

I am writing in response to the ISS request related to "2011 Draft Policies for Comment". Thank you for the opportunity to comment. I believe that Morgan Stanley Investment Management policies generally are congruent with the ISS proposed changes in the following areas:

- Shareholder proposals relating to independent chairs
- Director attendance (agree that US companies should improve their disclosure, which is subpar compared with other markets; would like to see a simple attendance chart like those for many other markets, in addition to better explanation for reasons for absences)
- Japan director elections (both changes are sensible and clearly improve on present policy)
- Board and committee independence in Canada
- Golden parachute votes under Dodd-Frank (case-by-case approach with strong weighting for qualitative considerations is sensible; we have not talked through the extent to which we would oppose the advisory vote where we support the underlying transaction, and there could be some tough decisions in this area)

I have the following comments on other subjects:

Country of incorporation: We would tend to agree with the proposed change to subject a company to US standards if the SEC considers the company to be a domestic issuer. However, I wonder whether the change should also encompass one related aspect that has troubled us: application of non-US standards in equity compensation plans to companies that may compete for highly skilled employees mainly in the US labor market (e.g., companies based in Singapore or elsewhere that hire their senior engineering staff-members, who might be expected to receive the bulk of equity compensation awarded by the company, mainly in California). This is a little different than the legal issue, as it concerns labor market dynamics. That said, we recognize the difficulties in drawing lines in an age of global companies, but would suggest that to the extent analysis on such a company under the ISS approach used in the United States differs from that using another market standard, ISS might want to consider this tension in reaching its conclusions.

Say-When-on-Pay: We generally have found the annual vote in remuneration reports used in Australia and the UK to be useful, in part so that expressions of concern raised through our red-flag approach can be expressed in a collective vote through the advisory vote rather than necessarily voting against compensation committee members in election to directors. However, while we have had some discussion in our Proxy Review Committee, we have not reached an MSIM view on the issue of vote frequency at this date, and do acknowledge the challenge in advisory votes on so many companies.

Japan compensation: From our past votes, we would support change on ISS requirements with reference to vesting. We believe restricted shares and so-called deep discount options can be effective compensation and retention tools, and believe the current ISS policy as applied to Japan is excessively restrictive, particularly given lack of notable abuse in this area. Moreover, it probably would be desirable for companies to increase use of equity compensation (which is discouraged if vesting requirements are too punitive). We note also that executive pay levels appear to be lower in Japan than in some other markets, adding to need that pay not be deferred indefinitely. Finally, to the extent such awards are used more heavily, in theory the hold-until-retirement policy could push some executives to retire too early -- particularly those with the most marketable skills. We have no strong view on the change related to disclosure of remuneration (the first item in this category).

European remuneration policy (burn rate): Agree that burn rates are as relevant or even more relevant than measures of total potential dilution. However, it is not clear that one size fits all, and we are not sure the 1% limit makes sense for companies that are highly human capital intensive. Based on our voting precedents, we would agree that a 10% dilution cap for well-structured plan is more reasonable than 5% for some companies that are human capital intensive but may be considered "mature" in the ISS growth stage analysis. To the extent that a peer-adjusted approach is not feasible in Europe, you may want to

consider a matrix that considers both "growth stage" and how much the company is dependent on highly skilled labor.

US capital authority proposals: We follow our own policy, but probably would find the changes in your policy reasonable. I believe the tests you discuss would be useful additional considerations.

P.S. On the question regarding new disclosures and independent chairs: while this is useful discussion, we are doubtful on whether the new disclosure requirement will change our voting as companies essentially present reasons for existing arrangements in responses to shareholder proposals in any case.

-Ken Bertsch

Kenneth Bertsch, Executive Director
Morgan Stanley | Investment Management
522 Fifth Avenue, 5th Floor | New York, NY 10036
Phone: +1 212 296-0490
Mobile: +1 347 515-3797
Kenneth.Bertsch@morganstanley.com