Morgan Stanley

Product Note

Autocallable Preference Shares on FTSE 100 and S&P 500

A GILT-BACKED INVESTMENT OPPORTUNITY

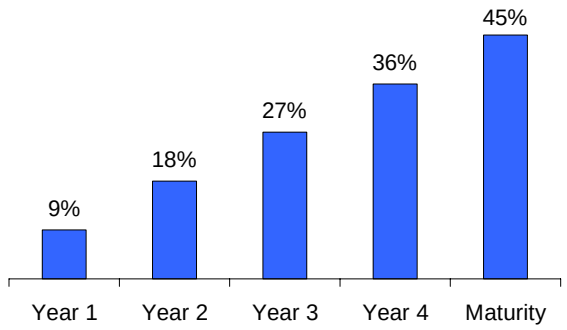
The Autocallable Preference Shares are designed for investors who are looking for an attractive fixed capital return based on a slightly positive view on the FTSE 100 and S&P 500 indices. On the first anniversary that both indices are flat or positive, the shares redeem automatically at an attractive preset amount.

The high returns available on this product reflect depressed market values and high market volatility. Investors have this opportunity in exchange for accepting the risk of capital loss. If the shares do not redeem automatically, capital is at risk if either index trades at or below 50% of its initial level at any time during the investment term.

BONUS RETURNS

The shares accumulate a fixed capital growth amount of 9.0% each year. If, on any of the anniversary dates, both indices are at or above their initial levels, the shares redeem automatically and investors receive their original investment plus the capital growth accumulated to date.

Automatic Redemption Bonuses



REDEMPTION AT MATURITY

If there is no automatic redemption in years 1 to 5, the repayment at maturity depends on the performance of both indices. There are two scenarios:

Scenario 1: both indices have remained above 50% of their initial levels throughout the 5 year term.

- Investors receive 100% of their initial investment

Scenario 2: one or both indices has traded at or below 50% of its initial level, on any day during the investment term

- Capital is at risk. The redemption amount reflects the performance of the worst performing of the two indices. For example, if the worst performing index has fallen by 60% between inception and maturity, investors also suffer a 60% loss and the redemption amount is £40 per share

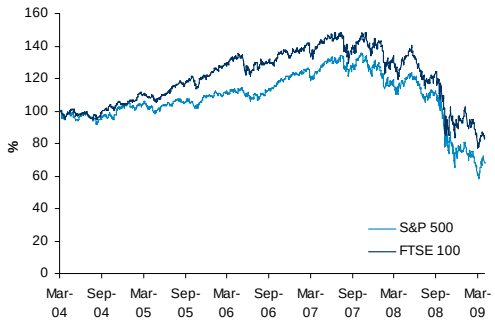
The table shows how the redemption at maturity varies depending on the worst performing of the two indices, and whether either index has ever traded at or below 50% of its initial level.

Performance of Index with Worst Performance (% of initial level)	Redemption at Maturity per Share	
	50% barrier not breached	50% barrier breached
140%	£145	
120%	£145	
100%	£145	
80%	£100	£80
60%	£100	£60
50%	n/a	£50
40%	n/a	£40
20%	n/a	£20
0%	n/a	£0

HISTORICAL PERFORMANCE

The FTSE 100 Index and S&P 500 Index represent the largest companies listed in the UK and the USA, respectively. Both indices are currently at low levels not seen since 2003.

5-Year Performance of FTSE 100 and S&P 500



Source: Morgan Stanley / Bloomberg, 31 March 2008. Past performance is no guide to future performance.

KEY FEATURES

- Four opportunities for early redemption, with attractive annual growth of 9.0%
- Potentially timely investment opportunity given the relatively low valuation of the FTSE 100 and S&P 500 Indices
- Defensive outlook – capital is protected as long as neither index falls below 50% of its initial level
- Collateralised by UK Government Gilts and cash/liquid assets

KEY TERMS

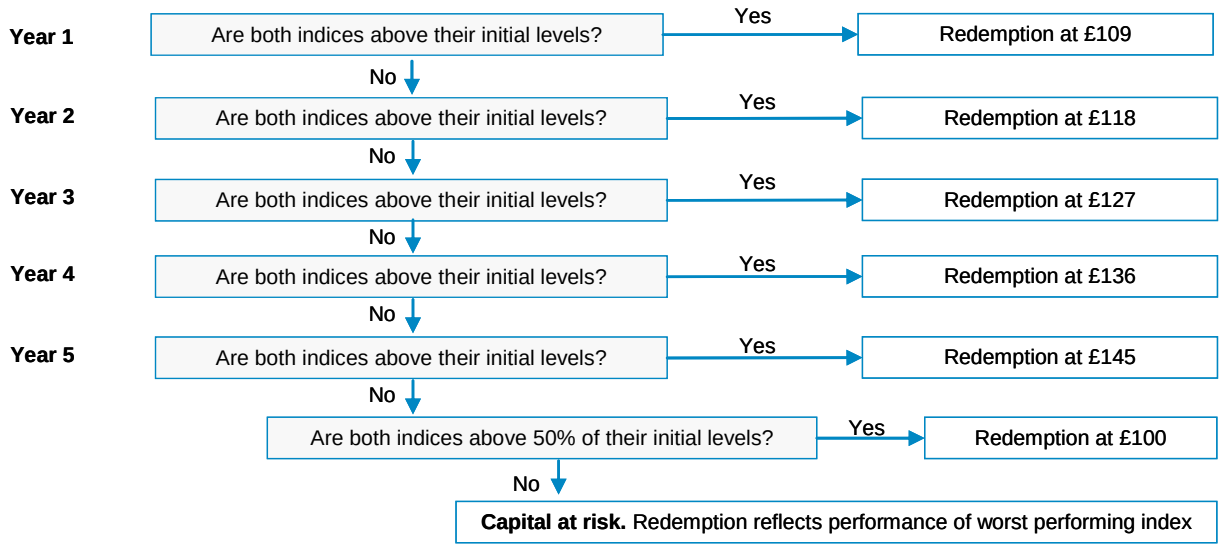
Type	Preference Share
ISIN	GG00B5BMZB50
Underlyings	FTSE100 Index S&P 500 Index
Currency	GBP
Maturity	5 years
Nominal Size	GBP 100 ("Par")
Pricing Date	24 July 2009
Issue/Settlement Date	31 July 2009
Anniversary Dates	Year 1: 26 July 2010 Year 2: 25 July 2011 Year 3: 24 July 2012 Year 4: 24 July 2013 Year 5: 24 July 2014
Final Index Level	Index level as of 24 July 2014

A COLLATERALISED INVESTMENT

The issuer of the shares will use the share proceeds to acquire UK Government Gilts, currently rated AAA by Standard & Poor's[1]. In addition, the issuer of the shares will enter into a derivative contract with Morgan Stanley or an affiliate. Exposure to the credit risk of Morgan Stanley will be minimised by the use of collateral arrangements. Morgan Stanley will post collateral, which will be either cash or other highly liquid assets, to the full value of the derivative contract into a segregated account on a daily basis. This collateral can only be used to secure the performance payable by Morgan Stanley under the derivative contract and cannot be used to meet any other Morgan Stanley obligations.

For more information, please contact Matthew Robinson: matthew.robinson@morganstanley.com or 0207 425 9658

PAYOUT DIAGRAM



[1] As at 9 June 2009

INVESTMENT CONSIDERATIONS

- In order to pay the final redemption amount, the issuer of the shares depends on receiving 1) the proceeds from the Gilts, including coupon payments and final proceeds from redemption of Gilts or disposal in the secondary market and 2) any amounts payable to it by Morgan Stanley under the derivative contract.
- If the proceeds from the Gilts are less than anticipated, shareholders may not receive the full redemption amount and may lose part or all of their investment. For the avoidance of doubt, although the UK Government has an obligation to the holders of the Gilts (the issuer of the shares), the obligation to pay the redemption amount on the shares is not in any way an obligation of the UK Government and is not guaranteed in any way by the UK Government.
- Morgan Stanley and the issuer of the shares will post collateral to each other in respect of amounts owing from time to time under the derivative contract. In addition, in the event that any of the Gilts are redeemed prior to the redemption of the shares, the issuer of the shares will pay any proceeds to Morgan Stanley in exchange for collateral. If Morgan Stanley fails to perform its obligations in respect of the derivative contract or the collateral arrangements, shareholders may not receive the full redemption amount and may lose part or all of their investment.
- Capital is not protected. The final redemption amount depends on the performance of the indices and could be zero.
- The shares offer the opportunity for capital gain only as a fixed one-off repayment following one of the Anniversary Dates. Investors do not participate directly in any capital growth in the underlying indices.
- Investors do not receive any dividends paid to holders of shares in the underlying indices.
- The redemption amount described above is provided at redemption only. If investors sell the shares prior to redemption, the proceeds may be significantly less than the initial investment.

Potential investors should refer to the principal memorandum and supplemental memorandum for a description of the risk factors associated with this product.

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