

## Worst of PHOENIX Note linked to Bank of America, Gerdau & Fibria

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Terms used but not defined herein are as defined in the Base Prospectus dated 15 June 2010

### Terms and Conditions

<b>ISSUER</b>	Morgan Stanley B.V.			
<b>GUARANTOR</b>	Morgan Stanley			
<b>GUARANTOR RATING</b>	A (S&P), A2 (Moody's), A (Fitch)			
<b>ISIN</b>	XS0595648469			
<b>VALOR</b>	12540121			
<b>UNDERLYING BASKET</b>	<b>Underlying Share (i)</b>	<b>Bloomberg</b>	<b>Initial Reference Price</b>	<b>Exchange</b>
	Bank of America	BAC US	USD 14.18	NYSE
	Gerdau SA - ADR	GGB US	USD 13.91	NYSE
	Fibria Celulose SA - ADR	FBR US	USD 14.50	NYSE
<b>ISSUE VOLUME</b>	USD 1,000,000			
<b>DENOMINATION (PAR)</b>	USD 1,000			
<b>ISSUE PRICE</b>	100%			
<b>TRADE DATE</b>	18 February 2011			

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<b>STRIKE DATE</b>	22 February 2011
<b>ISSUE DATE</b>	01 March 2011
<b>DETERMINATION DATE</b>	22 February 2012
<b>MATURITY DATE</b>	01 March 2012, subject to Early Redemption
<b>EARLY REDEMPTION EVENT</b>	If on any of the Observation Dates the official closing level of all Underlying Shares are above 100% of respective Initial Reference Price, the note will automatically redeem at 100% of Par
<b>COUPON</b>	Until an early redemption event occurs, on the 5 <sup>th</sup> business day after each Observation Date, an amount equal to: <ul style="list-style-type: none"> <li>(i) <b>1.55% (18.60% p.a.)</b> of Par if all Underlying Shares are above the Coupon Barrier</li> <li>(ii) Else, 0% of Par</li> </ul>
<b>OBSERVATION DATES</b>	22 March 2011, 22 April 2011, 23 May 2011, 22 June 2011, 22 July 2011, 22 August 2011, 22 September 2011, 24 October 2011, 22 November 2011, 22 December 2011, 23 January 2011
<b>FINAL REDEMPTION AMOUNT</b>	If there is no Early Redemption Event, an amount calculated by the Determination Agent as follows: <ul style="list-style-type: none"> <li>1) If, on the Determination Date, the official closing price of all Underlying Shares are <b>above 80%</b> of Initial Reference Price: <b>100% of Par</b></li> <li>2) If, on the Determination Date, the official closing price for any Underlying Share is <b>below 80%</b> of Initial Reference Price: <p style="text-align: center;">Physical Delivery of the <b>worst of share</b></p> </li> </ul>
<b>WORST OF SHARE</b>	An amount of shares equal to: <p style="text-align: center;"><b>Denomination / Initial Reference Price of worst performing share</b></p> Fractions will be cash settled
<b>COUPON BARRIER</b>	80% of Initial Reference Price
<b>EARLY REDEMPTION PAYMENT DATE</b>	The fifth Business Day following the relevant Observation Date
<b>SETTLEMENT CURRENCY</b>	USD
<b>SETTLEMENT</b>	Cash and Physical Settlement
<b>CALCULATION AGENT/DETERMINATION AGENT</b>	Morgan Stanley & Co. International plc ("MSI plc"). All calculations will be at the Determinations Agent's sole discretion and, in the absence of manifest error, will be conclusive.

<b>EXERCISE DETAILS, EXERCISE STYLE</b>	Not Applicable
<b>FEES IMPOSED ON THE PURCHASER DURING THE TERM OF THE INVESTMENT AFTER ISSUE</b>	Not Applicable
<b>GOVERNING LAW, PLACE OF JURISDICTION</b>	English Law, the courts of England
<b>RESTRICTION ON TRANSFERABILITY, TRADABILITY, TRADING DETAILS</b>	Under normal market conditions, and subject to applicable law and regulations and Morgan Stanley internal policy, Morgan Stanley & Co. International plc will use reasonable efforts to quote bid and offer prices. However, Morgan Stanley & Co. International plc will not be legally obliged to do so.
<b>BUSINESS DAYS</b>	New York
<b>LISTING</b>	None
<b>CLEARING SYSTEMS</b>	Euroclear
<b>FORM</b>	Registered

## 1. Swap Agreement

Counterparty A:	Morgan Stanley & Co. International plc ("MSI plc")
Counterparty B:	Morgan Stanley
Notional Amount:	USD 1,000,000
Start Date	18 February 2011
End Date	22 February 2012
Maturity Date	01 March 2012

### ON START DATE

Morgan Stanley BV Pays: USD 1,000,000

MS pays: 1M Libor paid monthly on Act/360 basis subject to the Modified Following business day convention

**ON TERMINATION DATE**

MS Pays: USD 1,000,000

**MS pays: payoff described in Redemption Amount and Interest above**

**2. DEPOSIT AGREEMENT BETWEEN MSBV AND MSIF**

MSBV pays MSIF Principal Amount on 1 March 2012;

MSIF pays MSBV (i) 1-month USD-LIBOR-BBA payable monthly in arrears on the 1st of each month, commencing on 1 March 2012 using Actual/360 day account convention subject to adjustment in accordance with the Following Business Day Convention; and (ii) the Principal Amount on Termination Date or Early Termination

Morgan Stanley is not qualified to give legal, tax or accounting advice to its clients and does not purport to do so in this document. Clients are urged to seek the advice of their own professional advisers about the consequences of the proposals contained herein.

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**Risk Factors**

**Potential investors are urged to consult with their legal, regulatory, investment, accounting, tax and other advisors with regard to any proposed or actual investment in these Notes.**

**Please see the Base Prospectus and applicable Final Terms for a full detailed description of the Notes and in particular, please review the Risk Factors associated with these Notes. Investing in the Notes entails certain risks including, but not limited to, the following:**

**Adjustments:** The terms and conditions of the Notes will allow the Determination Agent to make adjustments or take any other appropriate action if circumstances occur where the Notes or any exchanges are affected by market disruption, corporate events or circumstances affecting normal activities.

**Basket Component Risk:** The Notes will be redeemed at an amount determined by reference to the performance of the Basket Components and such performance will therefore affect the nature and value of the investment return on the Notes. Noteholders and prospective purchasers of Notes should conduct their own investigations and, in deciding whether or not to purchase Notes, prospective purchasers should form their own views of the merits of an investment related to the Basket based upon such investigations and not in reliance on any information given in this termsheet.

**Credit Risk:** The holder of the Notes will be exposed to the credit risk of the Issuer and the Guarantor.

**Event Risk:** If an event occurs which in the opinion of the Determination Agent may have a diluting or concentrative effect on the value of a Basket Component, the Determination Agent will have discretion to make changes to the terms of the Notes to account for any such effect; and such changes may affect the value of the Notes. If the Determination Agent determines that the event will not have a diluting or concentrative effect on the value of the relevant Basket Component, the Determination Agent will not adjust the terms of the Notes.

**Exit Risk:** The principal amount is not protected. Investors run the risk that they may not receive their initially invested amount. The secondary market price of the Notes will depend on many factors, including the value and volatility of the Basket Components, interest rates, the dividend rate on the Basket Components, time remaining to maturity and the creditworthiness of the Issuer and the Guarantor. The secondary market price may be lower than the market value of the

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issued Securities as at the Issue Date to take into account amounts paid distributors and other intermediaries relating to the issue and sale of the Notes as well as amounts relating to the hedging of the Issuer's obligations. As a result of all of these factors, the holder may receive an amount in the secondary market which may be less than the then intrinsic market value of the Note and which may also be less than the amount the holder would have received had the holder held the Note through to maturity.

**Hedging Risk:** On or prior to and after the Trade Date, the Issuer, through its affiliates or others, will likely hedge its anticipated exposure under the Notes by taking positions in the Basket Components, in option contracts on the Basket Components or positions in any other available securities or instruments. In addition, the Issuer and its affiliates trade the Basket Components as part of their general businesses. Any of these activities could potentially affect the value of the Basket Components, and accordingly, could affect the payout to holders on the Notes.

**Liquidity Risk:** The Notes will not be traded on an organized exchange. The Dealer will make a secondary market in the Notes on a reasonable efforts basis only and subject to market conditions, law, regulation and internal policy. The liquidity of the Notes reflects the liquidity of the Basket Components and even whilst there may be a secondary market in the Notes it may not be liquid enough to facilitate a sale by the holder.

**Market Risk:** Price movements in the Basket Components may not correlate with each other. Increases in the value of one or more of the Basket Components may be moderated, or wholly offset, by lesser increases or declines in the value of one or more of the other components.

**No Shareholder Rights:** A holder of Notes will have no beneficial interest in the Basket Components nor any voting rights and will not have the right to receive dividends or other distributions with respect to the Basket Components

**Potential Conflict of Interest:** The Determination Agent (MSIL) is an affiliate of the Issuer and the economic interests of the Determination Agent may be adverse to the interests of holders of the Notes. Determinations made by the Determination Agent, including in the event of a market disruption or corporate event affecting the value of the Basket Components or trading on the relevant Exchange, may affect the amount payable to holders pursuant to the terms of the Notes.

**Underlying Issuer Risk:** The issuers of the Basket Components are not affiliates of the Issuer or its affiliates and are not involved with this offering in any way. Consequently, the Issuer and its affiliates have no ability to control the actions of the issuers of the Basket Components, including any corporate actions that could trigger an adjustment to the terms of the Notes by the Determination Agent.

## Selling Restrictions

No public offering of the product, or possession or distribution of any offering material in relation thereto, is permitted in any other jurisdiction unless in compliance with all applicable laws, regulations, codes, directives, orders and/or regulatory requirements, rules and guidance in force from time to time including, for the avoidance of doubt, the EU Prospectus Directive (2003/71/EC) and any implementing measures and Regulation S of the United States Securities Act 1933 as amended (the "Securities Act"). The product may not be offered, sold, transferred or delivered directly or indirectly in the United States to, or for the account or benefit of, any U.S. Person (as defined in Regulation S under the Securities Act).

This Note does not constitute any Collective Investment Schemes Unit in the meaning of the Swiss Federal Act on Collective Investment Schemes (CISA). Accordingly, holders of this Note do not benefit from the investor protection under the CISA or the approval or supervision by the Swiss Financial Market Supervisory Authority ("FINMA"). Investors are exposed to the credit risk of the issuer. Accordingly, the value of the Note is not only subject to the performance of the underlying assets but, among others, also the solvency of the issuer. This information is not an issue prospectus as that term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations nor a simplified prospectus according to Article 5 paragraph 4 of the Swiss CISA. This document is personal to each offerree and does not constitute an offer to any person.

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## Representations

This term sheet is not an offer or a solicitation to buy or sell the instrument described in this term sheet. However, if you agree with us (whether by telephone or otherwise) that you will purchase instruments of the kind described in this term sheet (subject to any modifications agreed between us) your purchase will be deemed to include the following representations, warranties, undertakings and acknowledgements (the "purchaser" in the following text being you):

### Investor Representations

Any investment in the product made with the intention to offer, sell or otherwise transfer (together, "**distribute**" and each a "**distribution**") such product to prospective investors will be deemed to include, without limitation, the following representations, undertakings and acknowledgements:

- a) you shall only distribute as principal or, alternatively, acting on a commission basis in your own name for the account of your investors and will not do so as agent for any Morgan Stanley entity (together "**Morgan Stanley**") who shall assume no responsibility or liability whatsoever in relation to any such distribution. You shall distribute the product in your own name and to such customers as you identify in your own discretion, at your own risk and under your sole responsibility. You shall make such enquiries you deem relevant in order to satisfy yourself that prospective investors have the requisite capacity and authority to purchase the product and that the product is suitable for those investors;
- b) you shall not make any representation or offer any warranty to investors regarding the product, the Issuer or Morgan Stanley or make any use of the Issuer's or Morgan Stanley's name, brand or intellectual property which is not expressly authorised and you shall not represent you are acting as an agent of Morgan Stanley in such distribution. You acknowledge that neither the Issuer nor Morgan Stanley assume any responsibility or liability whatsoever in relation to any representation or warranty you make in breach hereof;
- c) if you distribute any material prepared and transmitted by the Issuer or by Morgan Stanley, you shall only distribute the entire material and not parts thereof. Any material you, or any third party you engage on your behalf, prepare shall be true and accurate in all material respects and consistent in all material respects with the content of the Base Prospectus and the Final Terms and shall not contain any omissions that would make them misleading. You shall only prepare and distribute such material in accordance with all applicable laws, regulations, codes, directives, orders and/or regulatory requirements, rules and guidance in force from time to time ("**Regulations**"). You acknowledge that neither the Issuer nor Morgan Stanley shall have any liability in respect of such material which shall, for the avoidance of doubt, at all times be your sole responsibility;
- d) you will not, directly or indirectly, distribute or arrange the distribution of the product or disseminate or publish (which for the avoidance of doubt will include the dissemination of any such materials or information via the internet) any materials or carry out any type of solicitation in connection with the product in any country or jurisdiction, except under circumstances that will result in compliance with all applicable Regulations and selling practices, and will not give rise to any liability for the Issuer or Morgan Stanley. For the avoidance of doubt, this includes compliance with the selling restrictions mentioned herein;
- e) if you receive any fee, rebate or discount, you shall not be in breach of any Regulation or customer or contractual requirements or obligations and you shall, where required to do so (whether by any applicable Regulation, contract, fiduciary obligation or otherwise), disclose such fees, rebates and discounts to your investors. You acknowledge that where fees are payable, or rebates or discounts applied, the Issuer and Morgan Stanley are obliged to disclose the amounts and/or basis of such fees, rebates or discounts at the request of any of your investors or where required by any applicable Regulations.

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- f) You are not purchasing the Notes as an extension of credit to Morgan Stanley pursuant to a loan agreement entered into in the ordinary course of your trade or business.
- g) you agree and undertake to indemnify and hold harmless and keep indemnified and held harmless the Issuer, the Dealer and each of their respective affiliates and their respective directors, officers and controlling persons from and against any and all losses, actions, claims, damages and liabilities (including without limitation any fines or penalties and any legal or other expenses incurred in connection with defending or investigating any such action or claim) caused directly or indirectly by you or any of your affiliates or agents to comply with any of the provisions set out in (a) to (i) above, or acting otherwise than as required or contemplated herein

Any intermediary based in the EEA is obliged under its regulations to disclose to investors the existence, nature and amount of such commission or fee. Investors should ensure that they have been informed about any fee or commission arrangements by the intermediary before making any purchase of the relevant securities.

WE OFFER TO PURCHASE FROM MORGAN STANLEY AND CO. INTERNATIONAL PLC THE SPECIFIED QUANTITY OF CERTIFICATES DESCRIBED IN THIS TERMSHEET, UPON THE TERMS SET OUT IN THIS TERMSHEET, SUBJECT TO ANY MODIFICATIONS AGREED BETWEEN US.

[PURCHASERS LEGAL NAME]

Name \_\_\_\_\_

Signature \_\_\_\_\_

Date: \_\_\_\_\_

Acknowledged, agreed and accepted

Morgan Stanley & Co. International plc

Name \_\_\_\_\_

Title \_\_\_\_\_

Date: \_\_\_\_\_

**To the extent there is any conflict between these representations and warranties and any terms included in a signed distribution agreement between us, the terms of such distribution agreement shall prevail.**

## Important Information

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