

Response to the Financial Crisis Inquiry Commission's
July 29, 2010 Interrogatories

1. Please describe in detail how fair value accounting affected your company during the financial crisis and any challenges that your company experienced in applying the accounting standards and principles concerning fair value accounting. Please provide any financial data and narrative descriptions that illustrate the role played by fair value accounting on your company. In addition, please describe any difficulties with interpreting Statement of Financial Accounting Standards No. 157, Fair Value Measurements, and identify any accounting terminology in the Financial Accounting Standards relating to fair value accounting that you or your accountants believes in 2007 or 2008 needed further clarification.

Morgan Stanley operates under fair value accounting rules because we believe that fair value accounting provides the best assessment of our business, both in terms of our results and balance sheet. In determining fair value, the Firm uses a hierarchy of inputs that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the observable inputs be used when available. The hierarchy is broken down into three levels: Level 1 uses observable prices in active markets; Level 2 uses valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable either directly or indirectly and; Level 3 consists of valuation techniques that incorporate significant unobservable inputs and therefore require the greatest use of judgment. The Company employs a number of control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible.

In the period of market dislocation experienced during the financial crisis, the observability of prices and inputs was reduced for many instruments. Where observable inputs are not available, the control processes described above are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. These control processes include reviews of the pricing model's theoretical soundness and appropriateness by Firm personnel with relevant expertise who are independent from the trading desks. Additionally, groups independent from the trading divisions within the Financial Control, Market Risk and Credit Risk Departments participate in the review and validation of the fair values generated from pricing models, as appropriate. Where a pricing model is used to determine fair value, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

Thus, while the extreme market dislocations experienced during the financial crisis made it more difficult to value certain of our securities by reducing the availability of observable market inputs, the Firm relied on the control processes described above to assure appropriate valuations during this time of market illiquidity.

2. *Did fair value accounting create uncertainty and problems at your company, which led to delays, marking otherwise valuable assets to zero or near-zero, and/or mark downs that were ultimately marked back up? Please explain and provide examples.*

Fair value accounting rules did not create problems at Morgan Stanley. Rather, our commitment to fair value accounting principles allowed us to navigate the financial crisis by directing us to realize losses as they were incurred rather than letting unrealized losses build up on our balance sheet. While the illiquid market conditions experienced during the financial crisis did make it difficult to value certain of our securities, the Firm has several control processes in place, as described in further detail above, to validate the fair value of our financial instruments even when observable market data is not readily available.

3. *Please describe how the guidance issued by the Securities and Exchange Commission (“SEC”) Office of Chief Accountant and the Staff of the Financial Accounting Standards Board (“FASB”) on September 30, 2008 concerning fair value accounting [<http://www.fasb.org/news/2008-FairValue.pdf>], the guidance issued by the Staff of the FASB on October 10, 2008 [FSP FAS 157-3, available at http://www.fasb.org/pdf/fsp_fas157-3.pdf], and/or any other public guidance or interpretations from 2007 or 2008 affected your company and your accounting practices. Please also describe how, if at all, the guidance may have affected your company and your accounting practices if it had been issued earlier in time (e.g. prior to the financial crisis). In particular, please describe and compare your accounting practices after: 1) the original issuance of FAS 157, 2) the guidance issued on September 30, 2008, 3) the FAS 157-3 issued on October 10, 2008 and 4) any other public guidance on fair value accounting you deemed relevant.*

The guidance issued by the Securities and Exchange Commission (the “SEC”) Office of Chief Accountant and the Staff of the Financial Accounting Standards Board (the “FASB”) concerning fair value accounting did not materially affect the Firm’s accounting practices. In issuing guidance, the SEC and the FASB provided additional application direction in determining fair values when there is no active market or where the price inputs being used represent distressed sales. FSP FAS-4, which superseded FSP FAS 157-3, reaffirms what SFAS No. 157, “Fair Value Measurements,” states is the objective of fair value measurement – to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the

need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The Company adopted FSP FAS 157-4 in the quarter ended June 30, 2009. The adoption did not have a material impact on the Firm's condensed consolidated financial statements.

4. *Please describe any efforts by your company or persons acting on your behalf to obtain guidance or interpretation from the SEC, FASB, Public Company Accounting Oversight Board ("PCAOB"), or any other public or private organization concerning fair value accounting in 2007 or 2008. Please provide copies of comment letters that you sent to the SEC, FASB, PCAOB, or any other public or private organization in 2007 and 2008 regarding fair value accounting or proposed changes to accounting rules.*

Morgan Stanley did not initiate any efforts to obtain guidance or interpretation from the SEC, FASB or the Public Company Accounting Oversight Board concerning fair value accounting in 2007 or 2008. However, as part of the SEC's review of the Firm's financial statements, the Firm received and responded to comment letters from the SEC, some of which related to fair value accounting issues. A complete set of these letters and the Firm's responses is available on the SEC's website at <http://www.sec.gov/answers/edgarletters.htm> and copies of letters from 2007 and 2008 from the SEC's website that relate to fair value accounting issues are attached. These documents bear Bates Stamp numbers MS0002685 to MS0002739.

5. *In your view, do you believe that fair value accounting caused or contributed to the financial crisis? Please explain.*

Morgan Stanley does not believe that fair value accounting caused or contributed to the financial crisis. The market disruptions and illiquidity experienced during the financial crisis made it extremely difficult to value certain securities; however, these difficulties were not themselves the cause of the crisis. We continue to believe that fair value accounting provides the best assessment of the health of financial institutions.



DIVISION OF
CORPORATION FINANCE

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-7010

August 30, 2007

Room 7010

David H. Sidwell
Executive Vice President and Chief Financial Officer
Morgan Stanley
1585 Broadway
New York, NY 10036

**Re: Morgan Stanley
Form 10-K for Fiscal Year Ended November 30, 2006
Form 10-Q for the Fiscal Quarter Ended February 28, 2007
File No. 001-11758**

Dear Mr. Sidwell:

We have reviewed the above referenced filing and have the following comments. Please note that we have limited our review to only your financial statements and related disclosures and do not intend to expand our review to other portions of your document. We may ask you to provide us with supplemental information so we may better understand your disclosure. Please be as detailed as necessary in your explanation. After reviewing this information, we may raise additional comments.

Please understand that the purpose of our review process is to assist you in your compliance with the applicable disclosure requirements and to enhance the overall disclosure in your filing. We look forward to working with you in these respects. We welcome any questions you may have about our comments or any other aspect of our review. Feel free to call us at the telephone numbers listed at the end of this letter.

Form 10-K for the year ended November 30, 2006

Note 4. Collateralized and Securitization Transactions, page 126

1. We note from the disclosures on page 4, 127 and 162 that you originate, trade, make markets and take proprietary positions in, and acts as principal with respect to, mortgage related and real estate loan products. We further note on page 4 that in December 2006 you acquired Saxon Capital, Inc., a servicer and originator of subprime residential mortgage loans. We also note that you provide financing to

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customers for residential real estate loan products. It is unclear from your document the exposure you have to subprime loans.

Although there may be differing definitions of subprime residential mortgage loans, they are sometimes recognized to be loans that have one or more of the following features:

- A rate above prime to borrowers who do not qualify for prime rate loans;
- Borrowers with low credit ratings (FICO scores);
- Interest-only or negative amortizing loans;
- Unconventionally high initial loan-to-value ratios;
- Low initial payments based on a fixed introductory rate that expires after a short initial period then adjusts to a variable index rate plus a margin for the remaining term of the loan;
- Borrowers with less than conventional documentation of their income and/or net assets;
- Very high or no limits on how much the payment amount or the interest rate may increase at reset periods, potentially causing a substantial increase in the monthly payment amount, and/or;
- Including substantial prepayment penalties and/or prepayment penalties that extend beyond the initial interest rate adjustment period.

Based on your current public disclosures, it is possible that more clarity about your exposure to any subprime loans could be helpful. Regardless of the materiality of your exposure, we respectfully request that you provide us with supplemental information about your involvement in sub-prime loans.

Preface your response by how you specifically define your subprime loans in practice, if at all. However, we ask that you consider the above definition, in general, as part of your response. In other words, we request that the information you provide be based, more or less, on the above definition. Where it does not, please provide specific guidance. This request may be hard for you to provide on a timely basis. Please consider alternative information that may address the concern, at least in part, but which can be readily provided.

Please provide us with a comprehensive analysis of your exposure to subprime residential loans. In particular:

- Provide us with your risk management philosophy as it specifically relates to subprime loans. Please address:
 - Your origination policies;
 - The purchase, securitization and retained interests in loans;
 - Investments in subprime mortgage-backed securities and;

- Loans to, commitments to, and investments in subprime lenders.
- Quantify your portfolio of subprime residential mortgages. If practicable, please breakout the portfolio to show the underlying reason for subprime definition, in other words, subject to payment increase, high LTV ratio, interest only, negative amortizing, and so on.
- Quantify the following regarding subprime residential mortgages. Explain how you define each category;
 - Non-performing loans;
 - Non-accrual loans;
 - The allowance for loan losses, and;
 - The most recent provision for loan losses.
- Quantify the principal amount and nature of any retained securitized interests in subprime residential mortgages.
- Quantify your investments in any securities backed by subprime mortgages.
- Quantify the current delinquencies in retained securitized subprime residential mortgages.
- Quantify any write-offs/impairments related to retained interests in subprime residential mortgages.
- Please address all involvement with special purpose entities and variable interest entities and quantify the subprime exposure related to such entities, regardless of whether they are consolidated for the purposes of generally accepted accounting principles.
- Quantify and describe any and all potential repurchase commitments you have regarding subprime residential mortgages.
- Quantify and describe any loans to, commitments in, or investments in subprime lenders. Describe any other potential exposures you may be subject to, such as repurchase commitments related to the receipt of assets in bankruptcy, for example.
- Quantify your revenues from involvement in subprime loans. Break out such revenues based on fees, interest earned, servicing rights and other sources.

Where we have asked you to quantify amounts as of a point in time, please do so as of the end of your last full fiscal year and as of the most recent date practicable. Where we have asked you to quantify amounts for a period, please provide this for the last three full fiscal years and any more recent period if practicable. If you believe that you have provided any of the information requested in public filings, please direct us to such disclosures.

The above list is not intended to be all encompassing. To the extent that you are aware of other asset quality or performance information, or other factors that provide material information about your involvement with subprime residential mortgage loans, please provide that information as well.

If you believe that a material adverse impact on your financial condition, results of operations or liquidity, resulting from your involvement in subprime lending, is remote, please explain. If so, tell us what consideration you may give to a more transparent disclosure about this to inform readers of your level of involvement.

If you believe that a material adverse impact resulting from this exposure is reasonably possible, tell us what disclosures you may consider in order to provide a clearer understanding of this exposure.

Form 10-Q for the Fiscal Quarter Ended February 28, 2007

Note 18. Fair Value Disclosures, page 24

2. We note your table of assets and liabilities measured at fair value on a recurring basis as of February 28, 2007 as required by paragraph 32 of SFAS 157. In future filings, please reconcile the items included in this table to your balance sheet and ensure that you have provided all the required disclosures of paragraph 18 of SFAS 159.
3. We note your disclosure on page 38 regarding your assets and liabilities measured at fair value on a non-recurring basis. Your current disclosure refers the reader to notes 2 and 16 for further information, however, these notes and your note 18 do not appear to provide the information required in paragraph 33 of SFAS 157. Please revise future filings to disclose this information or tell us why you believe this information is not necessary.
4. If material in future filings, include the disclosures pursuant to paragraph 18f of SFAS 159, for investments that would otherwise be required to be accounted for under the equity method, if you had not chosen the fair value option.

David H. Sidwell
Morgan Stanley
August 30, 2007
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As appropriate, please respond to these comments within 10 business days or tell us when you will provide us with a response. Please submit all correspondence and supplemental materials on EDGAR as required by Rule 101 of Regulation S-T. Detailed cover letters greatly facilitate our review. Please understand that we may have additional comments after reviewing your responses to our comments.

We urge all persons who are responsible for the accuracy and adequacy of the disclosure in the filing to be certain that the filing includes all information required under the Securities Exchange Act of 1934 and that they have provided all information investors require for an informed investment decision. Since the company and its management are in possession of all facts relating to a company's disclosure, they are responsible for the accuracy and adequacy of the disclosures they have made.

In connection with responding to our comments, please provide, in writing, a statement from the company acknowledging that:

- the company is responsible for the adequacy and accuracy of the disclosure in the filing;
- staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filing; and
- the company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

In addition, please be advised that the Division of Enforcement has access to all information you provide to the staff of the Division of Corporation Finance in our review of your filing or in response to our comments on your filing.

You may contact Melissa Rocha at (202) 551-3854 or me at (202) 551-3689 if you have questions regarding comments on the financial statements and related matters.

Sincerely,

John Hartz
Senior Assistant Chief Accountant

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1585 Broadway
New York, New York 10036

Morgan Stanley

CONFIDENTIAL TREATMENT OF CERTAIN DESIGNATED PORTIONS OF THIS LETTER HAS BEEN REQUESTED BY MORGAN STANLEY. SUCH CONFIDENTIAL PORTIONS HAVE BEEN OMITTED, AS INDICATED BY [*] IN THE TEXT, AND SUBMITTED TO THE COMMISSION.

November 27, 2007

By U.S. Mail & Facsimile to 202-772-9368

Mr. John Hartz
Senior Assistant Chief Accountant
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Mail Stop 4561
Washington, DC 20549

**Re: Form 10-K for the Fiscal Year Ended November 30, 2006
Form 10-Q for the Fiscal Quarter Ended February 28, 2007
File No. 001-11758**

Dear Mr. Hartz:

Morgan Stanley (the "Company") is pleased to respond to your letter of August 30, 2007, concerning its Annual Report on Form 10-K for the fiscal year ended November 30, 2006 ("Form 10-K") and Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2007 ("Form 10-Q"). For your convenience, we have restated your comments below.

As you are aware, recent events in the subprime market segment have impacted the Company. As a result of these recent market events, the Company filed two Current Reports on Form 8-K during the month of November 2007 related to its subprime positions. Accordingly, the Company has responded to this request by providing the data included in those Form 8-K filings, which is as of October 31, 2007, as that is the most recent data that is readily available for certain of the information requested. However, for certain other data, information is provided as of August 31, 2007, as that is the most recent date for which information is readily available at the level of disaggregation requested.

In addition, we note that the Company has quantified the carrying values and/or net exposures related to its positions in subprime related securities, derivatives, and whole

loans as of October 31, 2007. Given the dynamic and evolving nature of market conditions, it is likely that the amounts quantified as of October 31, 2007 have changed in the intervening period. Additionally, the Company will consider supplemental disclosures in the preparation of its Annual Report on Form 10-K for the fiscal year ended November 30, 2007 given recent market events.

Finally, the Company would like to preface its response by noting that Saxon Capital, Inc. ("Saxon") was acquired on December 4, 2006. Accordingly, the data provided in this response for periods prior to December 4, 2006 excludes balances related to Saxon.

Form 10-K for the year ended November 30, 2006

Note 4. Collateralized and Securitization Transactions, page 126

1. *We note from the disclosures on page 4, 127 and 162 that you originate, trade, make markets and take proprietary positions in, and act as principal with respect to, mortgage related and real estate loan products. We further note on page 4 that in December 2006 you acquired Saxon Capital, Inc., a servicer and originator of subprime residential mortgage loans. We also note that you provide financing to customers for residential real estate loan products. It is unclear from your document the exposure you have to subprime loans.*

Although there may be differing definitions of subprime residential mortgage loans, they are sometimes recognized to be loans that have one or more of the following features:

- *A rate above prime to borrowers who do not qualify for prime rate loans;*
- *Borrowers with low credit ratings (FICO scores);*
- *Interest-only or negative amortizing loans;*
- *Unconventionally high initial loan-to-value ratios;*
- *Low initial payments based on a fixed introductory rate that expires after a short initial period then adjusts to a variable index rate plus a margin for the remaining term of the loan;*
- *Borrowers with less than conventional documentation of their income and/or net assets;*
- *Very high or no limits on how much the payment amount or the interest rate may increase at reset periods, potentially causing a substantial increase in the monthly payment amount, and/or;*
- *Including substantial prepayment penalties and/or prepayment penalties that extend beyond the initial interest rate adjustment period.*

Based on your current public disclosures, it is possible that more clarity about your exposure to any subprime loans could be helpful. Regardless of the materiality of your exposure, we respectfully request that you provide us with the supplemental information about your involvement in subprime loans.

Preface your response by how you specifically define your subprime loans in practice, if at all. However, we ask that you consider the above definition, in general, as part of your response. In other words, we request that the information you provide be based, more or less, on the above definition. Where it does not, please provide specific guidance. This request may be hard for you to provide on a timely basis. Please consider alternative information that may address the concern, at least in part, but which can be readily provided.

Response A:

The Company's exposure to subprime activity is almost entirely concentrated in the United States, through direct relationships with borrowers or otherwise. Therefore, the responses included herein are focused on the Company's U.S. subprime exposure, whether that exposure is held by U.S. or non-U.S. subsidiaries.

The Company has adopted and implemented the Interagency Guidance on Subprime Lending as well as the Fannie Mae and Freddie Mac (FNMA and FHLMC are collectively referred to as Government Sponsored Entities, or "GSEs") Statements on Subprime Lending and Responsible Lending (collectively the "Subprime Guidance"). The Subprime Guidance generally defines a subprime mortgage as a real property secured loan made to a borrower (or borrowers) with a diminished or impaired credit rating or with a limited credit history. A borrower's credit history is reflected in their credit report and routinely converted into a numerical credit score often referred to as a Fair Isaac Corporation (or "FICO") score. Generally, a loan made to a borrower with a FICO score or other credit score below [*] has historically been considered subprime and many loans made to borrowers above [*] may also be considered subprime if the loan exhibits other high risk factors (often referred to as risk layering). Examples of risk factors include loans where: (a) the borrower is at the maximum loan-to-value ("LTV") or combined LTV ("CLTV") for the loan program (generally any LTV above 80% for a first lien or CLTV above 90% for a junior lien) would be considered a layered risk factor; (b) the loan has reduced or limited income documentation; (c) the loan is at or near the maximum debt-to-income ("DTI") ratio (generally the maximum DTI ratio for subprime loans is 50-55%) for the loan program; (d) the occupancy type for the loan is other than the borrower's primary residence. There are many other risk layering factors, including borrowers who have purchased multiple properties or have taken previous equity withdrawal (cash out) refinancings within the last 12-24 month period, non-arm's length purchase transactions and unsupported or high risk collateral properties, among others.

For certain of the features that are listed in question 1 above, we believe the feature, in isolation, would not result in a loan being classified as subprime. For example, we do not believe the fact that a loan has a prepayment penalty would necessarily result in that loan being classified as subprime. However, the factors you have listed in your definition are layered risk factors the Company considers in conjunction with a borrower's FICO score in addition to those discussed above that determine whether the loan would be classified as subprime.

Pursuant to the Subprime Guidance, for loan applications taken after September 13, 2007, the GSEs will generally consider mortgage loans with a credit score above 660 that have additional risk layering terms or features to fall within the definition of subprime. However, it should be noted that prior to September 2007, the Company utilized a FICO score threshold of [*]. Thus, the data provided in this response includes loans with FICO scores above [*] only if the loan has one or more of the additional layered risk factors described above.

Please provide us with a comprehensive analysis of your exposure to subprime residential loans. In particular:

- *Provide us with your risk management philosophy as it specifically relates to subprime loans. Please address:*
 - *Your origination policies;*
 - *The purchase, securitization and retained interests in loans;*
 - *Investments in subprime mortgage-backed securities; and*
 - *Loans to, commitments to, and investments in subprime lenders.*

Response B:

The Company's risk management policy and control structure is described in detail in "Quantitative and Qualitative Disclosures about Market Risk – Risk Management" in Part II, Item 7A of the Form 10-K. The risk management philosophy and procedures related to subprime loans are consistent with those general philosophies and procedures. In response to your request, we have elaborated on the specific policies and procedures related to subprime loans. However, we believe that the discussion in Item 7A, beginning on page 93 of the Form 10-K provides a comprehensive description of the Company's risk management philosophy and procedures, and this response should be read in conjunction with that disclosure.

Origination policies

The philosophy of the Company's origination process is to ensure that loans originated by the Company meet acceptable and prescribed eligibility and underwriting criteria. Towards that end, a loan evaluation process is adopted within a framework of credit underwriting policies and collateral valuation. The Company's underwriting policy is designed to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysis of applicable industry standard credit scoring models (e.g., FICO scores), debt ratios and reserves of the borrower. Loan-to-collateral value ratios are determined based on independent third-party property appraisal/valuations, and security lien position is established through title/ownership reports. As part of the mortgage lending business strategy, almost all loans are sold in the secondary market through securitizations and whole loan sales.

The purchase, securitization and retained interests in loans; and investments in subprime mortgage-backed securities

All residential mortgages, whether purchased or originated, are carried at fair value. The most common disposition strategy utilized by the Company for such positions is securitization. The Company typically retains certain of the lower-rated securities of such securitizations, often referred to as residual tranche securities.

In addition to whole loan positions and residual interests in securitizations sponsored by the Company, the Company invests in subprime mortgage-backed securities or collateralized debt obligation ("CDOs") securities that are in whole or in part backed by subprime loans or subprime backed securities. In addition, the Company enters into derivative transactions whose value is based in whole or in part on subprime mortgages or subprime-backed securities. In addition, the Company underwrites securities issued by CDOs.

All such positions, whether whole loans, investments in securities, or derivatives, are reported daily to senior management via the Company's daily risk aggregation and reporting system. These reports are distributed to certain members of the respective Business Units ("BUs"), Market Risk Department ("MRD"), Credit Risk Department and Financial Control Group.

Position risk limits have been established and are monitored at the trading desk and BU level. Limits are discussed with members of the BU, MRD and management, to ensure appropriateness. When the limits are approved, they are implemented in the Company's daily risk reporting process. The limit structure is reviewed periodically with members of the BU, MRD and management.

Trading desks employ various risk hedging and risk transfer techniques. Interest rate risks are generally hedged. Spread risk and other risks arising from subprime product are hedged or traded as appropriate. Products utilized to execute hedging strategies for subprime positions include interest rate products such as futures and swaps, and credit instruments such as credit default swaps and actively traded indices such as the ABX.

The Company utilizes the statistical technique known as value-at-risk ("VaR") as one of the tools used to measure, monitor and review the market risk exposures to its trading and other portfolios. The MRD calculates and distributes daily VaR-based risk measures to various levels of management. The MRD independently reviews the Company's trading and other portfolios on a regular basis from a market risk perspective utilizing VaR and other quantitative and qualitative risk measures and analyses. The Company's trading and other businesses and the MRD also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed

periodically and is reviewed by trading division risk managers, desk risk managers and the MRD. The MRD also conducts macro scenario analyses, which estimate the Company's revenue sensitivity to a set of specific, predefined market and geopolitical events. In addition, the Company also monitors its net exposure when evaluating risks associated with its trading and other portfolios. Net exposure is defined broadly as the potential loss (or gain) to the Company in a 100 percent default scenario, assuming zero recovery.

Loans to, commitments to, and investments in subprime lenders

The Company provides financing to mortgage originators collateralized by residential mortgage loans. Under these arrangements, the Company requires originators to provide collateral in excess of the monies advanced, and values the collateral on a routine basis to ensure that the value of the collateral exceeds the value of the monies advanced in accordance with the collateral agreements. Due diligence is performed prior to initiating a warehouse loan commitment facility, and this due diligence includes a review of the counterparty's credit underwriting, origination, operations, quality control and servicing functions.

- *Quantify your portfolio of subprime residential mortgages. If practicable, please breakout the portfolio to show the underlying reason for subprime definition, in other words, subject to payment increase, high LTV ratio, interest only, negative amortizing, and so on.*

Response C:

As discussed, the Company applies a "risk layering" approach to classifying its mortgage portfolio. Under that approach, mortgage loans with a FICO score below a certain threshold are automatically considered subprime, while mortgage loans above that threshold are considered subprime if one or more high risk factors are present. While the Company recently has revised its definition of subprime to include all mortgage loans with FICO scores lower than [*] as subprime, the information we have supplied is stratified based on the previously used definition, which considered a loan above [*] to be subprime only if additional risk factors were present. The Company's portfolio of subprime residential mortgage loans is carried at fair value. [*]:

[*]

As discussed, the Company utilizes a risk layering approach in determining the subprime classification of a loan. Accordingly, it is likely that a loan may be considered subprime because of a combination of risk factors. Given the multitude of risk factor permutations, it is impractical to stratify by underlying reason for subprime classification. Accordingly, the above table has been stratified into two categories: loans that are considered subprime simply due to FICO score, and loans that are considered subprime due to the presence of one or more other risk factors.

The Company carries these loans at fair value, which was [*] and [*] at August 31, 2007 and November 30, 2006, respectively. On November 7, 2007, the Company issued a press release and filed a Current Report on Form 8-K ("November 7 Form 8-K") regarding its trading subprime exposure, which is included in this letter as Attachment A. As detailed in the November 7 Form 8-K, the Company's whole loan subprime exposure as of August 31, 2007 was approximately \$2.9 billion. The difference between the [*] carrying value of loans as of August 31, 2007 referenced above and the \$2.9 billion whole loan subprime exposure in the November 7 Form 8-K represents [*] related to securitizations recorded as secured borrowings within the Company's consolidated statement of financial condition based on an analysis of the sale criteria in Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Such amounts are associated with securitizations that were transacted by Saxon prior to its acquisition by the Company. The Company believes this distinction is meaningful as such loans have been legally transferred into securitization trusts and the liabilities issued by these trusts do not have recourse to the general credit of the Company. Accordingly, when evaluating the risks with respect to such loans, the Company does not view itself as having exposure for the full value of the loans, but instead views its exposure as limited to the fair value of any investments it holds in the securitization trusts to which these loans have been transferred. As such, the Company excludes the loans related to securitizations accounted for as secured borrowings when quantifying its subprime whole loan exposure.

- *Quantify the following regarding subprime residential mortgages. Explain how you define each category:*
 - *Non-performing loans;*
 - *Non-accrual loans;*
 - *The allowance for loan losses; and*
 - *The most recent provision for loan losses.*

Response D:

The Company defines non-performing and non-accrual loans synonymously as loans for which interest or principal is 90 days past due. The unpaid principal balance for such loans was [*] and [*] as of August 31, 2007 and November 30, 2006, respectively. The carrying value (and fair value) of such amounts was [*] and [*] as of August 31, 2007 and November 30, 2006, respectively.

The Company carries all mortgage loans at fair value. Accordingly, the Company does not maintain an allowance for loan losses and does not record a provision for loan losses.

- *Quantify the principal amount and nature of any retained securitized interests in subprime residential mortgages.*

Response E:

The fair value of retained interests in securitized subprime residential mortgages was [*] as of August 31, 2007 and [*] as of November 30, 2006. The balance at both dates consisted primarily of residual interests in subprime securitizations.

- *Quantify your investments in any securities backed by subprime mortgages.*

Response F:

The carrying value of the Company's trading positions in subprime related securities or derivatives totaled \$7.8 billion and [*] as of October 31, 2007 and November 30, 2006, respectively. Such amounts exclude the Company's positions in subprime whole loans of \$1.5 billion and [*] as of October 31, 2007 and November 30, 2006, respectively. All such positions, whether investments in securities or derivative instruments, are carried at fair value. Further information regarding the Company's trading positions in subprime related securities, derivatives, and loans can be found in the November 7 Form 8-K, which is included as Attachment A to this letter.

In addition, the Company holds subprime related securities in the investment portfolios of its bank subsidiaries. Such investments, which are classified as "securities available for sale" in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), totaled \$6.7 billion and [*] as of October 31, 2007 and November 30, 2006, respectively. On November 9, 2007, the Company filed a Current Report on Form 8-K ("November 9 Form 8-K") regarding the subprime related securities held in its available-for-sale portfolio, which is included as Attachment B to this letter.

- *Quantify the current delinquencies in retained securitized subprime residential mortgages*

Response G:

Delinquency data is gathered at the level of the individual loan pools underlying specific retained interests. This information is utilized as one of the many inputs by the Company in calculating its estimates of implied cumulative losses. As discussed in the November 7

Form 8-K, these losses were in the market-observed range from 11-19 percent as of October 31, 2007, which serves as a meaningful benchmark in percentage terms as to the impact of the delinquency information on the Company's retained interests. However, the Company does not capture delinquency data in dollar terms for the aggregate population of all securitizations in which we hold retained interests.

- *Quantify any write-offs/impairments related to retained interests in subprime residential mortgages*

Response H:

The Company has exposure to the subprime sector through all of its positions in subprime related securities and derivatives, and not solely through its retained interests in securitizations. Accordingly, the Company believes it would be misleading to confine its response to retained interests, and is instead addressing all of its positions in this response, whether those positions are retained interests or not. Since the subprime market sector turmoil and the resulting trading losses are a recent event, the Company has only quantified trading gains and losses for the current year.

With the exception of securities held in the Company's available-for-sale portfolio, all of the Company's subprime related positions are carried at fair value, with changes in fair value recognized in earnings. For such positions, the Company records both unrealized gains and losses in income. As discussed in the November 7 Form 8-K, the Company's revenues for the two months ended October 31, 2007 were reduced by \$3.7 billion as a result of net declines in value associated with its subprime related trading positions.

In accordance with SFAS 115, the subprime related securities which are held in the Company's available-for-sale portfolio are carried at fair value, with unrealized gains and losses recorded in Accumulated other comprehensive income, a component of shareholders' equity. The Company monitors such positions for other-than-temporary impairment, and records a charge to earnings where impairment is deemed to be other-than-temporary. [*] As discussed in the November 9 Form 8-K, the subprime positions held in the Company's available-for-sale portfolio as of that date were not in the segment of the market that have recently experienced dramatic declines; however, the Company continues to monitor this portfolio for other-than-temporary impairment.

- *Please address all involvement with special purpose entities and variable interest entities and quantify the subprime exposure related to such entities, regardless of whether they are consolidated for the purpose of generally accepted accounting principles.*

Response I:

The Company's involvement with special purpose entities ("SPEs") and variable interest entities ("VIEs") is discussed in notes 3 and 11 of our financial statements in our Form 10-Q and notes 4 and 19 of our Form 10-K. In relation to subprime loans, the Company's involvement with SPEs/VIEs consists primarily of the following activities.

- The Company engages in securitization activities related to subprime loans and subprime backed securities and may act as an underwriter of beneficial interests issued by securitization vehicles. The Company may transfer whole loans into SPEs/VIEs, hold one or more classes of securities issued by such securitization vehicles (including residual tranche securities) and may also enter derivative agreements with such securitization vehicles.
- The Company purchases and sells (in both a market making and a proprietary trading capacity) subprime backed securities issued by SPEs/VIEs, whether such vehicles are sponsored by the Company or not.
- The Company enters into derivative transactions with SPEs/VIEs (not sponsored by the Company) that hold subprime related assets.
- The Company provides warehouse financing to CDOs and collateralized loan obligations ("CLOs").
- The Company enters into derivative agreements with non SPE/VIEs, whose value is derived from securities issued by SPEs/VIEs.
- The Company services assets held by SPEs/VIEs, or may hold servicing rights related to assets held by SPEs/VIEs that are serviced by others under subservicing arrangements.
- The Company serves as an asset manager to various investment funds. These funds may invest in securities that are backed in whole or in part by subprime loans.

In general, with the exception of the exposure related to whole loan positions discussed in Response C above, virtually all of the Company's subprime exposure relates to SPEs/VIEs, whether directly or indirectly. The Company has quantified its non-whole loan subprime exposure in Response F. Note, however, that the amounts quantified in Response F relate to direct, contractual exposure held by the Company. Accordingly, such amounts do not include subprime related securities or derivatives held by investment funds for which the Company acts solely as an asset manager.

- *Quantify and describe any and all potential repurchase commitments you have regarding subprime residential mortgages.*

Response J:

The Company could be required to repurchase transferred loans in connection with two primary types of representations and warranties.

First, certain whole loan transfers are made with early default representations. In connection with such representations, the Company could be required to repurchase a transferred loan if it defaults within a specified time period. The Company's maximum potential commitment under such arrangements was *de minimus* as of August 31, 2007 and November 30, 2006.

Second, as part of the Company's securitization activities, the Company provides representations and warranties that certain securitized assets conform to specified guidelines. The Company may be required to repurchase such assets or indemnify the purchaser against losses if the assets do not meet certain conforming guidelines. The Company performs due diligence to ensure that asset guideline qualifications are met, and, to the extent the Company has acquired such assets to be securitized from other parties, the Company seeks to obtain its own representations and warranties regarding the assets. The maximum potential amount of future payments the Company could be required to make would be equal to the current outstanding balances of all assets subject to such securitization activities. Repurchases and indemnification payments under such arrangements are historically *de minimus*.

- *Quantify and describe any loans to, commitments in, or investments in subprime lenders. Describe any other potential exposures you may be subject to, such as repurchase commitments related to the receipt of assets in bankruptcy, for example.*

Response K:

The Company provides warehouse financing to entities collateralized by residential mortgage loans. Under these line of credit arrangements, the Company requires those entities to provide collateral in excess of the monies advanced. The Company values the collateral on a regular basis to ensure that the value of the collateral exceeds the value of the monies advanced in accordance with the collateral agreements. The Company's commitments under such arrangements totaled [*] and [*] as of August 31, 2007 and November 30, 2006, respectively. Funded amounts under such arrangements totaled [*] and [*] as of August 31, 2007 and November 30, 2006, respectively. Given the highly collateralized and short term nature of such arrangements, and the routine monitoring of collateral, the Company's losses under such arrangements are historically *de minimus*.

In addition, the Company is committed to enter into derivative arrangements with a commercial paper conduit that provides warehouse financing to subprime lenders, where such derivatives are linked to the performance of the conduit's loans to the subprime lenders. At both August 31, 2007 and November 30, 2006, the notional amount of the derivatives entered into by the Company under such commitments totaled [*]. Such derivative positions are carried at fair value, with changes in fair value recognized in earnings.

The Company also purchases pools of subprime mortgages as part of bulk purchases from major subprime originators and subsequently securitizes such pools. The commitments to purchase these loans are carried at fair value. The notional balance of the commitment to purchase loans was [*] and [*] as of August 31, 2007 and November 30, 2006, respectively.

- *Quantify your revenues from involvement in subprime loans. Break out such revenues based on fees, interest earned, servicing rights and other sources.*

Response L:

The following table provides a summary of the Company's revenues from its involvement in subprime loans. Additional information regarding the Company's subprime pre-tax profits and losses is included in the November 7 Form 8-K.

[*]

- *Where we have asked you to quantify amounts as of a point in time, please do so as of the end of the last fiscal year and as of the most recent date practicable.*

Where we have asked you to quantify amounts for a period, please provide this for the last three fiscal years and any more recent period if practicable. If you believe that you have provided any of the information requested in public filings, please direct us to such disclosures.

The above list is not intended to be all encompassing. To the extent that you are aware of other asset quality or performance information, or other factors that provide material information about your involvement with subprime residential mortgage loans, please provide that information as well.

If you believe that a material adverse impact on your financial condition, results of operations or liquidity, resulting from your involvement in subprime lending, is remote, please explain. If so, tell us what consideration you may give to a more transparent disclosure about this to inform readers of your level of involvement.

If you believe that a material adverse impact resulting from this exposure is reasonably possible, tell us what disclosures you may consider in order to provide a clearer understanding of this exposure.

Response M:

The Company discusses its involvement in real estate lending products in Item 1A, Risk Factors (“Risk Factors”), of its Form 10-K. In addition, the footnotes to the Company’s financial statements in its Form 10-K filing discuss the Company’s concentrations of credit risk. That disclosure includes a discussion regarding the Company’s involvement in loans with non-traditional features that may give rise to additional credit risk. Lastly, the Company often references its trading results from securitized products in the Management Discussion and Analysis (“MD&A”) sections of its Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q when such results are material to an understanding of the Company’s results for the relevant reporting period. For example, the MD&A of the Company’s Form 10-Q filing for the fiscal quarter ended August 31, 2007 contained the following disclosure:

Spread widening, lower liquidity and higher volatility resulted in lower origination, securitization and trading results across most credit product groups and also affected the performance of the Company’s hedging strategies. In particular, trading losses were sustained on certain high yield structured credit positions, which resulted from unfavorable positioning, widening credit spreads, and the difficult market conditions that existed during the quarter. Lower revenues from the Company’s residential and commercial mortgage loan activities also contributed to a decline in credit product revenues, reflecting the difficult market conditions referred to above, as well as continued concerns in the sub-prime mortgage loan sector.

As discussed in the responses above, the Company has filed two Current Reports on Form 8-K during the month of November related to subprime exposure given recent market

activity and investor focus on this issue. In addition, as noted in the introduction to this letter, we note that market conditions are dynamic and continue to evolve, and we continue to monitor them and their impact closely. In light of this, we anticipate that we will address this matter in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2007, as this is a significant market event for this year. In formulating our disclosures, we will also consider the supplemental disclosures included herein as we prepare our Form 10-K.

Note 18. Fair Value Disclosures, page 24

2. *We note your table of assets and liabilities measured at fair value on a recurring basis as of February 28, 2007 as required by paragraph 32 of SFAS 157. In future filings please reconcile the items included in this table to your balance sheet and ensure that you have provided all the required disclosures of paragraph 18 of SFAS 159.*

Response N:

The Company has modified its disclosure of assets and liabilities measured at fair value on a recurring basis to include information that explains the differences between the total amounts in the table and the corresponding asset and liability amounts included in the consolidated statement of financial condition. As noted in the disclosure, the majority of such differences relate to instruments within the same statement of financial condition caption that are not accounted for at fair value and, therefore, are excluded from the Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") fair value disclosure tables. The modified disclosures were included in Note 18 to the Company's condensed consolidated financial statements in its Form 10-Q for the quarter ended August 31, 2007 (see pages 38-39).

3. *We note your disclosure on page 38 regarding your assets and liabilities measured at fair value on a non-recurring basis. Your current disclosure refers the reader to notes 2 and 16 for further information, however, these notes and your note 18 do not appear to provide the information required in paragraph 33 of SFAS 157. Please revise future filings to disclose this information or tell us why you believe this information is not necessary.*

Response O:

The Company did not record any material re-measurements of assets and liabilities measured at fair value on a non-recurring basis during the quarter and nine months ended August 31, 2007. To the extent that the Company records such measurements in the future, the Company will include the disclosures required under paragraph 33 of SFAS 157 in future filings.

-
4. *If material in future filings, include the disclosures pursuant to paragraph 18f of SFAS 159, for investments that would otherwise be required to be accounted for under the equity method, if you had not chosen the fair value option.*

Response P:

To the extent that such investments are material in the future, the Company will include the disclosures required under paragraph 18f of Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, in future filings.

* * * * *

In connection with responding to your comments, we acknowledge that:

- the Company is responsible for the adequacy and accuracy of the disclosure in the filings reviewed by Staff;
- Staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filing; and
- the Company may not assert Staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities law of the United States.

Please feel free to contact me at 212-761-5656 or Paul C. Wirth, the Company's Controller and Principal Accounting Officer, at 212-761-6686, if you would like further clarification or additional information.

Sincerely,

/s/ Colm Kelleher

Colm Kelleher
Executive Vice President and Chief Financial
Officer

cc: Melissa N. Rocha, Securities & Exchange Commission
Gregory G. Weaver, Deloitte & Touche, LLP
James V. Schnurr, Deloitte & Touche LLP

 ATTACHMENT A

 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

 Pursuant To Section 13 or 15(d) of
 the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): November 7, 2007

Morgan Stanley
 (Exact Name of Registrant
 as Specified in Charter)

Delaware
 (State or Other Jurisdiction of
 Incorporation)

1-11758
 (Commission File Number)

36-3145972
 (IRS Employer Identification No.)

**1585 Broadway, New York, New
 York**
 (Address of Principal Executive
 Offices)

10036
 (Zip Code)

Registrant's telephone number, including area code: (212) 761-4000

Not Applicable
 (Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

-
- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

-
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-
-

Item 8.01. Other Events.

On November 7, 2007, Morgan Stanley (the "Company") issued a press release announcing significant declines since August 31, 2007 in the fair value of its U.S. subprime related exposures as a result of the continued deterioration in the market and other market developments. As of August 31, 2007, the Company had \$12.3 billion in U.S. subprime related balance sheet exposures representing \$10.4 billion in net exposures. Net exposure as of October 31, 2007 was \$6.0 billion. Net exposures are defined as potential loss to the Company in a 100 percent loss default scenario, with zero recovery. As a result of the decline in the fair value of these exposures, the Company has determined that the reduction in revenues for the two months ended October 31, 2007 attributable to the decline was \$3.7 billion (representing a decline of approximately \$2.5 billion in net income on an after-tax basis). The impact on the Company's fourth quarter financial results from changes in the fair value of these exposures will depend on future market developments and could differ materially from the amounts noted. It is expected that market conditions will continue to evolve, and that the fair value of these exposures will frequently change and could further deteriorate.

A copy of the press release is being filed as Exhibit 99 to this Current Report on Form 8-K and is incorporated herein by reference in its entirety.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit
Number

99 Press release of the Company dated November 7, 2007

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MORGAN STANLEY
(Registrant)

Date: November 7, 2007

By: /s/ Paul C. Wirth
Name: Paul C. Wirth
Title: Controller and Principal Accounting Officer

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Contact: Media Relations	Media Relations
Jeanmarie McFadden	Mark Lake
212 762 6901	212 762 6927

Morgan Stanley

For Immediate
Release**Provides Information Regarding Subprime Exposure**

Continued Market Deterioration Since August Reduces Fair Value of Firm's Subprime Exposure by \$3.7 Billion – as of October 31, 2007

NEW YORK, November 7, 2007 – Morgan Stanley (NYSE: MS) today provided additional information about the Firm's U.S. subprime related exposures, which have declined in value as a result of continued market deterioration since August 2007.

At the end of Morgan Stanley's fiscal third quarter on August 31, 2007, the Firm had \$12.3 billion in U.S. subprime related balance sheet exposures representing \$10.4 billion in net exposures, as indicated in the attached table. Net exposure as of October 31, 2007 is \$6.0 billion. Net exposures are defined as potential loss to the firm in a 100 percent loss default scenario, with zero recovery.

Since that time, the fair value of these exposures has declined as a result of the continued deterioration in market data, as reflected by the sharp decline in the ABX Indices, and other market developments, including updates to mortgage remittance data and cumulative loss forecasts. The declines in value are outlined in the attached table as of August 31, 2007 and October 31, 2007.

As a result of these declines in value, Morgan Stanley's revenues for the two months ended October 31, 2007, were reduced by \$3.7 billion (representing a decline of approximately \$2.5 billion in net income on an after-tax basis). The actual impact on the Firm's fourth quarter financial results, which will include results for the month of November, will depend on future market developments and could differ from the amounts noted.

While these writedowns will negatively impact the fourth quarter results in the Firm's fixed income business, Morgan Stanley expects to deliver solid results in each of its other businesses, including Investment Banking, Equities, Global Wealth Management and Asset Management – subject to market conditions through the end of the year.

Valuation of Subprime Exposures

In determining the fair value of the Firm's ABS CDO-related exposures – which represent the most senior tranches of the capital structure of subprime ABS CDOs – Morgan Stanley took into consideration observable data for relevant benchmark instruments in synthetic subprime markets. Deterioration of value in the benchmark instruments as well as the market developments referred to earlier have led to significant declines in the estimates of fair value. These declines reflect increases in implied cumulative losses across this portfolio. These loss levels are consistent with the cumulative losses implied by ABX Indices in the range between 11-19 percent. At a severity rate of 50 percent, these levels of cumulative loss imply defaults in the range of 40-50 percent of outstanding mortgages for 2005 and 2006 vintages.

In calculating the fair value of the Firm's U.S. subprime mortgage related exposures – including loans, total rate-of-return swaps, ABS bonds (including subprime residuals) and ABS CDS – Morgan Stanley took into consideration observable transactions, the continued deterioration in market conditions, as reflected by the sharp decline in the ABX Indices, and other market developments, including updated cumulative loss data. The fair value of the ABS Bonds declined significantly, which was driven by increases in implied cumulative loss rates applied to subprime residuals at levels consistent with those implied by current market indicators.

It is expected that market conditions will continue to evolve, and that the fair value of these exposures will frequently change and could further deteriorate. Given these anticipated fluctuations, Morgan Stanley does not intend to update this information until it announces its fourth quarter 2007 earnings in December 2007. Investors also should not expect the Company to provide information about the results of future quarters in advance of scheduled quarterly earnings announcement dates.

Conference Call

The company will hold an analyst conference call today from 5:30 pm - 6:00 pm (ET). A live audio of the conference call will be available on the Morgan Stanley website at www.morganstanley.com or by dialing 1-877-391-6849 (passcode 45873077) in the United States. International callers dial 1-617-597-9298 (passcode 45873077). To listen to the playback dial: 1-888-286-8010 (pass code 98702509) within the United States or 1-617-801-6888 (passcode 98702509) internationally.

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Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, investment management and wealth management services. The Firm's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 600 offices in 32 countries. For further information about Morgan Stanley, please visit www.morganstanley.com.

The information above contains forward-looking statements, including without limitation, statements about the expected effects of the ABX Index and the continued deterioration of the U.S. subprime markets since August 2007. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially from those projected or anticipated. In making such statements, Morgan Stanley believes that its expectations are based on reasonable assumptions. However, any such statement may be influenced by factors that could cause actual results to differ materially from those expressed in, or implied by, these forward-looking statements, including, but not limited to, a further deterioration in U.S. subprime market conditions. Accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur, or if they do, what impact they will have on the results of operations or financial condition of Morgan Stanley.

More information about these factors is contained in Morgan Stanley's filings with the Securities and Exchange Commission.

For a discussion of additional risks and uncertainties that may affect the future results of Morgan Stanley, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Competition" and "Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A, "Legal Proceedings" in Part I, Item 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A of Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in Morgan Stanley's Quarterly Reports on Form 10-Q and other items throughout the Form 10-K and Morgan Stanley's 2007 Current Reports on Form 8-K.

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Morgan Stanley
Subprime Analysis 2007
10/31/2007

	Statement of Financial Condition 8/31/07	Statement of Financial Condition 10/31/07	8/31/07		10/31/07		Net Exposure ⁽¹⁾ 08/31/07	Net Exposure ⁽¹⁾ 10/31/07
			Profit and (Loss) Three Months Ended	Profit and (Loss) Nine Months Ended	Profit and (Loss) Two Months Ended	Profit and (Loss) Eleven Months Ended		
<i>(in billions)</i>								
<i>Super Senior Exposure</i>								
High- Grade	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Mezzanine	\$ (1.8)	\$ (5.2)	\$ (1.9)	\$ (2.2)	\$ (3.4)	\$ (5.6)	\$ 11.4	\$ 8.3
CDO-Squared	\$ 0.0	\$ (0.0)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.1
Total ABS CDO Super Senior Exposure	\$ (1.8)	\$ (5.2)	\$ (1.9)	\$ (2.2)	\$ (3.4)	\$ (5.6)	\$ 11.4	\$ 8.4
<i>Other Retained and Warehouse Exposure</i>								
ABS CDO CDS	\$ 1.1	\$ 1.7	\$ 0.8	\$ 1.0	\$ 0.5	\$ 1.5	\$ (2.9)	\$ (3.1)
ABS CDO Bonds	\$ 1.6	\$ 1.7	\$ (0.4)	\$ (0.3)	\$ (0.0)	\$ (0.3)	\$ 1.6	\$ 1.7
CDO Warehouse	\$ 0.0	\$ 0.0	\$ (0.0)	\$ (0.0)	\$ 0.0	\$ (0.0)	\$ 0.0	\$ 0.0
Total Other Retained and Warehouse Exposure	\$ 2.7	\$ 3.4	\$ 0.4	\$ 0.7	\$ 0.5	\$ 1.2	\$ (1.3)	\$ (1.4)
Subtotal ABS CDO Related Exposure (2)	\$ 0.9	\$ (1.8)	\$ (1.5)	\$ (1.5)	\$ (2.9)	\$ (4.4)	\$ 10.1	\$ 7.0
<i>U.S. Subprime Mortgage Related Exposure</i>								
Loans	\$ 2.9	\$ 1.5	\$ (0.0)	\$ (0.1)	\$ (0.0)	\$ (0.1)	\$ 2.9	\$ 1.5
Total Rate of Return Swaps	\$ 0.1	\$ (0.0)	\$ 0.0	\$ 0.1	\$ 0.0	\$ 0.1	\$ (0.7)	\$ (0.0)
ABS Bonds	\$ 4.2	\$ 3.0	\$ (0.7)	\$ (0.9)	\$ (1.9)	\$ (2.8)	\$ 4.0	\$ 3.0
ABS CDS	\$ 4.2	\$ 6.6	\$ 2.3	\$ 3.4	\$ 1.1	\$ 4.5	\$ (5.9)	\$ (5.5)
Subtotal U.S. Subprime Mortgage Related Exposure (3)	\$ 11.4	\$ 11.1	\$ 1.6	\$ 2.5	\$ (0.8)	\$ 1.7	\$ 0.3	\$ (1.0)
Total ABS CDO / Subprime Exposure	\$ 12.3	\$ 9.3	\$ 0.1	\$ 1.0	\$ (3.7)	\$ (2.7)	\$ 10.4	\$ 6.0

Notes:

- (1) Net Exposure is defined as potential loss to the Firm in an event of 100% default, assuming zero recovery. Positive amounts indicate potential loss (long position) in a default scenario. Negative amounts indicate potential gain (short position) in a default scenario.
- (2) In determining the fair value of the Firm's ABS CDO-related exposures – which represent the most senior tranches of the capital structure of subprime ABS CDOs – Morgan Stanley took into consideration observable data for relevant benchmark instruments in

synthetic sub prime markets. Deterioration of value in the benchmark instruments as well as the market developments referred to above have led to significant declines in the estimates of fair value. These declines reflect increase in implied losses across this portfolio. These implied loss levels are consistent with the losses in the range between 11%—19% implied by the ABX indices. These cumulative loss levels, at a severity rate of 50%, imply defaults in the range of 40—50% for 2005 and 2006 outstanding mortgages.

- (3) In calculating the fair value of the Firm's U.S. sub-prime mortgage related exposures – including loans, total rate-of-return swaps, ABS bonds (including subprime residuals) and ABS CDS – Morgan Stanley took into consideration observable transactions, the continued deterioration in market data, as reflected by the sharp decline in the ABX indices, and other market developments, including updated cumulative loss data. The fair value of the ABS Bonds declined significantly, which were driven by increases in implied cumulative losses for subprime residuals to levels equivalent to those now seen in the market

ATTACHMENT B

SECURITIES AND EXCHANGE COMMISSION**WASHINGTON, D.C. 20549**

FORM 8-K**CURRENT REPORT
Pursuant To Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): November 9, 2007

Morgan Stanley
(Exact Name of Registrant
as Specified in Charter)**Delaware**
(State or Other Jurisdiction of
Incorporation)**1-11758**
(Commission File Number)**36-3145972**
(IRS Employer Identification No.)**1585 Broadway, New York, New
York**
(Address of Principal Executive
Offices)**10036**
(Zip Code)

Registrant's telephone number, including area code: (212) 761-4000

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

-
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 7.01. Regulation FD Disclosure.

In response to market inquiries regarding Morgan Stanley's (the "Company") U.S. subprime related holdings following the Company's press release dated November 7, 2007 (which described the effect of recent market dislocations on its trading portfolio), the Company is providing information regarding certain subprime related securities in the investment portfolios of Morgan Stanley Bank (Utah) and Morgan Stanley Trust FSB (collectively, the "Subsidiary Banks"). These portfolios do not include securities that are in the segment of the market that experienced dramatic declines in September and October. The portfolios contain no subprime whole loans, subprime residuals or CDOs. The securities in the Subsidiary Banks' portfolios, which are predominantly classified as "securities available for sale" in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, are part of the Company's overall Treasury liquidity management portfolio.

At October 31, 2007, the balance sheet value of such securities held by the Subsidiary Banks was \$6.7 billion. All but \$10 million of the securities are AAA-rated residential mortgage-backed securities. Of the total amount, \$5.2 billion are comprised of ABS bonds collateralized by first lien subprime mortgages of which \$1.2 billion are further enhanced by FHLMC and AAA-rated monoline insurers. The remaining \$1.5 billion of ABS bonds are collateralized by 2nd lien subprime mortgages and all but \$67 million are enhanced by financial guarantees from AAA-rated monoline insurers.

The information disclosed under Item 7.01 of this Current Report on Form 8-K shall be deemed to be "filed" for purposes of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MORGAN STANLEY
(Registrant)

Date: November 9, 2007

By: /s/ Paul C. Wirth
Name: Paul C. Wirth
Title: Controller and Principal Accounting Officer

CORRESP 1 filename1.htm

1585 Broadway
New York, New York 10036

Morgan Stanley

**CONFIDENTIAL TREATMENT
OF CERTAIN DESIGNATED
PORTIONS OF THIS LETTER
HAS BEEN REQUESTED BY
MORGAN STANLEY. SUCH
CONFIDENTIAL PORTIONS
HAVE BEEN OMITTED, AS
INDICATED BY [*] IN THE
TEXT, AND SUBMITTED TO
THE COMMISSION.**

February 1, 2008

By U.S. Mail & Facsimile to 202-772-9368

Mr. John Hartz
Senior Assistant Chief Accountant
Division of Corporation Finance
Securities and Exchange Commission
100 F. Street, N.E.
Mail Stop 4561
Washington, DC 20549

Re: Form 10-K for Fiscal Year Ended November 30, 2006
Form 10-Q for the Fiscal Quarter Ended February 28, 2007
File No. 001-11758

Dear Mr. Hartz:

Morgan Stanley (the "Company") is pleased to respond to your letter of January 3, 2008, concerning its Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended November 30, 2006 and Quarterly Report on Form 10-Q ("Form 10-Q") for the fiscal quarter ended February 28, 2007. For your convenience, we have restated your comments below.

Form 10-K for the year ended November 30, 2006

Note 4. Collateralized and Securitization Transactions, page 126

1. We have reviewed your response to prior comment 1 in our letter dated August 30, 2007 and appreciate the detailed information you have provided. Please address the following comments with regards to your subprime lending:
- Please reconcile and explain the difference between the amount of your subprime residential mortgage loans at August 31, 2007 that is included in your response C to prior comment 1 to the \$12.3 billion amount presented in your subprime analysis for 2007 that was included in your response and also included in your Form 8-K filed November 7, 2007. For example, explain how your trading positions in subprime related securities and derivatives are reflected in this table.

Response A:

The Company's prior response C was limited to quantifying the Company's U.S. subprime whole loan positions. The \$12.3 billion amount quantified in the Company's Form 8-K filed on November 7, 2007 ("Form 8-K") includes the statement of financial condition net carrying value, as of August 31, 2007, of all the Company's U.S. subprime trading exposures, which includes derivatives and securities in addition to whole loan positions.

The [*] carrying value of U.S. subprime mortgage loans as of August 31, 2007 referred to in prior response C is reflected in *Financial instruments owned – Corporate and other debt* on the Company's statement of financial condition. The reconciliation of this [*] amount to the August 31, 2007 \$12.3 billion net statement of financial condition carrying value of all U.S. subprime trading exposures disclosed in the Form 8-K is as follows (in \$ billions):

Carrying value of U.S. subprime mortgage loans per earlier Response C	[*]
Less: Loans related to on-balance sheet securitizations (a)	[*]
Carrying value of U.S. subprime mortgage loans per table in Form 8-K	<u>2.9</u>
Net carrying value of U.S. subprime related securities and derivatives per Form 8-K:	
Super Senior Mezzanine credit default swaps	\$(1.8)
ABS CDO CDS	1.1
ABS CDO Bonds	1.6
Total Rate of Return Swaps	0.1
ABS Bonds	4.2
ABS CDS	<u>4.2</u>
Total net carrying value of U.S. subprime related securities and derivatives	<u>9.4</u>
Total net carrying value of U.S. subprime trading exposures per Form 8-K	<u>\$ 12.3</u>

-
- (a) This [*] billion amount relates to subprime mortgage loans transferred in securitizations accounted for as secured borrowings within the Company's statement of financial condition based on an analysis of the sale criteria in Statement of Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Company does not include such loans in its U.S. subprime trading exposure disclosures as such loans have been legally transferred into securitization trusts and the liabilities issued by these trusts do not have recourse to the general credit of the Company.

As can be seen in the above reconciliation, the Company's exposure to the U.S. subprime market is primarily related to non-whole loan positions, such as derivatives and securities. Indeed, the majority of the Company's U.S. subprime exposure is related to an unfavorable subprime mortgage-related trading strategy, which is discussed further in Response E.

- For each amount quantified in responses C–K, please reconcile these amounts to amounts in your statement of financial position at August 31, 2007 and provide explanations for any material differences.

Response B:

The following are the reconciliations requested:

Prior response C – Subprime loans: The [*] carrying value of U.S. subprime mortgage loans as of August 31, 2007 is reflected in the August 31, 2007 *Financial instruments owned – Corporate and other debt* balance of \$160.0 billion on the Company's statement of financial condition. The Company carries these loans at fair value. Accordingly, the unpaid principal amount of [*] related to U.S. subprime mortgage loans as of August 31, 2007, which is also discussed in prior response C, is reflected on the statement of financial condition at the [*] carrying value. Although the Company carries such loans at fair value, the Company provided the unpaid principal balance in its prior response C in connection with providing a breakdown of loans by FICO score. The Company tracks such FICO category information only by unpaid principal balance, not fair value.

Prior response D – Non-performing loans: The [*] carrying value of non-performing U.S. subprime mortgage loans as of August 31, 2007 is a subset of the [*] carrying value of U.S. subprime mortgage loans discussed in prior response C. Accordingly, this amount is reflected in *Financial instruments owned-Corporate and other debt* on the statement of financial condition. As mentioned previously, the Company carries such loans at fair value. Therefore, the unpaid principal amount of [*] related to non-performing U.S. subprime mortgage loans as of August 31, 2007 is reflected on the statement of financial condition at its [*] carrying value.

Prior response E- Retained interests: The [*] carrying value of retained interests in U.S. subprime residential mortgage loans as of August 31, 2007 is reflected in the August 31, 2007 *Financial instruments owned – Corporate and other debt* balance of \$160.0 billion on the Company's statement of financial condition. Note that the [*] carrying value of retained interests is a subset of the \$4.2 billion in ABS Bonds, which is reflected in the \$9.4 billion total net carrying value of all trading investments in U.S. subprime related securities and derivatives as of August 31, 2007.

Prior response F – Investments in securities backed by subprime mortgages: The Company's trading investments in U.S. subprime related securities and derivatives, excluding loans, totaled \$9.4 billion as of August 31, 2007. This \$9.4 billion balance is detailed in the reconciliation provided in Response A of this letter, and is derived from the Form 8-K. Please note that in our prior response F, we provided October 31, 2007 numbers and not August 31, 2007 amounts. Given your request for reconciliations of the August balance sheet amounts, we are reconciling the August 31, 2007 amount.

The \$9.4 billion subprime trading securities and derivatives net carrying value as of August 31, 2007, as detailed in Response A, is reflected as follows in the Company's statement of financial condition: *Financial instruments owned* of [*] and *Financial instruments sold, not yet purchased* of [*]. Such balance sheet amounts reflect counterparty netting for derivatives to the extent that there are positions with the same counterparty that are subprime related; they do not reflect counterparty netting to the extent there are positions with the same counterparty that are not subprime-related. In addition, such balance sheet amounts do not reflect any netting of cash collateral against these positions.

The [*] carrying value of U.S. subprime related securities held in the available for sale investment portfolios of the Company's bank subsidiaries as of August 31, 2007 is reflected in the August 31, 2007 *Other investments* balance of \$12.7 billion on the Company's statement of financial condition.

Prior response G – Delinquencies in retained securitized subprime residential mortgages: The Company's response on this matter discussed a statistical measure. Accordingly, there are no amounts in this prior response to reconcile to the statement of financial condition.

Prior response H – Write-offs / impairments related to retained interests in subprime residential mortgages: The Company's response on this matter discussed income statement measures. Accordingly, there are no amounts in this prior response to reconcile to the statement of financial condition at August 31, 2007.

Prior response I – Involvement with special purpose entities: The Company's response on this matter was a qualitative discussion of its involvement with special purpose entities. Accordingly, there are no amounts in this prior response to reconcile to the statement of financial condition at August 31, 2007.

Prior response J – Potential repurchase commitments you have regarding subprime residential mortgages: The Company's response on this matter discussed the nature of its repurchase commitment obligations and did not quantify any balance sheet measures. Accordingly, there are no amounts in this prior response to reconcile to the statement of financial condition at August 31, 2007.

Prior response K – Loans to, commitments in, or investments in subprime lenders: The [*] in loans made to U.S. subprime lenders under warehouse lending agreements as of August 31, 2007 is reflected in the August 31, 2007 *Securities purchased under agreements to resell* balance of \$176.9 billion on the Company's statement of financial condition. Such lending arrangements are generally executed under master repurchase agreements.

The unrealized loss associated with derivatives entered into with a third party conduit that provides warehouse financing to subprime lenders, which is presented in *Financial instruments sold, not yet purchased*, was immaterial as of August 31, 2007.

There were no subprime mortgage loan purchase commitments as of August 31, 2007. Accordingly, there is no unrealized gain or loss amount related to subprime mortgage loan purchase commitments to reconcile to the statement of financial condition as of August 31, 2007.

- *We note your risk management policies discussed in your response and your disclosure in Item 7A of your Form 10-K for 2006. Please ensure that your Item 7A disclosures in future filings include a more detailed discussion of your origination policies, specifically any changes in eligibility requirements, and discuss in detail disposition strategies and how you monitor your net exposure when evaluating risks associated with your trading and other portfolios.*

Response C:

The Company continually evaluates the appropriateness and completeness of its Item 7A disclosures, and modifies and enhances these disclosures as appropriate. In making such an evaluation, the Company considers the materiality of its various businesses, and the extent to which the Company's various businesses contribute to the Company's risk profile. As discussed below in Response E, the Company's main U.S. subprime exposures are the result of an unfavorable subprime mortgage-related trading strategy, and not as the result of whole loan positions generated by origination activity.

[*]

[*]

With respect to the monitoring of net exposure, the Company has noted on page 86 of its 2007 Form 10-K, as detailed in Attachment A, that net exposure is one key risk measure the Company employs to standardize the aggregation of market risk exposures across cash and derivative products.

The Company has added a discussion of the 2007 credit market events to its 7A disclosures on page 85 of the 2007 Form 10-K. Those discussions, which are included in Attachment A, note that enhancements have been made to the Company's stress test and scenario analysis as a result of these events.

- *We note that your response has not addressed the possibility that your subprime lending business will have a material adverse impact on your condition, results of operations or liquidity. We caution you to continue to evaluate, both on a quantitative and qualitative basis, the appropriate amount of transparent disclosures you provide regarding your subprime lending so that readers are informed about your level of involvement in these activities.*

Response D:

The Company has significantly expanded the discussion of its U.S. subprime related activities and exposures in its 2007 Form 10-K. The primary discussion of these activities and exposures is contained in the section titled "Impact of Credit Market Events" which starts on page 51 and ends on page 55 of the 2007 Form 10-K and is included in Attachment B. The Company continually assesses the appropriateness and completeness of its disclosures. Accordingly, continued disclosures of this nature will be evaluated and the appropriate amount of disclosures will be made.

- *We note in your Form 10-Q for August 31, 2007 you disclose in the MD&A that the US economy was experiencing signs of slowing during the third quarter 2007, primarily reflecting difficult conditions in the residential real estate and credit markets and that concerns about the impact of subprime loans caused the broader credit markets to deteriorate considerably over the quarter. In light of the economic slowing in the residential real estate and credit markets and your impairment of trading portfolio that included real estate securities, tell us how you determined that there were no decreases in fair value of your US subprime related balance sheet exposures during the third quarter 2007.*

Response E

The Company believes that the carrying value of its subprime balance sheet exposures as of August 31, 2007 reflected the fair value of those exposures based on the then current market conditions, and that the losses recorded in the fourth quarter of 2007 reflected changes in market conditions that occurred during the fourth quarter.

The Company's third quarter 2007 results did reflect losses on certain of its subprime positions. Those losses, which were offset by gains on other U.S. subprime positions, significantly lowered revenues in the third quarter of 2007. This decline in credit product revenues was discussed on page 58 of the Company's Form 10-Q for the fiscal quarter ended August 31, 2007 ("third quarter Form 10-Q") as follows:

Credit product revenues decreased 54%, primarily due to lower revenues from corporate credit and structured products. Spread widening, lower liquidity and higher volatility resulted in lower origination, securitization, and trading results across most credit product groups and also affected the performance of the Company's hedging strategies.

The significant losses sustained by the Company in the fourth quarter resulted from an unfavorable subprime mortgage-related trading strategy and the continued deterioration and lack of market liquidity for subprime and other mortgage-related instruments. The valuation methodology used for these instruments incorporated a variety of inputs, including prices observed from the execution of a limited number of trades in the marketplace; ABX and similar indices that track the performance of a series of credit default swaps based on subprime mortgages; and other market information, including data on remittances received and updated cumulative loss data on the underlying mortgages.

The Company's primary exposure to the U.S. subprime market is associated with "super senior" credit default swaps that reference synthetic asset backed security ("ABS") collateralized debt obligations ("CDOs") that themselves hold or are referenced to "mezzanine" collateral with ratings of BBB+, BBB, or BBB-. Under these super senior credit default swap arrangements, which were entered into primarily by the Company's proprietary trading group, the Company can be required to make payments in the event that securities in the referenced portfolios default or experience other credit events such as rating agency downgrades. The majority of the fourth quarter losses related to significant declines in fair value associated with such super senior credit default swaps.

The Company also has exposure to the U.S. subprime market via other trading positions, consisting primarily of ABS CDO bonds, ABS credit default swaps, and ABS CDO credit default swaps.

One of the key proxies for the move in the fair value of the Company's super senior credit default swaps is the ABX BBB index. The movement of the fair value of such super senior credit default swaps is directionally related, albeit not necessarily in a linear fashion, to movements in the ABX BBB index. That is, the declines in fair value of a super senior default swap may be greater than the percentage change in the index level.

During the third quarter of 2007, the ABX BBB indices, on average, declined by 50%. As a result of the decline in the overall market, as evidenced by the ABX decrease, the Company recorded losses of \$1.9 billion on its super senior credit default swaps during the third quarter, as well as \$1.1 billion in losses on other ABS CDO bond and ABS bond positions. However, the Company's positions in other ABS CDO credit default swaps and ABS credit default swaps resulted in gains, which fully offset the losses incurred on the super senior credit default swaps and other ABS CDO and ABS bond positions.

[*]

As a result of these fourth quarter developments, the Company recognized losses of \$7.2 billion during the fourth quarter on its super senior credit default swaps, as well as \$3.4 billion in losses on other ABS CDO bonds and ABS bonds. [*]

- *Please provide us with a comprehensive analysis as to how Saxon Capital, Inc. may impact your company. Tell us what disclosures you intend to include in your future filings in this regard.*

Response F

[*]

[*]

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- If material, you should consider discussing your revenues from involvement in subprime loans and any expected impact due to current market conditions.

Response G:

Given the materiality of the U.S. subprime related trading losses sustained by the Company during fiscal 2007, the Company has provided enhanced disclosures of its U.S. subprime related trading revenues in its 2007 Form 10-K. This disclosure is contained in the section titled "Impact of Credit Market Events" which starts on page 51 and ends on page 55 of the 2007 Form 10-K and is included in Attachment B. Future disclosures in this respect will be made as appropriate, based on evaluation of the materiality of such revenues.

- *Further, we urge you to carefully consider how your current involvement with subprime loans may impact your companies, financial position, results of operations and liquidity. The impacts considered should encompass, whole loan exposures, trading investments, derivatives, available for sale securities, investments in, and by, subsidiaries and any and all exposures to off-balance sheet entities and unrelated entities. Your disclosures should be presented in such a way that readers can fully understand the scope of your direct and indirect involvement, and potential exposures you have regarding such loans and financial instruments.*

Response H:

As discussed in Response D, the Company has significantly expanded the discussion of its U.S. subprime related activities and exposures in its 2007 Form 10-K. The primary discussion of these activities and exposures is contained in the section titled "Impact of Credit Market Events" which starts on page 51 of the 2007 Form 10-K and is included in Attachment B. The Company continually assesses the appropriateness and completeness of its disclosures. Accordingly, the continued disclosure of these activities and exposures will be made as and when appropriate

* * * * *

In connection with responding to your comments, we acknowledge that:

- the Company is responsible for the adequacy and accuracy of the disclosure in the filings reviewed by Staff;
- Staff comments or changes to disclosure in response to Staff comments do not foreclose the Commission from taking any action with respect to the filing; and

-
- the Company may not assert Staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities law of the United States.

Please feel free to contact me at 212-761-5656 or Paul C. Wirth, our Controller and Principal Accounting Officer at 212-761-6686, if you would like further clarification or additional information.

Sincerely,

/s/ Colm Kelleher

Colm Kelleher
Executive Vice President and Chief Financial
Officer

cc: Melissa N. Rocha, Securities & Exchange Commission
Gregory G. Weaver, Deloitte & Touche, LLP
James V. Schnurr, Deloitte & Touche LLP

ATTACHMENT A - Selected excerpts from Item 7A, Quantitative & Qualitative Disclosures About Market Risk, as contained in Morgan Stanley's 2007 Form 10-K**Discussions of subprime and related risks (page 85 of 2007 Form 10-K):*****"Subprime and Related Risks.***

During 2007, asset-backed products referencing subprime consumer mortgages experienced a significant increase in expected default rates, resulting in a dramatic reduction in asset prices and market liquidity. Although other markets have also experienced periods of significant illiquidity in the past, the combined magnitude and velocity of price depreciation, as well as the continuing nature of the event, place it among the most significant market shocks ever realized. While such events may recur in the future, the timing and magnitude of recurrence are difficult to predict.

Events of this magnitude are outside of the loss estimates forecast by VaR models and are more commonly measured by alternative risk measures such as stress tests and scenario analyses. However, the market moves associated with the subprime events of 2007 were significantly greater than those included in the Company's stress tests and scenario analyses at that time. The Company has since enhanced its stress test and scenario analyses to better incorporate the levels of price volatility realized during the second half of fiscal 2007. Stress tests and scenario analyses represent estimates of future significant events. Actual market moves may continue to be more dramatic than the estimates included in the Company's VaR, stress tests and scenario analyses. Limitations to VaR models are discussed further in "VaR Methodology, Assumptions and Limitations" below."

Discussions of net exposure in (page 86 of Form 10-K):

"Net exposure, defined as the potential loss to the Company over a period of time in the event of default of a referenced asset, assuming zero recovery, is one key risk measure the Company employs to standardize the aggregation of market risk exposures across cash and derivative products. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Market Risk Department. The Market Risk Department also conducts scenario analyses, which estimate the Company's revenue sensitivity to a set of specific, predefined market and geopolitical events."

Discussions of VaR model improvements (page 87 of Form 10-K):

"The Company's VaR models evolve over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name-specific risk factors may be added to improve the VaR model's ability to more accurately estimate risks to specific asset classes or industry sectors. In response to increased levels of market volatility realized during the second half of fiscal 2007, the Company has reviewed the appropriateness of the implementation of its VaR models and has made certain changes to more accurately capture risks generated by certain fixed income products. These changes include additional historical time series that provide broader product coverage of subprime consumer mortgage products as well as updated mappings of risk exposures to historical price time series."

ATTACHMENT B - Discussions of Impact of Credit Market Events in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations (starts on page 51 and ends on page 55 of Morgan Stanley's 2007 Form 10-K)**Impact of Credit Market Events.***Overview.*

The Company recorded \$9.4 billion in mortgage-related writedowns in the fourth quarter of fiscal 2007 resulting from an unfavorable subprime mortgage-related trading strategy and the continued deterioration and lack of market liquidity for subprime and other mortgage-related instruments. Included in the \$9.4 billion were writedowns of \$7.8 billion related to U.S. subprime trading positions, principally super senior derivative positions in CDOs. These derivative positions were entered into primarily by the Company's proprietary trading group (see "U.S. ABS CDO Exposures"). As the credit markets in general, and the mortgage markets in particular, declined dramatically in the fourth quarter, increases in the implied cumulative losses in the subprime mortgage market, coupled with the illiquid nature of the Company's trading positions, led to a significant deterioration in value in its subprime-related trading positions. A summary of the Company's U.S. subprime trading positions, writedowns and remaining net exposures is further detailed in the table on page 53 and is discussed in "U.S. Subprime Mortgage-Related Exposures" herein.

The \$9.4 billion of fourth quarter writedowns also included an impairment charge of \$437 million related to mortgage-related securities portfolios in the Company's domestic subsidiary banks (see "Subsidiary Banks" herein) and \$1.2 billion related to CMBS, ALT-A (a residential mortgage loan categorization that falls between prime and subprime) and other loans, conduit and non-performing loans and European non-conforming loans. The Company continues to have exposure to these markets and instruments, and, as market conditions continue to evolve, the fair value of these other mortgage-related instruments could further deteriorate.

The valuation methodology used for these instruments incorporated a variety of inputs, including prices observed from the execution of a limited number of trades in the marketplace; ABX and similar indices that track the performance of a series of credit default swaps based on subprime mortgages; and other market information, including data on remittances received and updated cumulative loss data on the underlying mortgages. For a further discussion of the Company's risk management policies and procedures see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management" in Part II, Item 7A.

For further discussion regarding the Company's involvement with other U.S. subprime-related activities, see "Special Purpose Entities and Variable Interest Entities" and "Other Exposures to Subprime Lenders."

The results for fiscal 2007 also included losses of approximately \$700 million primarily recorded in the third quarter of fiscal 2007 that reflected mark-to-market valuations associated with loans and loan commitments largely related to acquisition financing to non-investment grade companies. The losses included markdowns of leveraged loan commitments associated with acquisition financing transactions that were accepted by the borrower but not yet closed. These losses were primarily related to the illiquid market conditions that existed during the second half of fiscal 2007. The valuation of these commitments could change in future periods depending on, among other things, the extent that they are renegotiated or repriced or the associated acquisition transaction does not occur. In addition, the Company's leveraged finance business originates and distributes loans and commitments, and intends to distribute its current positions; however, this could take longer than in the past and is dependent on liquidity re-entering the market. Subsequent to November 30, 2007, there has been further widening in credit spreads for non-investment grade loans that, if sustained, will result in additional writedowns for these loans and commitments. For further information about the Company's corporate lending activities, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk."

The Company also recognized losses of \$129 million in the fourth quarter of fiscal 2007 related to structured investment vehicles (see "Structured Investment Vehicles" herein).

U.S. Subprime Mortgage-Related Exposures.

The Company's U.S. subprime mortgage-related trading positions consist of those related to U.S. ABS CDOs and other mortgage-related exposures arising from investments in subprime loans, from asset-backed securities that, in whole or in part, are backed by subprime mortgage loans, and from derivatives referencing subprime mortgages or subprime mortgage-backed securities.

Subprime mortgages are loans secured by real property made to a borrower (or borrowers) with a diminished or impaired credit rating or with a limited credit history. A borrower's credit history is reflected in his credit report and routinely converted into a numerical credit score often referred to as a Fair Isaac Corporation (or "FICO") score. Generally, a loan made to a borrower with a low FICO score or other credit score has historically been considered as subprime. Loans to borrowers with higher FICO scores may be subprime if the loan exhibits other high-risk factors. Such risk factors may include loans where: (a) the loan has a high loan-to-value ratio or combined loan-to-value ratios; (b) the borrower has reduced or limited income documentation; (c) the borrower has a high debt-to-income ratio; (d) the occupancy type for the loan is other than the borrower's primary residence. There are many other risk factors, including borrowers who have purchased multiple properties or have taken previous equity withdrawal (cash out) refinancings within the last 12 to 24 month period, non-arm's length purchase transactions and unsupported or high-risk collateral properties, among others. Subprime mortgage-related securities are those securities that derive a significant portion of their value from subprime loans.

U.S. ABS CDO Exposures.

The Company purchases interests in and enters into derivatives with ABS CDOs. CDOs provide credit risk exposure to a portfolio of asset-backed securities ("cash CDOs") or a reference portfolio of securities ("synthetic CDOs"). The underlying or reference portfolios consist primarily of residential mortgage-backed securities. The CDOs to which the Company has exposure are primarily structured and underwritten by third parties, although the Company also structures and underwrites CDOs, for which it receives structuring and/or distribution fees, and does from time to time retain interests in such CDOs.

The Company's primary exposure to ABS CDOs is to synthetic CDOs that hold or are referenced to collateral with ratings of BBB+, BBB or BBB- ("mezzanine CDOs"). The majority of the Company's writedowns in the fourth quarter related to super senior credit default swaps referencing such mezzanine CDOs that were entered into primarily by the Company's proprietary trading group. Under these credit default swap arrangements, the Company can be required to make payments in the event that securities in the referenced portfolios default or experience other credit events such as rating agency downgrades. (The characterization of these credit default swaps as "super senior" derives from their seniority in the capital structure of the synthetic CDO.) The Company also has exposure to ABS CDOs via other types of credit default swaps, direct investments in CDO securities, and retained interests in CDOs that the Company has underwritten. In determining the fair value of the Company's ABS CDO-related instruments the Company took into consideration prices observed from the execution of a limited number of transactions and data for relevant benchmark instruments in synthetic subprime markets. Despite the fact that actual defaults on swap obligations have not yet been realized, the fair value of such positions has experienced significant declines, as a result of a deterioration of value in the benchmark instruments as well as market developments. These losses, as well as the Company's net CDO exposures, are quantified in the U.S. subprime-related exposures table below.

Other U.S. Subprime Mortgage-Related Exposures.

The Company also has exposure to the U.S. subprime mortgage market via investments in subprime mortgage loans and ABS that are backed in whole or in part by subprime mortgage loans and via derivatives referencing subprime mortgages or subprime mortgage-backed securities. With respect to whole loans, the Company purchases pools of mortgage loans from third-party originators and also originates mortgage loans through its retail, wholesale and conduit channels and typically disposes of such loans by securitizing them.

The Company typically retains certain lower-rated securities of such securitizations, often referred to as residual tranche securities. The Company's other subprime mortgage-related trading exposures are quantified in the table below.

The Company's interests in U.S. subprime-related exposures are carried at fair value with changes recognized in earnings.

The following table provides a summary of the Company's direct U.S. subprime trading exposures (excluding amounts related to mortgage-related securities portfolios in the Company's domestic subsidiary banks (see "Subsidiary Banks" herein)) as of and for the fiscal year ended November 30, 2007. The Company utilizes various methods of evaluating risk in its trading and other portfolios, including monitoring Net Exposure. Net Exposure is defined as potential loss to the Company over a period of time in an event of 100% default of the referenced loan, assuming zero recovery. The value of these positions remains subject to mark-to-market volatility. Positive net exposure amounts indicate potential loss (long position) in a default scenario. Negative net exposure amounts indicate potential gain (short position) in a default scenario. Net Exposure does not take into consideration the risk of counterparty default. See "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part II, Item 7A for a further description of how credit risk is monitored. Actual losses could exceed the amount of Net Exposure.

Statement of Financial Condition 11/30/07(1)	November 30, 2007		Net Exposure 11/30/07	
	Profit and (Loss) Three Months Ended	Profit and (Loss) 12 Months Ended		
	(dollars in billions)			
Super Senior Derivative Exposure:				
Mezzanine	\$ (8.7)	\$ (7.1)	\$ (9.3)	\$ 3.9
CDO squared(3)	(0.1)	(0.1)	(0.1)	0.1
Total ABS CDO super senior derivative exposure	<u>\$ (8.8)</u>	<u>\$ (7.2)</u>	<u>\$ (9.4)</u>	<u>\$ 4.0</u>
Other CDO Exposure:				
ABS CDO CDS	\$ 2.7	\$ 1.3	\$ 2.3	\$ (1.5)
ABS CDO bonds	1.1	(0.5)	(0.8)	1.1
Total other CDO exposure	<u>\$ 3.8</u>	<u>0.8</u>	<u>1.5</u>	<u>(0.4)</u>
Subtotal ABS CDO-related exposure(2)	<u>\$ (5.0)</u>	<u>\$ (6.4)</u>	<u>\$ (7.9)</u>	<u>\$ 3.6</u>
U.S. Subprime Mortgage-Related Exposure:				
Loans	\$ 0.6	\$ (0.1)	\$ (0.2)	\$ 0.6
Total rate-of-return swaps	—	—	0.1	—
ABS bonds	2.7	(2.9)	(3.8)	2.7
ABS CDS	7.8	1.6	5.0	(5.1)
Subtotal U.S. subprime mortgage-related exposure	<u>\$ 11.1</u>	<u>\$ (1.4)</u>	<u>\$ 1.1</u>	<u>\$ (1.8)</u>
Total U.S. subprime trading exposure	<u>\$ 6.1</u>	<u>\$ (7.8)</u>	<u>\$ (6.8)</u>	<u>\$ 1.8</u>

- (1) Statement of financial condition amounts are presented on a net asset/liability basis and do not take into account any netting of cash collateral against these positions. In addition, these amounts reflect counterparty netting to the extent that there are positions with the same counterparty that are subprime-related; they do not reflect any counterparty netting to the extent that there are positions with the same counterparty that are not subprime related. The \$6.1 billion is reflected in the Company's consolidated statement of financial condition as follows: Financial instruments owned of \$15.3 billion and Financial instruments sold, not yet purchased of \$9.2 billion.
- (2) In determining the fair value of the Company's ABS super senior CDO-related exposures the Company took into consideration prices observed from the execution of a limited number of transactions and data for relevant benchmark instruments in synthetic subprime markets. Deterioration of value in the benchmark instruments as well as market developments have led to significant declines in the estimates of fair value. These declines reflected increased implied losses across this portfolio. These implied loss levels are consistent with losses in the range between 13% – 20% implied by the ABX indices. These cumulative loss levels, at a severity rate of 50%, imply defaults in the range of 43% – 50% for 2005 and 2006 outstanding mortgages.
- (3) Refers to CDOs where the collateral is comprised entirely of another CDO security.

Subsidiary Banks.

The securities portfolios of Morgan Stanley Bank (Utah) and Morgan Stanley Trust FSB (collectively, the “subsidiary banks”) include certain subprime-related securities. The portfolios contain no subprime whole loans, subprime residuals or CDOs.

At November 30, 2007, the securities portfolios totaled \$9.9 billion consisting primarily of AAA-rated ABS and residential mortgage-backed securities. Of the total amount, \$5.5 billion were subprime mortgage-related securities.

The securities in the subsidiary domestic banks’ portfolios were previously classified as securities available for sale in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS No. 115”). In the fourth quarter of fiscal 2007, the Company determined that it no longer intends to hold these securities until the fair value of the securities recovers to a level that exceeds their initial cost. Accordingly, the Company recorded an other-than-temporary impairment charge of \$437 million in Principal transactions-trading revenues in the consolidated statement of income on its portfolio of securities available for sale in the fourth quarter of fiscal 2007 and reclassified the portfolios to Financial instruments owned in the consolidated statement of financial condition effective November 30, 2007.

Special Purpose Entities and Variable Interest Entities.

The Company’s involvement with special purpose entities (“SPEs”) and variable interest entities (“VIEs”) is discussed in Note 5 to the consolidated financial statements and “Critical Accounting Policies—Special Purpose Entities” herein. In relation to subprime loans and subprime-backed securities, the Company’s involvement with SPEs/VIEs consists primarily of the following:

- Engaging in securitization activities related to subprime loans and subprime-backed securities;
- Acting as an underwriter of beneficial interests issued by securitization vehicles;
- Transferring whole loans into SPEs/VIEs;
- Holding one or more classes of securities issued by such securitization vehicles (including residual tranche securities) and possibly entering into derivative agreements with such securitization vehicles;
- Purchasing and selling (in both a market-making and a proprietary-trading capacity) subprime-backed securities issued by SPEs/VIEs, whether such vehicles are sponsored by the Company or not;
- Entering into derivative transactions with SPEs/VIEs (not sponsored by the Company) that hold subprime-related assets;
- Providing warehouse financing to CDOs and collateralized loan obligations (“CLOs”);
- Entering into derivative agreements with non-SPE/VIEs, whose value is derived from securities issued by SPEs/VIEs;
- Servicing assets held by SPEs/VIEs or holding servicing rights related to assets held by SPEs/VIEs that are serviced by others under subservicing arrangements;
- Serving as an asset manager to various investment funds that may invest in securities that are backed, in whole or in part, by subprime loans.

Other Exposures to Subprime Lenders.

The Company provides warehouse financing to entities collateralized by residential mortgage loans. Under these lines of credit arrangements, the Company requires those entities to provide collateral in excess of the monies advanced. The Company values the collateral on a regular basis to ensure that the value of the collateral exceeds the value of the monies advanced in accordance with the collateral agreements. The

Company does not carry amounts lent under such arrangements at fair value but instead carries such amounts at amortized cost. In addition, the Company does not fair value its commitments under such arrangements. The Company evaluates its exposure and any potential impairment under such arrangements, whether funded or committed, in accordance with SFAS No. 5, "Accounting for Contingencies" ("SFAS No. 5").

In addition, the Company had entered into derivative and lending arrangements with a third-party-sponsored commercial paper conduit that provides warehouse financing to subprime lenders, where such derivative and lending arrangements are linked to the performance of the conduit's loans to the subprime lenders. At November 30, 2007, exposure related to these arrangements was approximately \$300 million. These arrangements were satisfactorily settled and terminated in December 2007. The Company had no further subprime-related commitments to the third-party-sponsored commercial paper conduit as of November 30, 2007. The Company does not sponsor any commercial paper conduits.

Structured Investment Vehicles.

Structured investment vehicles ("SIVs") are unconsolidated entities that issue various capital notes and debt instruments to fund the purchase of assets. While the Company does not sponsor or serve as asset manager to any unconsolidated SIVs, the Company does serve as investment advisor to certain unconsolidated money market funds ("the Funds") that have investments in securities issued by SIVs. In 2007, widespread illiquidity in the commercial paper market led to market value declines and rating agency downgrades of many securities issued by SIVs, some of which were held by the Funds. As a result, the Company purchased approximately \$900 million of such securities from the Funds during the year at amortized cost, which resulted in losses to the Company of \$129 million. The carrying value of the purchased securities still held by the Company as of November 30, 2007 was \$543 million. Such positions are reflected at fair value, and presented in Financial instruments owned—Corporate and other debt in the consolidated statement of financial condition. Subsequent to November 30, 2007, the Company purchased approximately \$160 million of additional securities from the Funds and recorded losses of approximately \$40 million on these securities. The Company was not obligated to purchase any of these securities and has no obligation to purchase any additional securities from the Funds in the future. The Funds continue to have investment in securities issued by SIVs, with an aggregate face value of \$8.2 billion as of November 30, 2007 (\$5.4 billion as of January 18, 2008.) These securities have been issued by SIVs that are predominately bank-sponsored, and meet the requirements and investment criteria to continue to be held by the Funds.

Monoline Insurers.

Monoline insurers ("Monolines") provide credit enhancement to capital markets transactions. The current credit environment severely affected the capacity of such financial guarantors. The Company's exposure to Monolines is limited to bonds that are insured by Monolines and as counterparties to derivative contracts. The aggregate direct exposure to Monolines at November 30, 2007 was \$3.7 billion primarily including ABS bonds of \$1.5 billion in the Subsidiary Banks' portfolio (see "Subsidiary Banks") that are collateralized by first and second lien subprime mortgages enhanced by financial guarantees, \$1.3 billion in insurance municipal bond securities and \$800 million in net counterparty exposure.

ATTACHMENT C - Excerpt from Note 5 to the Company's Consolidated Financial Statements related to mortgage servicing rights (page 130 of Morgan Stanley's 2007 Form 10-K)

Mortgage Servicing Rights. The Company may retain servicing rights to certain mortgage loans that are sold through its securitization activities. These transactions create an asset referred to as MSR, which are included within Intangible assets in the consolidated statements of financial condition.

The following table presents information about the Company's MSRs, which relate to its mortgage loan business activities (dollars in millions):

	<u>Fiscal</u> <u>2007</u>
Fair value as of the beginning of the period	\$ 93
Additions:	
Purchases of servicing assets(1)	306
Servicing assets that result from transfers of financial assets	<u>549</u>
Total additions	855
Subtractions:	
Sales/disposals	(372)
Changes in fair value(2)	<u>(148)</u>
Fair value as of the end of the period	<u>\$ 428</u>
Amount of contractually specified(2):	
Servicing fees	\$ 170
Late fees	26
Ancillary fees	<u>1</u>
	<u>\$ 197</u>

- (1) Amount includes MSRs obtained in connection with the Company's acquisition of Saxon Capital, Inc. (see Note 23).
(2) These amounts are recorded within Other revenues in the Company's consolidated statements of income.

	<u>Fiscal</u> <u>2007</u>
Assumptions Used in Measuring Fair Value:	
Weighted average discount rate	18.11%
Weighted average prepayment speed assumption	713PSA

The Company generally utilizes information provided by third parties in order to determine the fair value of its MSRs. The valuation of MSRs consist of projecting servicing cash flows and discounting such cash flows using an appropriate risk-adjusted discount rate. These valuations require estimation of various assumptions, including future servicing fees, credit losses and other related costs, discount rates and mortgage prepayment speeds. The Company also compares the estimated fair values of the MSRs from the valuations with observable trades of similar instruments or portfolios. Due to subsequent changes in economic and market conditions, the actual rates of prepayments, credit losses and the value of collateral may differ significantly from the Company's original estimates. Such differences could be material. If actual prepayment rates and credit losses were higher than those assumed, the value of the Company's MSRs could be adversely affected. The Company may hedge a portion of its MSRs through the use of financial instruments, including certain derivative contracts.

March 28, 2008

Mr. Colm Kelleher
Chief Financial Officer
Morgan Stanley
1585 Broadway
New York, NY 10036

Dear Mr. Kelleher:

Item 303 of Regulation S-K requires you to discuss, in your Management's Discussion and Analysis, any known trends or any known demands, commitments, events or uncertainties you reasonably expect to have a material favorable or unfavorable impact on your results of operations, liquidity, and capital resources. We note that you reported a significant amount of asset-backed securities, loans carried at fair value or the lower of cost or market, and derivative assets and liabilities in your financial statements in your recent Form 10-K. Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, defines fair value, provides a framework for you to measure the fair value of your assets and liabilities, and requires you to provide certain disclosures about those measurements.

Fair value assumes the exchange of assets or liabilities in orderly transactions. Under SFAS 157, it is appropriate for you to consider actual market prices, or observable inputs, even when the market is less liquid than historical market volumes, unless those prices are the result of a forced liquidation or distress sale. Only when actual market prices, or relevant observable inputs, are not available is it appropriate for you to use unobservable inputs which reflect your assumptions of what market participants would use in pricing the asset or liability. Current market conditions may require you to use valuation models that require significant unobservable inputs for some of your assets and liabilities. As a consequence, as of December 1, 2007, you will classify these assets and liabilities as Level 3 measurements under SFAS 157.

In this letter, we highlight some disclosure matters relating to SFAS 157 that you may wish to consider as you prepare your Form 10-Q. Given the judgment you must apply in using unobservable inputs to determine the fair value of your assets and liabilities, your use of them can have a material effect on your results of operations, liquidity, and capital resources, where for example, the fair value you determined falls within a broad range.

MS0002731

Mr. Colm Kelleher

March 28, 2008

Page 2

If you conclude that your use of unobservable inputs is material, please disclose in your MD&A, in a manner most useful to your particular facts and circumstances, how you determined them and how the resulting fair value of your assets and liabilities and possible changes to those values, impacted or could impact your results of operations, liquidity, and capital resources. Depending on your circumstances, the following disclosure and discussion points may be relevant as you prepare your MD&A:

- The amount of assets and liabilities you measured using significant unobservable inputs (Level 3 assets and liabilities) as a percentage of the total assets and liabilities you measured at fair value.
- The amount and reason for any material increase or decrease in Level 3 assets and liabilities resulting from your transfer of assets and liabilities from, or into, Level 1 or Level 2.
- If you transferred a material amount of assets or liabilities into Level 3 during the period, a discussion of:
 - the significant inputs that you no longer consider to be observable; and
 - any material gain or loss you recognized on those assets or liabilities during the period, and, to the extent you exclude that amount from the realized/unrealized gains (losses) line item in the Level 3 reconciliation, the amount you excluded.
- With regard to Level 3 assets or liabilities, a discussion of, to the extent material:
 - whether realized and unrealized gains (losses) affected your results of operations, liquidity or capital resources during the period, and if so, how;
 - the reason for any material decline or increase in the fair values; and
 - whether you believe the fair values diverge materially from the amounts you currently anticipate realizing on settlement or maturity. If so, disclose why and provide the basis for your views.
- The nature and type of assets underlying any asset-backed securities, for example, the types of loans (sub-prime, Alt-A, or home equity lines of credit) and the years of issuance as well as information about the credit ratings of the securities, including changes or potential changes to those ratings.

Mr. Colm Kelleher
March 28, 2008
Page 3

Regardless of how you have classified your assets and liabilities within the SFAS 157 hierarchy, if you have not already done so in your Form 10-K, consider providing the following additional information in your MD&A:

- A general description of the valuation techniques or models you used with regard to your material assets or liabilities. Consider describing any material changes you made during the reporting period to those techniques or models, why you made them, and, to the extent possible, the quantitative effect of those changes.
- To the extent material, a discussion of the extent to which, and how, you used or considered relevant market indices, for example ABX or CMBX, in applying the techniques or models you used to value your material assets or liabilities. Consider describing any material adjustments you made during the reporting period to the fair value of your assets or liabilities based on market indices and your reasons for making those adjustments.
- A discussion of how you validate the techniques or models you use. For example, you may wish to discuss whether and how often you calibrate the technique or models to market, back-test, or otherwise validate it.
- A discussion of how sensitive the fair value estimates for your material assets or liabilities are to the significant inputs the technique or model uses. For example, consider providing a range of values around the fair value amount you arrived at to provide a sense of how the fair value estimate could potentially change as the significant inputs vary. To the extent you provide a range, discuss why you believe the range is appropriate, identifying the key drivers of variability, and discussing how you developed the inputs you used in determining the range. You may wish to refer to Section V of FR-72 “Commission Guidance Regarding Management’s Discussion and Analysis of Financial Condition and Results of Operations” on Critical Accounting Estimates for guidance. FR-72 is available on our website at <http://www.sec.gov/rules/interp/33-8350.htm>.
- If material, a discussion of how increases and decreases in the aggregate fair value of your assets and liabilities may affect your liquidity and capital resources.

Please contact me at 202-551-3780 if you have any questions.

Sincerely,

Linda van Doorn
Senior Assistant Chief Accountant

MS0002733

CORRESP 1 filename1.htm
Morgan Stanley

1585 Broadway
New York, New York 10036

May 28, 2008

By U.S. Mail & Facsimile to 202-551-3295

Mr. Kevin Woody
Branch Chief
Division of Corporation Finance
Securities and Exchange Commission
100 F. Street, N.E.
Mail Stop 4561
Washington, DC 20549

Re: Form 10-K for Fiscal Year Ended November 30, 2007
File No. 001-11758

Dear Mr. Woody:

Morgan Stanley (the "Company") is pleased to respond to your letter of April 24, 2008, concerning its Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended November 30, 2007. For your convenience, we have restated your comments below.

Form 10-K for the year ended November 30, 2007

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Fiscal 2007 Performance, page 34

Comment:

1. Please tell us how the appreciation of investments related to certain employee deferred compensation plans resulted in higher revenues.

Response:

The Company maintains various deferred compensation plans for the benefit of certain employees that provide a return to the participating employees based upon the performance of various referenced investments. These plans do not result in the employees making a direct investment in the underlying investments nor do the plans themselves invest in referenced investments. Rather, the Company directly owns investments that provide an offset to the obligations that the Company has to the participating employees for any return on the underlying referenced investments.

As these investments are made by the Company in a principal capacity, increases in the value of such investments result in an increase in revenues. Such investments are recorded primarily in *Financial instruments owned – Investments* on the Company's consolidated statement of financial condition, with changes in value recognized primarily within *Revenues: Principal transactions – Investments* on the Company's consolidated statements of income. The payable arising from the Company's obligations under the related deferred compensation plans is reflected in *Other liabilities and accrued expenses* on the Company's statement of financial condition, and the related expense is reflected within *Non-interest expenses: Compensation and benefits* on the Company's consolidated statements of income.

In response to your comment and to clarify the nature of the Company's investments made in connection with deferred compensation plan obligations, the following disclosure will be included in future filings of the Company's financial statements within the *Summary of Significant Accounting Policies* footnote:

Deferred Compensation Arrangements

The Company also maintains various deferred compensation plans for the benefit of certain employees that provide a return to the participating employees based upon the performance of various referenced investments. The Company often invests directly, as a principal, in such referenced investments related to its obligations to perform under the deferred compensation plans.

Changes in value of such investments made by the Company are recorded primarily in *Principal transactions – Investments*. Expenses associated with the related deferred compensation plans are recorded in *Compensation and benefits*.

Financial Statements

Consolidated Statements of Financial Condition, page 101

Comment:

2. Please tell us how you account for the non-controlling interest in entities in which you have a controlling financial interest and certain VIEs on your Consolidated Statements of Financial Condition and Consolidated Statements of Income.

Response:

Non-controlling interests in the net assets of the Company's consolidated subsidiaries are reflected in *Other liabilities and accrued expenses* on the Company's consolidated statement of financial condition. Non-controlling interests' share of the net income of the Company's subsidiaries are reflected in *Non-interest expenses: Other* on the Company's consolidated statements of income. The amounts related to non-controlling interests were *de minimis* in relation to the Company's total liabilities as of November 30, 2007 and total non-interest expenses for the fiscal year ended November 30, 2007.

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies

Hedge Accounting

Net Investment Hedges, page 116

Comment:

3. Please tell us the nature of the forward points and how you accounted for them. Within your response, reference the authoritative literature relied upon by management.

Response:

Forward points in a foreign currency forward contract are the number of basis points added to or subtracted from the spot rate required to calculate the forward rate. The number of basis points is determined by the interest rates in the market for each currency being traded.

Paragraph 42 of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities (as amended)* ("SFAS No. 133") provides guidance on accounting for hedges of the foreign currency exposure of a net investment in a foreign operation, and states the following:

A derivative instrument or a nonderivative financial instrument that may give rise to a foreign currency transaction gain or loss under Statement 52 can be designated as hedging the foreign currency exposure of a net investment in a foreign operation, provided the conditions in paragraphs 40(a) and 40(b) are met. (A nonderivative financial instrument that is reported at fair value does not give rise to a foreign currency transaction gain or loss under Statement 52 and, thus, cannot be designated as hedging the foreign currency exposure of a net investment in a foreign operation.) The gain or loss on a hedging derivative instrument (or the foreign currency transaction gain or loss on the nonderivative hedging instrument) that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment to the extent it is effective as a hedge.

In addition, the Derivatives Implementation Group ("DIG") concluded in DIG No. H8, *Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge*, that an entity is permitted to assess and measure the amount of ineffectiveness of a net investment hedge using a method based on changes in spot rates which allows for the change in the fair value of the derivative attributable to changes in the difference between the forward rate and spot rate to be excluded from the measure of hedge ineffectiveness and to be reported directly in earnings ("spot method").

Lastly, paragraph 63(c) of SFAS No. 133 states the following:

If the effectiveness of a hedge with a forward or futures contract is assessed based on changes in the fair value attributable to changes in spot prices, the change in fair value of the contract related to the changes in the difference between the spot price and the forward or futures price would be excluded from the assessment of hedge effectiveness.

The Company utilizes forward foreign exchange contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency operations. In accordance with the authoritative literature, the Company designates changes in the spot value of such foreign currency forward contracts as hedges of the changes in spot value of its net investments in non-U.S. dollar functional currency operations.

In accordance with the spot method described in DIG No. H8 and the guidance in paragraph 63(c) of SFAS No. 133, the Company has excluded forward points from the assessment and measurement of net investment hedge effectiveness and records the change in fair value of the foreign currency forward contracts attributable to the forward points directly to *Revenues: Interest and dividends* on the Company's consolidated statements of income.

Schedule 1

Condensed Statements of Cash Flows, page S-4

Comment:

4. Please tell us how your classification of securities purchased under agreement to resell with affiliate as an investing activity complies with SFAS 102.

Response:

The securities purchased under agreements to resell with affiliates are accounted for as secured loans to the parent's affiliates in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. These agreements, which are short term in nature, are primarily entered into for the purpose of investing the parent company's cash.

The securities received by the parent under these agreements are collateral for the secured loans, which themselves are accounted for on an accrual basis. SFAS No. 102, *Statement of Cash Flows – Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale* ("SFAS No. 102") addresses the cash flow statement presentation of purchases and sales of securities and other assets, as opposed to cash flows related to loans and associated collateral arrangements. Accordingly, the Company does not believe that SFAS No. 102 provides relevant guidance on the classification of these arrangements.

In determining the appropriate classification of cash flows related to the parent company's securities purchased under agreements to resell, the Company considered the guidance in SFAS No. 95, *Statement of Cash Flows* ("SFAS No. 95"). Given the secured lending nature of these transactions, the Company specifically considered the guidance in paragraph 17 (a) of SFAS No. 95, which states that cash flows from investing activities include "[d]isbursements for loans made by the enterprise...".

In determining the appropriate classification for the securities purchased under agreements to resell with affiliates, the Company further considered the parent company's business intent for entering into these arrangements. Given that these arrangements were entered into with the goal of investing the parent company's cash, the Company believes the classification of cash flows related to these arrangements as investing activities is appropriate.

* * * * *

In connection with responding to your comments, we acknowledge that:

- the Company is responsible for the adequacy and accuracy of the disclosure in the filings;
- Staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filings; and
- the Company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities law of the United States.

Please feel free to contact me at 212-761-5656 or Paul C. Wirth, our Controller and Chief Accounting Officer at 212-761-6686, if you would like further clarification or additional information.

Sincerely,

/s/ Colm Kelleher

Colm Kelleher
Chief Financial Officer

cc: Jennifer Monick, Securities & Exchange Commission
Gregory G. Weaver, Deloitte & Touche LLP
James V. Schnurr, Deloitte & Touche LLP