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Press Release

March 26, 2026

Statement on Request from Morgan Stanley by Vice Chair Philip N. Jefferson

The Board has voted to support an exemption for Morgan Stanley and Morgan Stanley Bank, N.A. from the requirements of section 23A of the Federal Reserve Act (section 23A) and the Board's Regulation W. This exemption permits Morgan Stanley Europe SE, a foreign bank engaged in various securities and investment banking activities, to become a subsidiary of Morgan Stanley Bank, N.A. I wish to explain my reasoning for voting against this action by the Board.

Morgan Stanley has indicated that this exemption will facilitate a more level playing field between the firm and its peers, thereby allowing the firm to compete more effectively. While I am attentive to these arguments, I would have preferred that the Board evaluate this exemption request through a rulemaking of general applicability, which section 23A permits the Board to do.[1] The competitive concerns that Morgan Stanley raised may apply to other U.S. banking organizations, and I find the rulemaking process to be a constructive approach to addressing matters of broad relevance to the banking industry. Additionally, I always appreciate the opportunity to hear from a wide range of stakeholders on important regulatory policy issues. It would have been valuable to request public comment on how differences in the corporate structure of large U.S. banking organizations may influence the overall competitive landscape, both domestically and abroad.

Furthermore, my preference for a rulemaking is reinforced by my view that the full effect of the Board's action on the U.S. financial system could be significant and wide-ranging. I believe that this decision creates a precedent for granting similar section 23A exemptions. If exemptions are granted in the future based on this precedent, the most systemic U.S. banking organizations could transfer foreign broker-dealer assets from nonbank holding company subsidiaries to subsidiaries of U.S. insured depository institutions (IDIs). These assets reflect, in part, securities activities that U.S. IDIs only can perform internationally under current U.S. law. This would further expand the scope of the U.S. federal bank safety net, including federal deposit insurance and the discount window, to international securities activities that could present elevated risk. Indeed, experience and the results of the Federal Reserve's supervisory stress test show that trading and counterparty losses at large banking organizations can be meaningful.[2] I believe that a rulemaking would have been a useful approach for assessing these considerations.

For these reasons, I respectfully dissent.

1. 12 U.S.C. 371c(f)(2)(A). Return to text

2. A recent example is the failure of Archegos Capital Management in 2021. *See* Board of Governors of the Federal Reserve System, *Financial Stability Report* (PDF), 42 (Board of Governors, May 2021). In the Federal Reserve's 2025 stress test, projected aggregate trading and counterparty losses at the ten banks with substantial trading, processing, or custodial operations were $42 billion under the severely adverse scenario, which was 8 percent of total losses. Board of Governors of the Federal Reserve System, *2025 Federal Reserve Stress Test Results (PDF)*, 20 (Board of Governors, June 2025). Return to text

Last Update: March 26, 2026