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September 7, 2006

COMMENT

Ms. Eileen Donovan  
Acting Secretary,  
Commodity Futures Trading Commission  
1155 21st Street, N.W.  
Washington, D.C. 20581

OFFICE OF THE SECRETARIAT

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**Re: Comment letter on "Regulatory Governance," Proposed  
Acceptable Practices, 71 Fed. Reg. 38740 (July 7, 2006)**

Dear Ms. Donovan:

Morgan Stanley & Co. Incorporated ("Morgan Stanley") appreciates the opportunity to comment on the Commission's proposed Acceptable Practice safe harbor under Section 5(d)(15) of the Commodity Exchange Act ("CEA"). In general, Morgan Stanley agrees with the Commission that its proposed Acceptable Practices would strengthen and modernize self-regulation on U.S. futures exchanges.

Morgan Stanley and its affiliates are engaged in a broad range of financial services businesses, including futures and securities brokerage, securities underwriting and distribution, proprietary trading, dealer and market-making activities and asset management. Many of these activities involve-exchange traded instruments while others occur outside an exchange environment. Morgan Stanley is a registered FCM and a clearing member of the major futures exchanges, as well as a registered broker-dealer and a member of the major securities exchanges. As a result of Morgan Stanley's significant involvement in exchange markets and our role as a financial intermediary, we have a strong interest in the efficient functioning, liquidity and integrity of exchange markets through effective self-regulation.

Morgan Stanley strongly supports the comments submitted to the Commission by the Futures Industry Association (FIA) on August 29, 2006. The Commission's authority to promulgate a safe harbor of acceptable practices for core principle 15 should be unquestioned and the Commission's reliance on a Regulatory Oversight Committee comprised of truly public, independent directors should enhance public confidence in futures trading on exchanges.

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In particular, Morgan Stanley wants to underscore two key elements of FIA's letter. First, the Commission has proposed a safe harbor for designated contract markets with at least 50% public directors. This element of the Commission's safe harbor is essential to meet the Commission's objectives and the Commodity Exchange Act's purposes. In our experience with both securities and futures exchanges, providing equal representation for industry and non-industry directors on exchange boards leads to more informed exchange decision-making consistent with the public interest in self-regulation and the exchange's commercial interests. The infusion of public directors on securities exchange boards in recent years has surely strengthened their self-regulatory efforts. We would expect the same to hold true for futures exchanges following the Commission's adoption of its Acceptable Practices.

In addition, Morgan Stanley echoes the concerns raised by FIA and others about the imbalance of disciplinary panels at certain exchanges. The mere fact that there is a perception among market intermediaries that not all exchange disciplinary panels are as diverse and impartial as the Commission appears to believe them to be suggests that there is an issue that needs to be addressed. Morgan Stanley agrees with the Commission that the measures implemented by the Chicago Mercantile Exchange have resulted in panels that are structured to be fair and informed. The Commission's proposed Acceptable Practice in this area should encourage other exchanges to implement standards comparable to those of the CME and should increase futures exchanges' reliance on independent, non-industry decision-makers, as FIA has suggested. Exchange self-discipline must be based on proceedings that are fair, and are perceived to be fair, in order to bolster public confidence in exchange self-regulation. The Commission's final safe harbors should be adjusted to achieve these objectives.

Morgan Stanley commends the Commission for its many years of work on the important subject of exchange self-regulation. We look forward to the adoption by the Commission of its Acceptable Practices in the very near future.

Sincerely,



Dennis Scurletis  
Managing Director