



STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL

AUGUST 11, 2008

BY E-MAIL and FEDERAL EXPRESS

Gary G. Lynch
Executive Vice President, Chief Legal Officer
Morgan Stanley
1585 Broadway
New York, NY 10036

Re: Auction Rate Securities

Dear Mr. Lynch:

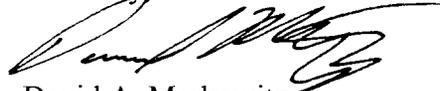
Last week, Attorney General Andrew Cuomo and other regulators announced settlements with two of the largest participants in the auction rate securities market. Those agreements provide important relief for consumers who were ensnared by misrepresentations about auction rate securities. Among other things, those settlements provide for: (1) buyback programs for retail consumers, (2) agreements so that consumers who were forced to sell their auction rate securities below par are made whole, (3) an expedited mechanism for investors to resolve claims of consequential damages, (4) relief for institutional investors, (5) refinancing fee refunds for certain municipal issuers, and (6) penalties.

The settlements were the result of a five month industry-wide investigation by the New York State Attorney General's Office into sales practices in connection with the sale of auction rate securities. The investigation has shown certain common practices across the auction rate securities market. Most importantly, auction rate securities were marketed as safe, liquid, and cash equivalent securities. These representations were false, and harmed tens of thousands of consumers nationwide. Market participants selling these securities also failed to disclose to their retail clients and other customers that from August of 2007 up until widespread auctions failures, which occurred in the early part of 2008, the auction rate securities market only continued as a result of broker-dealers placing support bids. Across the industry, customers who bought auction rate securities based on representations that they were cash equivalents have been unable to cash or sell the securities.

It would be unfair to consumers with accounts at other firms, and well as to the firms that settled, if our investigation were to slow down or stop. Accordingly, our investigation's focus is shifting to the next group of market participants, which includes Morgan Stanley. We would like

to enter into immediate talks about resolving the investigation, as that would be in the best interests of both consumers nationwide, as well as Morgan Stanley customers. Any resolution would need to address the same concerns addressed in the settlements entered into next week. We were able to coordinate our prior efforts with those of other regulators, and if possible, would be amenable to doing so again with respect to Morgan Stanley. Please contact me immediately to discuss.

Sincerely,

A handwritten signature in black ink, appearing to read "David A. Markowitz". The signature is fluid and cursive, with a large initial "D" and "M".

David A. Markowitz
Chief, Investor Protection Bureau