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June 1, 2020

Re: Application of Morgan Stanley to Acquire by Merger E*TRADE Financial Corporation—Response to Additional Information Request

VIA E-APPS

Ivan J. Hurwitz
Senior Vice President, Bank Applications
Federal Reserve Bank of New York
33 Liberty Street, New York, NY 10045

Dear Mr. Hurwitz:

On March 25, 2020, Morgan Stanley, New York, New York, filed an application (the "**Application**"), pursuant to Sections 4(j) and 4(k) of the Bank Holding Company Act of 1956, as amended, and Regulation Y promulgated thereunder, as well as Section 163(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requesting approval of the Board of Governors of the Federal Reserve System (the "**Federal Reserve**") for Morgan Stanley to acquire by merger E*TRADE Financial Corporation ("**E*TRADE**"), Arlington, Virginia, with Morgan Stanley as the surviving entity (the "**Proposed Transaction**").

This letter responds to the requests for additional information regarding the Application and the Proposed Transaction that Federal Reserve staff emailed to me on April 17, 2020 (the "**April 17th Additional Information Request**") and May 8, 2020 (the "**May 8th Additional Information Request**"), and supplements Morgan Stanley's two sets of responses to the April 17th Additional Information Request that were submitted on April 29, 2020 and May 18, 2020. By this letter, Morgan Stanley provides responses to all of the May 8th Additional Information Requests and responses to all or a portion of an additional 11 requested items in the April 17th Additional Information Request – specifically, Additional Information Requests 20, 21, 22, 23, 24, 25, 26, 27, 32, 37 and 40. Morgan Stanley expects to provide responses to the remaining Additional Information Requests on or before June 12, 2020.[1]

Appendix 1, Appendix 2 and Confidential Appendix 3 to this letter reproduce the requested items and related text from the April 17th Additional Information Request and May 8th

[1] The remaining Additional Information Requests are April 17th Additional Information Request 15 and certain portions of April 17th Additional Information Requests 25 and 37.

Additional Information Request, as applicable, using bold type and provide responses following their corresponding items. Also included with this letter is a Confidential Exhibits Volume.

Morgan Stanley respectfully requests confidential treatment under the federal Freedom of Information Act, 5 U.S.C. § 552 (“**FOIA**”), and the implementing regulations of the Federal Reserve, 12 C.F.R. Part 261, for the responses included in Confidential Appendix 3 and the information contained in the Confidential Exhibits Volume to this application, as well as any other information marked “confidential” (collectively, the “**Confidential Materials**”). The Confidential Materials include, for example, non-public information regarding the business strategies and plans of (i) Morgan Stanley and its subsidiary banks, Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association (together the “**Morgan Stanley Banks**”), and (ii) E*TRADE and its subsidiary banks, E*TRADE Bank and E*TRADE Savings Bank (together the “**E*TRADE Banks**”), and other information regarding additional matters of a similar nature, which is commercial or financial information that is customarily and actually treated as confidential by Morgan Stanley or E*TRADE and that is being provided to the government under an assurance of confidentiality. Certain information in the Confidential Materials may also include confidential supervisory information, which is statutorily protected from disclosure. None of the information in the Confidential Materials is the type of information that would otherwise be made available to the public under any circumstances. All such information, if made public, could result in substantial and irreparable harm to Morgan Stanley, the Morgan Stanley Banks, E*TRADE, and the E*TRADE Banks. In addition, potential investors could be influenced or misled by such information, which is not reported in any documents filed or to be filed in accordance with the disclosure requirements of applicable securities laws, as a result of which Morgan Stanley or E*TRADE could be exposed to potential inadvertent violations of law or exposure to legal claims. Accordingly, confidential treatment is respectfully requested with respect to the Confidential Materials under FOIA, specifically 5 U.S.C. § 552(b)(4) and (b)(8), and the Federal Reserve’s implementing regulations, specifically 12 CFR 261.14(a)(4) and (a)(8). The Confidential Materials may also be exempt from disclosure under other provisions of law.

We also request that, if the Federal Reserve should make a preliminary determination not to comply with the request for confidential treatment, Morgan Stanley be given notice thereof in ample time to permit it to make an appropriate submission as to why such information should be preserved in confidence. If the Confidential Materials, or any memoranda, notes or writings made by employees, agents or other persons under the control of the Federal Reserve or any Federal Reserve Bank that incorporate, include or relate to any of the matters referred to in the Confidential Materials, are the subject of a FOIA request or a request or demand for disclosure by any governmental agency, Congressional office or committee, or court or grand jury, we request, pursuant to the Federal Reserve’s regulations, that you notify Morgan Stanley and the undersigned prior to making such disclosure.

We further ask that Morgan Stanley and the undersigned be furnished with a copy of all written materials pertaining to such request (including, but not limited to, the request itself and any determination with respect to such request) and that Morgan Stanley and the undersigned be given sufficient advance notice of any intended release so that Morgan Stanley may, if deemed necessary or appropriate, pursue any available remedies.

* * *

If you have any questions regarding this letter or the confidential treatment request, please feel free to contact me at (212) 450-4296 or luigi.deghenghi@davispolk.com, or my colleague Ryan Johansen at (212) 450-3408 or ryan.johansen@davispolk.com.

Yours sincerely,

Luigi L. De Ghenghi

Enclosures

cc: Alison M. Thro, Federal Reserve
Eric F. Grossman, Morgan Stanley
Sebastiano Visentini, Morgan Stanley
Andrew S. Baer, Morgan Stanley
Lori S. Sher, E*TRADE Financial Corporation
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Appendix 1

Responses to April 17th Additional Information Requests

Defined terms used but not defined in these responses have the same meaning set forth in Morgan Stanley's Application. In addition, the exhibit lettering used in this submission continues in sequence from the lettering used in the submission dated May 18, 2020.

20. What, if any, financial stability risks and vulnerabilities would increase as a result of the E*TRADE acquisition? What steps would Morgan Stanley or E*TRADE plan to take to mitigate these risks and vulnerabilities?

As discussed in the Application, when evaluating financial stability risks and vulnerabilities in the context of banking and nonbanking applications and proposals (including those under Section 4 of the BHC Act and Section 163(b) of the Dodd-Frank Act), the Federal Reserve examines a set of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm.[2] These metrics include: (i) the size of the resulting banking organization; (ii) the availability of substitute providers for any critical products and services offered by the resulting firm; (iii) the interconnectedness of the resulting firm with the banking or financial system; (iv) the extent to which the resulting firm contributes to the complexity of the financial system; and (v) the extent of the cross-border activities of the resulting firm. These same categories of systemic indicators are used to calculate a BHC's GSIB Method 1 score under subpart H of the Federal Reserve's Basel III capital rules relating to the GSIB risk-based capital surcharge and also correspond to the general categories of indicators included in the Federal Reserve's Form FR Y-15 (Banking Organization Systemic Risk Report).[3] The Federal Reserve's analysis also considers the relative degree of difficulty of resolving the resulting firm if it were to experience financial distress. A banking organization that can be resolved in an orderly manner is less likely to inflict material damage to the U.S. financial system or economy.

The Proposed Transaction Poses Minimal Financial Stability Risks

As explained in greater detail in the Application and Public Exhibit 16 and Confidential Exhibit F thereto, Morgan Stanley does not believe that the Proposed Transaction would result in greater or more concentrated risks to the stability of the United States banking or financial system or to the U.S. economy. On the contrary: Morgan Stanley

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[2] *See* Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012); s*ee also* Royal Bank of Canada, FRB Order No. 2015-28 (Oct. 7, 2015); CIT Group, Inc., FRB Order No. 2015-20 (July 19, 2015); BB&T Corporation, FRB Order No. 2015-18 (July 7, 2015); The Toronto-Dominion Bank, FRB Order No. 2017-23 (Sep. 13, 2017); BB&T Corporation, FRB Order No. 2019-16 (November 19, 2019).

[3] 12 C.F.R. § 214.404; Banking Organization Systemic Risk Report—FR Y-15, https://www.federalreserve.gov/reportforms/forms/FR_Y-1520191231_f.pdf.

believes that the Proposed Transaction, by accelerating its shift toward a higher proportion of more stable and durable revenue streams and profitability from its Wealth Management and Investment Management business segments, strengthening its capital position[4] and gaining access to more stable and low-cost deposits that can reduce its reliance on wholesale funding, will strengthen Morgan Stanley financially and enhance its overall resiliency – thus ultimately reducing the risk to U.S. financial stability and the U.S. economy.

The Proposed Transaction would not result in a meaningful increase in any of the metrics used by the Federal Reserve to address the systemic "footprint" of a post-merger firm. In fact, based on Morgan Stanley's analysis included in the application and using FR Y-15 data as of December 31, 2019, compared to all banking organizations that file Form FR Y-15, Morgan Stanley's relative ranking by percentage share would not change for *any* of the 12 systemic indicators used in calculating Method 1 GSIB surcharge scores.[5] The pro forma changes in Morgan Stanley's percentage share of these systemic indicators aggregated across all FR Y-15 reporting organizations would be minimal, ranging from zero to a maximum of approximately 35 basis points. The following discussion summarizes the analysis included in the Application, and all data is as of December 31, 2019, unless otherwise indicated.

Size

Based upon the factors informing the Federal Reserve's analysis of the size factor, Morgan Stanley does not believe that the Proposed Transaction would pose a separate discernible risk to the financial stability of the U.S. banking or financial system or economy. Measured by total consolidated assets, the Proposed Transaction would increase Morgan Stanley's size on a pro forma basis from approximately \$895.4 billion to approximately \$964.8 billion, an increase of approximately 7.8%. Measured by total size, including off-balance sheet assets, the increase on a pro forma basis would be lower, i.e., 5.9%. Neither increase would result in any change in Morgan Stanley's ranking as the sixth largest BHC in the United States – behind JP Morgan Chase & Co., Bank of America Corporation, Citigroup, Inc., Wells Fargo & Company, and the Goldman Sachs Group, Inc. Morgan Stanley's total exposures as reported on FR Y-15 represented approximately 5.6% of all total exposures reported by banking organizations on FR Y-15. On a pro forma basis, the Proposed Transaction would represent only a 0.3% increase in Morgan Stanley's percentage of such

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[4] As discussed in the Application, based on December 31, 2019 data, the Proposed Transaction would have a positive impact on Morgan Stanley's consolidated risk-based capital ratios on a pro forma basis, with increases ranging from 30 to 50 basis points, while resulting in a mere 10 basis point decrease in its Tier 1 leverage ratio and its SLR. Please see Confidential Exhibit S to this submission for updated pro forma capital ratios as of March 31, 2020, which continue to show increases in risk-based capital ratios ranging from 40 to 50 basis points, and no material changes in Morgan Stanley's Tier 1 leverage ratio or SLR.

[5] As noted in the Application, E*TRADE is not currently required to report on FR Y-15. To calculate the pro forma combined company figures throughout the Application, Morgan Stanley relied upon an FR Y-15 prepared by E*TRADE using E*TRADE's reasonable estimates. Please see response to April 17th Additional Information Request 24 below.

total exposures to approximately 5.9%. In either case, Morgan Stanley's ranking by total exposures – sixth out of 37 – would not change.

Moreover, measured against the overall pro forma impact on Morgan Stanley's Method 1 and Method 2 GSIB scores, the change in size would represent an increase of only 2 points in Morgan Stanley's total Method 1 GSIB score (or 0.7% compared to its current total Method 1 score) and an increase of only 3 points in its total Method 2 GSIB score (or 0.5% compared to its current total Method 2 score). Measured by RWAs calculated using the standardized approach, the pro forma impact of the Proposed Transaction would be an increase of only 2.7% in RWAs, offset by an increase in CET 1 capital of 4.6%, meaning that the Proposed Transaction would be net accretive to Morgan Stanley's CET 1 risk-based capital ratio even after taking into account deductions from CET 1 capital. As for banking assets, upon closing of the Proposed Transaction, the combined organization's share of total banking assets on a pro forma basis would increase to only 1.47%. Finally, the Proposed Transaction does not come close to approaching either the national deposit cap or the national liabilities cap.

Substitutability

As for substitutability, upon completion of the Proposed Transaction, Morgan Stanley would continue to offer, among other services, securities underwriting and distribution, securities brokerage and investment advisory services, wealth management and investment management, all of which are services for which the Federal Reserve has previously noted that there are numerous competitors.[6] Measured by the three factors comprising the substitutability category in the Method 1 GSIB score calculation, i.e., payments, assets under custody and securities underwriting, the change in Morgan Stanley's substitutability score on a pro forma basis would represent an increase of only 2 points in its total Method 1 GSIB score (or 0.8% compared to its current total Method 1 score). Similarly, measured on an individual basis against other FR Y-15 filers, Morgan Stanley's position would remain effectively unchanged across all three factors, both as a percentage of overall activity and in terms of share of such activity relative to other banking organizations.

Interconnectedness

Morgan Stanley does not believe that the interconnectedness metric indicates increased financial stability risk. Measured by the three factors comprising the interconnectedness category in the Method 1 and Method 2 GSIB score calculations, i.e., intra-financial system assets, intra-financial system liabilities and securities outstanding, the change in Morgan Stanley's interconnectedness score on a pro forma basis would represent an increase of only 1 point in its total Method 1 GSIB score (or 0.4% compared to its current

[6] *See, e.g.*, The Toronto-Dominion Bank, FRB Order No. 2017-23 (Sep. 13, 2017) (noting that TD Bank and Scottrade were both engaged in retail banking, investment advisory, wealth management and securities brokerage activities, but concluding that "substitute providers would be readily available for the critical financial services provided by the pro forma institution").

total Method 1 GSIB score) and an increase of only 1 point in its total Method 2 GSIB score (or 0.2% compared to its current total Method 2 GSIB score).

Compared with all other banking organizations that reported on FR Y-15, Morgan Stanley is and would remain after the Proposed Transaction the fourth-ranking banking organization in terms of intra-financial system assets and the ninth-ranking banking organization in terms of intra-financial system liabilities. The Proposed Transaction would represent increases of 0.12% and 0.06% in Morgan Stanley's share of these metrics, respectively. In terms of securities outstanding, Morgan Stanley was the sixth-ranking banking organization by this metric, and would remain so after closing of the Proposed Transaction, with its overall share increasing from approximately 6.6% to only approximately 6.9%.

Complexity

Morgan Stanley similarly does not believe that the Proposed Transaction would raise any financial stability concerns under the complexity factor. Measured by the three factors comprising the complexity category in the Method 1 and Method 2 GSIB score calculations, i.e., notional amount on OTC derivatives, trading and AFS securities, and level 3 assets, the change in Morgan Stanley's complexity score on a pro forma basis would represent an increase of only 1 point in its total Method 1 GSIB score (or 0.3% compared to its current total Method 1 GSIB score) and an increase of only 1 point in its total Method 2 GSIB score (or 0.2% compared to its current total Method 2 GSIB score).

Because E*TRADE's OTC derivatives portfolio and trading and AFS securities portfolio are minimal, the Proposed Transaction would only slightly increase Morgan Stanley's percentage of OTC derivatives and trading and AFS securities, respectively, of all such banking organizations' OTC derivatives and trading and AFS securities and would not change Morgan Stanley's position relative to other banking organizations.[7] And because E*TRADE does not value any of its assets for accounting purposes on a recurring basis using Level 3 measurement inputs, there would be no change to Morgan Stanley's Level 3 assets on a pro forma basis and no changes to its ranking (third) among all banking organizations that report on FR Y-15 with respect to this metric.

Nor would the Proposed Transaction require any change in Morgan Stanley's SPOE Resolution Strategy under its Resolution Plan, as described in greater detail in the Application and the responses to April 17th Additional Information Request 40 and May 8th Additional Information Request 3 herein: the acquired E*TRADE business would become part of Morgan Stanley's Wealth Management core business line and would be resolved in accordance with the Resolution Strategy for that core business line, which contemplates its

[7] For additional information in this regard please see the responses to Additional Information Requests 22 and 25 for information about the parties' trading and AFS securities and Additional Information Requests 25, 26 and 27 for information about their OTC derivatives portfolios.

recapitalization, continuity and ultimate sale in the worst-case scenario of a resolution of Morgan Stanley.

Cross-Border Activity

Because E*TRADE does not have any material operations outside the United States, the Proposed Transaction would not have any material impact on Morgan Stanley's cross-border activity on a pro forma basis. Measured by the two factors comprising the cross-jurisdictional activity category in the Method 1 and Method 2 GSIB score calculations, i.e., cross-jurisdictional claims and cross-jurisdictional liabilities, there would be no change in Morgan Stanley's cross-jurisdictional Method 1 or Method 2 GSIB score on a pro forma basis. Compared with all other banking organizations that reported on FR Y-15, as of December 31, 2019 Morgan Stanley ranked fifth in terms of total cross-jurisdictional claims. On a pro forma basis, the Proposed Transaction would leave Morgan Stanley's ranking among all such banking organizations unchanged and its percentage effectively unchanged with respect to cross-jurisdictional claims. It would also leave Morgan Stanley's ranking among all such banking organizations unchanged with respect to cross-jurisdictional liabilities, with its percentage increasing from approximately 9.1% to only approximately 9.2%.

Financial Stability Metrics in Combination

The Federal Reserve assesses the financial stability metrics discussed above not only in isolation but also in combination to determine whether any of those factors may mitigate or exacerbate risks suggested by looking at any of the metrics individually. This combined analysis should not change the conclusion. As already noted above, Morgan Stanley believes that the Proposed Transaction, by accelerating its shift toward a higher proportion of more stable and durable revenue streams and profitability from its Wealth Management and Investment Management business segments, strengthening its capital position and gaining access to more stable and low-cost deposits that can reduce its reliance on wholesale funding, will strengthen Morgan Stanley financially and enhance its overall resiliency – thus ultimately reducing the risk to U.S. financial stability and the U.S. economy. Upon completion of the Proposed Transaction, Morgan Stanley would still be the sixth largest BHC in the United States by total consolidated assets. Morgan Stanley's total pro forma GSIB surcharge scores would increase only by immaterial amounts, from 221 to 226 (or an increase of approximately 2.3%) under Method 1 and from 580 to 588 (or an increase of approximately 1.4%) under Method 2, which is the binding method in determining Morgan Stanley's GSIB score. Neither increase would result in any change in Morgan Stanley's current 3% GSIB surcharge.[8]

[8] 12 C.F.R. § 217.403(c).

The Proposed Transaction Poses Minimal Concentration Risks Related to Financial Stability

As the above discussion and the discussion in the Application demonstrate, Morgan Stanley's proposed acquisition of E*TRADE would lead to, at most, a minimal increase in Morgan Stanley's systemic footprint, with any increase in systemic footprint more than offset by the Proposed Transaction's beneficial effects upon Morgan Stanley's capital position and reduction in reliance upon wholesale funding, which will strengthen Morgan Stanley financially and enhance its overall resiliency – thus ultimately reducing the risk to U.S. financial stability and the U.S. economy.

Several questions in the April 17th Additional Information Request – specifically, Additional Information Requests 25 – 27, ask Morgan Stanley and E*TRADE to produce their five largest counterparties for various FR Y-15 line items. We understand the Federal Reserve's requests to be seeking to determine whether, even if Morgan Stanley's overall systemic footprint would not be increased by the Proposed Transaction, the Proposed Transaction might nonetheless result in financial stability risks driven by an increased concentration in Morgan Stanley's activities with certain counterparties. The responses to Additional Information Requests 25 – 27 demonstrate that this would not be the case.

To the extent that E*TRADE engages in the activities reported on FR Y-15 at all, it generally serves different customers and faces different counterparties. In fact, as the responses to each of Additional Information Requests 25 – 27 show, of the 115 counterparties[9] listed by each firm across the various FR Y-15 indicators for which the Federal Reserve has requested counterparty information, there are only eight overlapping counterparties. None of these few overlaps should raise any financial stability concerns. For example, Morgan Stanley and E*TRADE each hold U.S. Treasury securities and securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, and thus each have common counterparties for total exposures and for trading and AFS securities. Exposures to the U.S. government and to government-sponsored enterprises should not raise financial stability concerns. Similarly, the fact that Morgan Stanley and E*TRADE each clear derivatives through central counterparties, and therefore are exposed to some of the same central counterparties for certain FR Y-15 line items related to OTC derivatives, should also not raise financial stability concerns, given that the central clearing of derivatives has been a key post-financial crisis goal of the Federal Reserve and other regulators.[10]

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[9] The Federal Reserve has requested counterparty information with respect to 25 separate indicators. For 23 of these, each party has reported its five largest counterparties. Morgan Stanley will provide its five largest counterparties for the two remaining indicators in a subsequent submission.

[10] Governor Jerome H. Powell, Central Clearing and Liquidity (June 23, 2017), https://www.federalreserve.gov/newsevents/speech/powell20170623a.htm ("Central clearing serves to address many of the weaknesses exposed during the crisis by fostering a reduction in risk exposures through multilateral netting and daily margin requirements as well as greater transparency through enhanced reporting requirements.

This minimal counterparty overlap between Morgan Stanley and E*TRADE flows from the largely complementary nature of Morgan Stanley and E*TRADE's activities. As discussed in the Application, Morgan Stanley's wealth management products and services are delivered through a full-service, financial advisor-driven model, while E*TRADE's products and services are delivered through a direct-to-consumer model and digital banking capabilities. In terms of the three wealth management channels – financial advisory, self-directed brokerage, and workplace services (i.e., corporate stock plan administration) – Morgan Stanley's offerings are more focused on the financial advisory and both public and private company workplace channels, while E*TRADE's offerings are more focused on the self-directed brokerage and public company workplace channels. Similarly, in terms of wealth management client segments, Morgan Stanley's products and services are more focused on established, high-net-worth individuals while E*TRADE's products and services are more focused on the pipeline of emerging wealth clients.

Morgan Stanley is Well-Positioned to Address any Financial Stability Risks or Vulnerabilities

In evaluating financial stability risks and vulnerabilities in the context of proposed transactions, the Federal Reserve also considers whether the transaction would provide any stability benefits and whether prudential standards applicable to the combined organization would offset any potential risk.[11] For the reasons discussed above and throughout the Application, Morgan Stanley does not believe that the Proposed Transaction poses any material financial stability risks and instead believes that it would enhance the stability of the U.S. financial system. The Proposed Transaction is expected to improve Morgan Stanley's capital position and funding profile. The E*TRADE Banks represent a source of low-cost, stable deposits that would be incorporated into Morgan Stanley's overall bank funding sources upon some form of post-closing consolidation among the Morgan Stanley Banks and E*TRADE Banks. As of December 31, 2019, E*TRADE had only $1.4 billion of outstanding wholesale debt. In addition, E*TRADE currently sweeps approximately $18 billion in deposits to unaffiliated IDIs; sweeping those deposits to an affiliated IDI within the post-closing Morgan Stanley group would allow Morgan Stanley to replace an equal amount of more expensive wholesale funding. Consolidating and optimizing Morgan Stanley's and E*TRADE's portfolio of high-quality liquid assets is also expected to save funding costs over time. Within approximately two years of closing the Proposed Transaction, Morgan Stanley expects to realize approximately $150 million in savings of funding costs.

To the extent that Morgan Stanley would encounter unanticipated financial stability risks or vulnerabilities, either as a result of the Proposed Transaction or more generally,

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Central clearing also enables a reduction in the potential cost of counterparty default by facilitating the orderly liquidation of a defaulting member's positions, and the sharing of risk among members of the [central counterparty] through some mutualization of the costs of such a default.").

[11] *See, e.g.* PNC Financial Services Group, Inc., (order dated Dec. 23, 2011); BB&T Corporation, FRB Order No. 2019-16 (November 19, 2019); 12 U.S.C. § 5365.

Morgan Stanley's strong financial position and robust risk management culture would ensure that any such risks are appropriately addressed.

Morgan Stanley is, and following completion of the Proposed Transaction would remain, subject to the most stringent capital, capital buffer and liquidity requirements under the Federal Reserve's Basel III capital and liquidity rules, respectively, and the most stringent enhanced prudential standards under the Federal Reserve's enhanced prudential standards, including capital planning and stress testing requirements, TLAC requirements, risk management requirements, and liquidity stress testing and contingency liquidity funding requirements. Morgan Stanley would also remain subject to Dodd-Frank Act Title I resolution planning requirements. All of these requirements serve and would continue to serve as mitigants to any risk posed by Morgan Stanley's activities to the stability of the U.S. banking or financial system or the U.S. economy.

With respect to capital, Morgan Stanley is currently a Category I BHC that is subject to the most stringent capital requirements under the Federal Reserve's Basel III capital rules, including the GSIB surcharge, TLAC requirement, Enhanced SLR, recognition of Accumulated Other Comprehensive Income in Morgan Stanley's CET 1 capital, calculation of regulatory capital, risk-weighted assets and regulatory capital ratios using the more stringent of the advanced approaches and the standardized approach, Countercyclical Capital Buffer if deployed, and the SLR. Morgan Stanley would be subject to these same requirements upon completion of the Proposed Transaction, except that they would include the acquired E*TRADE business on a consolidated basis. In addition, both currently and upon completion of the Proposed Transaction, Morgan Stanley is subject to the Federal Reserve's annual capital planning, supervisory stress testing and company-run stress testing requirements, including the requirement to submit its capital plan to the Federal Reserve as part of the latter's CCAR. The Federal Reserve will, as part of the CCAR 2020 exercise, determine the amount of Morgan Stanley's SCB with effect from October 1, 2020.

Upon completion of the Proposed Transaction, E*TRADE would be embedded into Morgan Stanley' Capital Planning Process, including the firm's annual participation in the Federal Reserve's CCAR exercise. Morgan Stanley has already incorporated the estimated impact of the proposed acquisition of E*TRADE into its CCAR 2020 submission. Morgan Stanley received a non-objection from the Federal Reserve in CCAR 2019 and expects to continue to demonstrate strong performance under both company-run and supervisory stress testing given the projected financial position of the combined organization.

With respect to liquidity, Morgan Stanley, as a Category I BHC, is currently – and, after completing the Proposed Transaction, would continue to be – subject to the most stringent liquidity requirements under the Federal Reserve's LCR rule, i.e., a 100% minimum LCR,[12] as well as the most stringent liquidity risk management and liquidity stress testing requirements under the Federal Reserve's Regulation YY, including requirements relating to

[12] 12 C.F.R. Part 249.

cash flow projections, a contingency funding plan, liquidity risk limits, collateral monitoring policies and procedures, procedures for monitoring and controlling liquidity risk exposures and funding needs, procedures for monitoring intraday liquidity risk exposures, monthly liquidity stress tests, a liquidity buffer to meet projected net stressed cash flow needs, over a 30-day planning horizon, and daily liquidity reporting to the Federal Reserve.[13]

Upon completion of the Proposed Transaction, Morgan Stanley would integrate E*TRADE into its existing liquidity risk management framework and, other than adjusting and recalibrating its liquidity risk limits, liquidity needs and sources of liquidity to take into account the integration of E*TRADE's business, does not expect to make any substantive changes to that framework. E*TRADE's cash flows would be included in Morgan Stanley's internal liquidity stress testing and in determining Morgan Stanley's LCR. All of E*TRADE's liquidity risk exposures would be monitored and reported against metrics, limits and key risk indicators set out in Morgan Stanley's liquidity risk management policy. These exposures would also be reviewed in the context of Morgan Stanley's contingency funding plan and the aspects of its recovery and resolution plan that relate to liquidity and funding risk.

Finally, as described in the Application and the responses to April 17th Additional Information Requests 5, 6 and 33 submitted on May 18, 2020, both Morgan Stanley and E*TRADE have devoted and will continue to devote ample resources toward ensuring a successful integration, enabling them to address integration-related vulnerabilities, including any vulnerabilities relating to financial stability, if they arise.

For all of the foregoing reasons, Morgan Stanley believes that the Proposed Transaction will not result in greater or more concentrated risks to the stability of the U.S. banking or financial system and, consequently, an evaluation of the financial stability standards remains consistent with approval of the Proposed Transaction.

21. To the extent not already provided in the notifications, identify whether Morgan Stanley or E*TRADE are involved in each of the following activities, discuss the nature of this involvement, and provide a brief listing of other firms that engage in the same activity in the United States. For both Morgan Stanley and E*TRADE, provide measures of the scale of each activity specified, for both the most recent quarter and the most recently completed year. Measures should be stated both in U.S. dollars and as a share of overall U.S. activity; derivatives should be stated as notional dollar amounts. Responses may be confined to information maintained in the regular course of business.

a. Short-term lending

i. Reverse bilateral repurchase agreements (volume)

ii. Reverse tri-party repurchase agreements (volume)

iii. Fed funds (volume)

[13] *See generally* 12 C.F.R. §§ 252.34 and 252.35.

iv. **Tri-party repo dealing (volume)**

b. Commercial lending

i. **Syndicated lending (volume)**

ii. **Syndicated pipeline commitments (volume)**

iii. **Lending to small and medium-sized enterprises (volume)**

iv. **Unfunded commitments (volume)**

c. Underwriting services

i. **Issuance of new equities (volume)**

ii. **Corporate bonds (volume)**

iii. **Commercial paper (volume)**

iv. **Asset backed securities (volume)**

v. **Other debt securities (volume)**

d. Total provisions of services in the following sectors.

i. **Prime brokerage (number of funds and fund sponsors, and total assets under management)**

ii. **Securities lending (report value of securities lent as a custodian and securities lent from trading book)**

iii. **Corporate trust**

iv. **Correspondent banking**

v. **Wealth management (total assets under management)**

vi. **Insurance (by segment, including reinsurance)**

Please see Confidential Exhibit T.

22. Provide the dollar amounts for the ten largest types of Trading Securities and AFS Securities, for both Morgan Stanley and E*TRADE.

Please see Confidential Exhibit U. As of December 31, 2019 and March 31, 2020, E*TRADE did not hold any trading securities.

23. Provide the dollar amounts for the five largest categories of held-to-maturity securities for both Morgan Stanley and E*TRADE.

Please see Confidential Exhibit U.

24. Provide a complete list of the assumptions used to arrive at E*TRADE's estimates when completing the FR Y-15 in Exhibit F.

E*TRADE is not subject to the FR Y-15 reporting requirements. E*TRADE's last official FR Y-15 report was filed as of March 31, 2018, after which E*TRADE ceased to be subject to FR Y-15 reporting requirements. However, for purposes of the Application, E*TRADE prepared a pro forma FR Y-15 as of December 31, 2019, including all related schedules, in accordance with and as specified by the FR Y-15 report instructions. The Application indicated that E*TRADE used "reasonable estimates" for purposes of preparing the FR Y-15. All of the estimates and assumptions used by E*TRADE in preparing its pro forma FR Y-15 were consistent with the FR Y-15 reporting instructions. E*TRADE would have utilized the same estimates and assumptions in preparing an official FR Y-15 report as of such date had E*TRADE been subject to the FR Y-15 reporting requirements as of December 31, 2019.

25. Provide the five largest counterparties, rolled up to the parent company, and the corresponding amount of the following indicators for Morgan Stanley and E*TRADE, separately. For Morgan Stanley, provide information for both U.S. and worldwide operations, separately.

a. Total exposure (as defined by Schedule A Line item 5 in FR Y-15)
b. Total intra-financial system assets (as defined by Schedule B Line item 6 in FR Y-15)
c. Total intra-financial system liabilities (as defined by Schedule B Line item 12 in FR Y-15)
d. Total securities outstanding (as defined by Schedule B Line item 20 in FR Y-15)
e. Payments activity (as defined by Schedule C Line item 2 in FR Y-15)
f. Assets held as a custodian on behalf of customers (as defined by Schedule C Line item 3 in FR Y-15)
g. Total underwriting activity (as defined by Schedule C Line item 6 in FR Y-15)
h. Total notional amount of OTC derivatives (as defined by Schedule D Line item 3 in FR Y-15)
i. Total adjusted trading and AFS securities (as defined by Schedule D Line item 9 in FR Y-15)
j. Assets valued using Level 3 measurement inputs (as defined by Schedule D Line item 10 in FR Y-15)
k. Foreign claims on an ultimate-risk basis (as defined by Schedule E Line item 1 in FR Y-15)
l. Total cross-jurisdictional liabilities (as defined by Schedule E Line item 4 in FR Y-15)
m. Total short-term wholesale funding (as defined by Schedule G Line item 5 in FR Y-15)

Please see Confidential Exhibit V, which reports largest counterparty data for E*TRADE as of December 31, 2019[14] and largest counterparty data for Morgan Stanley as of December 31, 2019 and March 31, 2020.

26. Provide the five largest counterparties, rolled up to the parent company, and the corresponding amounts of each component of intra-financial system assets and liabilities for Morgan Stanley and E*TRADE, reported in the most recent FR Y-15. For Morgan Stanley, provide information for both U.S. and worldwide operations, separately.

[14] Because E*TRADE is not currently subject to FR Y-15 filing requirements, whether on an annual or quarterly basis, it has relied on the pro forma FR Y-15 it prepared as of December 31, 2019 for use in the Application to respond to this Additional Information Request.

a. **For intra-financial system assets:**
   i. **Funds deposited with or lent to other financial institution (M351)**
   ii. **Unused portion of committed lines extended to other financial institution (J458)**
   iii. **Holdings of securities issued by other financial institution (M352 + M353 + M354 + M345 + M356 – M357)**
   iv. **Net positive current exposure of securities financing transactions (SFTs) with other financial institution (M358)**
   v. **Over-the-counter (OTC) derivative contracts with other financial institutions that have a net positive fair value (M359 + M360)**
b. **For intra-financial system liabilities:**
   i. **Deposits due to other financial institutions (M363 + M364)**
   ii. **Borrowings obtained from other financial institutions (Y833)**
   iii. **Unused portion of committed lines obtained from other financial institutions (M365)**
   iv. **Net negative current exposure of SFTs with other financial institution (M366)**
   v. **OTC derivative contracts with other financial institutions that have a net negative fair value (M367 + M368)**

Please see Confidential Exhibit W, which reports largest counterparty data for E*TRADE as of December 31, 2019[15] and largest counterparty data for Morgan Stanley as of December 31, 2019 and March 31, 2020.

27. Provide the current market exposure – gross, and net of collateral and other risk mitigants – for the five largest counterparties, rolled up to the parent company, of OTC derivatives of both Morgan Stanley's and E*TRADE's U.S. operations, as measured by

a. **Positive current exposure after netting arrangements.**
b. **Negative current exposure after netting arrangements.**

Please see Confidential Exhibit X, which reports largest counterparty data for E*TRADE as of December 31, 2019[16] and largest counterparty data for Morgan Stanley as of December 31, 2019 and March 31, 2020.

32. Describe the banks' plans for managing the combined institution's Community Reinvestment Act ("CRA") program to ensure continued satisfactory performance. In your response, please discuss:

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[15] Because E*TRADE is not currently subject to FR Y-15 filing requirements, whether on an annual or quarterly basis, it has relied on the pro forma FR Y-15 it prepared as of December 31, 2019 for use in the Application to respond to this Additional Information Request.

[16] Because E*TRADE is not currently subject to FR Y-15 filing requirements, whether on an annual or quarterly basis, it has relied on the pro forma FR Y-15 it prepared as of December 31, 2019 for use in the Application to respond to this Additional Information Request.

a. Which CRA program functions will be housed at the holding company level, and which will be housed at subsidiary banks;

The management team and staff of Morgan Stanley's CRA Program are housed in the Morgan Stanley Banks, as the majority of the firm's CRA lending and investing activities are conducted by the Morgan Stanley Banks. As noted in the response to April 17th Additional Information Request 7 submitted on May 18, 2020, no decision has yet been made whether and, if so, how to combine the Morgan Stanley Banks and E*TRADE Banks following completion of the Proposed Transaction. Regardless of the outcome of that decision, however, Morgan Stanley expects that the majority of the combined firm's CRA activities would continue to be conducted by the firm's IDI(s) and therefore that the management and staff of the CRA Program would continue to be housed in the IDI(s).

While the CRA functions will continue to be part of the firm's IDI(s), certain CRA activities are, and will continue to be, conducted at the holding company level when it is best suited for the management of certain activities or for maintaining compliance with certain requirements. For example, CRA activities involving tax credits, or that potentially implicate Section 23A of the Federal Reserve Act and the Federal Reserve's Regulation W (and therefore may limit the combined firm's IDI(s)' ability to participate in a given transaction), would continue to be conducted at the holding company level.

b. The experience level of key staff responsible for managing the combined organization's CRA program, and general staffing plans for the CRA program;

Morgan Stanley's CRA Program is led by a Managing Director with over 30 years of management experience in CRA/Community Development programs, including roles as a bank CEO and COO of a leading non-profit organization prior to joining Morgan Stanley over 10 years ago. An additional Managing Director on the team is the former COO of one of the nation's largest housing finance agencies. Additional leadership roles are held by Executive Directors, including the former head of affordable housing investments for a major U.S. bank and a former bank CFO with significant experience in secondary markets and SBIC investments. Morgan Stanley currently has approximately 20 employees in the direct CRA business unit, with additional support provided by staff housed within the firm's infrastructure functions such as loan administration, operations, tax, and legal providing support.

The CRA compliance function of E*TRADE, as well as the CRA business investment function, is led by a Senior Director of Compliance. She has more than 30 years of experience in community development, CRA and corporate social responsibility. She also holds the title of CRA Officer for both ETB and ETSB. The senior director's past experience includes more than 20 years with one of the largest banks in the country and four years with a limited purpose bank headquartered in Salt Lake City. E*TRADE has two full-time staff supporting CRA and additional support provided by the Treasury team for equity investment administration and related support of the business.

While Morgan Stanley will continue to dedicate the required, experienced resources to the combined firm's CRA program, the ultimate structure and associated roles are not expected to be finalized until close to, or following, the completion of the Proposed Transaction.

c. The governance structure overseeing the CRA program; and

The head of Morgan Stanley's CRA Program reports to the president of the Morgan Stanley Banks, with governance and oversight from a CRA committee of each bank which reports to the bank's management committee and in turn to the bank's board of directors. This structure is expected to remain in place following completion of the Proposed Transaction, with incremental resources to support the combined Morgan Stanley and E*TRADE CRA programs to be added, if necessary. As noted above, however, the ultimate structure and associated roles are not expected to be finalized until close to, or following the completion of the Proposed Transaction.

d. Which of the current CRA lending, investment, and service initiatives of the E*TRADE subsidiary banks would be continued after the merger, and which would be discontinued.

Morgan Stanley anticipates that the current level of philanthropic giving in the E*TRADE CRA program would be continued, as well as the current volumes of CRA lending and investing. Some of the current E*TRADE lending and investing activities, which involve the purchase of secondary market traded CRA assets, may be replaced by products in Morgan Stanley's CRA product suite, including Affordable Housing private equity investments, SBIC Investments, and financing of Community Development Financial Institutions.

Appendix 2

Responses to May 8th Additional Information Requests

1. Please describe how the proposed merger would affect the oversight of conduct risk in the Wealth Management and Institutional Securities Groups.

Morgan Stanley's Global Conduct Risk Program covers employees and contingent workers across all business areas (including Wealth Management and Institutional Securities). The Global Conduct Risk Program was designed with a great deal of flexibility to cover a spectrum of conduct types, regions, and business areas, including business areas of the type that Morgan Stanley would acquire as a result of the Proposed Transaction. E*TRADE's approach to the oversight of conduct risk is broadly similar to that of Morgan Stanley. For example, E*TRADE has comparable mechanisms designed to identify and escalate potential instances of misconduct, and also comparable disciplinary mechanisms and tiers of disciplinary consequences. Given the similarity in fundamental approach and common core elements between the Global Conduct Risk Program and E*TRADE's oversight of conduct risk, Morgan Stanley expects to incorporate, where appropriate, elements of E*TRADE's conduct risk oversight framework into the Global Conduct Risk Program without significant disruption to the manner in which Morgan Stanley identifies, escalates, oversees, and reports on conduct risk incidents pursuant to the Global Conduct Risk Management Policy.

2. Please comment on the firm's progress in remediating operational challenges highlighted by the below FINRA Matters submitted in your application (pages 82 and 89). Describe the measures being taken to ensure that these matters are not exacerbated by the proposed merger.

a. Late TRACE reporting
b. Missing trades reported to RTRS
c. Late reporting of MSRB-eligible trades

Please see Confidential Exhibit Y.

3. With regard to Recovery and Resolution Planning, please

a. Describe the impact of the merger on the ability to transfer wealth management clients in the event of a separation of the wealth management business.
b. Describe any material changes anticipated to the critical service support infrastructure of Morgan Stanley after the merger, and whether additional operational activity would be shifted into domestic and/or foreign Material Service Entities.
c. Indicate whether there are critical vendors with E*TRADE that are anticipated to be new critical vendors in the combined organization, and describe whether such vendors would be brought up to compliance with MS SLA standards to include resolution friendly language.
d. Describe how the legal entity rationalization criteria (LER) would be implemented to drive the structure of the combined organization.

Please see Confidential Exhibit Z.

4. Please describe the contemplated changes to the Community Reinvestment Act assessment areas at E*TRADE's and Morgan Stanley's subsidiary banks.

Morgan Stanley continues to assess the potential post-closing legal entity structures for the integration of E*TRADE's legal entities with Morgan Stanley, and as of the date of this response no decision has been made regarding such legal entity structures. Specifically with respect to the E*TRADE Banks, factors such as client service delivery, impact on funding capabilities, and regulatory considerations are being evaluated in deciding whether to merge the E*TRADE Banks with the Morgan Stanley Banks or to independently operate them, in addition to continuing to review potential risk, liquidity, capital, and tax considerations, among other factors.

As of the date of this response, no decision has been made regarding whether ETB or ETSB will be merged into one of the Morgan Stanley Banks, and as a result Morgan Stanley expects ETB and ETSB to remain separate entities for at least some time following closing of the Proposed Transaction, with no change to their, or the Morgan Stanley Banks', CRA assessment areas. In the event that ETB and/or ETSB are merged into one of the Morgan Stanley Banks, that would necessarily require a reconsideration of the resulting bank's assessment area, in particular whether it would include some or all of ETB's and ETSB's current assessment area. The result of this review will depend on a number of factors, including whether the resulting bank would maintain a branch at the current location of ETB and ETSB, and the OCC's recently finalized CRA regulations,[17] which make significant changes to the way a national bank or federal savings association must define its CRA assessment areas. Given the very recent issuance of the OCC's final rule, Morgan Stanley is in the early stages of assessing its impact on the Morgan Stanley Banks and on any potential consolidation with the E*TRADE Banks.

Regardless of any future changes to CRA assessment areas, Morgan Stanley recognizes E*TRADE's strong record of support for its community through its CRA program and expects to at least maintain E*TRADE's level of CRA grant support for organizations in E*TRADE's current assessment area for at least five years following the closing of the Proposed Transaction.

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[17] *See* OCC, OCC Finalizes Rule to Strengthen and Modernize Community Reinvestment Act Regulations (May 20, 2020), https://www.occ.treas.gov/news-issuances/news-releases/2020/nr-occ-2020-63.html.