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Morgan Stanley

DBRS Places Morgan Stanley AA (low) Ratings Under Review with Negative Implications

DBRS has today placed its long-term ratings for Morgan Stanley (the Company) and related entities Under Review with Negative Implications, including the Company's Issuer & Senior Debt rating of AA (low). At the same time, DBRS has confirmed Morgan Stanley's Short-Term Instruments rating of R-1 (middle). This rating action follows **Morgan Stanley's announcement of a net loss of \$2.3 billion for its fiscal Q4 2008**, which ended in November. The loss was driven primarily by **write-downs of approximately \$2 billion**, net of hedges and gains related to Morgan Stanley's own debt. Morgan Stanley remained profitable for the full fiscal year 2008, with a modest ROE of 4.9%.

This rating action reflects the further deterioration in the Company's prospects since DBRS changed the trend on its long-term ratings to Negative on September 17, 2008 after **weak Q3 2008 earnings** due to the sustained disruptions in the financial markets, the rapid deterioration in the U.S. economy, as well as the weakening of economies and financial markets around the world. For financial institutions generally, this deteriorating environment has resulted in diminished investor confidence, increased volatility in asset prices, lower client activity, increased risk aversion and higher funding costs. In weathering the sustained turmoil of the past eighteen months, Morgan Stanley had managed to generate positive earnings in the first three quarters of 2008 after experiencing a significant loss in Q4 2007. In DBRS's opinion, this quarter's loss, however, absorbs capital, impacts market confidence and elevates the market's concerns about remaining risk.

The review will assess the extent to which this environment has diminished Morgan Stanley's franchise and earnings power over the intermediate term. While the Company has converted to a financial holding company (FHC) and is leveraging its wealth management business to build up its banking businesses, an element in this review will also be to evaluate the prospects for FHCs, such as Morgan Stanley, that remain more focused on capital markets businesses. At the same time, the review will also evaluate the potential benefits of the global strategic alliance of the Company with Mitsubishi UFJ Financial Group, Inc. In addition, the increased support from the U.S. government underpinning the ratings for large, systemically important U.S. financial institutions will be evaluated. After the unprecedented market events of recent months, the support provided by the U.S. authorities to U.S. financial institutions has been elevated to a much higher level of both explicit and implicit support.

In this action, DBRS takes into consideration the continuing strength of Morgan Stanley's underlying diversified franchise, the persistence of its client-driven revenues, the adaptability of its businesses, its enhanced liquidity resources, reduced leverage and strengthened capital position. These trends are evident in the Company's results for Q4 2008. Even though the operating environment remains extremely difficult, DBRS believes that Morgan Stanley has the necessary franchise strength, funding, liquidity and capital to successfully manage through the very challenging operating environment. As a result of these factors and the increased level of

government support, the ratings are unlikely to be downgraded by more than one notch and could be confirmed at the current level following the review.

Notes:

All figures are in U.S. dollars unless otherwise noted.

The applicable methodology is Rating Securities Firms Operating in the United States, which can be found on our website under Methodologies.

This is a Corporate rating.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Related Research

- [Rating Securities Firms Operating in the United States](#)

Related Issuers

- [Morgan Stanley](#)
- [Morgan Stanley Canada Limited](#)
- [Morgan Stanley Capital Trust III](#)
- [Morgan Stanley Capital Trust IV](#)
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- [Morgan Stanley Capital Trust VI](#)
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- [Morgan Stanley Capital Trust VIII](#)

Contacts

- [Roger Lister](#)
Chief Credit Officer - Financial Institutions Group
+1 212 806 3231
rlister@dbrs.com
- [Steven Picarillo](#)
Senior Vice President - Financial Institutions Group
+1 212 806 3238
spicarillo@dbrs.com
- [Lisa Kwasnowski](#)
Assistant Vice President - U.S. Financial Institutions Group
+1 212 806 3228
lkwasnowski@dbrs.com
- [Alan G. Reid](#)

Managing Director - Financial Institutions Group
+1 212 806 3232
areid@dbrs.com

Ratings

Issuer	Debt Rated	Rating Action	Rating	Trend Notes	Published
Morgan Stanley	Issuer & Senior Debt	UR-Neg.	AA (low)	--	17 Dec 2008
Morgan Stanley	Subordinated Debt	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley	Preferred Stock	UR-Neg.	A	--	17 Dec 2008
Morgan Stanley	Short-Term Instruments	Confirmed	R-1 (middle)	Stb	17 Dec 2008
Morgan Stanley	Debt Guaranteed by FDIC	Confirmed	AAA	Stb	17 Dec 2008
Morgan Stanley Capital Trust III	Trust Preferred Securities	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley Capital Trust IV	Trust Preferred Securities	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley Capital Trust V	Trust Preferred Securities	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley Capital Trust VI	Trust Preferred Securities	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley Capital Trust VII	Trust Preferred Securities	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley Capital Trust VIII	Trust Preferred Securities	UR-Neg.	A (high)	--	17 Dec 2008
Morgan Stanley Canada Limited	Commercial Paper	Confirmed	R-1 (middle)	Stb	17 Dec 2008

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