

March 4, 2013

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

Re: Regulatory Notice 13-02
Proposal on Recruitment Compensation Practices

Dear Ms. Asquith:

Morgan Stanley Wealth Management ("Morgan Stanley") appreciates the opportunity to comment on the referenced rule proposal (the "Rule Proposal") from the Financial Industry Regulatory Authority, Inc. ("FINRA"), as set out in Regulatory Notice 13-02 ("Regulatory Notice").

INTRODUCTION

As a preeminent wealth management firm with approximately 17,000 financial advisors, Morgan Stanley retains, recruits and attracts the best advisors in the industry. Our human capital is critical to developing strong client relationships, which are our most valuable assets. As such, Morgan Stanley employs a robust screening process including review of recruits' business practices (within the limits permitted by applicable rules and regulations, as well as the Protocol for Broker Recruiting) and CRD disclosures to ensure selected candidates are amongst the best in the industry. This due diligence is central to the Firm's recruiting process and has been thoughtfully developed based on our experience and regulatory guidance. Attracting and retaining exceptional advisors for our clients also means offering competitive compensation packages. Morgan Stanley thus pays financial incentives to qualified advisors who join us from other firms and structures our advisor compensation to align the interests of our clients, our advisors and the Firm. In the future, we will continue to compensate recruited financial advisors competitively.

Morgan Stanley fully supports the uniform disclosure of firms' recruiting compensation arrangements as outlined in the Rule Proposal. A uniform disclosure regime will allow a client to weigh their advisor's interests in switching to a new firm and consider how moving the client's accounts may affect their own interests. A uniformly applied standard that requires detailed and "clear and prominent" disclosure of the specific dollar amounts, timing and nature of the financial incentives the advisor has received or may receive in the future will promote

investor confidence and a clearer dialogue about the reasons to change firms. By contrast, a rule permitting a non-specific, generic disclosure would perpetuate inconsistent disclosure practices amongst firms, resulting in some clients' receiving less meaningful information and undermining FINRA's stated objectives.¹

CLIENTS, REGISTERED REPRESENTATIVES AND THE INDUSTRY ALL BENEFIT FROM FULL DISCLOSURE

The Rule Proposal correctly does not limit the amount of recruiting compensation firms pay or dictate the type or nature of that compensation. Instead, FINRA's focus is where it should be, on uniform disclosure and transparency to enable clients to make informed investment decisions and to enhance investor trust and confidence in our industry and its registered representatives. A client's decision to change firms is an important one and may involve balancing the benefits of transferring an account against any disadvantages. While some clients no doubt will deem recruitment compensation irrelevant to their decision to change firms, other clients may want to understand and evaluate the financial impact to both themselves and their adviser. Recruiting incentives often include compensation linked to the amount of client assets transferred from the representative's prior firm or incentives based upon the representative's production at the new firm. The industry should allow clients themselves to judge whether the amounts, nature and timing of this enhanced compensation create any material conflicts of interest. Providing clients with specifics as opposed to merely general information about these incentives enables clients to discuss meaningfully the pros, cons and potential financial impact to both the client and their advisor of transferring the client's account, with confidence that they fully understand what their advisor may gain from their transition.

Morgan Stanley recognizes that the disclosure of specific compensation information is a sensitive matter and that many financial advisors understandably would prefer greater privacy when it comes to their compensation. Our clients' best interests, however, must take priority over the desire for privacy. Moreover, unless the rule is clear, specific and uniform, it risks fostering a competitive landscape in which firms employ different disclosure practices and where advisors may favor relocation to the firm with the least detailed disclosure. These competitive considerations highlight the need for uniformity and an industry-wide solution. In other words, it is not only in the client's best interest, but is also fairest to all recruits and member firms, if firms are required to disclose to clients the same information in a uniform format.

To that end, the current Rule Proposal should require detailed disclosure of the specific dollar amounts, timing and nature of the enhanced compensation arrangement as set forth in the Regulatory Notice, rather than simply stating that the disclosure must be "clear and prominent". Adding this language from the Regulatory Notice into the text of the rule itself will clarify what

¹ Notably, the Rule Proposal represents a departure from industry-wide practice and the legal principles that have informed those practices over the years in that neither FINRA nor the SEC has previously required disclosure of recruiting incentives. As such, the issue is ripe for a uniformly applied disclosure rule.

is required and will ensure that clients receive a meaningful and consistent level of detail from all firms.

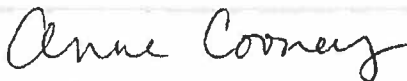
THE FORM AND CONTENT OF THE DISCLOSURE SHOULD BE SPECIFIC AND UNIFORMLY APPLIED

To enhance consistency and minimize open questions about the required level of detail and the form of disclosure, Morgan Stanley would further support a rule that incorporates a uniform client disclosure "template." Such a template should require disclosure of the specific dollar amounts and categories of enhanced compensation comprising the recruitment package, such as upfront and back-end loans, enhanced grid pay-out, cash bonuses and deferred compensation arrangements, and should distinguish between compensation that a registered representative is entitled to receive and that which he or she *may* be entitled to receive upon achieving certain criteria. A uniform template would simplify the disclosure process for member firms by helping to avoid any ambiguities in interpreting the Rule Proposal's requirements and would ensure that clients receive consistent information regardless of the member firm receiving the account. Moreover, to be truly effective, the uniform disclosure should be provided to the client before his or her account is opened at the new firm.

CONCLUSION

Transparency and clear communication benefits our clients, advisors and industry. While Morgan Stanley acknowledges that certain other commentators have raised operational, privacy and other concerns, we believe none of these objections should outweigh our clients' best interests. The proposed disclosure will benefit clients who can make a more reasoned assessment of the relative advantages and disadvantages of changing firms and their financial advisors' reasons for doing so. Clear disclosure also ultimately benefits advisors who will enhance client relationships based on increased transparency and trust. Finally, it furthers the reputation of our industry. For all of these reasons, Morgan Stanley supports the rule, and urges FINRA to implement the Proposed Rule with the changes and the incorporated disclosure template described above.

Respectfully submitted,



Anne Cooney
Managing Director
General Counsel – Morgan Stanley Wealth Management