

Morgan Stanley

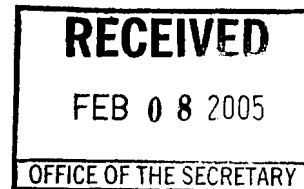
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February 7, 2005

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington D.C. 20549-0609



Re: Certain Broker-Dealers Deemed Not to be Investment Advisers, 17 CFR Part 275; Release Nos. 34-50980; IA-2340; File No. S7-25-99

Ladies and Gentlemen:

Morgan Stanley is pleased to comment on the release published by the Securities and Exchange Commission (the "SEC") addressing application of the Investment Advisers Act of 1940, as amended (the "Advisers Act") to various aspects of brokerage, including fee brokerage accounts and financial planning. Morgan Stanley is a global financial services firm. The firm carries out a full service broker-dealer business in the U.S. through Morgan Stanley & Co. Incorporated ("MS&Co.") and Morgan Stanley DW Inc. ("MSDW" and, together with MS&Co. "Morgan Stanley"), each of which is registered under the Advisers Act as an investment adviser and under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as a broker-dealer.

I. Summary

Morgan Stanley commends the SEC for its thoughtful analysis of when brokerage activity should be regulated under the Advisers Act and when it should not. We are concerned, however, that aspects of the proposal, if adopted, could have adverse implications for clients as well as for the financial services industry. In particular, we would recommend that the SEC take the following actions:

- ***Adopt the Fee-based Brokerage Proposal.*** We support adoption of Rule 202(a) (11) in the form proposed.
- ***Revise its proposal to say that financial planning provided by broker-dealers is "advice incidental to brokerage" and should not be regulated under the Advisers Act.*** We believe that the SEC's proposal to state that "financial planning" or "holding oneself out" as providing financial planning is not "incidental to brokerage" would lead to the reversal of many of the pro-consumer advances made by the brokerage industry since adoption of the Advisers Act. The proposal would have adverse implications for clients, because it would limit the ability of broker dealers to provide analysis and planning to brokerage clients to assist them in making well-informed investment decisions. It could also limit brokers' ability to enhance their suitability and "know your customer" diligence obligations through the use of sophisticated

financial planning tools. We believe that the SEC should clarify that financial planning analysis is part of the advice that brokers may provide as incidental to brokerage.

- ***If some financial planning must be considered to be “advisory,” there must be a clear definition of which activity is subject to the Advisers Act; the SEC should not issue final guidance without time for additional review and public comment.*** While we do not believe that any additional regulation is called for, if the SEC determines otherwise, we think that it is critical for the SEC to define when financial planning would be considered to be “advisory” and when it would not. We would recommend limiting “non-incidental” financial planning to situations where the client (i) pays separately for the service and (ii) receives a written financial plan. It would be important to provide that, with clear disclosure acknowledged by the client, the “financial planner-adviser” could return to “broker” status and execute trades as such after completion of a financial plan. We believe that these and other aspects of any such guidance in the area need to be thoughtfully developed with ample time for input from the industry and the investing public.
- ***Establish “discretion” as the dividing line between “brokerage” and “advisory” for purposes of regulation but clarify that “time and price” discretion and other limited forms of discretion are properly considered to be “brokerage.”*** We believe that the lack of a bright line has caused confusion in this area, and we agree with the SEC that using “discretion” as the dividing line between activity regulated by the Advisers Act rather than the Exchange Act is generally appropriate. We also agree that limited types of discretion -- certainly “time and price” discretion but also certain forms of express written discretion or trading authority, such as written authority to execute securities transactions meeting pre-designated criteria (e.g., selection and purchase of a security from a list that specifies general characteristics but not the name of the issuer), written discretion to liquidate positions upon the occurrence of designated triggers or written authority to “watch over” an account for limited periods (e.g., while the client is on vacation) -- should be carved out and recognized as consistent with ordinary course brokerage and not be subject to the Advisers Act.
- ***Take this opportunity to re-evaluate prior SEC interpretations in connection with the Principal Trading Prohibitions under the Advisers Act.*** In our experience, the Advisers Act prohibition on principal trading, as interpreted by the SEC, limits the ability of broker dealers to achieve best execution for our clients. The trade-by-trade consent exception is not workable, and there are other solutions we believe would offer equivalent investor protections. We urge the SEC to revise its interpretation of the “consent” exception in the Advisers Act to allow persons subject to the Act to execute themselves or through affiliates and to sell underwritten offerings to advisory clients if (i) the clients have provided a blanket informed consent, (ii) the broker dealer discloses its capacity to the client on or prior to settlement date of the trade and (iii) the transaction would provide best execution to the client.
- ***Clarify that the terms “financial adviser” or “financial consultant” appropriately recognize that “advice” is an element of full service brokerage; address concerns about client confusion through enhanced disclosure.*** As Congress recognized in 1940, providing advice is an important element of full service brokerage. The titles “financial adviser” and “financial consultant” accurately reflect this. The most

effective way to address any concern about client confusion is through enhanced disclosure and not through substantive regulation regarding a broker's title.

II. Introduction

Advice, including financial planning, has always been an essential component of brokerage. Congress recognized this when it adopted the "advice incidental to brokerage" provision of the Advisers Act and provided that such advice should be regulated as brokerage activity and not as "investment advisory" activity.

Since the 1940s, Morgan Stanley and many others in the industry have spent considerable time, effort and money developing brokerage products and services to enhance the client experience and more effectively provide clients with the incidental advice they seek from their brokers to evaluate their financial needs and fulfill their investment goals. Today, retail brokerage clients have access to a broad range of world class products, services and analytical tools, many of which previously were available only to institutional investors. Investors are offered a wide range of account types and services to allow them to select those that best meet their own needs. Broker dealers have invested heavily in technology to enhance execution capability, allow for custody of a broad range of financial products, provide timely and clear client reporting and ensure that clients have access to high quality research and analytical tools.

Notwithstanding the enhanced services and choices, brokerage services are less costly today than in the past, and our firms provide more protections for our clients than ever before, including compliance with more rigorous regulation, larger capital bases, excess SIPC coverage and enhanced legal and compliance personnel and infrastructure. The brokerage industry is well-regulated and well-focused on the best interest of our clients. We do not think that attempting to further regulate advice provided by brokers is consistent with Congress' intent or, ultimately, is in the best interest of our clients. Duplicative regulation will raise costs to clients, reduce flexibility for broker dealers to offer innovative products and services and, potentially, increase client confusion by making important aspects of brokerage subject to two different sets of disclosures.

III. Discussion

A. *SEC Should Adopt the Fee-Based Brokerage Proposal*

Fee-based accounts have provided significant economic benefits to our clients. MSDW's clients have enjoyed nearly \$2 billion in net commission savings over the past five years by electing to utilize fee-based accounts instead of transaction based brokerage accounts.¹ Since 1999, assets in fee-based brokerage accounts have tripled to more than \$33 billion. The growth in assets held in fee-based accounts reflects our clients' preference for these types of accounts.

¹ These data include all fee-based brokerage accounts opened on MSDW from calendar year 2000 through 2004. In collecting these data, we compared fees assessed on fee-based brokerage accounts to the commissions that would have been charged had the same transactions been effected in a transaction-based account using a 30% discount from the standard equity commission schedule and assuming a markup/mark down of 1.5% on fixed income transactions.

We believe that it is in the best interest of clients to be able to choose how they pay for brokerage services. Some clients prefer to be billed on a trade by trade basis, while others prefer to pay a fee based on assets held in the brokerage account.² The different payment methods have distinct advantages and disadvantages depending upon the client's anticipated activity. We believe that regulation should preserve the client's ability to choose the option most appropriate for him or her.

In addition, fee-based brokerage accounts help to align the interests of brokers with those of their clients. We agree with the conclusions of the Tully Committee³ that fee based accounts represent a best practice.

We do not believe that the risk of "negative churning," on which the self-regulatory organizations are currently focused, is a valid reason not to adopt a rule validating fee-based brokerage accounts. We agree it is important for broker dealers to disclose clearly the purpose and terms of fee-based accounts, and Morgan Stanley has done so. We believe that NASD's Notice to Members 03-68 and the New York Stock Exchange's proposed Rule 405A⁴ provide regulatory guidance that will reinforce and enhance firms' best practices in the operation of fee-based accounts.

The SEC, as well as others who have commented on fee-based brokerage proposals, have expressed concern that clients may be confused by the role of the broker in these programs. In particular, some people have suggested that clients in fee-based brokerage accounts may believe that their broker is acting as an "investment adviser," regulated by the Advisers Act, since the payment method looks similar to an advisory fee. In light of these concerns -- whether or not the concerns are well-founded -- we believe that it is important for the brokerage industry to provide enhanced disclosure regarding fee-based brokerage accounts. In that regard, we have a "plain English" description of the role of the broker in fee-based brokerage accounts, which we include in materials in a welcome package upon account opening and sent annually. For the reference of the SEC, we have attached these as Annexes I and II. We also post disclosure on our public website regarding the role we play in connection with our fee-based brokerage accounts. The link to the disclosure is www.morganstanley.com/ourcommitment/compensation.html.

In sum, we strongly endorse the SEC's action to adopt a rule clarifying that fee-based brokerage accounts fall within the "incidental to brokerage" exception in the Advisers Act. We also support the conditions placed on such accounts by the proposed Rule, specifically (i) accounts must be nondiscretionary, (ii) any advice must be incidental to the brokerage services provided and (iii) disclosure must explain the role and responsibilities of the broker.

B. *The SEC should revise its proposal to say that financial planning provided by broker-dealers is "advice incidental to brokerage," and should not be regulated under the Advisers Act.*

² There may be other variations of payment methods, such as a "fee plus commission" structure, under which the fee is used to compensate not for advice but for account servicing costs. This type of payment method is frequently requested by our high net worth clients, and we understand that it is a common payment method used by private banks and broker dealers outside the U.S.

³ The Tully Committee, named after its Chairman Daniel Tully, was formed in 1994 by SEC Chairman Arthur Levitt to study broker compensation practices.

⁴ See Proposed NYSE Rule 405A, filed with the SEC pursuant to Rule 19b-4, 2/25/04.

The SEC uses the term “financial planning” broadly in its release. It is not clear, for example, whether the SEC considers the definition to include not only stand-alone financial planning products and services provided by brokers to their brokerage clients but also may sweep within the definition analyses carried out by broker dealers as part of their suitability and “know your customer” obligations under the rules of the self regulatory organizations (“SROs”).⁵ In our view, all such financial planning falls along a spectrum of activity reasonably considered to be “advice incidental to brokerage,” and any distinction created by the SEC would be artificial and lead to confusion. Accordingly, we do not believe that any additional regulation of this activity is appropriate or warranted.

Financial planning analyses and tools enhance the ability of brokers to comply with SRO suitability and know-your-client rules. These tools provide brokers with the ability to evaluate investment ideas or strategies under different performance scenarios and assumptions, taking into account a client’s income, liquidity needs, tax status, age and risk tolerance.

Morgan Stanley currently provides two levels of formal “financial planning” to assist clients in evaluating their investment goals and establishing an investment framework. Neither of these services recommends any specific security, product or service. In addition, neither service is designed to steer clients towards any particular product⁶ or investment.

The first level of financial planning we offer is a “diagnostic” service that performs a preliminary review of the client’s current financial position. The client responds to a questionnaire about his/her investment style and goals. Our tools use standard methodologies to assess the client’s risk tolerance. The tools generate an output, which is labeled “preliminary,” and sets out for the client whether he or she has accurately assessed his or her ability to meet particular goals, such as retirement, education or major purchase. The output identifies where there appear to be shortfalls or overfunding with respect to the client’s designated goals. This level of financial planning also includes a model asset allocation tool that allows a client to analyze asset class options, based on standard methodology, in light of the client’s identified risk tolerance. We provide this service free of charge.

The second level of service produces a detailed written financial plan that involves comprehensive data collection from the client and assessments of what asset levels would be required to address shortfalls with respect to specific goals selected by the client, *e.g.*, additional savings of a certain amount at an assumed return rate for a specified number of years. Our disclosure makes clear to the client that any assumptions (such as inflation rate) may not prove to be correct and there is no guarantee that any assumed return rate could be achieved. All plans clearly state that the client is free to implement the plan at the firm or through a third party. We

⁵ See, *e.g.*, NASD Rule 2310 and NYSE Rule 405. Prior to executing a transaction in a recommended security (other than money market mutual funds) for a non-institutional client, a broker dealer is required to evaluate the client’s individual circumstances and to use “reasonable efforts to obtain information concerning: (1) the client’s financial status; (2) the client’s tax status; (3) the client’s investment objectives and (4) such other information used or considered to be reasonable by such member or registered representative in making recommendations to the client.” Similarly, the broker dealer must use due diligence to learn “essential facts” relating to every client order and account. See NYSE Rule 405. These requirements are rigorously enforced by the NASD, the NYSE and other self-regulatory organizations. Enforcement policy is aimed at protecting clients. Lofchie, *A Guide to Broker-Dealer Regulation*, 2000 p. 100.

⁶ Morgan Stanley worked with a third party software firm to develop our financial planning tools to ensure that the tools are not product focused. Our tools focus on the client’s particular circumstances in the context of an “open architecture” platform.

charge a minimal flat fee (generally, \$1000) for delivery of a full, comprehensive plan under this level of service.⁷ Our fee is designed to cover the cost of preparing the written report. The fee is not asset based or on-going the way an advisory fee would be. Notwithstanding this, in an abundance of caution, we treat all financial planning for which we charge a fee as “advisory.” Upon delivery of a written plan to the client, the advisory relationship terminates. We explain to the client, both orally and in a disclosure letter, which the client must acknowledge, that, to the extent the client elects to execute securities transactions in connection with the plan through us, we will be acting only in a brokerage capacity. For the reference of the SEC, we have attached our client disclosure and the client acknowledgement letter as Annex III.

Financial planning is not marketed or used by Morgan Stanley as an entrée to any particular product or service. We also do not market financial planning as an adjunct to our fee-based brokerage account product (*i.e.*, our fee in lieu of commissions account). Financial planning helps clients to evaluate, within the context of their overall goals and financial means and obligations, the recommendations they receive from brokers.

The regulatory framework governing the brokerage business, in our view, provides a solid framework within which to carry out financial planning and is appropriately tailored to the financial planning services that broker dealers provide. SRO and SEC rules impose safeguards on customer communications and marketing materials, including, among other things, mandatory supervisory and compliance reviews of marketing material, robust risk disclosures and requirements that the presentations be “fair and balanced.” SEC rules require broker dealers to have a substantial capital base and to conduct periodic surveillance and compliance reviews of the business activities of, as well as all personal trading carried out by, brokerage personnel, including those involved in financial planning. There would be significant costs associated with requiring broker dealers to comply with the Advisers Act as well as the Exchange Act in connection with financial planning. Duplicative regulation will, in our view, only serve to increase costs for clients, without enhancing the services provided by brokers or the protections available to clients.

Additionally, potential extension of the Advisers Act to our relationship with clients who receive financial planning services could ultimately result in poorer quality of executions for those clients in light of the Act’s prohibition on principal trading. In addition, clients may be confused by the specialized disclosures required by the Advisers Act, such as the detailed description of discretionary advice businesses included in the ADV, which is not applicable to the brokerage relationship many clients seek.

The Financial Planners Association (the “FPA”) and some in the popular press claim that making broker dealers engaged in financial planning subject to the Advisers Act would benefit clients because of the conflicts disclosure provided for in the Advisers Act. While we agree that the disclosure required to be included in the Form ADV and the Disclosure Document is comprehensive, we do not believe that the disclosure is more comprehensive than that required of brokers.

Moreover, we believe that the delivery methods for conflicts disclosure provided by broker dealer regulation are more effective at reaching and informing the client than those

⁷ Clients may elect to use only certain modules under this second level of service, in which case they may not be charged a fee or may be charged a reduced fee.

provided under the Advisers Act. Under rules applicable to brokers, conflicts must be specifically disclosed at the point of sale. Required disclosures in client communications include those in pre-order oral disclosures (e.g., brokers must read a script regarding conflicts relating to research recommendations); confirmations (e.g., confirms must disclose principal vs. agency execution status plus compensation to the broker); marketing material (e.g., SROs require clear and prominent disclosure regarding compensation, risk factors including a description of potential conflicts, “fair and balanced” performance disclosure, as well as a description of the impact of certain conflicts, such as hedging, on security value); client statements (e.g., statements must highlight conflicts inherent in the valuation methodology); prospectuses (e.g., disclosure must clearly flag selling retrocessions and 12b-1 fees as well as material “hidden compensation”); and tender offer documents (e.g., the banker and dealer-manager must disclose success fees and proprietary holdings in the target company securities). Investment advisers, on the other hand, disclose their conflicts in a single document that is required to be delivered to the client upon commencement of the relationship and, thereafter, only once a year and then, only upon client request.

Finally, we disagree with the suggestion by the FPA that the SEC’s Interpretive Release, No. IA-1092, should be interpreted to require regulation of financial planning under the Advisers Act. That interpretation was directed at providing oversight and disclosure requirements to persons who would not otherwise have been subject to regulation. The Interpretation was not designed to impose additional layers of regulation on brokers, who are already highly regulated by the SEC as well as by a variety of SROs and state regulators. We do not believe that additional regulation of financial planning provided by brokers is required in order to ensure that the services are provided in a “safe and sound” manner.

C. *If the SEC determines that financial planning must be considered to be “advisory,” there must be a clear definition of which activity is subject to the Advisers Act; the SEC should not issue final guidance without time for additional review and public comment.*

While we do not believe that any additional regulation is called for, if the SEC determines otherwise, we think that it is critical for the SEC to define when financial planning would be considered to be “advisory” and when it would not. As we noted above, “financial planning” involves a broad range of activities, many (if not all) of which are closely intertwined with ordinary course brokerage services. Accordingly, it is important for the SEC to carefully delineate at which point along the spectrum financial planning would become subject to the Advisers Act. A clear and easily understood line is essential to ensure that brokers can continue to provide brokerage advice without inadvertently crossing the line into regulation by the Advisers Act. Clients would not be well-served by any lack of clarity that forces their brokers to withhold valued advice.

We would recommend drawing a line that will be easy for clients to understand in order to minimize client confusion. The clearest line to draw in regard to financial planning is with respect to fees. We would recommend limiting “non-incident” financial planning to situations where the client (i) pays for the service and (ii) receives a written financial plan. It would be important to provide that, provided the client is given adequate disclosure, the “financial planner-adviser” could return to “broker” status and execute trades as such after completion of the plan. We believe that these and other aspects of any such guidance in the area need to be thoughtfully developed while allowing adequate time for input from the industry and the investing public.

- D. *We support the SEC's proposal to establish "discretion" as the dividing line between "brokerage" and "advisory;" we urge the SEC, however, to clarify that "time and price" discretion and other limited forms of discretion are properly considered to be "brokerage."*

We agree with the SEC that there is an important benefit to developing a bright line test to establish when advice is "incidental to brokerage" and when it is not. We also believe that regulation should turn on conduct and not on compensation practices or legalistic definitions of words like "incidental" or "special compensation". Accordingly, we support the SEC's suggestion of using discretion as the dividing line between when advice is "advisory" and when it is "incidental to brokerage." We believe that this is an appropriate line to draw between the two regulatory regimes. To the extent that a broker has decision-making authority over an account, it is reasonable that the broker be subject to the duties imposed by the Advisers Act. Similarly, to the extent that a client elects to direct his or her own account, so long as a broker has made suitable recommendations, the client should be responsible for his or her own decisions and conduct.

Use of discretion as a dividing line would require existing "discretionary brokerage" accounts to be regulated under the Advisers Act.⁸ While Morgan Stanley does not have a large number of discretionary brokerage accounts, we do believe these accounts provide a cost-effective service, with greater ability to achieve best execution in respect to instruments that trade on a principal basis. In particular, these accounts are useful for fixed-income investors who want to provide Morgan Stanley with limited discretion to select securities (often based on designated criteria) while preserving the ability to trade as principal with the firm's trading or market making desks, if those desks would provide best execution, without necessitating trade-by-trade consent.

We believe that the SEC could preserve some of these benefits while still providing for use of discretion as a dividing line between activity regulated as "advisory" as opposed to brokerage. One approach would be to revise the SEC's interpretation of the principal trading prohibitions under the Advisers Act, as discussed below.

A second approach would be to define certain limited forms of discretion, if requested by a client through an express, written trading authority, as being outside the purview of the Advisers Act. Based on our experience with discretionary brokerage clients, we believe that the list of written standing instructions that should remain outside the purview of the Advisers Act include (1) ability of the broker to select and purchase a particular security for a client among issued or when-issued securities, so long as the material features (*e.g.*, maturity, yield, type of issuer and amount (each, within a range)) are specified by the client, (2) authority to manage the account for a short period of time -- up to sixty days -- while the client is on vacation or otherwise unavailable and (3) directions to liquidate positions (including through a principal trade with an affiliate of the broker) if certain performance thresholds are met or certain market or issuer events occur (*e.g.*, a designated increase or decrease in value of an instrument).

⁸ The corollary to bringing "discretionary" accounts within the purview of the Advisers Act would be to clarify as well that all "non-discretionary" accounts, including "non-discretionary advisory" accounts, should be considered to be "brokerage." Accounts in which trading decisions are directed by a client or a person other than the broker or its affiliate would be "brokerage" accounts, and accounts over which the broker or its affiliates had discretion over the trading decisions would be "advisory."

In addition, it is important that the SEC exclude from the definition of “discretion” ordinary course “time and price” discretion that clients routinely grant to their brokers in connection with trade execution orders. As the SEC itself recognized in its release, this sort of discretion is essential for brokers to be able to carry out their ordinary brokerage execution business. It is also an area where the SROs have adopted useful guidance.

In sum, we agree that it is generally helpful to establish a “bright line” regulatory structure under which “discretionary advice” would be regulated under the Advisers Act and non-discretionary advice would be considered to be “incidental to brokerage.” However, prior to taking any such action, we think that it is important for the SEC to consider the reasons that clients currently elect to have “discretionary brokerage” accounts by providing that limited forms of discretion would be outside the scope of the Advisers Act or liberalizing the consent procedures underlying the principal trading prohibitions. In addition, we think that it is critical for the SEC to continue to provide that “time and price” discretion, granted to broker dealers as part of ordinary course brokerage execution, would not subject the broker dealer to the Advisers Act.

E. *The SEC should re-evaluate its interpretations in connection with the Principal Trading Prohibitions under the Advisers Act.*

Although the Advisers Act provides important client protections against abusive behavior by broker dealers in respect of conflicts of interest, we believe that the SEC’s interpretations of the principal trading prohibitions contained in Section 206(3) of the Act are unduly restrictive. Moreover, in some cases, we believe that the interpretations work against the best interests of the clients by limiting the ability of a broker dealer to achieve best execution.

Once a brokerage account becomes subject to the Advisers Act, the broker servicing that account becomes restricted in his or her ability to execute certain trades for the account. The broker may not sell new issues underwritten by the broker’s firm or its affiliates to the account, and the broker may not execute a client’s order to buy and sell securities with the firm’s own trading and market making desks (even if those desks offer the best available price in the market or are the only source available to execute the order because of size).

The statute provides an exception to the prohibition provided that the client consents to the transaction and, “before the completion of such transaction,” is provided with written disclosure regarding the capacity in which the adviser or its affiliate is acting. The SEC has interpreted this language to require a broker to obtain specific client consent, on a trade by trade basis, prior to settlement date, and only after collecting and providing to the client specific disclosures regarding how the broker dealer will or may benefit from such execution in addition to disclosure regarding capacity. In our experience, the time and effort required to comply with the disclosure requirements on the part of both the broker and the client make this alternative impractical and undesirable.

In this regard, a more workable approach might be to allow for informed client consent on an upfront, blanket basis rather than a trade by trade basis, subject to disclosure by the broker dealer or adviser, at or before settlement of the trade, through the confirmation or through a separate e-mail or communication, of the capacity in which the adviser, or its affiliate, has acted.

Under this approach, the broker dealer would be subject to the disclosure and other requirements of the Advisers Act, including the principal trading prohibitions, but it would have a workable means of ensuring best execution for the client and a way to allow the account to purchase underwritten offerings, including initial public offerings, in the event that the client consents. Clients would still be provided with important protections through the consent requirement as well as the required point-of-sale disclosure.

F. *Clarify that the terms “financial adviser” or “financial consultant” are appropriate and address any concerns through enhanced disclosure, if necessary.*

In its release, the SEC asked for comment as to whether or not brokerage clients are “confused” regarding the nature of their relationship with their broker because of their broker’s title. We do not believe that brokerage clients are confused about the nature of their relationship with brokers. We believe that clients want and expect to receive advice from their brokers regarding investment ideas as well as how best to plan their investment strategy given their individual circumstances and needs. Accordingly, we do not believe that use of the term “financial adviser” or “financial consultant” is inconsistent with clients’ understanding of the broker’s role. An important aspect of a broker’s job is to give advice, and we believe that the labels “financial adviser” and “financial consultant” are in keeping with the job responsibilities of a broker. To the extent that the SEC disagrees with our views regarding client confusion, however, we would urge the SEC to address those concerns through enhanced disclosure rather than by requiring a re-labeling which likely would confuse clients.

IV. Conclusion

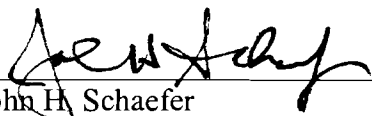
In closing, we applaud the SEC’s thoughtful analysis of the underpinnings of the “advice incidental to brokerage” exception in the Advisers Act as well as the SEC’s proposal to approve fee-based brokerage accounts as falling under that exception. We urge the SEC, however, not to create an artificial distinction between advice incidental to brokerage and financial planning by labeling the latter as “advisory” activity subject to the Advisers Act. In addition, we believe that the potential ramifications of such a pronouncement would be significant enough that the SEC should provide additional time for market participants to comment on the proposal and the Staff to review the issue and the potential consequences. We also ask that the SEC continue to examine benefits currently provided by discretionary brokerage and explore other ways to address those needs, including re-examining its interpretation of the consent exception to the principal trading prohibitions under the Advisers Act. Further, we think that the label “financial adviser” or “financial consultant” is an appropriate one in that it highlights that advice is an essential part of brokerage.

Finally, to the extent that the SEC is concerned that financial planning, fee-based brokerage or brokers’ titles create confusion among our clients, we believe that the appropriate approach to address those concerns would be to require enhanced disclosure. In our view, doubling up on regulation is likely to increase client confusion regarding the role of their broker and not eliminate it.

We would be very happy to meet with the Staff to discuss our comments. We very much appreciate the opportunity to comment. Should you have any questions, please feel free to contact the undersigned at 914-225-6080 or Kirk Wickman at 914-225-6506.

Sincerely,

MORGAN STANLEY DW INC.



John H. Schaefer
President and Chief Operating Officer

FYI 2005 Important Information About Your Accounts With Morgan Stanley

- How Morgan Stanley and Your Financial Advisor Are Compensated for Investments and Services p. 2
- Forming a Household Relationship p. 7
- 2005 Account and Service Fees p. 9
- Morgan Stanley Bills of Rights for Mutual Fund and Variable Annuity Investors p. 20
- Important Information Regarding Your 2004 Taxes p. 32
- Your Account and Privacy Protection p. 35

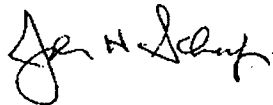
At Morgan Stanley, one of our primary goals is to provide you with open and clear communication about the things that matter to you the most—your investments with us, and your relationship with your Financial Advisor.

To that end, we would like to make sure you are fully aware of several important changes that may have an impact on your accounts with us. These include:

- A notice about your 2005 account and service fees, plus information about how Morgan Stanley and your Financial Advisor are compensated for investments and services
- Details about how forming a Household Relationship may help you qualify for our Platinum and Gold Benefits programs
- Bills of Rights for Mutual Fund and Variable Annuity Investors, designed to help you better understand mutual fund and variable annuity investments, and the costs associated with investing in these products
- Important changes to our 2004 tax reporting procedures, plus information for clients receiving a Morgan Stanley Trust mutual fund statement
- An overview of how Morgan Stanley continues to provide you with account and privacy protection

Details about these changes, along with other important information about your accounts, are contained in this brochure. Please review the information carefully, and feel free to contact your Financial Advisor with any questions you may have. Thank you for continuing to allow Morgan Stanley to serve your financial needs.

Sincerely,



John H. Schaefer
President & Chief Operating Officer
Individual Investor Group

How Morgan Stanley and Your Financial Advisor Are Compensated for Investments and Services

At Morgan Stanley, we believe it is important for you to understand the costs associated with obtaining investments and services from us. As our client, you benefit from the full scope of services and resources of a global industry leader. Through your Financial Advisor, you have access to our firm's powerful capabilities: world-class equity research, high-quality debt and equity offerings, asset management expertise, financial planning and credit management tools and our team of in-house professionals, including retirement planning, estate and trust service specialists.

Depending on the types of relationships you establish and the ways you choose to do business with us, Morgan Stanley is compensated for the services we provide through transaction commissions and mark-ups, asset-based fees, and/or other flat fees and charges. On the following pages, you will find a brief overview of the types of relationships you can establish with Morgan Stanley, and how our firm and your Financial Advisor are compensated for the services we provide. (Please see footnote 1 on page 6.)

Choosing the Relationship and Pricing Structure that Works Best for You

We understand that when it comes to investing, no single approach is right for every investor. As part of our client-focused philosophy, we offer our clients many different ways to establish a relationship and conduct business to help meet the unique needs and preferences of each individual or family. Your Morgan Stanley Financial Advisor can help you decide which

type—or combination of types—of account and pricing options is best suited for you. The client relationships we offer fall into two general categories: brokerage and investment advisory. There are two basic pricing options in the brokerage category: transaction-based pricing and asset-based fee pricing. Within the investment advisory category, you generally pay an asset-based fee for various types of available services.

Brokerage

In a brokerage relationship, your Financial Advisor will work with you to facilitate the execution of securities transactions on your behalf. Your Financial Advisor also provides investor education and professional, personalized information about financial products and services in connection with these brokerage services. You can choose how you want to pay for these services and you will receive the same services regardless of which pricing option you choose. There is a variety of factors you should consider carefully before choosing a brokerage pricing option, such as: your trading activity, the types of securities you plan to purchase, your investment objectives and your personal preferences. For example, if you plan on primarily buying and holding securities, transaction-based pricing may be more cost-effective. However, if you plan on trading more regularly, asset-based fee pricing may be more appropriate for you. For more information, please consult with your Financial Advisor.

■ **Transaction-Based Pricing**

With transaction-based pricing, you pay for the services you request and you pay commissions, sales loads, markups/markdowns or other fees for each transaction you and your Financial Advisor execute. You can conduct transaction-based business in virtually all financial products and services within an Active Assets Account® or in retirement, education savings, trust or other accounts we offer.

■ **Asset-Based Fee Pricing**

With the Morgan Stanley ChoiceSM account, you pay an annual fee based on the eligible assets in your account rather than commissions, front-end sales loads, markups/markdowns or other fees. Assets that are eligible for asset-based fee pricing in a Morgan Stanley ChoiceSM account include stocks, bonds, options, certain mutual funds, exchange-traded funds, money market funds and cash. Generally, you pay the Morgan Stanley ChoiceSM fee quarterly in advance, based on

the average of the total value of the eligible assets at each month-end during the previous quarter. You also pay transaction-based fees for trades in ineligible assets and certain other charges as set forth in your account agreement. A minimum of \$50,000 in eligible assets is required to establish this type of account.

Investment Advisory

An investment advisory relationship is designed for clients who prefer that their Financial Advisor act as an investment consultant, with their assets invested in a mutual fund asset allocation program, or in a Separately Managed Account ("SMA") that is directed by a professional money manager either at Morgan Stanley or at an external management firm, or in our Morgan Stanley Custom PortfolioSM program where a highly-trained Financial Advisor may act as the money manager. Your Financial Advisor remains involved as a consultant, helping you monitor performance and make portfolio or other adjustments, if required. Generally, you pay an annual fee, charged quarterly in advance, based on the total amount of assets in your account at the end of the previous quarter. The asset-based fee generally covers investment consulting and certain brokerage services provided by Morgan Stanley and may also include investment management fees. Clients can choose from our comprehensive suite of mutual fund asset allocation and SMA programs that are designed for various levels of investment and sophistication, with asset minimums that range from \$10,000 to \$1 million or more. Mutual fund asset allocation programs invest in mutual funds. Assets in an SMA may include stocks, bonds, money market funds, mutual funds, options, exchange-traded funds and cash. Clients can establish investment consultant relationships for their retirement or trust accounts in addition to their personal investment accounts. For more information, please consult with your Financial Advisor.

How We Compensate Your Financial Advisor

Your Morgan Stanley Financial Advisor is a trained and licensed securities professional who can help you define your financial goals and develop an investment strategy and action plan to achieve them. He or she provides investor education and personalized financial information to help you implement that plan with financial products and services suitable for your individual needs. He or she provides ongoing guidance in response to your changing needs and a changing financial marketplace.

Your Morgan Stanley Financial Advisor is compensated by sharing in the fees and commissions that you pay us. In general, the percentage of Morgan Stanley's fees and commissions we pay to our Financial Advisors (their payout rate) depends upon the type of pricing option and account you have established with us as well as the particular product you purchase. In addition, in general, the more overall revenue each Financial Advisor generates each year, the higher his or her payout rate.

There are two primary payout rates:

Tier I payouts range from 33% to 42%.

Tier II payouts range from 30% to 40%.

- Financial Advisors are paid at the Tier I rate for asset-based pricing as described above as well as for the sale of the products as shown in the following table.
- Financial Advisors are paid at the Tier II rate for transaction-based pricing that include certain transaction-based products as shown in the following table.

Payout Tiers	Investment Solutions
Tier I	Mutual Funds, Investment Advisory, Morgan Stanley Choice SM Variable Annuities, Life Insurance, Managed Futures, Unit Trust and Alternative Investments, 529 Plans, Financial Planning Fees and Personal Trust Fees, Municipal Auction Rate Securities (MARS) and Auction Rate Preferred Securities (ARPS)
Tier II	Equities, Fixed Income, Fixed Annuities, Lending and Business Relationships

In some cases the payout rate may be as low as 10%; there are also some instances when there is no payout.

Your Financial Advisor may also be eligible for a bonus based on the total amount of revenue he or she generates each year. Additionally, Financial Advisors may receive ongoing compensation (called residuals) on some investment products. All residuals are paid out at the Tier I rate.

An informed and engaged client is our most valuable asset. If you would like additional information about how you pay us and how we pay your Financial Advisor, ask your Financial Advisor or Branch Manager for a copy of our more detailed brochure, *Overview of Commissions and Fees*. It includes:

- The costs you incur for specific investments and services offered by Morgan Stanley
- The compensation our Financial Advisors receive on these specific investments and services

- Fees that Morgan Stanley receives from third-party providers

You can also read *Overview of Commissions and Fees* online at www.morganstanley.com/online or request a copy by calling 1-800-869-3326 or sending an e-mail to: ClientInfo@morganstanley.com. After you review this information, please contact your Financial Advisor or Branch Manager with any questions or for more information.

¹ Morgan Stanley and its affiliates may earn compensation in other, more indirect ways with regard to certain of the products you purchase or services you receive. For example, Morgan Stanley may earn compensation in connection with the provision of investment banking, prime brokerage, institutional brokerage or placement agent services, as well as stock loan or other lending, money management or trading desk activities. Certain investment vehicles may include securities of Morgan Stanley's parent or other affiliates and companies in which Morgan Stanley or its affiliates make a market or in which Morgan Stanley or the officers or employees of Morgan Stanley or Morgan Stanley's affiliates own securities.

The pricing and compensation disclosed in this brochure do not include investments and services provided through accounts at the Private Wealth Management division of Morgan Stanley & Co.

All information in this document is accurate as of December 1, 2004, but may be subject to change at a future date. It is important to note that the actual fees you pay will be governed by the documents you sign when you open your account. Please read those documents thoroughly before you invest. Some fees and commissions are negotiable. Consult with your Financial Advisor.

Forming a Household Relationship

By grouping your own accounts with those of other family members (as well as domestic partners and certain nonfamily members) in one Household Relationship, you may be eligible for certain fee waivers, preferred account pricing and other benefits through our Platinum and Gold Benefits programs. The various ways you or your Household can qualify for these programs are shown below. For more information regarding a Household Relationship, see footnote 1 on page 16.

Gold Household

- \$250,000 or more in total assets, or
- \$100,000 or more in selected assets and/or accounts with asset-based pricing, or
- \$100,000 or more in total assets and \$5,000 or more in annual charges, primarily commissions

Platinum Household

- \$1 million or more in total assets, or
- \$500,000 or more in selected assets and/or accounts with asset-based pricing, or
- \$500,000 or more in total assets and \$10,000 or more in annual charges, primarily commissions

For more information regarding selected assets, see footnote 2 on page 16.

Your Household may be upgraded to a higher Benefits program level at any time during the year that your Household assets, or assets plus annual charges, meet one of the criteria listed above. Gold and Platinum Households will also be reviewed annually to confirm that they continue to meet the criteria for Gold or Platinum Benefits, and Benefits program levels may be adjusted accordingly.

Account and Service Fees

Account or Service	Standard Fee	Gold Benefits Program ^{1,2}	Platinum Benefits Program ^{1,2}
Brokerage Account Fees			
Morgan Stanley Active Assets Account (AAA)—Annual Account Fee	\$125 ³	\$125 (\$250 cap on ALL annual account maintenance fees) ^{3,4}	Free ^{3,4}
Basic Securities Account (BSA)—Annual Account Fee	\$60 ^{3,5}	\$60 (\$250 cap on ALL annual account maintenance fees) ^{3,4,5}	Free ^{3,4,5}
Service Fees			
Monthly Accumulated Income Service	\$2.50 handling charge per check	Free ⁶	Free ⁶
Check—Client Requested (Picked up or Via 1st Class Mail)	\$5 per check ⁷	Free ^{6,7}	Free ^{6,7}
Duplicate Statements and Duplicate Confirmations	\$5 each	Free ⁸	Free ⁸
Check—Canceled Copy	\$5 per copy ⁹	Free ¹⁰	Free ¹⁰
Check—Certified	\$15 per check ⁹	Free ¹⁰	Free ¹⁰
Stop Payment	\$20 per stop payment	Free ¹⁰	Free ¹⁰
Legal Transfer—Estate Processing	\$25 ¹¹	Free ^{10,11}	Free ^{10,11}
Check Imaging Service	\$30 per year	Free ¹²	Free ¹²
Paid Check/Transaction (Insufficient or Uncollected Funds) ¹³	\$20 per transaction	\$20 per transaction	Free ¹⁰
Returned Directed or Online Bill Payment ¹⁴	\$20 per transaction	\$20 per transaction	Free ¹⁰
Check—Returned	\$30 per transaction	\$30 per transaction	Free ¹⁰
Stock Certificates/Private Name Change/Transfer Request	\$30 per certificate registration	\$30 per certificate registration	Free ¹⁰
Voluntary Reorganization	\$30	\$30	Free ¹⁰
Wire Transfer—Outgoing	\$30 per wire transfer	\$30 per wire transfer	Free ¹⁰
S.E.C. Fee	Variable, minimum \$0.01	Variable, minimum \$0.01	Variable, minimum \$0.01
Canadian Exchange Clearing	<ul style="list-style-type: none"> • \$0.02 per share if price is less than or equal to \$1.00 • \$0.01 per share if price is greater than \$1.00 	<ul style="list-style-type: none"> • \$0.02 per share if price is less than or equal to \$1.00 • \$0.01 per share if price is greater than \$1.00 	<ul style="list-style-type: none"> • \$0.02 per share if price is less than or equal to \$1.00 • \$0.01 per share if price is greater than \$1.00
Option Exchange Clearing	\$0.15 per contract	\$0.15 per contract	\$0.15 per contract
Processing Fee ¹⁵	\$5.25 per transaction	\$5.25 per transaction	\$5.25 per transaction
Check—Client Requested (Via Overnight Delivery)	\$15 per check	\$15 per check	\$15 per check
Deposited Check—Returned	\$25	\$25	\$25
Rejected Fund Transfers ¹⁶	\$25	\$25	\$25
Late-Payment ^{17, 18}	\$25 or highest rate on margin schedule, whichever is greater	\$25 or highest rate on margin schedule, whichever is greater	\$25 or highest rate on margin schedule, whichever is greater
Margin Pre-Payment	\$25 plus the highest margin interest rate on payment amount beginning the day of pre-payment	\$25 plus the highest margin interest rate on payment amount beginning the day of pre-payment	\$25 plus the highest margin interest rate on payment amount beginning the day of pre-payment
Returned Stock	\$35	\$35	\$35
Physical Certificate Collection	\$50	\$50	\$50
Foreign Ordinary Shares	\$50 fee for principal purchases greater than \$15,000	\$50 fee for principal purchases greater than \$15,000	\$50 fee for principal purchases greater than \$15,000

Not every fee is listed here and fees are subject to change.
For more information please contact your Financial Advisor.

Account and Service Fees (continued)

Dividend Reinvestment for Basic Securities Accounts ¹⁹	<ul style="list-style-type: none"> • Dividends \$10-\$100 = 4% • Dividends \$100.01-\$500 = \$4 or 2%, whichever is greater • Dividends greater than \$500 = \$10 or 1.5%, whichever is greater • Maximum fee of \$75 	<ul style="list-style-type: none"> • Dividends \$10-\$100 = 4% • Dividends \$100.01-\$500 = \$4 or 2%, whichever is greater • Dividends greater than \$500 = \$10 or 1.5%, whichever is greater • Maximum fee of \$75 	<ul style="list-style-type: none"> • Dividends \$10-\$100 = 4% • Dividends \$100.01-\$500 = \$4 or 2%, whichever is greater • Dividends greater than \$500 = \$10 or 1.5%, whichever is greater • Maximum fee of \$75
Account Transfer ^{17,20}	\$75	\$85	\$95
Morgan Stanley Active Assets Account Fees			
Morgan Stanley Debit MasterCard ⁶	Free	Free	Free
Morgan Stanley Debit MasterCard ⁶ Rewards Program	Optional, \$50 per year	Free	Free
Automated Teller Machine (ATM) Withdrawal	First 100 free; thereafter, \$1.00 per withdrawal ²¹	First 100 free; thereafter, \$1.00 per withdrawal ²¹	First 100 free; thereafter, \$1.00 per withdrawal ²¹
Online Bill Payment Service	First 90 days free; thereafter, \$6.50 per month ²²	Free ²²	Free ²²
Online Bill Payment—Overnight Delivery	\$20 per overnight delivery	\$20 per overnight delivery	\$20 per overnight delivery
Check Orders AND /OR Debit Card (Via Overnight Delivery)	<ul style="list-style-type: none"> • \$30 for check orders OR card • \$50 for check orders AND card 	<ul style="list-style-type: none"> • \$30 for check orders OR card • \$50 for check orders AND card 	<ul style="list-style-type: none"> • \$30 for check orders OR card • \$50 for check orders AND card
Checks—Wallet-Style	\$20 for 200	\$20 for 200	\$20 for 200
Checks—Wallet-Style with carbon duplicates	\$25 for 150	\$25 for 150	\$25 for 150
Checks—Desk-book style with stub, three to a page, with three-ring binder and separate stubs	\$40.00 for 300 checks (no cover); \$44.00 for 300 checks (with cover)	\$40.00 for 300 checks (no cover); \$44.00 for 300 checks (with cover)	\$40.00 for 300 checks (no cover); \$44.00 for 300 checks (with cover)
Checks—Desk-book style, three to a page, with separate transaction register	\$45.00 for 300 checks (no cover); \$51.00 for 300 checks (with cover)	\$45.00 for 300 checks (no cover); \$51.00 for 300 checks (with cover)	\$45.00 for 300 checks (no cover); \$51.00 for 300 checks (with cover)
Individual and Small Business Retirement Account Fees			
IRA (Traditional, Roth or SIMPLE) Account—Annual Maintenance Fee	\$50	2 free IRAs (\$50 for each additional); \$250 cap on ALL account-maintenance fees ²³	Free ⁴
IRA (Traditional, Roth or SIMPLE)—Termination Fee ^{17,20,24}	\$75	\$85	\$95
VIP Plus and VIP Basic Account—Plan Document Fee	\$50 per plan	\$50 per plan	\$50 per plan
VIP Basic Account—Annual Maintenance Fee ²⁵	\$60	\$60	\$60
VIP Plus Account—Annual Maintenance Fee ²⁵	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account
VIP Plus and VIP Basic Account—Termination Fee ²⁰	\$100 per plan	\$100 per plan	\$100 per plan
RPM Account—Annual Maintenance Fee ²⁵	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account
RPM Account—Termination Fee ²⁰	\$100	\$100	\$100
Non-Traditional IRA Investment	\$250 per position; maximum of \$500 per account	\$250 per position; maximum of \$500 per account	\$250 per position; maximum of \$500 per account
Limited Partnerships—Re-Registration for IRA Accounts	Pass-through of registration agent fee	Pass-through of registration agent fee	Pass-through of registration agent fee
Education Savings Plan Fees			
Coverdell Education Savings Plan Account—Annual Maintenance Fee	\$30	\$30 (\$250 cap on ALL account-maintenance fees) ²⁷	Free ⁴
529 Education Savings Plan—Annual Maintenance Fee ²⁶	\$30 plus 0.5% (50 basis points) of an account	\$30 plus 0.5% (50 basis points) of an account ²⁷	\$30 plus 0.5% (50 basis points) of an account ²⁷
Low-Balance Household Fee¹	\$15 per quarter for households with less than \$10,000 in assets	\$15 per quarter for households with less than \$10,000 in assets	\$15 per quarter for households with less than \$10,000 in assets

Not every fee is listed here and fees are subject to change.
For more information please contact your Financial Advisor.

Business Account Fees

Service	BusinessScape	Business Active Assets Account	Business BSA
Annual Fee ²⁸	\$250	\$125	\$60
Morgan Stanley Standard Debit MasterCard [®]	Free	Free	Not Applicable
Morgan Stanley Debit MasterCard [®] —Daily Debit	Free (up to 99 cards)	Free (2 card maximum)	Not Applicable
Morgan Stanley Platinum Debit MasterCard [®] —Delayed Debit with Rewards	\$75 annually per account ²⁹	Not Applicable	Not Applicable
ATM Transactions	Free (local fees may apply)	100 free per year; \$1.00 each thereafter (local fees may apply)	Not Applicable
Checkwriting	200 per month free; \$0.15 each thereafter	1 free per month; \$1 thereafter	Not Applicable
Check—Canceled Copy	First 12 per year are free; \$5 per check, thereafter	First 3 per year are free; \$5 per check, thereafter	Not Applicable
Check—Certified	First 10 free per year; \$15 per check, thereafter	First 2 free per year; \$15 per check, thereafter	\$15 per check
Stop Payment	\$20	\$20	Not Applicable
Incoming Automated Clearing House (ACH) Insufficient Funds	\$20	\$20	Not Applicable
Deposited Checks—Returned	\$25	\$25	\$25
Check Imaging Service	\$30 annually (by request)	\$30 annually (by request)	Not Applicable
Returned Check (Insufficient Funds)	\$30	\$30	Not Applicable
Fed Wires—Outbound	\$30 per wire	\$30 per wire	\$30 per wire
Check Orders	Varies by quantity and style—no pre-selected styles to choose from	Morgan Stanley Active Assets Account check styles available—Clients can also order custom checks directly with vendor	Not Applicable

Not every fee is listed here and fees are subject to change. For more information please contact your Financial Advisor.

Low-Balance Household Fee

Effective March 1, 2005, a Low-Balance Household Fee of \$15 per calendar quarter will be charged to Morgan Stanley Households with total assets of less than \$10,000. The fee will be charged to only one account in the Household. Only Morgan Stanley Active Assets Accounts, Basic Securities Accounts and IRAs (Traditional or Roth) can be charged the fee. All accounts within a Household will be included in determining the total Household value. Accounts enrolled in the following services will be used to determine whether the \$10,000 threshold has been reached but will not be charged the fee: managed account programs, Morgan Stanley ChoiceSM, Stock Option Plan (SOP), Coverdell Education Savings, College SAVE 529, SEP, SIMPLE, VIP and RPM Accounts.

If there is more than one eligible account in the Household to be charged, then:

1. Morgan Stanley Active Assets Accounts (including Business Accounts but excluding BusinessScape Accounts) will be charged before Basic Securities Accounts.
2. Basic Securities Accounts will be charged before IRAs.
3. If there are no Morgan Stanley Active Assets Accounts or Basic Securities Accounts, then IRAs will be charged.

Clients new to Morgan Stanley have until one year from the date the new Household has been established before the Low-Balance Household Fee of \$15 per calendar quarter is charged.

Notes

- ¹ A Household comprises one or more accounts formally grouped under one individual designated as the Head of Household. An account owned by the Head of Household must be designated as the Head of Household account. Individual accounts can be included in the Household if their account address matches the Head of Household address or if they qualify based on their relationship to the Head of Household. Contact your Financial Advisor for more information regarding Householding. Your privacy and personal service are important to us. Even though you may share these valuable benefits with your Household, your personal financial information is not shared with any other member of the Household, unless you have consented to Statement Linking. For more information on Statement Linking, please consult your Financial Advisor. Your individual and confidential relationship with your Financial Advisor will continue.
- ² You may qualify for Platinum Benefits by maintaining \$1,000,000 or more in total assets; or \$500,000 or more in accounts with asset-based pricing and selected assets; or \$500,000 or more in total assets and \$10,000 or more in annual charges, primarily commissions. You may qualify for Gold by maintaining \$250,000 or more in total assets; or \$100,000 or more in accounts with asset-based pricing and selected assets; or \$100,000 or more in total assets and \$5,000 or more in annual charges, primarily commissions. Selected assets include the following: cash/money market, mutual funds, insurance, annuities, unit investment trusts and managed futures. Note: any assets regardless of their classification held in an asset-based fee Investment Advisory account or an asset-based fee Brokerage account will be treated as selected assets. Selected accounts include Morgan Stanley ChoiceSM, Morgan Stanley Funds Portfolio ArchitectSM, Morgan Stanley Fund SolutionSM and Separately Managed Accounts (Morgan Stanley AccessSM, Morgan Stanley VisionSM, Morgan Stanley Personal PortfolioSM, Morgan Stanley Managed PortfoliosSM, Morgan Stanley Custom PortfolioSM and certain other managed accounts).
- ³ Additional fees may apply for services. Ask your Financial Advisor for more information.
- ⁴ Accounts must have \$1,000 or more in assets to receive an annual account fee waiver. UGMA/UTMA accounts must have \$100 or more in assets to receive an annual account fee waiver. Up to 50 accounts in a Household are eligible to receive program benefits; an unlimited number of accounts are eligible for grouping into a Household Relationship.
- ⁵ If your account is subject to the Basic Securities Account annual fee, it will be charged based on your account anniversary date. For example, if your account was opened in December 2003, the account will not be assessed the fee until January 2004. Effective July 2005, Basic Securities Accounts that previously benefited from the \$50,000 Select Assets annual account fee waiver, and have anniversary dates prior to December 31, 2003, will no longer be exempt from the annual account fee and will be charged \$60 annually. The Basic Securities Account annual fee may be waived according to Platinum and Gold Benefits guidelines. Contact your Financial Advisor for more details. All other current exemptions to the Basic Securities Account annual fee remain in effect. Specifically, the following account types are exempt from the annual fee:
- Managed account programs (i.e., Access, Vision, Managed Portfolios, Custom Portfolio, Personal Portfolio, Fund Solution, Portfolio Architect and certain other managed account programs).
 - Individual Retirement Accounts.
 - BusinessScapeSM accounts.
 - Coverdell Education Savings Accounts.
 - College SAVE 529 accounts.

- Deliver Versus Payment (DVP)/Receive Versus Payment (RVP) accounts.
 - Stock Option Plan (SOP) accounts (must maintain a zero balance upon settlement of trades related to option exercise and must not hold any other securities or cash).
 - Directed Share Plan accounts (first year only).
- ⁶ Maximum of 25 checks waived per Household per month.
- ⁷ Waived for Stock Option Plans (SOPs), disbursements from IRAs, BusinessScape and Corporate Accounts.
- ⁸ First 25 accounts in the Household receive free unlimited duplicate statements and duplicate trade confirmations.
- ⁹ Morgan Stanley reserves the right in its sole discretion to waive or reduce any fee applicable to any Morgan Stanley Active Assets Account. The following service benefits are applicable to Morgan Stanley Active Assets Account clients only:
- Canceled Check Copies: Standard fee waived on three checks per year.
 - Certified Checks: Standard fee waived on two checks per year.
- ¹⁰ Maximum of 25 fee waivers per service per Household per year.
- ¹¹ Additional fees charged by transfer agents may apply.
- ¹² Free for first 25 accounts in a Household.
- ¹³ Includes Directed Bill Payment transactions and Online Bill Payment transactions that have insufficient or uncollected funds that are paid.
- ¹⁴ Includes unpaid Directed Bill Payment transaction (ACH returned) and unpaid Online Bill Payment transactions.
- ¹⁵ This fee supersedes the order handling fee and will be applied to certain executed orders including, but not limited to, equities, fixed income products, exchange traded funds, mutual funds and unit investment trust transactions. This fee does not apply to Morgan Stanley ChoiceSM and managed account programs, including Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund Solution.SM
- ¹⁶ Rejected Automated Clearing House (ACH) transactions are charged \$20.
- ¹⁷ Effective July 2005.
- ¹⁸ If a trade payment is late, you will be charged \$25 or your fee will be calculated using the highest margin interest rate on the amount owed (whichever is greater) beginning the day after the settlement date.
- ¹⁹ Waived for Morgan Stanley Active Assets Accounts, IRAs, Morgan Stanley ChoiceSM and managed account programs.
- ²⁰ Outgoing Transfers (including Outgoing Automated Customer Account Transfer Service (ACATS)) are subject to a \$95 fee and apply to Basic Securities Accounts, Morgan Stanley Active Assets Accounts, and Traditional, Roth and SIMPLE IRAs. (The termination fee for VIP and RPM plans is \$100). Effective July 2005, the outgoing transfer fee will be based on household tier. De-linked or de-networked accounts will be treated as outgoing transfers accordingly: \$95 effective March 2005; \$75 July 2005 and going forward. Some exemptions may apply.
- ²¹ Local ATM fees apply.
- ²² Up to 25 transactions per month; thereafter, a \$0.40 per transaction fee applies. Up to 50 accounts in the Platinum and Gold Households can qualify for free online bill payment service.
- ²³ Only Individual IRAs and Coverdell Education Savings Plans are eligible for the two free IRA waivers for Gold Households. IRA fee waivers are applied to the first two accounts subject to a fee after the creation of the Gold Household.

- Deliver Versus Payment (DVP)/Receive Versus Payment (RVP) accounts.
 - Stock Option Plan (SOP) accounts (must maintain a zero balance upon settlement of trades related to option exercise and must not hold any other securities or cash).
 - Directed Share Plan accounts (first year only).
- ⁶ Maximum of 25 checks waived per Household per month.
- ⁷ Waived for Stock Option Plans (SOPs), disbursements from IRAs, BusinessScape and Corporate Accounts.
- ⁸ First 25 accounts in the Household receive free unlimited duplicate statements and duplicate trade confirmations.
- ⁹ Morgan Stanley reserves the right in its sole discretion to waive or reduce any fee applicable to any Morgan Stanley Active Assets Account. The following service benefits are applicable to Morgan Stanley Active Assets Account clients only:
- Canceled Check Copies: Standard fee waived on three checks per year.
 - Certified Checks: Standard fee waived on two checks per year.
- ¹⁰ Maximum of 25 fee waivers per service per Household per year.
- ¹¹ Additional fees charged by transfer agents may apply.
- ¹² Free for first 25 accounts in a Household.
- ¹³ Includes Directed Bill Payment transactions and Online Bill Payment transactions that have insufficient or uncollected funds that are paid.
- ¹⁴ Includes unpaid Directed Bill Payment transaction (ACH returned) and unpaid Online Bill Payment transactions.
- ¹⁵ This fee supersedes the order handling fee and will be applied to certain executed orders including, but not limited to, equities, fixed income products, exchange traded funds, mutual funds and unit investment trust transactions. This fee does not apply to Morgan Stanley ChoiceSM and managed account programs, including Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund Solution.SM
- ¹⁶ Rejected Automated Clearing House (ACH) transactions are charged \$20.
- ¹⁷ Effective July 2005.
- ¹⁸ If a trade payment is late, you will be charged \$25 or your fee will be calculated using the highest margin interest rate on the amount owed (whichever is greater) beginning the day after the settlement date.
- ¹⁹ Waived for Morgan Stanley Active Assets Accounts, IRAs, Morgan Stanley ChoiceSM and managed account programs.
- ²⁰ Outgoing Transfers (including Outgoing Automated Customer Account Transfer Service (ACATS)) are subject to a \$95 fee and apply to Basic Securities Accounts, Morgan Stanley Active Assets Accounts, and Traditional, Roth and SIMPLE IRAs. (The termination fee for VIP and RPM plans is \$100). Effective July 2005, the outgoing transfer fee will be based on household tier. De-linked or de-networked accounts will be treated as outgoing transfers accordingly: \$95 effective March 2005; \$75 July 2005 and going forward. Some exemptions may apply.
- ²¹ Local ATM fees apply.
- ²² Up to 25 transactions per month; thereafter, a \$0.40 per transaction fee applies. Up to 50 accounts in the Platinum and Gold Households can qualify for free online bill payment service.
- ²³ Only Individual IRAs and Coverdell Education Savings Plans are eligible for the two free IRA waivers for Gold Households. IRA fee waivers are applied to the first two accounts subject to a fee after the creation of the Gold Household.

²⁴ Except as a result of death, disability, or attaining age 59½ or over in the year of termination. The termination fee for VIP and RPM plans is \$100.

²⁵ Gold and Platinum annual account fee benefits are applicable only to VIP Basic, VIP Plus and RPM accounts that are sole proprietorships.

²⁶ Fee is waived for residents of North Dakota.

²⁷ Gold and Platinum annual account fee benefits are applicable only to participants of the College SAVE program.

²⁸ The annual fee is waived for Choice and managed account programs.

²⁹ If individual cardholders (employees of the business) can accumulate and redeem their own reward points, there will be an additional annual surcharge of \$10 per card.

Margin Accounts

When you purchase securities, you may pay for them in full or borrow part of the purchase price from us. If you choose to borrow from Morgan Stanley, you will open a margin account with us. The securities in your account are the Firm's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan. As a result, the Firm can take action such as issuing a margin call or selling securities or other assets in any of your accounts held with the Firm in order to maintain the required equity in the Account. The Firm may also liquidate your positions without prior notice to you at our determination to pay off the margin loan.

Margin trading is not for everyone. You should examine your investment objectives, financial resources and risk tolerance to determine whether margin trading is appropriate for you. Margin privileges involve credit extended to you by Morgan Stanley. This credit is secured by the collateral in your account. The amount borrowed will appear as a debit balance on which you will be charged interest at varying rates, as described in the Account Agreement. The increased leverage that margining provides may heighten both its risks and rewards. Margin privileges are subject to the Firm's review and approval, are granted at the sole discretion of the Firm, and are not automatically extended to clients. Morgan Stanley reserves the right to change the maintenance requirements at any time, without notice to the customer, due to volatility and liquidity of your securities and the overall market conditions.

Before opening a margin account, carefully read your Account Agreement or, if applicable, the Morgan Stanley Margin Client Agreement and the Margin Disclosure Statement for complete information. Your Financial Advisor receives credit

for 15 basis points on your average daily margin balance and receives a portion of this amount based on a Tier I payout rate. The Margin Disclosure Statement is posted on our Web site, www.morganstanley.com/individual, under Disclosures.

Effective March 2005, Morgan Stanley will adjust its tiered lending rates.

Margin Schedule Effective Through February 2005	
Average Daily Debit Balance	Percentage Added to Base Lending Rate
\$0-\$9,999	+3.375%
\$10,000-\$24,999	+3.250%
\$25,000-\$49,999	+2.250%
\$50,000-\$99,999	+2.125%
\$100,000-\$499,999	+0.875%
\$500,000-\$999,999	+0.375%
\$1,000,000 +	+0%
Margin Schedule Effective March 2005	
Average Daily Debit Balance	Percentage Added to Base Lending Rate
\$0-\$9,999	+3.375%
\$10,000-\$24,999	+3.250%
\$25,000-\$49,999	+2.250%
\$50,000-\$99,999	+2.125%
\$100,000-\$499,999	+0.875%
\$500,000-\$999,999	+0.625%
\$1,000,000-\$4,999,999	+0%
\$5,000,000-\$9,999,999	-0.500%
\$10,000,000 +	-0.750%

The Firm's Base Lending Rate is 5.75% effective December 15, 2004. For an updated rate, please visit www.morganstanley.com/online.

Payment for Order Flow

Industry regulations require that we disclose whether we receive compensation for directing client orders for execution to various dealers, exchanges or market centers. This compensation is commonly referred to as "payment for order flow." Although we transmit client orders for execution to various dealers, exchanges and market centers, we do not receive or accept payment for order flow.



Morgan Stanley Bill of Rights for Mutual Fund Investors

If you invest in mutual funds, this Bill of Rights will help you understand these investments, the costs associated with investing in mutual funds, how your Financial Advisor is compensated when you buy mutual funds and how Morgan Stanley is compensated by fund families to sell their mutual funds.

In order to be an informed investor in mutual funds, you should do several things. Every mutual fund provides an informational document known as a "prospectus." You should read the prospectus carefully. You should also discuss your investment goals and objectives with your Financial Advisor. For additional information on mutual funds in general, you can visit educational Web sites of the Securities and Exchange Commission (www.SEC.gov), the National Association of Securities Dealers (www.NASD.org), the Securities Industry Association (www.SIA.com), and the Investment Company Institute (www.ICI.org).

We strongly encourage you to read Morgan Stanley's Commitment to Clients for important information about building a successful working relationship among you, your Financial Advisor and our firm. This Commitment is on our Web site (www.morganstanley.com) and also is available from your Financial Advisor.

The Costs Associated with Investing in Mutual Funds

All mutual funds have fees and expenses. These costs, like all investing costs, are important because they affect the return on your investment. All funds have ongoing expenses that you will pay as long as you have an investment in the fund. Most funds also require that you pay a sales commission when you buy or sell the fund. The costs of buying or selling shares of a fund, plus the annual costs you pay that are associated with operating the fund, affect the return on your investment.

Mutual fund fees generally fall into two categories: loads (sometimes called sales charges) and annual fund operating expenses. These are disclosed annually in the fee table in the front of a fund's prospectus and are incurred when you buy a fund, while you own a fund, or when you sell a fund.

"Loads" or Sales Charges

Mutual funds offer different pricing arrangements to meet the needs of different investors. Many mutual funds make this possible by offering investors various "classes" of shares. Share classes represent ownership in the same mutual fund but offer investors a choice in how to pay for the fund. Share class names vary depending on the fund. For example, a fund may offer Class A, Class B, Class C, and "no-load" shares.

Class A shares generally have a front-end sales charge (or front-end "load") and lower annual expenses. This load is one way your Financial Advisor is compensated for helping you select a fund to meet your investment goals. If, for example, you have \$10,000 to invest in a fund and the front-end load is 5 percent, you would be charged \$500, and the remaining \$9,500 would be invested in the chosen fund.

Loads decrease for larger investments. Each fund family has a "breakpoint" schedule that determines the load based on the investment amount. For example, a fund might charge a load of 5.75% for purchases under \$50,000, reduce the load to 4.5% for purchases at or above that amount but less than \$100,000, and still further reduce or eliminate the load at other higher levels.

You may be able to qualify for a breakpoint on the basis of a single purchase, or by aggregating the amounts of more than one purchase by using a "letter of intent" or a "right of accumulation." A letter of intent is a letter you sign stating your intent to invest a certain dollar amount over a particular period of time. A right of accumulation allows you to qualify for a breakpoint with respect to a current purchase, based upon the total amount of your previous purchases. In either case, purchases may qualify for a breakpoint if they are made in your account or in accounts that are related or linked to your account. You may also qualify based upon purchases that are made in the same fund or in different funds that are within the same fund family.

Class B shares do not have a front-end load and therefore do not have breakpoints. Class B shares do have a back-end load

(a charge you pay when you sell fund shares) that declines over time until it disappears. These shares also tend to have higher annual expenses than A shares. After a specified number of years, B shares convert to A shares, and from then on you benefit from lower annual expenses.

Class C like B shares, have no front-end load and have higher annual expenses than A shares. There generally is no back-end load unless the shares are sold within the first twelve months. Unlike B shares, C shares never convert to A shares.

While there can be benefits to owning Class B or C shares, Class A shares tend to be more appropriate for large, longer-term investments due to their lower annual expenses and breakpoint discounts. Morgan Stanley generally does not accept purchases of B shares for \$100,000 or more over a rolling 45-day period.

No-Load Shares do not have sales charges, and their expenses are typically the lowest of any share class. Morgan Stanley offers these shares (also known as Class D shares for Morgan Stanley funds and sometimes as Institutional Shares for other fund families) for its Morgan Stanley ChoiceSM Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund SolutionSM accounts. These accounts have fees based upon a percentage of total assets held in the account.

You should review a fund's share classes, as detailed in the fund prospectus, to determine and evaluate your options. Your Financial Advisor can recommend the share class most suitable for you.

Operating Expenses

Annual fund operating expenses include management fees, 12b-1 (distribution or service) fees, the cost of shareholder mailings and other expenses. The expense ratio, shown in the fund's prospectus, helps you compare annual expenses of different funds. You do not pay operating expenses directly; rather, they are deducted from the fund's total assets.

Reducing or eliminating sales charges when selling funds to purchase another

You may be able to reduce or eliminate sales charges when you sell one fund to purchase another. Your Financial Advisor can provide you with the information you need. You can also refer to funds' prospectuses and statements of additional information, and fund families' Web sites. The availability of these features, and the terms and conditions, including time periods, vary among funds.

Exchanges between funds within the same fund family typically may be made without sales charges. Funds often limit the number of transfers that can be made.

Reinstatement privileges offered by some fund families allow you to sell shares in a fund, and reinvest some or all of the proceeds, without paying a load, in the same share class of that fund or fund family. Funds that offer this feature typically limit the period in which reinstatement is available.

Net asset value (NAV) transfer programs are sometimes offered by certain mutual funds. These programs allow you to buy Class A shares without paying a front-end load, where you use the proceeds from the sale of shares in a fund in a different fund family, for which you paid a front-end or back-end load. Funds that offer these programs typically limit the period during which NAV transfers may be made.

How Morgan Stanley and your Financial Advisor are compensated when you buy mutual funds

Morgan Stanley and our Financial Advisors are paid in different ways for helping clients choose mutual funds, depending on the type of fund (equity or fixed income), amount invested, share class purchased and fund families. First, Morgan Stanley is paid by the fund family based on the fees you pay (mentioned above). Then, a portion of that payment goes to our Financial Advisors. The payout rate to brokers is higher for mutual funds than certain other products. In general, the percentage of Morgan Stanley's fees and commissions we pay to our Financial Advisors (their payout rate) depends upon the type of pricing option and account you have established with us as well as the particular product you purchase. In addition, in general, the more overall revenue each Financial Advisor generates each year, the higher his or her payout rate.

There are two primary payout rates:

Tier I payouts range from 33% to 42%.

Tier II payouts range from 30% to 40%.

- Financial Advisors are paid at the Tier I rate for asset-based pricing as well as for the sale of the products shown in the table on page 5.
- Financial Advisors are paid at the Tier II rate for transaction-based pricing that include certain transaction-based products shown in the table on page 5.

For a more detailed discussion of how Morgan Stanley and your Financial Advisor are compensated for investments and services, please see page 2.

The compensation formula to determine the amount of payment for our Financial Advisors is the same regardless of which mutual fund you purchase. In certain types of accounts, Financial Advisors' compensation is determined by applying the formula to: for A shares, the loads described in the fund's prospectus, and, for B and C shares, a selling fee (known as a sales concession) set and paid by the fund family. In certain cases, when either the minimum purchase requirements stated in the fund's prospectus are met and the load is eliminated OR when institutional shares are purchased outside of a fee based account, your Financial Advisor may receive compensation from the fund company or an affiliate.

In addition, ongoing payments (known as residuals) are set by the fund family and generally paid to Financial Advisors on mutual fund shares. In other types of accounts (such as Morgan Stanley Choice,SM Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund SolutionSM), Financial Advisors' compensation is based on a percentage of the total assets held in the account. In Morgan Stanley ChoiceSM brokerage accounts, ongoing payments (known as residuals or 12b-1) are generally paid to Morgan Stanley. Moreover, Morgan Stanley receives other payments from a select group of fund families under the agreements discussed below.

A processing fee of \$5.25 per transaction also applies. For more information on this fee, please see footnote 15 on page 17.

Clients are welcome to ask their Financial Advisor how he/she will be compensated for any mutual fund transaction.

Morgan Stanley's agreements with fund families

Morgan Stanley offers many mutual funds. We believe it is important that our Financial Advisors evaluate these funds and assist you in selecting the funds that meet your needs. Because there are more than 8,000 mutual funds available for sale in the United States, we focus on a select group of some of the largest and most well-known mutual fund families that offer a broad spectrum of investment products. This group of fund families has greater access to our Financial Advisors to provide training and other educational presentations so that they can serve you better. We call this our Partners Program.

Partners make additional payments to Morgan Stanley to participate in the Program. These payments are from the fund's distributor, its investment advisor, or other related entity. Certain Partners make payments from fund assets in connection with fees for administrative and recordkeeping services discussed below. First, Morgan Stanley receives a payment of up to 0.20 percent of your total purchase amount. If, for example, you invested \$10,000 in a fund, Morgan Stanley would be paid up to \$20. Second, for any fund purchased after certain dates (January 1, 2000 for the AIM, Alliance, Davis, Dreyfus, Evergreen, Franklin Templeton, Morgan Stanley Funds, PIMCO Advisors, Putnam and Van Kampen funds and January 1, 2003 for the Eaton Vance, Fidelity and Scudder funds) which you still hold in your account a year later, and for as long as you hold that fund or another fund within the same fund family as the result of an exchange, Morgan Stanley will receive an additional payment, paid quarterly, of up to 0.05 percent per year of the amount held. For example, on a \$10,000 holding, 0.05 percent is \$5. Third, Morgan Stanley receives payments from Partners who participate in certain Morgan Stanley internal events, such as certain conferences and meetings. In addition, Partners also pay Morgan Stanley for certain administrative and recordkeeping services, up to \$19 per year for each fund held in your Morgan Stanley account.

The following fund families participate in the Partners Program: AIM, Alliance, Davis, Dreyfus, Eaton Vance, Evergreen, Fidelity, Franklin Templeton, Morgan Stanley Funds, PIMCO Advisors, Putnam, Scudder and Van Kampen. (Morgan Stanley Funds and Van Kampen Fund are advised and distributed by affiliates of Morgan Stanley.)

Morgan Stanley has financial agreements with fund families other than those identified above, pursuant to which Morgan Stanley receives fees for certain recordkeeping and administrative services. Certain fund families pay a maximum amount of up to \$19 per fund per account per year. Other fund families pay up to 0.25 percent per year of the value of the assets of the fund held in your account. For a complete list of these fund families, please visit our Web site at www.morganstanley.com or call your Financial Advisor.

Mutual Fund Conferences

Financial advisors qualify for inclusion in certain conferences on the basis of their sale of all mutual funds offered through Morgan Stanley, equally weighted. At such conferences, financial advisors participate in programs and receive information only with respect to Morgan Stanley and Van Kampen proprietary funds. Morgan Stanley Investment Management pays for all costs associated with such conferences, including the qualifying financial advisors' expenses for travel and accommodations.

The information in this Bill of Rights is as of December 1, 2004. For updated information on the status of the Partners Program, or of a successor mutual fund program at Morgan Stanley, visit our Web site at www.morganstanley.com or call your Financial Advisor.

Morgan Stanley Choice,SM Morgan Stanley Funds Portfolio Architect,SM and Morgan Stanley Fund SolutionSM are service marks of Morgan Stanley and/or its affiliates. Investments and services are offered through Morgan Stanley DW Inc., member SIPC. © 2004 Morgan Stanley

Morgan Stanley Bill of Rights for Variable Annuity Investors

A variable annuity is a contract between you and an insurance company to provide future income. The variable annuity contract allows you to invest in a number of variable sub-accounts, similar to mutual funds. Variable annuities provide several benefits: tax deferral, investment diversification, professional management and the option to take a lifetime income guaranteed by the insurance company.

In addition, many variable annuities provide the option of additional guarantees that may include minimum income or

accumulation guarantees for the owner or minimum death benefits for the owner's beneficiaries. All guarantees are provided by the insurance company issuing the variable annuity.

Learning About Variable Annuities

In order to be an informed investor in variable annuities, you should do several things. Every variable annuity provides an informational document known as a "prospectus." You should read the prospectus carefully. Since the guarantees in each variable annuity depend solely on the financial strength of the insurance carrier, you should evaluate the insurance company's financial condition. The prospectus includes a summary of the insurance company's financial information. You may also want to consult public rating agencies such as Moody's, Standard and Poor's or A.M. Best that evaluate insurance company financial strength. Finally, you should also discuss your investment goals with your Financial Advisor.

For additional information on variable annuities in general, you can visit the American Council of Life Insurers at www.acli.com/ACLI/Consumer/Annuities/Default.htm or the Securities and Exchange Commission "Variable Annuities: What You Should Know" at www.sec.gov/investor/pubs/varannty.htm. Morgan Stanley's Web site at www.morganstanleyindividual.com/investmentproducts/annuities also provides information on our annuity offering.

We strongly encourage you to read Morgan Stanley's Commitment to Clients for important information about building a successful working relationship among you, your Financial Advisor, and our Firm. This commitment is on our Web site (www.morganstanleyindividual.com) and also is available from your Financial Advisor.

Suitability Considerations

Long-term nature of investment: Variable annuities are long-term investments designed for retirement purposes. Tax penalties and surrender charges may apply if you withdraw your money early. In addition, in order to benefit from the tax deferral feature of variable annuities, in view of the costs and the tax treatment of withdrawals, a long-term holding period may be necessary. Variable annuities provide tax deferral of income and investment gains until you make withdrawals. However, withdrawal of gains are taxed as ordinary income and, if taken prior to age 59½, may be subject to an additional 10% federal-tax penalty.

Liquidity: Because of the possible tax penalties and surrender charges, variable annuities are not liquid investments. You should only invest funds that you expect to be able to leave invested in variable annuities long-term.

Market risk: The variable sub-accounts have differing investment characteristics. The investment return and principal will fluctuate so that investors' shares may be worth more or less than their original cost. You should invest in funds that are consistent with your investment objectives and risk tolerance.

Costs: A variable annuity has two levels of fees: the cost of the annuity contract and the expenses of the variable insurance funds offered within the contract.

Annuity contract charges consist of ongoing asset based "mortality and expense" and "administration" fees that are a percentage of your annuity assets, and, in most cases, a flat annual contract maintenance fee. These charges are deducted from your annuity contract value.

While variable annuities typically do not charge an upfront sales load, they do charge a percentage of your annuity contributions should you decide to withdraw your money in the early years of a contract. This charge is called a contingent deferred sales charge ("CDSC").

Variable insurance funds have annual operating expenses that include management fees, 12b-1 (distribution) fees, cost of shareholder mailings and other expenses. The expense ratio for each fund can be found in the variable annuity prospectus, and helps you compare the annual expenses of the funds offered in a variable annuity. Fund operating expenses are deducted from the fund's assets.

The variable annuities offered at Morgan Stanley provide two pricing alternatives:

1. **"Traditional pricing":** These annuities have a 6- to 8-year CDSC on each contribution and asset based contract charges generally in the 1.29% to 1.60% range. Contract fees generally range from \$0-50. In addition to contract charges, the annuity cost includes the underlying fund expenses that generally range from 0.70% to 1.85%.

2. **“Shorter CDSC”:** These annuities offer a shorter 4-year CDSC period on each contribution but somewhat higher asset charges in the 1.60% to 1.95% range. Shorter-CDSC asset-based contract charges are always higher than the comparable traditionally priced annuities offered by the same insurance carrier. Contract fees generally range from \$0–50. In addition to contract charges, the annuity cost includes the underlying fund expenses that generally range from 0.70% to 1.85%.

In addition to standard pricing, clients can add higher death benefits or living benefits in the form of contract riders. There is an additional mortality and expense charge for these riders, usually in the 0.25% to 0.50% range. The examples above do not reflect rider costs.

Generally, traditionally priced annuities are the lowest cost alternative between the two alternatives listed above—provided you are willing to keep your investment until the end of the CDSC period. However, if you value the option to access your money earlier, you may prefer the shorter CDSC alternative. You should read the description of costs, including the applicable CDSC schedule for your product, in the respective variable annuity prospectus carefully before you decide to invest.

You should weigh the higher costs of variable annuities versus the benefits before you invest. Also, since annuity terms differ and not all variable annuities offer the benefits described above, you should understand the features, benefits and costs of the variable annuity you are considering. You can find this information in the prospectus for the variable annuity. Please read it carefully before you invest.

Variable Annuities in IRAs and Qualified Plans

It's important to know that IRAs provide tax deferral of earnings. Purchasing an annuity within a retirement plan that already provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. Therefore, an annuity contract should be used only to fund an IRA to benefit from an annuity's features other than tax deferral, such as the lifetime income options, guaranteed minimum death benefits and the ability to transfer among investment options without sales or withdrawal charges.

Morgan Stanley receives commissions that are a percentage of your annuity contributions plus an annual percentage of assets ("trail"). Commissions vary based on the cost alternative you choose: traditional or shorter CDSC. Commissions range from 0% to 5% of contributions and trails from 0.25% to 1.00% of variable annuity assets.

A portion of the payment received by Morgan Stanley is then paid to your Financial Advisor. Within each pricing alternative, Morgan Stanley generally pays your Financial Advisor the same commission rate and trail. However, Morgan Stanley and your Financial Advisor receive different compensation for the different pricing alternatives described above. Clients are welcome to ask their Financial Advisor how he or she will be compensated for any variable annuity transaction.

In addition to commissions, the insurance companies may reimburse Morgan Stanley for the cost of client seminars and Financial Advisor educational conferences. To compensate Morgan Stanley for the costs of distribution, insurance licensing, insurance company due diligence and other home office services, the insurance carriers pay Morgan Stanley an additional percentage of contributions not exceeding 0.80% and a percentage of variable annuity assets not exceeding 0.20%. Morgan Stanley currently offers variable annuities issued by Allstate, Hartford, ING, Nationwide, AIG/Sun America, Sun Life of Canada and Travelers.

Morgan Stanley's relationships with the funds offered in variable annuities

The variable annuities offered at Morgan Stanley include funds managed by Morgan Stanley and its affiliates as well as funds managed by independent money managers. Morgan Stanley, as a firm, earns management fees if you choose to invest in the Morgan Stanley funds available within a variable annuity. However, our Financial Advisors receive the same commissions and trails regardless of the variable insurance funds you pick.

The information in this Bill of Rights is as of December 1, 2004.



Important Information Regarding Your 2004 Taxes

For tax year 2004, Morgan Stanley has made several changes to our tax reporting procedures that may impact the tax forms and account statements you receive. Please review the details about these changes provided below. In addition, holders of Morgan Stanley Trust mutual funds should read the important information about their December 2004 account statement highlighted in the next section of this brochure.

Here are the 2004 tax reporting changes:

- **TurboTax**

Starting February 1, 2005, clients enrolled in ClientServ will have the ability to import their Morgan Stanley tax information directly into TurboTax, making it quicker and easier to file their 2004 tax returns. If you are not enrolled in ClientServ, simply go to morganstanley.com/online/enroll and follow the instructions to sign up your accounts for free online access.

- **Distributions of Less Than \$10**

Accounts that receive total dividends or interest less than \$10 will not receive a 1099 for tax year 2004. Whether a distribution is reported on a 1099 or not, you are required to report these amounts on your tax return.

- **1099 Form Changes**

Several changes have been made to the 2004 Morgan Stanley Consolidated 1099. For example, this year, substitute payments and gross-up compensation payments will be reported on the 1099-MISC form. Substitute Payments in lieu of dividends or interest will be reported in Box 8. Gross-up compensation payments made by Morgan Stanley will be reported as "Other Income," in Box 3. In addition, several new boxes have been added to Form 1099-B to account for taxable mergers and exchanges.

If you sold shares in any fund listed on the New York Stock Exchange, you will receive a separate Form 1099-B from the broker/dealer who handled the transaction.

Form 1099-DIV

In January, you will receive a Form 1099-DIV for any Morgan Stanley or mutual fund that paid you aggregate distributions of \$10 or more in 2004, even if you reinvested them. Form 1099-DIV reports, among other things, dividends from net investment income, short-term capital gain distributions and long-term capital gain distributions. If you received aggregate distributions of less than \$10 for the 2004 tax year, you will not necessarily receive Form 1099-DIV.

Form 1099-DIV might also report liquidation distributions. Liquidation distributions are similar to proceeds from the sale or exchange of fund shares. Therefore, you must report any related gain or loss from a liquidation.

Form 1099-DIV reporting is not required for IRA or other tax-deferred retirement plan accounts. If you received payment or a distribution from a tax-deferred account, your retirement plan custodian will report those amounts.

2004 Average Cost Statement

In February, Morgan Stanley open-end mutual fund shareholders who opened accounts on or after January 1, 1990, through a purchase or exchange of shares—and did not redeem shares in that account until calendar year 1994 or thereafter—will receive an Average Cost Statement. This statement will provide gain and loss data on mutual fund redemptions in 2004.

You may want to use the information appearing on this statement to help in preparing your tax returns. However, the information is neither required by nor reported to the IRS and is provided to you as an additional service by Morgan Stanley Trust.

Tax-Exempt Income Summary

Generally, income dividends paid in 2004 by Morgan Stanley tax-exempt funds are exempt from federal income tax. However, the dividends must still be reported on your tax return. A portion of the income dividends may be subject to the federal alternative minimum tax (AMT) and will be reported to you on your Tax-Exempt Income Summary statement. Shareholders who earned federally tax-exempt income from any Morgan Stanley fund in 2004 will receive this report. In addition, a breakdown of the source of income by state for the national tax-exempt funds will

**Access your account anytime at
www.morganstanley.com/online**

Morgan Stanley and its Financial Advisors do not offer or provide tax or legal advice and the information contained herein should not be taken as tax or legal advice. Please consult a tax professional as to how this information applies to your situation.

Please consider the investment objectives, risks, charges and expenses of any fund carefully before investing. The prospectus contains this and other information about each fund. To obtain a prospectus, contact your Financial Advisor or download one at morganstanley.com. Please read the prospectus carefully before investing.

Investments and services are offered through Morgan Stanley DW Inc., member SIPC, Morgan Stanley Distributors Inc., Morgan Stanley Choice,SM Morgan Stanley Portfolio Architect,SM Morgan Stanley Fund Solution,SM Morgan Stanley Active AssetsSM and Morgan Stanley Active Assets AccountSM are service marks of Morgan Stanley and/or its affiliates.

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ANNEX II

Access your account anytime at
www.morganstanley.com/online

Thank you for
opening an account
at Morgan Stanley

Please consider the investment objectives, risks, charges and expenses of any fund carefully before investing. The prospectus contains this and other information about each fund. To obtain a prospectus, download one from morganstanley.com or contact your Financial Advisor. Please read the prospectus carefully before investing. The pricing and compensation disclosed in this brochure do not include investments and services provided through accounts at the Private Wealth Management division of Morgan Stanley & Co.

All information in this document was accurate as of December 1, 2004, but may be subject to change at a future date. It is important to note that the actual fees you pay will be governed by the documents you sign when you open your account. Please read those documents thoroughly before you invest. Some fees and commissions are negotiable. Consult with your Financial Advisor.

Investments and services are offered through Morgan Stanley DW Inc., member SIPC. Morgan Stanley,[®] Active Assets,[®] Morgan Stanley Active Assets Accounts,[®] Morgan Stanley Choice,[®] BusinessScape, Morgan Stanley Fund Solutions and Morgan Stanley Funds Portfolio Architect are service marks of Morgan Stanley or its affiliates.

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Morgan Stanley

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Morgan Stanley

Welcome to Morgan Stanley

We are pleased to serve your financial needs and look forward to a long and successful relationship with you.

Please review this important account information carefully. It explains the relationship between you, your Financial Advisor and Morgan Stanley and provides other important information about your Account. Your Financial Advisor can answer any questions you may have.

- Your Relationship with Morgan Stanley p. 1
- Your Relationship with Your Financial Advisor p. 16
- How Morgan Stanley and Your Financial Advisor Are Compensated for Investments and Services p. 20
- Your Account and Service Fees for 2005 p. 25
- About Your Account p. 34

Your Relationship with Morgan Stanley

Our Commitment

From Morgan Stanley

We want you to understand how we work with you, how we are paid by you and what it takes for us to build a successful working relationship together. Ultimately, an informed, engaged client is our most valuable asset.

- We will put you and your interests first. We succeed only by helping you succeed.
- Your primary contact with us is through your Financial Advisor. We will put the resources of our firm behind your Financial Advisor to help you reach your goals.
- We are committed to understanding you, your personal financial needs, your tolerance for risk, time horizon and any other factors that may affect our recommendations.
- We will help you understand your investment choices.
- We will help you set realistic expectations about the long-term performance and associated risks of those choices.
- We will be available through your Financial Advisor for regular conversations with you about the status of your investments with us and changes in your personal profile.
- We will provide timely account and transactional information that accurately reflects the investment positions you hold with our firm.
- We will disclose information related to the way we are paid by you as a client, including commissions and fees associated with your Account. We will answer questions you have about how your Financial Advisor is paid.
- We will share our policies and practices relating to the privacy of the personal information you provide us.
- If you have an issue or concern, we will make it our priority to address it. We have created the position of Client Advocate to help resolve any issues that are not promptly resolved by your Financial Advisor or his or her Branch Manager.
- We will do our best to build and justify your trust in us.

From You

Working together to reach your goals requires a commitment from you as well.

- * Provide your Financial Advisor with all relevant information about your financial condition, goals, risk tolerances and time horizon as well as changes to this information.
- * Meet with us regularly to review your financial situation and investment positions.
- * Approve or decline your Financial Advisor's recommendations on a timely basis.
- * Personally review and understand your investments, investment strategy and materials provided to you.
- * Understand that all investments have some degree of risk and that you may lose money on any investment.
- * Ask questions if you are uncertain about any aspect of your investments with Morgan Stanley.
- * Provide us with frank, timely feedback on how we are doing and how we can improve our service to you.

Your Privacy

Protecting the confidentiality and security of client information is an integral part of how Morgan Stanley does business. We maintain physical, electronic and procedural security measures to safeguard your nonpublic personal information.

For more information, please consult *An Important Notice Concerning Our U.S. Privacy Policy*, which you received when you opened your account with us and is also available from your Financial Advisor. This notice describes the types of nonpublic information we collect about you, the ways we safeguard the confidentiality of this information and when this information may be shared with others.

Morgan Stanley Bill of Rights for Mutual Fund Investors

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In order to be an informed investor in mutual funds, you should do several things. Every mutual fund provides an informational document known as a prospectus. You should read the prospectus carefully. You should also discuss your investment goals and objectives with your Financial Advisor. For additional information on mutual funds in general, you can visit educational Web sites of the Securities and Exchange Commission (www.SEC.gov), the National Association of Securities Dealers (www.NASD.org), the Securities Industry Association (www.SIA.com) and the Investment Company Institute (www.ICI.org).

The Costs Associated with Investing in Mutual Funds

All mutual funds have fees and expenses. These costs, like all investing costs, are important because they affect the return on your investment. All funds have ongoing expenses that you will pay as long as you have an investment in the fund. Most funds also require that you pay a sales commission when you buy or sell the fund. The costs of buying or selling shares of a fund, plus the annual costs you pay that are associated with operating the fund, affect the return on your investment.

Mutual fund fees generally fall into two categories: loads (sometimes called sales charges) and annual fund operating expenses. These are disclosed annually in the fee table in the front of a fund's prospectus and are incurred when you buy a fund, while you own a fund or when you sell a fund.

"Loads" or Sales Charges

Mutual funds offer different pricing arrangements to meet the needs of different investors. Many mutual funds make this possible by offering investors various "classes" of shares. Share classes represent ownership in the same mutual fund but offer investors a choice in how to pay for the fund. Share class names vary depending on the fund. For example, a fund may offer Class A, Class B, Class C and "no load" shares.

Class A shares generally have a front-end sales charge (or front-end "load") and lower annual expenses. This load is one way your Financial Advisor is compensated for helping you select a fund to meet your investment goals. If, for example, you have \$10,000 to invest in a fund and the front-end load is 5 percent, you would be charged \$500 and the remaining \$9,500 would be invested in the chosen fund.

Loads decrease for larger investments. Each fund family has a "breakpoint" schedule that determines the load based on the

investment amount. For example, a fund might charge a load of 5.75 percent for purchases under \$50,000, reduce the load to 4.5 percent for purchases at or above that amount but less than \$100,000, and still further reduce or eliminate the load at other higher levels.

You may be able to qualify for a breakpoint on the basis of a single purchase, or by aggregating the amounts of more than one purchase by using a "letter of intent" or a "right of accumulation." A letter of intent is a letter you sign stating your intent to invest a certain dollar amount over a particular period of time. A right of accumulation allows you to qualify for a breakpoint with respect to a current purchase, based upon the total amount of your previous purchases. In either case, purchases may qualify for a breakpoint if they are made in your account or in accounts that are related or linked to your account. You may also qualify based upon purchases that are made in the same fund or in different funds that are within the same fund family.

Class B shares do not have a front-end load and therefore do not have breakpoints. Class B shares do have a back-end load (a charge you pay when you sell fund shares) that declines over time until it disappears. These shares also tend to have higher annual expenses than A shares. After a specified number of years, B shares convert to A shares, and from then on you benefit from lower annual expenses.

Class C, like B shares, have no front-end load and have higher annual expenses than A shares. There generally is no back-end load unless the shares are sold within the first 12 months. Unlike B shares, C shares never convert to A shares.

While there can be benefits to owning Class B or C shares, Class A shares tend to be more appropriate for large, longer-term investments due to their lower annual expenses and breakpoint discounts. Morgan Stanley generally does not accept purchases of B shares for \$100,000 or more over a rolling 45-day period.

No-Load shares do not have sales charges, and their expenses are typically the lowest of any share class. Morgan Stanley offers these shares (also known as Class D shares for Morgan Stanley funds and sometimes as Institutional shares for other fund families) for its Morgan Stanley Choice,SM Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund SolutionSM accounts. These accounts have fees based upon

a percentage of total assets held in the account.

You should review a fund's share classes, as detailed in the fund prospectus, to determine and evaluate your options. Your Financial Advisor can recommend the share class most suitable for you.

Operating Expenses

Annual fund operating expenses include management fees, 12b-1 (distribution or service) fees, the cost of shareholder mailings and other expenses. The expense ratio, shown in the fund's prospectus, helps you compare annual expenses of different funds. You do not pay operating expenses directly; rather, they are deducted from the fund's total assets.

Reducing or eliminating sales charges when selling funds to purchase another

You may be able to reduce or eliminate sales charges when you sell one fund to purchase another. Your Financial Advisor can provide you with the information you need. You can also refer to funds' prospectuses and statements of additional information, and fund families' Web sites. The availability of these features, and the terms and conditions, including time periods, vary among funds.

Exchanges between funds within the same fund family typically may be made without sales charges. Funds often limit the number of transfers that can be made.

Reinstatement privileges offered by some fund families allow you to sell shares in a fund and reinvest some or all of the proceeds, without paying a load, in the same share class of that fund or fund family. Funds that offer this feature typically limit the period in which reinstatement is available.

Net asset value (NAV) transfer programs are sometimes offered by certain mutual funds. These programs allow you to buy Class A shares without paying a front-end load, where you use the proceeds from the sale of shares in a fund in a different fund family, for which you paid a front-end or back-end load. Funds that offer these programs typically limit the period during which NAV transfers may be made.

How Morgan Stanley and your Financial Advisor are compensated when you buy mutual funds

Morgan Stanley and our Financial Advisors are paid in different ways for helping clients choose mutual funds, depending on the type of fund (equity or fixed income), amount invested, share class purchased and fund families. First, Morgan Stanley is paid

by the fund family based on the fees you pay (mentioned above). Then a portion of that payment goes to our Financial Advisors. The payout rate to brokers is higher for mutual funds than certain other products. In general, the percentage of Morgan Stanley's fees and commissions we pay to our Financial Advisors (their payout rate) depends upon the type of pricing option and account you have established with us as well as the particular product you purchase. In addition, in general, the more overall revenue each Financial Advisor generates each year, the higher his or her payout rate.

There are two primary payout rates:

Tier I payouts range from 33 percent to 42 percent.

Tier II payouts range from 30 percent to 40 percent.

- Financial Advisors are paid at the Tier I rate for asset-based pricing as well as for the sale of the products shown in the table on page 23.
- Financial Advisors are paid at the Tier II rate for transaction-based pricing that include certain transaction-based products shown in the table on page 23.

For a more detailed discussion of how Morgan Stanley and your Financial Advisor are compensated for investments and services, please see page 20.

The compensation formula to determine the amount of payment for our Financial Advisors is the same regardless of which mutual fund you purchase. In certain types of accounts, Financial Advisors' compensation is determined by applying the formula to: for A shares, the loads described in the fund's prospectus; for B and C shares, a selling fee (known as a sales concession) set and paid by the fund family. In certain cases, when either the minimum purchase requirements stated in the fund's prospectus are met and the load is eliminated OR when Institutional shares are purchased outside of an asset-based-fee account, your Financial Advisor may receive compensation from the fund company or an affiliate.

In addition, ongoing payments (known as residuals) are set by the fund family and generally paid to Financial Advisors on mutual fund shares. In other types of accounts (such as Morgan Stanley ChoiceSM, Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund SolutionSM), Financial Advisors' compensation is based on a percentage of the total assets held in the account. In Morgan Stanley ChoiceSM brokerage accounts, ongoing payments (known as residuals or 12b-1 fees) are generally paid to Morgan Stanley. Moreover, Morgan Stanley receives other

payments from a select group of fund families under the agreements discussed below.

A processing fee of \$5.25 per transaction also applies. For more information on this fee, please see footnote 15 on page 32.

Clients are welcome to ask their Financial Advisor how he or she will be compensated for any mutual fund transaction.

Morgan Stanley's agreements with fund families

Morgan Stanley offers many mutual funds. We believe it is important that our Financial Advisors evaluate these funds and assist you in selecting the funds that meet your needs. Because there are more than 8,000 mutual funds available for sale in the United States, we focus on a select group of some of the largest and most well-known mutual fund families that offer a broad spectrum of investment products. This group of fund families has greater access to our Financial Advisors to provide training and other educational presentations so that they can serve you better. We call this our Partners Program.

Partners make additional payments to Morgan Stanley to participate in the Program. These payments are from the fund's distributor, its investment advisor or other related entity. Certain Partners make payments from fund assets in connection with fees for administrative and recordkeeping services discussed below. First, Morgan Stanley receives a payment of up to 0.20 percent of your total purchase amount. If, for example, you invested \$10,000 in a fund, Morgan Stanley would be paid up to \$20. Second, for any fund purchased after certain dates (January 1, 2000, for the AIM, Alliance, Davis, Dreyfus, Evergreen, Franklin Templeton, Morgan Stanley Funds, PIMCO Advisors, Putnam and Van Kampen funds and January 1, 2003, for the Eaton Vance, Fidelity and Scudder funds) that you still hold in your Account a year later, and for as long as you hold that fund or another fund within the same fund family as the result of an exchange, Morgan Stanley will receive an additional payment, paid quarterly, of up to 0.05 percent per year of the amount held. For example, on a \$10,000 holding, 0.05 percent is \$5. Third, Morgan Stanley receives payments from Partners who participate in certain Morgan Stanley internal events, such as certain conferences and meetings. In addition, Partners also pay Morgan Stanley for certain administrative and recordkeeping services, up to \$19 per year for each fund held in your Morgan Stanley account.

The following fund families participate in the Partners Program: AIM, Alliance, Davis, Dreyfus, Eaton Vance, Evergreen, Fidelity, Franklin Templeton, Morgan Stanley Funds, PIMCO Advisors,

Putnam, Scudder and Van Kampen. (Morgan Stanley Funds and Van Kampen Funds are advised and distributed by affiliates of Morgan Stanley.)

Morgan Stanley has financial agreements with fund families other than those identified above, pursuant to which Morgan Stanley receives fees for certain recordkeeping and administrative services. Certain fund families pay a maximum amount of up to \$19 per fund per account per year. Other fund families pay up to 0.25 percent per year of the value of the assets of the fund held in your account. For a complete list of these fund families, please visit our Web site at www.morganstanley.com or call your Financial Advisor.

Mutual fund conferences

Financial Advisors qualify for inclusion in certain conferences on the basis of their sales of all mutual funds offered through Morgan Stanley, equally weighted. At such conferences, Financial Advisors participate in programs and receive information only with respect to Morgan Stanley and Van Kampen proprietary funds. Morgan Stanley Investment Management pays for all costs associated with such conferences, including the qualifying Financial Advisors' expenses for travel and accommodations.

The information in this Bill of Rights is as of December 1, 2004. For updated information on the status of the Partners Program, or of a successor mutual-fund program at Morgan Stanley, visit our Web site at www.morganstanley.com or call your Financial Advisor.

Morgan Stanley Bill of Rights for Variable Annuity Investors

Variable Annuities Defined

A variable annuity is a contract between you and an insurance company to provide future income. The variable annuity contract allows you to invest in a number of variable subaccounts, similar to mutual funds. Variable annuities provide several benefits: tax deferral, investment diversification, professional management and the option to take a lifetime income guaranteed by the insurance company.

In addition, many variable annuities provide the option of additional guarantees that may include minimum income or accumulation guarantees for the owner or minimum death benefits for the owner's beneficiaries. All guarantees are provided by the insurance company issuing the variable annuity.

Learning about Variable Annuities

In order to be an informed investor in variable annuities, you should do several things. Every variable annuity provides an informational document known as a prospectus. You should read the prospectus carefully. Since the guarantees in each variable annuity depend solely on the financial strength of the insurance carrier, you should evaluate the insurance company's financial condition. The prospectus includes a summary of the insurance company's financial information. You may also want to consult public rating agencies, such as Moody's, Standard & Poor's or A. M. Best, that evaluate insurance-company financial strength. Finally, you should also discuss your investment goals with your Financial Advisor.

For additional information on variable annuities in general, you can visit the American Council of Life Insurers at www.acli.com/ACLI/Consumer/Annuities/Default.htm or the Securities and Exchange Commission's "Variable Annuities: What You Should Know" at www.sec.gov/investor/pubs/varannty.htm. Morgan Stanley's Web site www.morganstanleyindividual.com/investmentproducts/annuities also provides information on our annuity offering.

Suitability Considerations

Long-term nature of investment. Variable annuities are long-term investments designed for retirement purposes. Tax penalties and surrender charges may apply if you withdraw your money early. In addition, in order to benefit from the tax-deferral feature of variable annuities, in view of the costs and the tax treatment of withdrawals, a long-term holding period may be necessary. Variable annuities provide tax deferral of income and investment gains until you make withdrawals. However, withdrawals of gains are taxed as ordinary income and, if taken prior to age 59½, may be subject to an additional 10 percent federal-tax penalty.

Liquidity. Because of the possible tax penalties and surrender charges, variable annuities are not liquid investments. You should invest only funds that you expect to be able to leave invested in variable annuities long-term.

Market risk. The variable subaccounts have differing investment characteristics. The investment return and principal will fluctuate so that investors' shares may be worth more or less than their original cost. You should invest in funds that are consistent with your investment objectives and risk tolerance.

Costs. A variable annuity has two levels of fees: the cost of the

annuity contract and the expenses of the variable insurance funds offered within the contract.

Annuity contract charges consist of ongoing asset-based “mortality and expense” and “administration” fees that are a percentage of your annuity assets and, in most cases, a flat annual contract maintenance fee. These charges are deducted from your annuity contract value.

While variable annuities typically do not charge an upfront sales load, they do charge a percentage of your annuity contributions should you decide to withdraw your money in the early years of a contract. This charge is called a contingent deferred sales charge (“CDSC”).

Variable insurance funds have annual operating expenses that include management fees, 12b-1 (distribution) fees, the cost of shareholder mailings and other expenses. The expense ratio for each fund, which can be found in the variable annuity prospectus, helps you compare the annual expenses of the funds offered in a variable annuity. Fund operating expenses are deducted from the fund’s total assets.

The variable annuities offered at Morgan Stanley provide two pricing alternatives:

“Traditional pricing.” These annuities have a six- to eight-year CDSC on each contribution and asset-based contract charges generally in the 1.29 percent to 1.60 percent range. Contract fees generally range from \$0 to \$50. In addition to contract charges, the annuity cost includes the underlying fund expenses that generally range from 0.70 percent to 1.85 percent.

“Shorter CDSC.” These annuities offer a shorter, four-year CDSC period on each contribution but somewhat higher asset charges in the 1.60 percent to 1.95 percent range. Shorter-CDSC asset-based contract charges are always higher than the comparable traditionally priced annuities offered by the same insurance carrier. Contract fees generally range from \$0 to \$50. In addition to contract charges, the annuity cost includes the underlying fund expenses that generally range from 0.70 percent to 1.85 percent. In addition to standard pricing, clients can add higher death benefits or living benefits in the form of contract riders. There is an additional mortality and expense charge for these riders, usually in the 0.25 percent to 0.50 percent range. The examples above do not reflect rider costs.

Generally, traditionally priced annuities are the lowest-cost alternative between the two alternatives listed above—provided you are willing to keep your investment

until the end of the CDSC period. However, if you value the option to access your money earlier, you may prefer the shorter CDSC alternative. You should read the description of costs, including the applicable CDSC schedule for your product, in the respective variable annuity prospectus carefully before you decide to invest.

You should weigh the higher costs of variable annuities versus the benefits before you invest. Also, since annuity terms differ and not all variable annuities offer the benefits described above, you should understand the features, benefits and costs of the variable annuity you are considering. You can find this information in the prospectus for the variable annuity. Please read it carefully before you invest.

Variable Annuities in IRAs and Qualified Plans

It’s important to know that IRAs provide tax deferral of earnings. Purchasing an annuity within a retirement plan that already provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. Therefore, an annuity contract should be used only to fund an IRA to benefit from an annuity’s features other than tax deferral, such as the lifetime income options, guaranteed minimum death benefits and the ability to transfer among investment options without sales or withdrawal charges.

However, if you are risk averse you may consider annuities as an IRA or qualified-plan investment alternative, particularly if you are concerned about market risk, the risk of outliving your income or the impact on your beneficiaries if you die during a down market. Variable annuities may provide financial guarantees during your IRA accumulation or distribution. They can also be converted into a guaranteed lifetime income stream. And at death the value of your investment can be protected with a death-benefit guarantee. The terms of variable annuities differ and not all variable annuities offer all the benefits described above.

Variable Annuities and Mutual Funds

Both variable annuities and mutual funds provide you access to professional money management. In general, mutual funds cost less than variable annuities with comparable investment managers. Because mutual funds may offer commission reductions at higher asset levels, the cost advantage of mutual funds increases at higher asset levels. On the other hand, variable annuities may offer financial guarantees such as guaranteed-income benefits or death-benefit guarantees that may reduce market risk. Variable annuities can also be converted into a guaranteed lifetime income stream. In addition, variable

annuities purchased outside of an IRA or qualified plan provide tax-deferred growth potential. These benefits may outweigh the cost differential, depending upon your individual circumstances and willingness to assume risk. You should weigh the higher costs of variable annuities versus their benefits before you invest. Also, since annuity terms differ and not all variable annuities offer the guarantees described above, you should understand the features, benefits and costs of the variable annuity you are considering. You can find this information in the prospectus for the variable annuity. Please read it carefully before you invest.

How Morgan Stanley and your Financial Advisor are compensated when you buy variable annuities

Compensation to Morgan Stanley on variable annuities is paid by the issuing insurance company and does not represent an additional charge to you. The insurance company pays compensation out of the asset charges, contingent deferred sales charges and any service fees or other revenues they receive from the mutual fund companies.

Morgan Stanley receives commissions that are a percentage of your annuity contributions plus an annual percentage of assets ("trail"). Commissions vary based on the cost alternative you choose: traditional or shorter CDSC. Commissions range from 0 percent to 5 percent of contributions and trails from 0.25 percent to 1.00 percent of variable-annuity assets.

A portion of the payment received by Morgan Stanley is then paid to your Financial Advisor. Within each pricing alternative, Morgan Stanley generally pays your Financial Advisor the same commission rate and trail. However, Morgan Stanley and your Financial Advisor receive different compensation for the different pricing alternatives described above. Clients are welcome to ask their Financial Advisor how he or she will be compensated for any variable-annuity transaction.

In addition to commissions, the insurance companies may reimburse Morgan Stanley for the cost of client seminars and Financial Advisor educational conferences. To compensate Morgan Stanley for the costs of distribution, insurance licensing, insurance-company due diligence and other home-office services, the insurance carriers pay Morgan Stanley an additional percentage of contributions not exceeding 0.80 percent and a percentage of variable annuity assets not exceeding 0.20 percent. Morgan Stanley currently offers variable annuities

issued by Allstate, Hartford, ING, Nationwide, AIG/Sun America, Sun Life of Canada and Travelers.

Morgan Stanley's relationships with the funds offered in variable annuities

The variable annuities offered at Morgan Stanley include funds managed by Morgan Stanley and its affiliates as well as funds managed by independent money managers. Morgan Stanley, as a firm, earns management fees if you choose to invest in the Morgan Stanley funds available within a variable annuity. However, our Financial Advisors receive the same commissions and trails regardless of the variable insurance funds you pick.

The information in this Bill of Rights is as of December 1, 2004.

The Nature of Investment Recommendations

Exposure to certain risks is fundamental to investing and the prices of securities may change based on a number of often unforeseeable factors. We cannot guarantee the performance of any investment recommended by Morgan Stanley or its Financial Advisors. (See the following section, "Balancing Risk and Reward.")

Some investments, such as mutual funds, provide a prospectus containing detailed information, such as fees, charges, policies, expenses and risk factors. Always read a prospectus carefully before you invest. Before you make an investment decision, be sure you understand the costs, fees, risks, advantages and disadvantages of the investment, as well as how it fits with your financial goals.

In addition to offering investment recommendations, at your request your Financial Advisor can place transactions for securities you choose. Because these transactions are not based upon Morgan Stanley's specific recommendations, they may be recorded as "unsolicited." In some instances, you may have to sign an acknowledgment of this.

Your Financial Advisor cannot exercise discretion—that is, select trades for your account—without your written authorization and Morgan Stanley's prior approval.

Morgan Stanley does not provide tax or legal advice. Always consult with your own accountant or attorney concerning the tax or legal implications of your investment decisions.

Balancing Risk and Reward

Some of the types of risk that affect investments include inflation, interest-rate changes and risks related to the underlying investment, as well as economic changes and the political climate. In short, all investments carry some risk—even “safe” investments may expose your money to inflation risk. Conservative investments that preserve principal tend to provide lower returns over time, while investments that have the greatest potential for higher returns tend to be the most risky and volatile.

Some investors accept investment risk with ease, others with caution. When you consider any investment, be aware of the risks involved. Then you can determine your own tolerance for risk.

The general risks and returns often associated with common investment objectives include:

Principal preservation for investors seeking limited risk with modest returns

Income for investors seeking regular income with low-to-moderate risk to principal

Growth for investors seeking capital appreciation with moderate-to-high risk to principal

Aggressive income/growth for investors seeking higher returns either as growth or as income with greater risk to principal

Speculation for investors seeking high profits or quick returns with the considerable possibility of losing most or all of their investment

How Your Account Is Protected

Assets in your account are protected, first and foremost, by the financial strength of Morgan Stanley. Securities and cash held in Morgan Stanley accounts are protected by the Securities Investor Protection Corporation (SIPC), a nonprofit organization created by an Act of Congress to protect customers in the event a broker-dealer becomes insolvent and cannot return the full value of customers’ securities and cash. The SIPC protects securities in amounts up to \$500,000, of which up to \$100,000 may be uninvested cash. In addition, Morgan Stanley has purchased additional SIPC-like coverage for customers’ accounts up to

their total net equity balance, including unlimited protection for uninvested cash (the “Excess Coverage”). SIPC and Excess Coverage do not insure against losses due to market fluctuations. SIPC and Excess Coverage apply to securities and cash in the exclusive possession or control of Morgan Stanley. For purposes of asset protection, mutual funds—including money market funds, which may be redeemed only through Morgan Stanley—are covered. Securities, including certain mutual funds, annuities, life insurance and limited partnerships, which may be redeemed directly from the issuer, carrier or their agents, are generally not covered by SIPC or Excess Coverage.

Additional information about the SIPC is available at www.sipc.org. If you would like more information, ask your Financial Advisor.

Business Continuity Planning

As part of our ongoing commitment to inform and engage our clients, we would like to give you an update on Morgan Stanley’s Business Continuity Planning (“BCP”) program for the Americas.

Morgan Stanley has taken significant steps to mitigate the impacts of business interruptions resulting from a wide variety of potential events, including the loss of key facilities and resources (see the chart on page 17).

The BCP process begins with each business division reviewing its business continuity risk. This process encompasses all aspects of the firm’s key activities including, but not limited to, trading, sales, settlement, clearance, custody and funding. This assessment defines, for each business process, its criticality, exposure to risk and likelihood of failure.

Business units then develop plans to mitigate interruptions of processes deemed critical. Critical data and systems applications are replicated, and alternative systems and procedures, including manual work-arounds, are identified to enable continued functionality upon the occurrence of an event. The individual business unit plans are captured and updated in a disaster recovery application and database, and we review the plans on a biannual basis. Testing is undertaken involving business divisions and support functions, such as information technology, facilities, operations, finance and internal audit.

Another key element of our program is a command and control network designed to monitor internal and external status items, manage escalation procedures and provide a rapid response

mechanism to address critical issues. The objective of the network is to enable firm management on both a global and regional basis to monitor and manage a BCP incident and any material impact an event might have on the firm's business activities.

We believe that our firm's successful responses to the events of September 11th and the 2003 East Coast blackout are a reliable indicator of the effectiveness of our BCP approach. While our plans attempt to deal with the likely potential impact of a wide variety of scenarios, any specific response will inevitably be highly dependent upon the nature and extent of the incident. Our plans are subject to modification at any time.

Our planned responses to various outage scenarios appear at right.

Your Relationship with Your Financial Advisor

Your Financial Advisor

By selecting Morgan Stanley, you have chosen a firm and a Financial Advisor that you can rely on to help plan your financial future. You can be assured of high-quality professional advice and guidance through complex financial markets.

Morgan Stanley's professional Financial Advisors complete our extensive learning and development program. They also participate in continuing education and training programs. Your Financial Advisor can tell you about his or her background and training.

Your Financial Advisor's Credentials

The securities industry is regulated by the U.S. Securities and Exchange Commission (SEC) and each state's securities regulator. In addition, Morgan Stanley DW Inc. is a member of several industry self-regulatory organizations, including the National Association of Securities Dealers, the New York Stock Exchange and other national and regional exchanges.

Our Financial Advisors are registered and/or licensed with various industry regulatory organizations and by the states where they do business.

Business Continuity Planning

Outage Scenario	Response	Recovery Time
Single Building Outage	<p>Staff and Workspace Recovery Branch Offices Recovery essential personnel are relocated to other branch offices and/or work from home. Customer toll-free lines are redirected to Call Centers with qualified service personnel, or to other branches. Any functions not handled by a Call Center are performed by a regional service center or another branch.</p> <p>Other Departments Recovery essential personnel are relocated to contingency facilities both within and outside of our major metropolitan facilities. Some staff members are already pre-positioned in facilities outside of those major metropolitan facilities.</p> <p>Data Center Recovery Morgan Stanley has implemented a robust data center back-up strategy both within the Greater New York Area and in distant facilities in the Southwestern, Central and Western United States. Each of these data centers is housed in a hardened facility protected by emergency power and serviced by separate utility grids and multiple telecommunications carriers.</p>	Four hours
Manhattan Outage	<p>Staff and Workspace Recovery Recovery essential personnel are relocated to contingency facilities outside of Manhattan. Some staff members are already pre-positioned in facilities outside of Manhattan.</p> <p>Data Center Recovery Same as Single Building Outage (see above). Critical data are copied and maintained in a hardened facility outside of New York City.</p>	Four hours*
Greater New York Area Outage	<p>Staff and Workspace Recovery Leverage staff in distant locations (e.g., Baltimore, London)</p> <p>Data Center Recovery Same as Single Building Outage (see above). Critical data are copied and maintained in a hardened facility outside of New York City.</p>	Four hours*

*Under these conditions, a four-hour recovery is contingent on the nature of the event and that critical industry and municipal infrastructures are fully functional. To the extent possible, the firm intends to continue business during the outage.

Additionally, Morgan Stanley Financial Advisors are under the direction and supervision of licensed and trained Branch Managers.

Information Your Financial Advisor Needs

It is important for you to provide accurate information when you open your Account. In order for your Financial Advisor to make appropriate investment and financial services recommendations for you, he or she needs complete information about your

- Financial assets and securities holdings
- Income
- Tax situation
- Monthly credit and mortgage obligations
- Marital status, age, occupation, number of dependents and their educational or other special needs
- Short- and long-term investment goals
- Tolerance for risk in your investment portfolio
- Expectation for the length of time your money will be invested
- Investment experience
- Any other information that might be helpful in determining the appropriate investment strategy

Tell your Financial Advisor promptly about any changes that affect your financial situation. Also, be sure to report any change of address, so that you continue to receive account information regularly.

Forming a Household Relationship

By grouping your own accounts with those of other family members (as well as domestic partners and certain nonfamily members) in one Household Relationship, you may be eligible for certain fee waivers, preferred account pricing and other benefits through our Platinum and Gold Benefits programs. The various ways you or your Household can qualify for these programs are shown below. For more information regarding a Household Relationship, see footnote 1 on page 30.

Gold Household

- \$250,000 or more in total assets, or

- \$100,000 or more in selected assets and/or accounts with asset-based pricing, or
- \$100,000 or more in total assets and \$5,000 or more in annual charges, primarily commissions

Platinum Household

- \$1 million or more in total assets, or
- \$500,000 or more in selected assets and/or accounts with asset-based pricing, or
- \$500,000 or more in total assets and \$10,000 or more in annual charges, primarily commissions

For more information regarding selected assets, see footnote 2 on page 30.

Your Household may be upgraded to a higher Benefits program level at any time during the year that your Household assets, or assets plus annual charges, meet one of the criteria listed on the previous page. Gold and Platinum Households will also be reviewed annually to confirm that they continue to meet the criteria for Gold or Platinum benefits, and Benefits program levels may be adjusted accordingly.

Morgan Stanley respects the privacy of all Household members. Forming a Household Relationship will not change your account structure or ownership in any way. Not all account types are eligible for Householding, and certain account types may require consent in order to be Householded. Morgan Stanley reserves the right to change the definition of Households at any time.

How Morgan Stanley and Your Financial Advisor Are Compensated

How Morgan Stanley Is Compensated

At Morgan Stanley, we believe it is important for you to understand the costs associated with obtaining investments and services from us. As our client you benefit from the full scope of services and resources of a global industry leader. Through your Financial Advisor you have access to our firm's powerful capabilities: world-class equity research, high-quality debt and equity offerings, asset management expertise, financial planning and credit management tools and our team of in-house professionals, including retirement planning, estate and trust service specialists.

Depending on the types of relationships you establish and the ways you choose to do business with us, Morgan Stanley is compensated for the services we provide through transaction commissions and mark-up, asset-based fees and other flat fees and charges. On the following pages, you will find a brief overview of the types of relationships you can establish with Morgan Stanley and how our firm and your Financial Advisor are compensated for the services we provide. (Please see footnote on page 24.)

Choosing the Relationship and Pricing Structure That Works Best for You

We understand that when it comes to investing no single approach is right for every investor. As part of our client-focused philosophy we offer our clients many different ways to establish a relationship and conduct business to help meet the unique needs and preferences of each individual or family. Your Morgan Stanley Financial Advisor can help you decide which type—or combination of types—of account and pricing options is best suited for you. The client relationships we offer fall into two

general categories: brokerage and investment advisory. There are two basic pricing options in the brokerage category: transaction-based pricing and asset-based fee pricing. Within the investment advisory category, you generally pay an asset-based fee for various types of available services.

Brokerage

In a brokerage relationship your Financial Advisor will work with you to facilitate the execution of securities transactions on your behalf. Your Financial Advisor also provides investor education and professional, personalized information about financial products and services in connection with these brokerage services, and you can choose how you want to pay for these services and will receive the same services regardless of which pricing option you choose. There are a variety of factors you should consider carefully before choosing a brokerage pricing option, such as your trading activity, the types of securities you plan to purchase, your investment objectives and your personal preferences. For example, if you plan on primarily buying and holding securities, transaction-based pricing may be more cost effective. However, if you plan on trading more regularly, asset-based fee pricing may be more appropriate for you. For more information, please consult your Financial Advisor.

■ Transaction-Based Pricing

With transaction-based pricing, you pay for the services you request and you pay commissions, sales loads, mark-up/mark-down or other fees for each transaction you and your Financial Advisor execute. You can conduct transaction-based business in virtually all financial products and services within an Active Assets Account® or in retirement, education savings, trust or other accounts we offer.

■ Asset-Based Fee Pricing

With the Morgan Stanley ChoiceSM account you pay an annual fee based on the eligible assets in your account rather than commissions, front-end sales loads, mark-up/mark-down or other fees. Assets that are eligible for asset-based fee pricing in a Morgan Stanley ChoiceSM account include stocks, bonds, options, certain mutual funds, exchange-traded funds, money market funds and cash. Generally, you pay the Morgan Stanley Choice Fee quarterly in advance, based on the average of the total value of the eligible assets at each month-end during the previous quarter. You also pay transaction-based fees for trades in ineligible assets and certain other charges as set forth in your Account Agreement. A minimum of \$50,000 in eligible assets is required to establish this type of relationship.

Investment Advisory

An investment-advisory relationship is designed for clients who prefer that their Financial Advisor act as an investment consultant, with their assets invested in a mutual fund asset allocation program or in a Separately Managed Account (“SMA”) that is directed by a professional money manager either at Morgan Stanley or at an external management firm, or in our Morgan Stanley Custom PortfolioSM program where a highly trained Financial Advisor may act as the money manager. Your Financial Advisor remains involved as a consultant, helping you monitor performance and make portfolio or other adjustments, if required. Generally, you pay an annual fee, charged quarterly in advance, based on the total amount of assets in your account at the end of the previous quarter. The asset-based fee generally covers investment consulting and certain brokerage services provided by Morgan Stanley and may also include investment management fees. Clients can choose from our comprehensive suite of mutual fund asset allocation and SMA programs that are designed for various levels of investment and sophistication, with asset minimums that range from \$10,000 to \$1 million or more. Mutual fund asset allocation programs invest in mutual funds. Assets in an SMA may include stocks, bonds, money market funds, mutual funds, options, exchange-traded funds and cash. Clients can establish investment consultant relationships for their retirement or trust accounts in addition to their personal investment accounts. For more information, please consult your Financial Advisor.

How We Compensate Your Financial Advisor

Your Morgan Stanley Financial Advisor is a trained and licensed securities professional who can help you define your financial goals and develop an investment strategy and action plan to achieve them. He or she provides investor education and personalized financial information to help you implement that plan with financial products and services suitable for your individual needs. He or she provides ongoing guidance in response to your changing needs and a changing financial marketplace.

Your Morgan Stanley Financial Advisor is compensated by sharing in the fees and commissions that you pay us. In general, the percentage of Morgan Stanley’s fees and commissions we pay

to our Financial Advisors (their payout rate) depends upon the type of pricing option and account you have established with us as well as the particular product you purchase. In addition, in general, the more overall revenue each Financial Advisor generates each year, the higher his or her payout rate.

There are two primary payout rates.

- Tier I payouts range from 33 percent to 42 percent. Financial Advisors are paid at the Tier I rate for asset-based pricing as described above as well as for the sale of products as shown in the following table.
- Tier II payouts range from 30 percent to 40 percent. Financial Advisors are paid at the Tier II rate for transaction-based pricing that includes certain transaction-based products as shown in the following table.

Payout Tiers	Investment Solutions
Tier I	Mutual Funds, Investment Advisory, Morgan Stanley Choice SM Variable Annuities, Life Insurance, Managed Futures, Unit Trust and Alternative Investments, 529 Plans, Financial Planning Services, Personal Trust Services, Municipal Auction Rate Securities (MARS) and Auction Rate Preferred Securities (ARPS)
Tier II	Equities, Fixed Income, Fixed Annuities, Lending and Business Relationships

In some cases the payout rate may be as low as 10 percent; there are also some instances when there is no payout.

Your Financial Advisor may also be eligible for a bonus based on the total amount of revenue he or she generates each year. Additionally, Financial Advisors may receive ongoing compensation (called residuals) on some investment products. All residuals are paid out at the Tier I rate.

An informed and engaged client is our most valuable asset. If you would like additional information about how you pay us and how we pay your Financial Advisor, ask your Financial Advisor or Branch Manager for a copy of our more detailed brochure, “Overview of Commissions and Fees.” It includes:

- The costs you incur for specific investments and services offered by Morgan Stanley
- The compensation our Financial Advisors receive on these specific investments and services
- Fees that Morgan Stanley receives from third-party providers

You can also read “Overview of Commissions and Fees” online at www.morganstanley.com/online or request a copy by calling 1-800-869-3326 or sending an e-mail to us at ClientInfo@morganstanley.com. After you review this

information, please contact your Financial Advisor or Branch Manager with any questions or for more information.

* Morgan Stanley and its affiliates may earn compensation in other, more indirect ways with regard to certain of the products you purchase or services you receive. For example, Morgan Stanley may earn compensation in connection with the provision of investment banking, prime brokerage, institutional brokerage or placement-agent services, as well as stock loan or other lending, money-management or trading-desk activities. Certain investment vehicles may include securities of Morgan Stanley's parent or other affiliates and companies in which Morgan Stanley or its affiliates make a market or in which Morgan Stanley or the officers or employees of Morgan Stanley or Morgan Stanley's affiliates own securities.

The pricing and compensation disclosed in this brochure do not include investments and services provided through accounts at the Private Wealth Management division of Morgan Stanley & Co.

All information in this document is accurate as of December 1, 2004, but may be subject to change at a future date. It is important to note that the actual fees you pay will be governed by the documents you sign when you open your Account. Please read those documents thoroughly before you invest. Some fees and commissions are negotiable. Consult with your Financial Advisor.

Your Account and Service Fees for 2005

The tables on pages 26–31 provide an overview of the major account and service fees that may be applied to your accounts and/or household relationships for 2005. In certain circumstances, other fees and charges may apply. Additional fees may be assessed for expenses associated with customized service requests and with the pass-through of fees imposed by third-party entities, including but not limited to industry service bureaus, transfer agents or governing organizations.

You may qualify for preferred pricing and other benefits by grouping your eligible accounts into a Household¹ through our Platinum and Gold Benefits Programs.² Within these programs, certain fees are waived, some of which are listed in the tables on pages 26–31. Contact your Financial Advisor with any questions you may have about the pricing that may apply to your accounts or services, or about the benefits you may receive through the Platinum and Gold Benefits Programs.

Annual account fees are deducted from your account. If your Account is subject to the annual fee, it will be charged based on your account anniversary date. Exact billing dates vary by account type; your Financial Advisor can provide more details on this.

All fees are subject to change. Morgan Stanley will notify you when changes occur. Morgan Stanley reserves the right in its sole discretion to waive or reduce any fee applicable to any account.

You understand that, whenever it is necessary for our protection or to satisfy a debit balance or other obligations owed to us (including Morgan Stanley Active Assets Account, Basic Securities Account or Individual Retirement Account fees and other fees) we may—but are not required to—sell, assign and deliver all or any part of the securities and other property held in your Account. It is our policy to attempt to contact you, when practicable, before taking such action; however, we reserve the right to take any such action without prior notice or demand for additional collateral and free of any right of redemption.

Morgan Stanley may choose which securities or other property to buy or sell and the sequence and timing of liquidation. Our choices may have adverse tax consequences or investment implications for you.

2005 Account and Service Fees

Account or Service	Standard Fee	Gold Benefits Program ^{1,2}	Platinum Benefits Program ^{1,2}
Brokerage Account Fees			
Morgan Stanley Active Assets Account (AAA)—Annual Account Fee	\$125 ³	\$125 (\$250 cap on ALL annual account maintenance fees) ^{3,4}	Free ^{3,4}
Basic Securities Account (BSA)—Annual Account Fee	\$60 ^{3,5}	\$60 (\$250 cap on ALL annual account maintenance fees) ^{3,4,5}	Free ^{3,4,5}
Service Fees			
Monthly Accumulated Income Service	\$2.50 handling charge per check	Free ⁶	Free ⁶
Check—Client Requested (Picked up or Via 1st Class Mail)	\$5 per check ⁷	Free ^{6,7}	Free ^{6,7}
Duplicate Statements and Duplicate Confirmations	\$5 each	Free ⁸	Free ⁸
Check—Canceled Copy	\$5 per copy ⁹	Free ¹⁰	Free ¹⁰
Check—Certified	\$15 per check ⁹	Free ¹⁰	Free ¹⁰
Stop Payment	\$20 per stop payment	Free ¹⁰	Free ¹⁰
Legal Transfer—Estate Processing	\$25 ¹¹	Free ^{10,11}	Free ^{10,11}
Check Imaging Service	\$30 per year	Free ¹²	Free ¹²
Paid Check/Transaction (Insufficient or Uncollected Funds) ¹³	\$20 per transaction	\$20 per transaction	Free ¹⁰
Returned Directed or Online Bill Payment ¹⁴	\$20 per transaction	\$20 per transaction	Free ¹⁰
Check—Returned	\$30 per transaction	\$30 per transaction	Free ¹⁰
Stock Certificates/Private Name Change/Transfer Request	\$30 per certificate registration	\$30 per certificate registration	Free ¹⁰
Voluntary Reorganization	\$30	\$30	Free ¹⁰
Wire Transfer—Outgoing	\$30 per wire transfer	\$30 per wire transfer	Free ¹⁰
S.E.C. Fee	Variable, minimum \$0.01	Variable, minimum \$0.01	Variable, minimum \$0.01
Canadian Exchange Clearing	• \$0.02 per share if price is less than or equal to \$1.00 • \$0.01 per share if price is greater than \$1.00	• \$0.02 per share if price is less than or equal to \$1.00 • \$0.01 per share if price is greater than \$1.00	• \$0.02 per share if price is less than or equal to \$1.00 • \$0.01 per share if price is greater than \$1.00
Option Exchange Clearing	\$0.15 per contract	\$0.15 per contract	\$0.15 per contract
Processing Fee ¹⁵	\$5.25 per transaction	\$5.25 per transaction	\$5.25 per transaction
Check—Client Requested (Via Overnight Delivery)	\$15 per check	\$15 per check	\$15 per check
Deposited Check—Returned	\$25	\$25	\$25
Rejected Fund Transfers ¹⁶	\$25	\$25	\$25
Late Payment ^{17,18}	\$25 or highest rate on margin schedule, whichever is greater	\$25 or highest rate on margin schedule, whichever is greater	\$25 or highest rate on margin schedule, whichever is greater
Margin Prepayment	\$25 plus the highest margin interest rate on payment amount beginning the day of prepayment	\$25 plus the highest margin interest rate on payment amount beginning the day of prepayment	\$25 plus the highest margin interest rate on payment amount beginning the day of prepayment
Returned Stock	\$35	\$35	\$35
Physical Certificate Collection	\$50	\$50	\$50
Foreign Ordinary Shares	\$50 fee for principal purchases greater than \$15,000	\$50 fee for principal purchases greater than \$15,000	\$50 fee for principal purchases greater than \$15,000

Not every fee is listed here and fees are subject to change.
For more information please contact your Financial Advisor.

2005 Account and Service Fees (continued)

Dividend Reinvestment for Basic Securities Accounts ¹⁹	<ul style="list-style-type: none"> • Dividends \$10–\$100 = 4% • Dividends \$100.01–\$500 = \$4 or 2%, whichever is greater • Dividends greater than \$500 = \$10 or 1.5%, whichever is greater • Maximum fee of \$75 	<ul style="list-style-type: none"> • Dividends \$10–\$100 = 4% • Dividends \$100.01–\$500 = \$4 or 2%, whichever is greater • Dividends greater than \$500 = \$10 or 1.5%, whichever is greater • Maximum fee of \$75 	<ul style="list-style-type: none"> • Dividends \$10–\$100 = 4% • Dividends \$100.01–\$500 = \$4 or 2%, whichever is greater • Dividends greater than \$500 = \$10 or 1.5%, whichever is greater • Maximum fee of \$75
Account Transfer ^{17, 20}	\$75	\$85	\$95
Morgan Stanley Active Assets Account Fees			
Morgan Stanley Debit MasterCard [®]	Free	Free	Free
Morgan Stanley Debit MasterCard [®] Rewards Program	Optional, \$50 per year	Free	Free
Automated Teller Machine (ATM) Withdrawal	First 100 free; thereafter, \$1.00 per withdrawal ²¹	First 100 free; thereafter, \$1.00 per withdrawal ²¹	First 100 free; thereafter, \$1.00 per withdrawal ²¹
Online Bill Payment Service	First 90 days free; thereafter, \$6.50 per month ²²	Free ²²	Free ²²
Online Bill Payment—Overnight Delivery	\$20 per overnight delivery	\$20 per overnight delivery	\$20 per overnight delivery
Check Orders AND/OR Debit Card (Via Overnight Delivery)	• \$30 for check orders OR card • \$50 for check orders AND card	• \$30 for check orders OR card • \$50 for check orders AND card	• \$30 for check orders OR card • \$50 for check orders AND card
Checks—Wallet style	\$20 for 200	\$20 for 200	\$20 for 200
Checks—Wallet style with carbon duplicates	\$25 for 150	\$25 for 150	\$25 for 150
Checks—Desk-book style with stub, three to a page, with three-ring binder and separate stubs	\$40.00 for 300 checks (no cover); \$44.00 for 300 checks (with cover)	\$40.00 for 300 checks (no cover); \$44.00 for 300 checks (with cover)	\$40.00 for 300 checks (no cover); \$44.00 for 300 checks (with cover)
Checks—Desk-book style, three to a page, with separate transaction register	\$45.00 for 300 checks (no cover); \$51.00 for 300 checks (with cover)	\$45.00 for 300 checks (no cover); \$51.00 for 300 checks (with cover)	\$45.00 for 300 checks (no cover); \$51.00 for 300 checks (with cover)
Individual and Small Business Retirement Account Fees			
IRA (Traditional, Roth or SIMPLE) Account—Annual Maintenance Fee	\$50	2 free IRAs (\$50 for each additional); \$250 cap on ALL account-maintenance fees ²³	Free ⁴
IRA (Traditional, Roth or SIMPLE)—Termination Fee ^{17, 20, 24}	\$75	\$85	\$95
VIP Plus and VIP Basic Account—Plan Document Fee	\$50 per plan	\$50 per plan	\$50 per plan
VIP Basic Account—Annual Maintenance Fee ²⁵	\$60	\$60	\$60
VIP Plus Account—Annual Maintenance Fee ²⁵	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account
VIP Plus and VIP Basic Account—Termination Fee ²⁰	\$100 per plan	\$100 per plan	\$100 per plan
RPM Account—Annual Maintenance Fee ²⁵	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account	\$100 for 1st account; \$50 for each additional account
RPM Account—Termination Fee ²⁰	\$100	\$100	\$100
Nontraditional IRA Investment	\$250 per position; maximum of \$500 per account	\$250 per position; maximum of \$500 per account	\$250 per position; maximum of \$500 per account
Limited Partnerships—Reregistration for IRA Accounts	Pass-through of registration agent fee	Pass-through of registration agent fee	Pass-through of registration agent fee
Education Savings Plan Fees			
Coverdell Education Savings Plan Account—Annual Maintenance Fee	\$30	\$30 (\$250 cap on ALL account-maintenance fees) ²²	Free ⁴
529 Education Savings Plan—Annual Maintenance Fee ²⁶	\$30 plus 0.5% (50 basis points) of an account	\$30 plus 0.5% (50 basis points) of an account ²⁷	\$30 plus 0.5% (50 basis points) of an account ²⁷
Low-Balance Household Fee¹	\$15 per quarter for households with less than \$10,000 in assets	\$15 per quarter for households with less than \$10,000 in assets	\$15 per quarter for households with less than \$10,000 in assets

Not every fee is listed here and fees are subject to change.
For more information please contact your Financial Advisor.

2005 Business Account Fees

Service	BusinessScope	Business Active Assets Account	Business BSA
Annual Fee ^{2a}	\$250	\$125	\$60
Morgan Stanley Standard Debit MasterCard [®]	Free	Free	Not Applicable
Morgan Stanley Debit MasterCard [®] —Daily Debit	Free (up to 99 cards)	Free (2 card maximum)	Not Applicable
Morgan Stanley Platinum Debit MasterCard [®] —Delayed Debit with Rewards	\$75 annually per account ^{2b}	Not Applicable	Not Applicable
ATM Transactions	Free (local fees may apply)	100 free per year; \$1.00 each thereafter (local fees may apply)	Not Applicable
Checkwriting	200 per month free; \$0.15 each thereafter	1 free per month; \$1 thereafter	Not Applicable
Check—Canceled Copy	First 12 per year are free; \$5 per check thereafter	First 3 per year are free; \$5 per check thereafter	Not Applicable
Check—Certified	First 10 free per year; \$15 per check thereafter	First 2 free per year; \$15 per check thereafter	\$15 per check
Stop Payment	\$20	\$20	Not Applicable
Incoming Automated Clearing House (ACH) Insufficient Funds	\$20	\$20	Not Applicable
Deposited Checks—Returned	\$25	\$25	\$25
Check Imaging Service	\$30 annually (by request)	\$30 annually (by request)	Not Applicable
Returned Check (Insufficient Funds)	\$30	\$30	Not Applicable
Fed Wires—Outbound	\$30 per wire	\$30 per wire	\$30 per wire
Check Orders	Varies by quantity and style—no preselected styles to choose from	Morgan Stanley Active Assets Account check styles available—Clients can also order custom checks directly from vendor	Not Applicable

Not every fee is listed here and fees are subject to change.

For more information please contact your Financial Advisor.

Notes

- ¹ A Household comprises one or more accounts formally grouped under one individual designated as the Head of Household. An account owned by the Head of Household must be designated as the Head of Household account. Individual accounts can be included in the Household if their account address matches the Head of Household address or if they qualify based on their relationship to the Head of Household. Contact your Financial Advisor for more information regarding Householding. Your privacy and personal service are important to us. Even though you may share these valuable benefits with your Household, your personal financial information is not shared with any other member of the Household, unless you have consented to Statement Linking. For more information on Statement Linking, please consult your Financial Advisor. Your individual and confidential relationship with your Financial Advisor will continue.
- ² You may qualify for Platinum Benefits by maintaining \$1,000,000 or more in total assets or \$500,000 or more in accounts with asset-based pricing and selected assets or \$500,000 or more in total assets and \$10,000 or more in annual charges, primarily commissions. You may qualify for Gold by maintaining \$250,000 or more in total assets or \$100,000 or more in accounts with asset-based pricing and selected assets or \$100,000 or more in total assets and \$5,000 or more in annual charges, primarily commissions. Selected assets include the following: cash/money market, mutual funds, insurance, annuities, unit investment trusts and managed futures. Note: Any assets, regardless of their classification, held with an asset-based fee Investment Advisory account or asset-based fee Brokerage

Account will be treated as selected assets. Selected accounts include Morgan Stanley Choice,^{2c} Morgan Stanley Funds Portfolio Architect,^{2d} Morgan Stanley Fund Solution^{2e} and Separately Managed Accounts (Morgan Stanley Access;^{2f} Morgan Stanley Vision;^{2g} Morgan Stanley Personal Portfolio;^{2h} Morgan Stanley Managed Portfolios;²ⁱ Morgan Stanley Custom Portfolio^{2j} and certain other managed accounts).

- ^{2a} Additional fees may apply for services. Ask your Financial Advisor for more information.
- ^{2b} Accounts must have \$1,000 or more in assets to receive an annual account fee waiver. UGMA/UTMA accounts must have \$100 or more in assets to receive an annual account fee waiver. Up to 50 accounts in a Household are eligible to receive program benefits; an unlimited number of accounts are eligible for grouping into a Household Relationship.
- ^{2c} If your Account is subject to the Basic Securities Account annual account fee, it will be charged based on your account anniversary date. For example, if your Account was opened in December 2003, the account was assessed the fee in January 2004. The Basic Securities Account annual fee may be waived according to Platinum and Gold Benefits guidelines. Contact your Financial Advisor for more details. The following account types are exempt from the annual fee:
- Managed-account programs (e.g., Access, Vision, Managed Portfolios, Custom Portfolio, Personal Portfolio, Fund Solution, Portfolio Architect and certain other managed-account programs)

- Individual Retirement Accounts
 - BusinessScapeSM accounts
 - Coverdell Education Savings Plan Accounts
 - College SAVE 529 accounts
 - Deliver Versus Payment (DVP)/Receive Versus Payment (RVP) accounts
 - Stock Option Plan (SOP) accounts (must maintain a zero balance upon settlement of trades related to option exercise and must not hold any other securities or cash)
 - Directed Share Plan accounts (first year only)
- ⁶ Maximum of 25 checks waived per Household per month.
- ⁷ Waived for Stock Option Plans (SOPs), disbursements from IRAs, BusinessScape and Corporate Accounts.
- ⁸ First 25 accounts in the Household receive free unlimited duplicate statements and duplicate trade confirmations.
- ⁹ Morgan Stanley reserves the right in its sole discretion to waive or reduce any fee applicable to any Morgan Stanley Active Assets Account. The following service benefits are applicable to Morgan Stanley Active Assets Account clients only:
- Canceled Check Copies: Standard fee waived on three checks per year
 - Certified Checks: Standard fee waived on two checks per year
- ¹⁰ Maximum of 25 fee waivers per service per Household per year.
- ¹¹ Additional fees charged by transfer agents may apply.
- ¹² Free for first 25 accounts in a Household.
- ¹³ Includes Directed Bill Payment transactions and Online Bill Payment transactions that have insufficient or uncollected funds that are paid.
- ¹⁴ Includes unpaid Directed Bill Payment transactions (ACH returned) and unpaid Online Bill Payment transactions.
- ¹⁵ The processing fee supersedes the order handling fee and will be applied to certain executed orders including, but not limited to, equities, fixed-income products, exchange-traded funds, mutual funds and unit-investment-trust transactions. This fee does not apply to Morgan Stanley ChoiceSM and managed-account programs, including Morgan Stanley Funds Portfolio ArchitectSM and Morgan Stanley Fund Solution.SM
- ¹⁶ Rejected Automated Clearing House (ACH) transactions are charged \$20.
- ¹⁷ Effective July 2005.
- ¹⁸ If a trade payment is late, you will be charged \$25 or your fee will be calculated using the highest margin interest rate on the amount owed (whichever is greater) beginning the day after the settlement date.
- ¹⁹ Waived for Morgan Stanley Active Assets Accounts, IRAs, Morgan Stanley ChoiceSM and managed-account programs.
- ²⁰ Outgoing Transfers (including Outgoing Automated Customer Account Transfer Service (ACATS)) are subject to a \$95 fee and apply to Basic Securities Accounts, Morgan Stanley Active Assets Accounts and Traditional Roth and SIMPLE IRAs. (The termination fee for VIP and RPM plans is \$100.) Effective July 2005, the outgoing transfer fee will be based on household tier. Delinked or denetworked accounts will be treated as outgoing transfers accordingly: \$95 effective March 2005; \$75 July 2005 and going forward. Some exemptions may apply.
- ²¹ Local ATM fees apply.
- ²² Up to 25 transactions per month; thereafter, a \$0.40 per-transaction fee applies. Up to 50 accounts in the Platinum and Gold Households can qualify for free online bill-payment services.

- ²³ Only Individual IRAs and Coverdell Education Savings Plans Accounts are eligible for the two free IRA waivers for Gold Households. IRA fee waivers are applied to the first two accounts subject to a fee after the creation of the Gold Household.
- ²⁴ Except as a result of death, disability or attaining age 59½ or over in the year of termination. The termination fee for VIP and RPM plans is \$100.
- ²⁵ Gold and Platinum annual account fee benefits are applicable only to VIP Basic, VIP Plus and RPM accounts that are sole proprietorships.
- ²⁶ Fee is waived for residents of North Dakota.
- ²⁷ Gold and Platinum annual account fee benefits are applicable only to participants of the College SAVE program.
- ²⁸ The annual fee is waived for Morgan Stanley ChoiceSM and managed-account programs.
- ²⁹ If individual cardholders (employees of the business) can accumulate and redeem their own reward points, there will be an additional annual surcharge of \$10 per card.

Low-Balance Household Fee

Effective March 1, 2005, a Low-Balance Household Fee of \$15 per calendar quarter will be charged to Morgan Stanley Households with total assets of less than \$10,000. The fee will be charged to only one account in the Household. Only Morgan Stanley Active Assets Accounts, Basic Securities Accounts and IRAs (Traditional or Roth) can be charged the fee. All accounts within a Household will be included in determining the total Household value. Accounts enrolled in the following services will be used to determine whether the \$10,000 threshold has been reached but will not be charged the fee: managed-account programs, Morgan Stanley ChoiceSM, Stock Option Plan (SOP), Coverdell Education Savings, College SAVE 529, SEP, SIMPLE, VIP and RPM accounts.

If there is more than one eligible account in the Household to be charged, then:

1. Morgan Stanley Active Assets Accounts (including Business Accounts but excluding BusinessScape Accounts) will be charged before Basic Securities Accounts.
2. Basic Securities Accounts will be charged before IRAs.
3. If there are no Morgan Stanley Active Assets Accounts or Basic Securities Accounts, then IRAs will be charged.

Clients new to Morgan Stanley have until one year from the date the new Household has been established before the Low-Balance Household Fee of \$15 per calendar quarter is charged.

About Your Account

When you open an account, federal income tax regulations require you to provide a Tax Identification Number ("TIN"). If you do not provide this tax ID information, we must withhold taxes (backup withholding) on reportable payments of any dividends, interest or gross proceeds that are credited to your account from securities transactions. Depending on your account type, you must provide either a Social Security Number ("SSN") or an Employer Identification Number ("EIN") on IRS Form W-9.

To avoid backup withholding, you must certify under penalty of perjury that (i) the SSN or EIN you are providing is correct, (ii) you are not subject to backup withholding and (iii) you are a U.S. person (including a U.S. resident alien). If you are a nonresident alien you must generally file IRS Form W-8 BEN (Certificate of Foreign Status) and you may be subject to nonresident withholding on certain payments credited to your account.

Transferring Your Account to Morgan Stanley

We can help you transfer your account or individual securities from most other financial institutions. For most securities, we complete the transfer in seven to ten business days, based on the response time of your prior firm and/or the transfer agent. Also, the reregistration of certain securities may take three to six weeks.

Morgan Stanley's Online Services

Morgan Stanley's Online Services at www.morganstanley.com/online allows all clients secure access to their accounts, including balances, account statements, tax summaries, 1099s and more. Independent third-party research on equity securities of certain companies covered by Morgan Stanley Equity Research is available to U.S. customers of Morgan Stanley through the Morgan Stanley Research Web site. For enrolled accounts, additional services may include electronic delivery of monthly and annual statements and gain and loss information. Clients in our Platinum and Gold Benefits programs may also have access to Online Bill Payment and real-time quotes.

Please visit www.morganstanley.com/online/enroll and follow the instructions to enroll your accounts for online access.

Account Statements

Basic Securities Account and retirement account statements are mailed quarterly, as well as each month your Account has activity. If you have a Morgan Stanley Active Assets Account, you will be mailed thirteen statements each year: monthly statements and an Annual Statement that summarizes all the activity in your account during the year.

Additional services enable you to receive account statements the way you wish. If you have more than one Morgan Stanley account, ask about the Statement Linking service, which allows you to receive various statements together, in a single envelope.

You are eligible to have your accounts automatically linked if you:

- * Have multiple accounts at the same address registered in the same name; or
- * Hold multiple joint accounts at the same address; or
- * Are a custodian of an UGMA or UTMA account and have additional individual accounts at the same address.

In addition to receiving less mail, Statement Linking will require only one logon to access your accounts at www.morganstanley.com/online.

Additionally, accounts that have been linked through the Statement Linking service will automatically be placed into a Household, making it faster and easier for you and your Household members to qualify for the advantages of our Platinum and Gold Benefits programs.

Forming a Household will not affect your account structure or ownership in any way. By grouping your accounts together into one Household, you may enjoy pricing and other benefits based on your Household asset level. If for some reason you do not want your accounts grouped together into a Household, please call Customer Service at 1-800-616-8862 or contact your Financial Advisor.

If you prefer to eliminate all printed statements, you can enroll in the eDelivery service, which gives you online access to your account statements. Clients may enroll in eDelivery and other online services at www.morganstanley.com/online.

Not all accounts elected for statement linking may be eligible for inclusion in a Household. Certain eligibility rules apply. If an account that you have elected for Statement Linking is deemed ineligible for Household, it will be excluded from the Household assets. If you have questions regarding the eligibility of a Statement-Linked account for Household, please contact your Financial Advisor.

please consult your Financial Advisor. Different rules apply for both Statement Linking and Householding accounts. Morgan Stanley reserves the right to change the eligibility rules at any time. Retain copies of your Account statements so that you have records of your transactions.

Registration of Your Account and Securities

The way an account is set up or registered shows who can give instructions about the account legally. Your account title may also affect the way the account is handled when you die.

Without your express permission, Morgan Stanley can accept instructions only from the owners listed on the account.

You can register securities two ways:

- **Street Name Registration.** With “street name” registration, your securities are registered in Morgan Stanley’s name and held by us on your behalf in book-entry form.
- **Registration in Your Own Name.** Your shares are registered in your name, with the certificates delivered to you. A processing fee applies.

Advantages of Registering Your Securities in Street Name

Morgan Stanley recommends you keep your securities in street name because:

- Settlement is easy, as there is no need to deliver physical certificates when securities are sold.
- Payment is prompt when a security is sold.
- The interest and dividends on your investments are credited on the payment day. They also may be swept into a money market fund to begin earning dividends.
- Securities are priced on each Morgan Stanley account statement, to help you track your investment performance regularly and over time.
- You are notified of all tender offers, splits, redemptions, mergers and name changes for securities held in your account. You do not have to worry about missing bond calls or other important developments that might affect your investments.
- You have all the benefits of ownership, including the right to obtain all financial reports issued by the company and the right to vote if you own voting stock.

- You eliminate the risk of loss and the cost and inconvenience of replacing a lost certificate.
- Your tax reporting information for all your securities is on one form, rather than separate forms for each security from each issuer.
- Your dividends and cash payments resulting from capital gain and return of capital distributions can be automatically reinvested in additional shares of the same eligible securities through the Morgan Stanley Dividend Reinvestment Service.
- You can borrow against certain securities, if suitable, in a margin account.
- Your securities held at Morgan Stanley are protected as described in the section “How Your Account Is Protected” on page 14.

Conducting Account Transactions

Deposit of Securities

You’ll need to properly endorse all securities certificates deposited into your account so that they’re negotiable. You can ask for a receipt for all deposited securities. When you deposit securities, if the certificate registration doesn’t match your account registration, you may be asked to complete additional forms.

For certificate registration or for legal transfer of registration, there is a \$25 fee per transaction. Transfer agent fees also apply for estate processing and any other security reregistration requiring legal documents.

Deposit of Funds

- The Direct Deposit Service enables you to have payroll, pension or other checks automatically deposited directly into your Morgan Stanley Active Assets Account®.
- The Funds Transfer Service (FTS) enables you to transfer funds between your Morgan Stanley account and accounts at other financial institutions.
- Morgan Stanley does not accept cash deposits.
- Make checks payable to yourself or in U.S.-dollar denominations. Endorse with “for deposit only.”
- There is generally a fee for returned checks and deposits, but the fee may vary based on a number of factors, including your state of residence.

- ❖ All checks and securities generally are credited to your account upon receipt if you use the available preaddressed envelopes. However, checks and securities delivered to a Morgan Stanley branch office are credited to your account one business day after receipt.
- ❖ Funds deposited in a Morgan Stanley Active Assets Account will be invested in your Sweep Investment within one business day of deposit.
- ❖ Morgan Stanley may place a hold on checks deposited into your account for up to 10 business days.
- ❖ A Morgan Stanley branch office can issue a receipt for all checks physically deposited there.

Delivery of Securities

The securities you buy are held in street name in your account. If you choose, your securities can be registered in your name and the certificates shipped to you. Please note that there is a processing fee for this service. (See also "Registration of Your Account and Securities" on page 36.) Delivery of physical securities for securities held in book-entry form may not be available.

After you have paid for your purchase, your delivery instructions are sent to a transfer agent. Normal delivery of physical securities usually takes several weeks.

If you want the securities or funds issued to a third party, you may need to provide additional documentation.

Disbursement of Funds

For any sale proceeds paid out of your account, a check is drawn on a regional bank. A fee is charged for payments made via a federal funds wire transfer. There is also a fee to issue a certified check. (Morgan Stanley Active Assets Accounts® are eligible to receive two free certified checks per year.) The standard fee for certified checks is waived for Gold and Platinum clients within the limits of the program.

Credits to Your Account

When you sell securities in your Morgan Stanley account, the proceeds are available on the trade settlement date. In all other situations the availability of proceeds can vary.

Buying and Selling Securities

Our Role

When processing trades, Morgan Stanley DW Inc. acts as agent or principal. In either role, our objective is to find a competitive price for you. Your trade confirmation tells you whether we acted as agent or principal. As an agent, Morgan Stanley DW Inc. works to find you the best possible execution for your order. (In some cases, your order will be executed by an affiliate company acting as principal. On these trades the affiliate relationship will be disclosed to you on the trade confirmation.) For certain types of transactions, a commission charge is added to, or subtracted from, the execution price.

As a principal, Morgan Stanley DW Inc. acts as a market maker in buying and selling securities. In such cases, Morgan Stanley DW Inc. sells the securities from its own inventory or buys securities based on the current market price.

Your Role

Give your Financial Advisor complete instructions for every transaction. Whenever you place an order, make sure you have the correct

- Account number
- Account type
- Transaction type (buy or sell)
- Quantity
- Security description
- Price (in the case of a price-specific order, such as a limit order)
- Dividend reinvestment instructions

Margin Accounts

When you purchase securities, you may pay for them in full or borrow part of the purchase price from us. If you choose to borrow from Morgan Stanley, you will open a margin account with us. The securities in your Account are the firm's collateral for the loan to you. If the securities in your Account decline in value, so does the value of the collateral supporting your loan. As a result, the firm can take action such as issuing a margin call or selling securities or other assets in any of your Accounts held with the firm in order to maintain the required equity in the account. The firm may also liquidate your positions without prior notice to you at our determination to pay off the margin loan.

Margin trading is not for everyone. You should examine your investment objectives, financial resources and risk tolerance to determine whether margin trading is appropriate for you. Margin privileges involve credit extended to you by Morgan Stanley. This credit is secured by the collateral in your Account. The amount borrowed will appear as a debit balance on which you will be charged interest at varying rates, as described in the Account Agreement. The increased leverage that margining provides may heighten both its risks and rewards. Margin privileges are subject to the Firm's review and approval, are granted at the sole discretion of the Firm and are not automatically extended to clients. Morgan Stanley reserves the right to change the maintenance requirements at any time, without notice to the customer, due to the volatility and liquidity of your securities and the overall market conditions.

Margin Schedule Effective Through February 2005	
Average Daily Debit Balance	Percentage Added to Base Lending Rate
\$0-\$9,999	+3.375%
\$10,000-\$24,999	+3.250%
\$25,000-\$49,999	+2.250%
\$50,000-\$99,999	+2.125%
\$100,000-\$499,999	+0.875%
\$500,000-\$999,999	+0.375%
\$1,000,000 +	+0%
Margin Schedule Effective March 2005	
Average Daily Debit Balance	Percentage Added to Base Lending Rate
\$0-\$9,999	+3.375%
\$10,000-\$24,999	+3.250%
\$25,000-\$49,999	+2.250%
\$50,000-\$99,999	+2.125%
\$100,000-\$499,999	+0.875%
\$500,000-\$999,999	+0.625%
\$1,000,000-\$4,999,999	+0%
\$5,000,000-\$9,999,999	-0.500%
\$10,000,000 +	-0.750%

The firm's Base Lending Rate is 5.75% effective December 15, 2004. For an updated rate, please visit www.morganstanley.com/online. Effective March 2005, Morgan Stanley will adjust its tiered lending rates (as described above).

Before opening a margin account, carefully read your Account agreement, or, if applicable, the Morgan Stanley Margin Client Agreement and the Margin Disclosure Statement for complete information. Your Financial Advisor receives credit for 15 basis points on your average daily margin balance and receives a portion of this amount based on Tier I payout rates. The Margin Disclosure Statement is posted on our Web site, www.morganstanley.com/individual, under Disclosures.

How Your Trade Is Carried Out Equity Securities

Morgan Stanley DW routes transactions to the market where the firm believes you will obtain the best execution. Our electronic system processes orders quickly and efficiently. We can process your order at a destination of your choice, as long as you understand that you may miss out on a more favorable price in other markets.

Fixed-Income Securities

In general Morgan Stanley DW will execute your fixed-income order as principal. The sales charge will be included in your execution price.

Payment for Order Flow

Industry regulations require that we disclose whether we receive compensation for directing client orders for execution to various dealers, exchanges or market centers. This compensation is commonly referred to as "payment for order flow." Although we transmit client orders for execution to various dealers, exchanges and market centers, we do not receive or accept payment for order flow.

Settling Your Trade

The settlement date is when you must pay for the security you purchased, or deliver a security you sell in negotiable form. United States stock exchanges require that most securities transactions settle on or before the third business day following the trade date. There are a few exceptions. For Treasury securities and options contracts, settlement is required on the following business day. Cash basis transactions settle on the same business day as the trade.

It is your responsibility to make the funds or the securities available in your account by the settlement date to clear the trade. If securities or cash are not held at Morgan Stanley, please make settlement arrangements at the time you place an order. If a payment is late, you may be charged a fee. The fee is the

U.S.A. Patriot Act Notice

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT OR ESTABLISHING A NEW CUSTOMER RELATIONSHIP. To help the United States government fight the funding of terrorism and money laundering activities, federal law requires all U.S. financial institutions to obtain, verify and record information that identifies each individual or institution that opens an account or establishes a client relationship with Morgan Stanley.

What this means is that when you enter into a new client relationship with Morgan Stanley, we will ask for your name, address, date of birth (as applicable) and other identification information. This information will be used to verify your identity. As appropriate, Morgan Stanley may, in its discretion, ask for additional documentation or information. If all required documentation or information is not provided, Morgan Stanley will be unable to open an account or establish a relationship with you.

Please note that the information in this document summarizes the policies of Morgan Stanley and is not comprehensive. It in no way changes, modifies or abridges Morgan Stanley's policies and procedures, or the information contained in any product or account contracts (e.g., Client Account Agreement, Margin Client Agreement, etc.) to which you as a client agree. In the event of a conflict, the provisions of your Account Agreement will govern.

Disclosure Regarding Morgan Stanley Financial Planning Services

1. **Financial Planning Services.** Client has requested Morgan Stanley DW Inc. ("Morgan Stanley") to prepare a written financial plan or one or more plan modules (the "financial plan") based on the Client's individual financial needs and circumstances. Client will be completing a detailed questionnaire provided by Morgan Stanley, discussing with Morgan Stanley the Client's current financial resources and projected needs, and providing copies of any financial documents that Morgan Stanley may reasonably request as necessary to evaluate the Client's financial circumstances and prepare a financial plan. Because the financial plan will be based on the information that Client provides to Morgan Stanley, the completeness and accuracy of the information provided by Client is very important. Client should carefully review it for accuracy and report any inconsistencies to Client's Morgan Stanley Financial Advisor or his/her Branch Manager. The fee, if any, paid by the Client is for a one-time financial plan, not ongoing advice. Where there is payment for a financial plan, any advisory relationship established with Morgan Stanley concerning the financial plan concludes with the Client's receipt of the written financial plan. Client will have the sole responsibility for determining whether, when and how to implement any of the suggestions contained in the financial plan. There is no requirement that Client implement any of the suggestions or otherwise conduct business through Morgan Stanley or its affiliates.

2. **Fees.** Any financial plan fee will be communicated to Client by Client's Financial Advisor.

3. **Potential Conflicts of Interest:** Potential conflicts may arise between the Client's interests and Morgan Stanley's interests in executing transactions as a broker-dealer. If the Client chooses to implement all or part of a financial plan through Morgan Stanley, if Client chooses at his or her sole discretion to implement all or part of a financial plan and execute transactions through Morgan Stanley, Morgan Stanley will act as a broker-dealer, not as an investment adviser, when effecting transactions for the Client, unless the Client and Morgan Stanley have otherwise agreed in writing. As a broker-dealer, Morgan Stanley will execute transactions as agent or as principal and will charge the Client commissions, mark-ups, mark-downs, transaction fees, an asset-based fee and/or other charges. These charges are in addition to the financial planning fee. In addition, Morgan Stanley may earn additional compensation in connection with transactions, including dealer spreads. The Financial Advisor preparing Client's financial plan is a registered broker-dealer representative of Morgan Stanley, and thus will receive a portion of the compensation paid to Morgan Stanley in connection with the execution of transactions. This compensation may exceed the compensation the Financial Advisor receives from Client in connection with preparing the financial plan.

Products recommended by Morgan Stanley and/or the Financial Advisor to implement the financial plan may be limited to those sold through or by Morgan Stanley. These products may include proprietary products of Morgan Stanley or its affiliates. Clients should note that Morgan Stanley has an incentive to recommend proprietary products because it and/or its affiliates earn more compensation from the sale of these products than from the sale of non-proprietary products. More information about conflicts of interest is contained in the Morgan Stanley Form ADV, Part II.

4. **Risk.** All investments have risks. Any financial plan developed by Morgan Stanley involves Morgan Stanley's judgment, as well as estimates and assumptions, and data provided by the Client, and as such cannot be guaranteed to be accurate. Future performance cannot be guaranteed or predicted.

Morgan Stanley and its representatives make no guarantee, either oral or written, that the Client's investment objectives will be achieved. In the absence of a violation of applicable law, in connection with preparing and delivering the financial plan, Morgan Stanley will not be liable for any action performed or omitted to be performed or for any errors of judgment or mistake. This shall not constitute a waiver or limitation of any rights which Client may have under applicable state or federal law, including without limitation state and federal securities laws.

A copy of Morgan Stanley's Form ADV, Part II or other Morgan Stanley disclosure document is to be delivered to you if you are to receive a financial plan that requires payment. It sets forth further information, including information about fees and conflicts of interest. If you have any questions, please call your Financial Advisor.

Investments and services are offered through Morgan Stanley DW Inc., member SIPC.

Morgan Stanley and its Financial Advisors do not provide tax or legal advice. Consult your personal tax advisor or attorney for matters involving taxation and tax planning and your attorney for matters involving personal trusts and estate planning.

Morgan Stanley

Financial Planning System

Delivery Acknowledgement

The undersigned clients:

- 1) have reviewed and accept the information contained within this plan and understand the disclaimers, assumptions and methods associated with it;
- 2) believe that all information provided by them is complete and accurate to the best of their knowledge;
- 3) recognize that all investments have risks, performance and attainment of financial objectives is not guaranteed and that all estimates and assumed data, including returns, are included only for general information and do not represent a forecast of future events or results;
- 4) understand that any payment is for the specific module(s) for which they paid, and not for ongoing advice, and any investment advisory relationship established with Morgan Stanley concerning such module(s) as a result of such payment concludes with delivery of such module(s);
- 5) understand that they are under no obligation to implement any part of the plan through Morgan Stanley, and should they desire to do so, Morgan Stanley will be acting as a broker-dealer, not an investment advisor, except where they enter into a written agreement with Morgan Stanley for investment advisory services; and
- 6) understand that they should review this plan periodically in light of changing circumstances, such as an inheritance, birth of a child, death of a family member, or change in income, expenses, investment performance or tax laws.

Client Signature

Co-client Signature

Date: _____

July 19, 2004
1:29:40 PM

Plan Reference Code: 6285

All current and proposed numbers are estimates based on information provided by you and assumptions, including those you have requested. Actual results will vary. This analysis is not a recommendation to buy, hold or sell any stock or exercise any stock options. All estimates, information and proposals above should be considered in conjunction with the Disclaimers that appear at the front of this document.