

The Merchant Securities US & European Dynamic Growth Note I

This investment has been designed to provide investors with an equal exposure to the S&P 500 and DJ Eurostoxx Indices, with the following features.

- The investment is designed to offer an enhanced return from any growth in the S&P 500 and DJ Eurostoxx Indices with a maximum upside of 106%, above the return of capital. Its performance is similar to that of an index tracker fund; the difference being that its 2.12 leverage gives this additional enhanced upside growth.
- The S&P 500 index is a broad representation of the United States economy constructed from 500 shares by market capitalisation.
- The DJ Eurostoxx 50 index represents 50 blue chip shares by market capitalisation drawn from the countries participating in the European Monetary Union.
- The strike date is 28th August 2009.
- The Note is eligible for ISA, SIPP and SSAS investments.

The key features of the Merchant Securities US & European Dynamic Growth Note I :-

- Leveraged participation of 2.12 times the growth of the index up to the cap, so an investment of £1,000 will return a maximum of £2,060 (£1,000 capital plus £1,060 capital growth), which is a return of 106% for a growth of 50% in the indices.
- The investment is at risk in line with any decline in the indices below the initial strike level on the 28th August 2009.
- Morgan Stanley will, subject to market conditions, endeavour to provide a secondary market in the Note to enable investors to buy or sell the Note at any time prior to maturity.
- If the value of the investment reaches the maximum potential return of £2,060 (illustrated in the table on page 2) before maturity, investors may choose to sell the Note back to the issuer, subject to the issuer providing the secondary market.

Please liaise with your usual Merchant Securities contact to subscribe at the initial launch offering of 100 pence per unit on the launch at the 28th August 2009. Any subsequent purchases after the launch date will be subject to market fluctuations.

Note: Past performance is not a reliable indicator of future results.

Terms	
Objective	Capital Growth
Underlying	S&P 500 & DJ Eurostoxx 50 Index
ISIN	XS0449232973
Offer Price	100p
Nominal Value	100p
Denomination	£ sterling
Minimum investment	£1,000
Secondary market size	£1,000
Initial valuation date	28 th August 2009
Note issue date	11 th September 2009
Maturity date	11 th September 2015
Term	6 years
Index initial valuation	TBA
Index yield	Nil coupon
Issuer	Morgan Stanley
Guarantor	Morgan Stanley with an S&P credit rating of A

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Member of the London Stock Exchange

Authorised and Regulated by the
Financial Services Authority

Investment objective

- The objective is to generate enhanced capital growth on the money invested in line with any growth in the S&P 500 and DJ Eurostoxx Indices, in exchange for risk in line with the indices. In the interim period you should be able to buy or sell the Note in the secondary market.
- The Note gives investors equal exposure to the S&P 500 and DJ Eurostoxx 50 indices, in line with the size of the United States and main European economies.

Investment Returns**Table 1: Total return on equity**

Total redemption at maturity from £1,000 invested			
Index return from initial index level	Capital return at maturity	Growth return/(loss) at maturity	Total return at maturity
60%	£1,000	£1,060	£2,060
50%	£1,000	£1,060	£2,060
40%	£1,000	£848	£1,848
20%	£1,000	£424	£1,424
0%	£1,000	£0	£1,000
-20%	£1,000	-£200	£800
-40%	£1,000	-£400	£600
-60%	£1,000	-£600	£400
-80%	£1,000	-£800	£200
-100%	£1,000	-£1,000	£0

Source: Merchant Securities

Table 1 illustrates that at maturity, the zero-coupon bond will have appreciated in value to 100% of the nominal capital. The warrant will then have a value of 212% of the upside performance of the index, capped at 50% above the initial index level. If, for example, the index has appreciated 40%, the growth return is 84.8%. This, together with the 100% capital, will then give a final redemption value of 184.8% (100% + 84.8%) or £1,848 for every £1,000 invested.

Should the index have appreciated over 50% of the initial index level the total return remains at 206% of the original investment (upside capped at 50% with participation at 2.12 times and 100% of capital returned).

In the case where the final index level falls below that of the entry level, the investor's capital will be at risk on a 1:1 basis in line with any percentage decline in the index below the initial strike level. This means that if the final index value is 80% of the initial valuation point, the investor will receive £800 for each £1,000 invested.

Investment Rationale

Currently the United States and European Economies represent about 53% of world GDP and the combined S&P500 and DJ Eurostoxx 50 indices make up about 47% of the world stock markets by capitalisation.

Table 2 below identifies the International Monetary Fund's estimates of world Gross Domestic Product (GDP) growth and identifies the significant proportion represented by the United States and European markets of the world economy. However, there is obviously no guarantee that growth in GDP will occur or that it will occur at the rates illustrated in the table below.

Table 2: Estimated GDP growth by country

Country	2009 Est. billions \$	2014 Est. billions \$	Total % growth from 09 to 14 Est.	Annualised compound growth Est.	2014 % of world GDP Est.
World	54.8	70.6	28.68%	5.17%	
EU	15.3	17.9	16.61%	3.12%	25.34%
USA	14.0	16.9	20.89%	3.87%	23.98%
Japan	4.9	5.3	7.24%	1.41%	7.58%
China	4.8	8.5	75.88%	11.95%	12.04%
UK	2.0	2.5	24.94%	4.55%	3.55%

Source: - International Monetary Fund April 2009

Due to the similarity in size of the United States and European markets, most asset allocation models have equally weighted exposure to these markets and with this in mind we have linked these indices within one structure for simplicity.

We believe that a structure offering considerable potential of enhanced growth from any upside in these indices is an effective way to gain investment exposure to blue chip shares in the United States and continental Europe.

As identified in table 3 below, these indices are well diversified across industry sectors with many of the companies making up these indices deriving their income from world markets and therefore offering a further degree of diversity to the global economy.

Table 3: Sector Allocation by industry sector

S&P 500 Index		DJ Eurostoxx 50 Index	
Sector	% Allocation by market cap	Sector	% Allocation by market cap
Technology	17.20	Financials	31.88
Financials	15.26	Utilities	11.18
Health Care	12.92	Consumer Goods	11.12
Oil & Gas	11.58	Telecom	9.95
Industrials	11.25	Oil & Gas	9.47
Consumer Services	11.12	Basic Materials	8.01
Consumer Goods	10.74	Industrials	7.37
Utilities	3.99	Technology	4.55
Telecom	3.17	Health Care	3.46
Basic Materials	2.78	Consumer Services	3.01

Source: Bloomberg 7th August 2009

The Structure

The Merchant Securities US & European Dynamic Growth Note I is a Medium Term Note (MTN) issued by Morgan Stanley, which will be held by the investor, and based on warrants and preference shares issued by Morgan Stanley.

The net effect to the investor is that the initial investment should benefit from a significant enhanced return of 2.12 times the growth, up to the cap, of the indices above the initial strike level. This is calculated by multiplying the cap of 50% by the leverage of 212% (2.12) giving a total potential growth of 106%. In the event that the indices fall below the initial strike level the investment will be exposed in full and fall proportionately in line with any decline in the indices as set out in table 1 on page 2.

The closing level of the indices is taken as the average closing price of the twenty eighth day of each month over the thirteen calendar months prior to expiration of the product. This method provides further benefit to the investor as it reduces the impact (and risk) of a market dip close to the maturity date.

If the underlying index decreases in value over the final thirteen months of the product life, this averaging will give the investor a higher final index level than would be achieved by using the expiration date as the reference point. This also has the effect of limiting growth if the market is rising during the final thirteen months.

Trading the Merchant Securities US & European Dynamic Growth Note I

Morgan Stanley will endeavour to provide a secondary market in the Note so that the investment can be traded (bought or sold) at any point prior to maturity, although in particular market conditions it may not be possible for Morgan Stanley to make a market or if so it may widen the bid / offer spread.

If you wish to trade this Note you should speak to your usual Merchant Securities contact.

At Maturity

If the investor does not sell the Note in the secondary market before maturity the proceeds of the MTN will be used to purchase a warrant at maturity. This will then be settled for the cash equivalent at a fixed value in accordance with the calculations and illustrated in the table on page 2. The purpose of this process is to create a chargeable event which we believe is subject to capital gains tax, as will be the case if you sell the Note in the secondary market before maturity.

We recommend that you consult your tax and accounting advisers to the extent that you deem necessary.

Risk Factors

A number of risks are present and are detailed below, including issuer risk and the ability of the issuer to repay the nominal value at maturity.

General risks

The value of any securities or financial instruments mentioned in this financial promotion can fall as well as rise and therefore, upon withdrawal, you may receive back less than the full amount invested.

Transactions, including those involving options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

Foreign-currency denominated commodity contracts and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Changes in rates of exchange may have an adverse effect on the value or price of investments in sterling terms. All investments may fluctuate in value.

Past performance is no guarantee of the future performance of investments. You should consider carefully, in the light of your financial resources whether investing in stocks, shares, securities or a collective investment scheme is suitable for you.

The Note holder and prospective purchasers of the Note should consider the risks described in this financial promotion and conduct their own

investigations. In deciding whether or not to purchase the Note, prospective purchasers should form their own views of the risks involved and the merits of an investment related to the underlying indices, based upon such investigations and not in reliance on any information given in the term sheet.

Insolvency Risk

When Merchant Securities Group Limited ("Merchant Securities") receives your investment, it will be deposited into an investor account at Pershing Securities Limited pending investment. In the event of Merchant Securities' insolvency during the period that your investment monies are held with Pershing Securities Limited, your money will be protected.

There exists a counterparty risk with the issuer who in this case is Morgan Stanley, which has an A S&P credit rating, as they are securing the Note against their balance sheet. In the event of Morgan Stanley's insolvency your money will not be protected and you must rely on any right of recourse you have to the Financial Services Compensation Scheme. You may therefore lose all or part of your initial capital investment.

Exit risk

The return of capital described above will exist on the basis that the investment is held until redemption. There may be risks associated with trading on the secondary market. The secondary market price of the securities will depend on many factors, including market liquidity, the value and volatility of the underlying indices, level of the underlying indices at any time on any day and time left until the maturity of the securities, interest rates, the dividend rate on the stocks that compose the underlying indices, and the creditworthiness of the issuer. Therefore the Note holder may receive an amount which may be less than the then intrinsic market value of the securities and which may also be less than the amount the holder would have received had the holder held the securities through to maturity. This is because the full extent of the options are not realised until maturity, thus structured products are seen as more of a buy-and-hold investment strategy.

No interest

Unlike ordinary debt securities, the securities do not pay debt interest. On maturity, the return of only the principal amount will not compensate the holder of the securities for the effects of inflation and other factors relating to the value of money over time. The income is derived from an option strategy and not any form of debt or interest rate.

Hedging risk

On, or prior to and after, the trade date the issuer, through its affiliates or others, will likely hedge its anticipated exposure to the securities by taking positions in the stocks that comprise the underlying indices, in option contracts on the stocks that comprise the underlying indices or positions in any other available securities or instruments. In addition, the issuer and its affiliates trade the stocks that constitute the underlying indices as part of their general business. Any of these activities could potentially affect the value of the underlying indices, including on the determination date, and accordingly could significantly affect the payout to holders on the securities.

Liquidity risk

The Notes will not be traded on an organised exchange. Although the issuer will make a secondary market in the Notes on a best efforts basis, the liquidity of the Notes may be limited. The liquidity of the Notes reflects the liquidity of the securities that underlie the underlying equity.

Adjustment and disruption risk

The sponsors of the S&P 500 and DJ Eurostoxx Indices can add, delete or substitute stocks constituting the respective index or make other methodological changes that could change the value of the respective index without regard to the interests of holders of the securities. Any of these decisions/determinations may adversely affect the value of the securities and may result in you receiving a return that is materially different from that received if the event had not occurred.

Underlying sponsor risk

The sponsor of each underlying index is not an affiliate of the issuer or its affiliates and is not involved with this offering in any way. Consequently, the issuer has no ability to control the actions of the sponsor of each underlying index, including rebalancing that could trigger an adjustment to the terms of the Note.

Note details**Secondary market**

Morgan Stanley will endeavour to provide a secondary market in the Note with a typical bid-offer spread of 1%, so that the investment can be traded (bought or sold) at any point prior to maturity. Although in particular market conditions it may not be possible for the issuer to make a market or if so they may widen the bid/ offer spread.

Taxation

It is our opinion that the return of this product will be liable to capital gains tax. You should consult your tax and accounting advisers to the extent you deem necessary.

This Note can be used as an investment within a SIPP/SSAS or ISA.

Fees and expenses

Merchant Securities' dealing and management fees are not included and will be applied according to our standard charges for equity investments or at a rate as agreed with your Merchant Securities account manager. Merchant Securities will charge the issuer a fee for the design and set-up of the Structured Note, which will be the equivalent of no more than 1% per annum of the issue amount, which has been taken into account in the terms of the product. Details of fees and charges are included in our standard Terms of Business available at www.merchantsecurities.co.uk/products-and-services.asp.

Publication of price

To obtain the latest price of the Merchant Securities US & European Dynamic Growth Note I please speak to your usual contact at Merchant Securities.

Issue documentation

An electronic version of the Morgan Stanley base prospectus is available on request from your usual contact at Merchant Securities. This base prospectus is subject to change from time to time without notification.

Information

For further information on this Note please speak to your usual contact at Merchant Securities on 0207 375 9010

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