Morgan Stanley

Fabrice Demarigny
Secretary General
CESR

15 December 2003

Dear M. Demarigny

Morgan Stanley has been actively involved throughout CESR's consultation process in relation to the Prospectus Directive, both directly and as a member of the industry working group established by the International Primary Markets Association ("IPMA").

We have participated in the preparation by IPMA of a response to the CESR consultation paper published on 30 July, 2003 on Minimum Disclosure Requirements for Sovereign Issuers and Financial Information in Prospectuses. We have reviewed a draft of IPMA's formal response and would like to emphasize one particular point.

Paragraphs 65 and 67 of the 30 July Consultation Paper acknowledge that there are circumstances where the nature of securities being issued may mean that it is appropriate not to require issuers to go to the expense of producing full new financial information or full new audit reports in accordance with IAS Regulations. CESR identifies issues of wholesale debt and high denomination asset backed securities or depositary receipts as examples of such situations.

Another area where lesser disclosure standards would be appropriate is in relation to issues of securities to existing of former directors or employees by a non-EU issuer (whether in respect of their own employees or employees of group companies) which does not have such securities admitted to trading on a regulated market.

If the purpose of the requirement to produce IAS accounts is to protect retail investors who do not have a great deal of familiarity with an issuer, we do not think that this should necessarily apply in full to an issuer which is not seeking to be have its securities admitted to a regulated market, but is simply remunerating its employees partly with its securities. The employees, by definition, will have a far greater degree of information and understanding about the issuer through their employment than the average retail investor and, accordingly, do not require the same level of protection. In respect of the

securities of that particular issuer, their employer, they should be considered "sophisticated".

Even if the point above is accepted, it should also be remembered that non-EU issuers that do not have securities admitted to trading on a regulated market remain at a disadvantage to EU issuers. EU issuers are able to take advantage of the exemption from the prospectus production requirement in Article 4(1)(e) of the Prospectus Directive, whereas non-EU issuers will be required to produce a full equity-style prospectus. Where the only reason for this requirement is the existence of an employee share scheme, we are of the opinion that requiring exactly the same document as for a full retail equity offer would place an unnecessary financial and administrative burden on such issuers. Inevitably, this would discourage them from offering equity to their employees, disadvantaging not just the issuer, but also depriving its employees of the many acknowledged benefits associated with share ownership in their employer.

If you have any questions in relation to this letter, please contact me on +44 207 677 2424.

Alun Williams
Vice President
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