offer, solely for the purpose of proceedings brought by or on behalf of the Commission or in which the Commission is a party, MS&Co. agreed to consent to the entry of

the Order, without admitting or denying the findings contained therein (other than those relating to the jurisdiction of the Commission, which are admitted). In the Order, the Commission will make findings that MS&Co. breached the duty of best execution it owed to retail customers on over-the-counter orders in three ways. The Order will find further that MS&Co. recognized revenue of approximately $5.95 million through its improper use of undisclosed mark-ups and mark-downs on not held orders and held market orders. The Order also will find that, in failing to obtain best execution for certain orders for OTC securities placed by retail customers, MS&Co. willfully violated Section 15(c)(1)(A) of the Exchange Act, which makes it unlawful for any broker or dealer to effect transactions in any security by means of any manipulative, deceptive, or other fraudulent device or contrivance.

Based on these findings, the Commission in its Order will censure MS&Co., order it to cease and desist from committing or causing any violations and any future violations of Section 15(c)(1)(A) of the Exchange Act, order it to comply with the undertakings listed in the Order, and order it to pay disgorgement and prejudgment interest thereon in the amount of $6,457,200 and a civil money penalty of $1.5 million.

Morgan Stanley is a publicly traded company listed on the New York Stock Exchange and is a reporting company under the Exchange Act. In its most recently filed Form 10-K, Morgan Stanley self identified as a well-known seasoned issuer. MS&Co. is a wholly-owned subsidiary of Morgan Stanley and is registered with the Commission as a broker-dealer and investment adviser. Morgan Stanley currently is the only issuer parent of MS&Co.

DISCUSSION

In 2005, the Commission revised the registration, communications, and offering processes under the Securities Act.[1] As part of its reform, the Commission added a new category of issuer, *i.e.*, a well-known seasoned issuer, that will be permitted to benefit to the greatest degree from the changes to the rules governing the offering process. The Commission defined a well-known seasoned issuer as an issuer that is required to file reports pursuant to Section 13(a) or Section 15(d) of the Exchange Act and that satisfies other requirements, including the requirement that the issuer not be an ineligible issuer. The Commission also adopted rules permitting the use of free-writing prospectuses in registered offerings by issuers, including, but not limited to, well-known seasoned issuers and other offering participants. Pursuant to

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[1] Securities Offering Reform, Securities Act Release No. 8591, Exchange Act Release No. 52,056, Investment Company Act Release No. 26,993, 70 Fed. Reg. 44,722, 44,790 (Aug. 3, 2005).

Securities Act Rules 164 and 433, an issuer may use a free-writing prospectus only if it is not an ineligible issuer.[2]

Securities Act Rule 405 makes an issuer ineligible when, among other things:

> (vi) Within the past three years (but in the case of a decree or order agreed to in a settlement, not before December 1, 2005), the issuer or any entity that at the time was a subsidiary of the issuer was made the subject of any judicial or administrative decree or order arising out of a governmental action that:
>
> (A) Prohibits certain conduct or activities regarding, including future violations of, the anti-fraud provisions of the federal securities laws;
>
> (B) Requires that the person cease and desist from violating the anti-fraud provisions of the federal securities laws; or
>
> (C) Determines that the person violated the anti-fraud provisions of the federal securities laws.

Securities Act Rule 405 also authorizes the Commission to determine, "upon a showing of good cause, that it is not necessary under the circumstances that the issuer be considered an ineligible issuer." The Commission delegated the function of granting or denying such applications to the Director of the Division of Corporation Finance.[3]

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[2] This request for relief is being made not only for the purpose of continuing to qualify as a well-known seasoned issuer, but for all purposes of the definition of "ineligible issuer" in Rule 405, *i.e.*, for whatever purpose the definition may now or hereafter be used under the federal securities laws, including SEC rules.

[3] Rule 30-1 provides in relevant part that "[p]ursuant to the provisions of Public Law No. 87-592 . . ., the Securities and Exchange Commission hereby delegates, until the Commission orders otherwise, the following functions to the Director of the Division of Corporation Finance to be performed by him or under his direction by such person . . . as may be designated from time to time by the Chairman of the Commission: [Securities Act Functions] (a) With respect to registration of securities pursuant to the Securities Act . . . (10) To authorize the granting or denial of applications, upon a showing of good cause, that it is not necessary under the circumstances that the issuer be considered an ineligible issuer as defined in Rule 405." 17 C.F.R. § 200.30-1(a)(10).

Morgan Stanley therefore requests that the Commission or its delegate determine that it is not necessary for Morgan Stanley to be considered an ineligible issuer, now or in the future, on the following grounds:

1. **The conduct to be addressed in the Order does not relate to disclosures and offerings of securities by Morgan Stanley.** The Order will concern MS&Co.'s failure to provide best execution to certain retail orders for OTC securities.

2. **A determination that MS&Co. will be an "ineligible issuer" would be disproportionately and unduly severe.** A determination that Morgan Stanley will be an ineligible issuer as a result of the anticipated Order would be unduly and disproportionately severe, given the lack of any relationship between the findings in the anticipated Order and any disclosure or offering activity conducted by Morgan Stanley. Moreover, the anticipated Order will be the result of intensive negotiations between MS&Co. and the Philadelphia District Office. Its terms will have been carefully crafted to meet and balance the competing concerns of all involved. Under the anticipated Order, MS&Co. will pay large sums in disgorgement and a penalty and implement substantial remedial measures. Applying the designation of ineligible issuer to MS&Co.'s parent issuer, with the consequences thereof, would, in effect, unfairly impose an additional punishment beyond the agreed-upon settlement terms negotiated by MS&Co. in good faith.

3. **MS&Co. has taken and will undertake further significant steps to ensure that the violative conduct found in the Order does not recur.** The Commission will make findings in the Order recognizing that MS&Co., before the entry of the Order (a) performed an internal investigation and took additional steps and devoted significant resources to providing supervision and establishing controls for its trading technology; (b) now requires written specifications describing all proposed material changes to its in-house market-making system and its other trading system; and (c) now requires Legal, Compliance, Information Technology, and the Institutional Equity Division to review all changes that have regulatory implications. Pursuant to the anticipated Order, MS&Co. also will undertake to: (a) retain an independent compliance consultant (ICC) to conduct a comprehensive review of MS&Co.'s automated retail order handling practices to ensure that MS&Co. is complying with its duty of best execution; (b) require the ICC to submit a report to MS&Co. and the Commission staff that addresses specified issues, and includes a description of the review performed, the conclusions reached, recommendations for changes in or improvements to MS&Co.'s policies and procedures, and a procedure for implementing the recommended changes and improvements; (c) adopt all recommendations contained in the ICC's report, provided that MS&Co. may propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose as to any recommendation of the ICC that it considers unnecessary or inappropriate; and (d) abide

by the determinations by the ICC as to any recommendations on which MS&Co. and the ICC are unable to agree.

* * * *

In light of the foregoing, Morgan Stanley believes that any determination that the anticipated Order will render it an ineligible issuer would be unwarranted, contrary to the public interest, and unnecessary for the protection of investors and that Morgan Stanley has shown good cause for a determination by the Commission, or its delegate, that it will not be deemed to be an ineligible issuer upon issuance of the anticipated Order.

Accordingly, Morgan Stanley respectfully urges the Commission, or its delegate, pursuant to Securities Act Rule 405 or Rule 30-1(a)(10), to determine, effective upon issuance of the Order, that it is not necessary that Morgan Stanley be considered an ineligible issuer for any purpose under the Commission rules. Morgan Stanley has not previously sought or obtained such relief.

If you have any questions regarding this request, please contact me at the above-listed number.

Sincerely,

Kevin P. McEnery

Kevin P. McEnery

cc: Mary P. Hansen, Esq.
Staff Attorney
Philadelphia District Office

Jill D. Fairbrother, Esq.
Morgan Stanley