

MORGAN STANLEY INCOME SECURITIES INC  
Form 40-17G  
December 20, 2010

**Morgan Stanley Retail and Institutional Funds**

**522 Fifth Avenue**

**New York, New York 10020**

December 20, 2010

File Room

Securities and Exchange Commission

450 Fifth Street, NW

Washington, D.C. 20549

RE: Morgan Stanley Retail and Institutional Funds

Dear Ladies and Gentleman,

Pursuant to Rule 17g-1 under the Investment Company Act of 1940, as amended, enclosed please find the following documents for each Fund (listed in the Exhibit A) which are attached hereto:

1. A copy of the Fund's joint fidelity blanket bond (the Bond) providing for coverage of \$50 million issued by ICI Mutual acting as lead underwriter and with such other insurance companies participating in the program as may be determined by Management during the policy term for the period October 5, 2010 to October 5, 2011;
2. A copy of the resolutions of the Board of Directors of the Funds, including a majority of the Directors/Trustees who are not interested persons, approving the amount, type, form, coverage of the Bond and the portion of the premium to be paid by each Fund, and allocation of premiums and recoveries under the Bond;
3. A copy of the joint fidelity bond agreement concerning the allocation of premiums and recoveries under the Bond; and
4. A chart that shows for each Fund (i) each fund's Gross Assets; and (ii) the amount of the single insured bond that would have been provided and maintained had the Fund not been named as an insured under a joint insured bond.

Please note that the premium has been paid in its entirety.

Very truly yours,

/s/ Mary Mullin  
Mary Mullin

Secretary of the Funds

Enclosures

**MORGAN STANLEY FUNDS**

**at**

**December 17, 2010**

**Retail Funds**

1. Active Assets Government Securities Trust ( *AA Government* )
2. Active Assets Institutional Government Securities Trust ( *AA Institutional Government* )
3. Active Assets Institutional Money Trust ( *AA Institutional Money* )
4. Active Assets Money Trust ( *AA Money* )
5. Morgan Stanley Liquid Asset Fund Inc. ( *Liquid Asset* )
6. Morgan Stanley U.S. Government Money Market Trust ( *Government Money* )
7. Active Assets California Tax-Free Trust ( *AA California* )
8. Active Assets Tax-Free Trust ( *AA Tax-Free* )
9. Morgan Stanley California Tax-Free Daily Income Trust ( *California Tax-Free Daily* )
10. Morgan Stanley New York Municipal Money Market Trust ( *New York Money* )
11. Morgan Stanley Tax-Free Daily Income Trust ( *Tax-Free Daily* )
12. Morgan Stanley Capital Opportunities Trust ( *Capital Opportunities* )+
13. Morgan Stanley European Equity Fund Inc. ( *European Equity* )+
14. Morgan Stanley Focus Growth Fund ( *Focus Growth* )+

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15. Morgan Stanley Global Infrastructure Fund ( *Global Infrastructure* )+
16. Morgan Stanley International Fund ( *International Fund* )+
17. Morgan Stanley International Value Equity Fund ( *International Value* )+
18. Morgan Stanley Mid Cap Growth Fund ( *Mid Cap Growth* )+
19. Morgan Stanley Real Estate Fund ( *Real Estate* )+
20. Morgan Stanley Special Growth Fund ( *Special Growth* )+
21. Morgan Stanley Global Strategist Fund ( *Global Strategist Fund* )<sup>1</sup>
22. Morgan Stanley Flexible Income Trust ( *Flexible Income* )+
23. Morgan Stanley Limited Duration U.S. Government Trust ( *Limited Duration Government* )
24. Morgan Stanley Mortgage Securities Trust ( *Mortgage Securities* )+
25. Morgan Stanley U.S. Government Securities Trust ( *Government Securities* )+
26. Morgan Stanley Select Dimensions Investment Series ( *Select Dimensions* )

Capital Growth Portfolio

Capital Opportunities Portfolio

Flexible Income Portfolio

Focus Growth Portfolio

Global Infrastructure Portfolio

Mid Cap Growth Portfolio

Money Market Portfolio

<sup>1</sup> Previously Strategist Fund.

27. Morgan Stanley Variable Investment Series ( *Variable Investment* )

Aggressive Equity Portfolio

Capital Opportunities Portfolio

European Equity Portfolio

Global Infrastructure Portfolio

Income Plus Portfolio

Limited Duration Portfolio

Money Market Portfolio

Strategist Portfolio

**Institutional Funds**

1. Morgan Stanley Institutional Fund, Inc. ( *Institutional Fund Inc.* )

Active International Allocation Portfolio

Advantage Portfolio

Asian Equity Portfolio

Capital Growth Portfolio

Emerging Markets Debt Portfolio

Emerging Markets Portfolio

Focus Growth Portfolio

Global Advantage Portfolio

Global Discovery Portfolio

Global Franchise Portfolio

Global Opportunity Portfolio<sup>3</sup>

Global Real Estate Portfolio

International Advantage Portfolio

International Equity Portfolio

International Opportunity Portfolio

International Real Estate Portfolio

International Small Cap Portfolio

Opportunity Portfolio<sup>2</sup>

Select Global Infrastructure Portfolio

Small Company Growth Portfolio

U.S. Real Estate Portfolio

2. Morgan Stanley Institutional Fund Trust ( *Institutional Fund Trust* )

Balanced Portfolio

Core Fixed Income Portfolio

Core Plus Fixed Income Portfolio

Investment Grade Fixed Income Portfolio

Limited Duration Portfolio

Long Duration Fixed Income Portfolio

Mid-Cap Growth Portfolio

<sup>2</sup> Formerly Equity Growth Portfolio

<sup>3</sup> Formerly Global Growth Portfolio

3. The Universal Institutional Funds, Inc. ( *Universal Funds* )

Capital Growth Portfolio

Core Plus Fixed Income Portfolio

Emerging Markets Debt Portfolio

Emerging Markets Equity Portfolio

Global Franchise Portfolio

Global Real Estate Portfolio

Global Tactical Asset Allocation Portfolio<sup>4</sup>

Mid Cap Growth Portfolio

Small Company Growth Portfolio

U.S. Real Estate Portfolio

4. Morgan Stanley Institutional Liquidity Funds ( *Liquidity Funds* )

Government Portfolio

Government Securities Portfolio

Money Market Portfolio

Prime Portfolio

Tax-Exempt Portfolio

Treasury Portfolio



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### Treasury Securities Portfolio

#### Closed-End Funds

1. Morgan Stanley Asia-Pacific Fund, Inc. ( *Asia-Pacific Fund* )
2. Morgan Stanley China A Share Fund, Inc. ( *China A Fund* )
3. Morgan Stanley Eastern Europe Fund, Inc. ( *Eastern Europe* )
4. Morgan Stanley Emerging Markets Debt Fund, Inc. ( *Emerging Markets Debt* )
5. Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. ( *Emerging Markets Domestic Debt* )
6. Morgan Stanley Emerging Markets Fund, Inc. ( *Emerging Markets Fund* )
7. Morgan Stanley Frontier Emerging Markets Fund, Inc. ( *Frontier Emerging Markets* )
8. Morgan Stanley Income Securities Fund, Inc. ( *Income Securities* )
9. The Latin American Discovery Fund, Inc. ( *Latin American Discovery* )
10. The Malaysia Fund, Inc. ( *Malaysia Fund* )
11. The Thai Fund, Inc. ( *Thai Fund* )
12. The Turkish Investment Fund, Inc. ( *Turkish Investment* )
13. Morgan Stanley India Investment Fund Inc. ( *India Fund* )

+ Denotes Multi-Class Retail Fund

<sup>4</sup> Formerly International Magnum Portfolio.

**ICI MUTUAL INSURANCE COMPANY,**

**a Risk Retention Group**

1401 H St. NW

Washington, DC 20005

**INVESTMENT COMPANY BLANKET BOND**

**ICI MUTUAL INSURANCE COMPANY,**

**a Risk Retention Group**

1401 H St. NW

Washington, DC 20005

**DECLARATIONS**

NOTICE

This policy is issued by your risk retention group. Your risk retention group may not be subject to all of the insurance laws and regulations of your state. State insurance insolvency guaranty funds are not available for your risk retention group.

**Item 1.** Name of Insured (the Insured )  
**Morgan Stanley Investment Management, Inc.**

Bond Number  
**88190110B**

Principal Office: 522 Fifth Avenue, 19th Floor  
 New York, NY 10036

Mailing Address: c/o Risk & Insurance  
 Management Department  
 1633 Broadway, 25<sup>th</sup> Floor  
 New York, NY 10019

**Item 2.** Bond Period: from 12:01 a.m. on October 5, 2010, to 12:01 a.m. on October 5, 2011, or the earlier effective date of the termination of this Bond, standard time at the Principal Address as to each of said dates.

**Item 3.** Limit of Liability  
 Subject to Sections 9, 10 and 12 hereof:

	<b>LIMIT OF LIABILITY</b>	<b>DEDUCTIBLE AMOUNT</b>
Insuring Agreement A- FIDELITY	\$ 50,000,000	\$ 150,000
Insuring Agreement B- AUDIT EXPENSE	\$ 50,000	\$ 10,000
Insuring Agreement C- ON PREMISES	\$ 50,000,000	\$ 100,000
Insuring Agreement D- IN TRANSIT	\$ 50,000,000	\$ 100,000
Insuring Agreement E- FORGERY OR ALTERATION	\$ 50,000,000	\$ 100,000
Insuring Agreement F- SECURITIES	\$ 50,000,000	\$ 100,000
Insuring Agreement G- COUNTERFEIT CURRENCY	\$ 50,000,000	\$ 100,000
Insuring Agreement H- UNCOLLECTIBLE ITEMS OF DEPOSIT	\$ 1,000,000	\$ 150,000
Insuring Agreement I- PHONE/ELECTRONIC TRANSACTIONS	\$ 50,000,000	\$ 100,000

If **Not Covered** is inserted opposite any Insuring Agreement above, such Insuring Agreement and any reference thereto shall be deemed to be deleted from this Bond.

OPTIONAL INSURING AGREEMENTS ADDED BY RIDER:

Insuring Agreement J- COMPUTER SECURITY	\$ 50,000,000	\$ 100,000
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**Item 4.** Offices or Premises Covered All the Insured s offices or other premises in existence at the time this Bond becomes effective are covered under this Bond, except the offices or other premises excluded by Rider. Offices or other premises acquired or established after the effective date of this Bond are covered subject to the terms of General Agreement A.

**Item 5.** The liability of ICI Mutual Insurance Company (the Underwriter ) is subject to the terms of the following Riders attached hereto:

Riders: 1-2-3-4-5-6-7-8-9-10-11-12-13

and of all Riders applicable to this Bond issued during the Bond Period.

By: /S/ Maggie Sullivan  
Authorized Representative

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**INVESTMENT COMPANY BLANKET BOND**

**NOTICE**

This policy is issued by your risk retention group. Your risk retention group may not be subject to all of the insurance laws and regulations of your state. State insurance insolvency guaranty funds are not available for your risk retention group.

ICI Mutual Insurance Company, a Risk Retention Group (the Underwriter ), in consideration of an agreed premium, and in reliance upon the Application and all other information furnished to the Underwriter by the Insured, and subject to and in accordance with the Declarations, General Agreements, Provisions, Conditions and Limitations and other terms of this bond (including all riders hereto) ( Bond ), to the extent of the Limit of Liability and subject to the Deductible Amount, agrees to indemnify the Insured for the loss, as described in the Insuring Agreements, sustained by the Insured at any time but discovered during the Bond Period.

**INSURING AGREEMENTS**

**A. FIDELITY**

Loss caused by any Dishonest or Fraudulent Act or Theft committed by an Employee anywhere, alone or in collusion with other persons (whether or not Employees), during the time such Employee has the status of an Employee as defined herein, and even if such loss is not discovered until after he or she ceases to be an Employee, EXCLUDING loss covered under Insuring Agreement B.

**B. AUDIT EXPENSE**

Expense incurred by the Insured for that part of audits or examinations required by any governmental regulatory authority or Self Regulatory Organization to be conducted by such authority or Organization or by an independent accountant or other person, by reason of the discovery of loss sustained by the Insured and covered by this Bond.

**C. ON PREMISES**

Loss resulting from Property that is (1) located or reasonably believed by the Insured to be located within the Insured's offices or premises, and (2) the object of Theft, Dishonest or Fraudulent Act, or Mysterious Disappearance, EXCLUDING loss covered under Insuring Agreement A.

**D. IN TRANSIT**

Loss resulting from Property that is (1) in transit in the custody of any person authorized by an Insured to act as a messenger, except while in the mail or with a carrier for hire (other than a Security Company), and (2) the object of Theft, Dishonest or Fraudulent Act, or Mysterious Disappearance, EXCLUDING loss covered under Insuring Agreement A. Property is in transit beginning immediately upon receipt of such Property by the transporting person and ending immediately upon delivery at the specified destination.

**E. FORGERY OR ALTERATION**

Loss caused by the Forgery or Alteration of or on (1) any bills of exchange, checks, drafts, or other written orders or directions to pay certain sums in money, acceptances, certificates of deposit, due bills, money orders, or letters of credit; or (2) other written instructions, requests or applications to the Insured, authorizing or acknowledging the transfer, payment, redemption, delivery or receipt of Property, or giving notice of any bank account, which instructions or requests or applications purport to have been signed or endorsed by (a) any customer of the Insured, or (b) any shareholder of or subscriber to shares issued by any Investment Company, or (c) any financial or banking institution or

stockbroker; or (3) withdrawal orders or receipts for the withdrawal of Property, or receipts or certificates of deposit for Property and bearing the name of the Insured as issuer or of another Investment Company for which the Insured acts as agent. This Insuring Agreement E does not cover loss caused by Forgery or Alteration of Securities or loss covered under Insuring Agreement A.

**F. SECURITIES**

Loss resulting from the Insured, in good faith, in the ordinary course of business, and in any capacity whatsoever, whether for its own account or for the account of others, having acquired, accepted or received, or sold or delivered, or given any value, extended any credit or assumed any liability on the faith of any Securities, where such loss results from the fact that such Securities (1) were Counterfeit, or (2) were lost or stolen, or (3) contain a Forgery or Alteration, and notwithstanding whether or not the act of the Insured causing such loss violated the constitution, by-laws, rules or regulations of any Self Regulatory Organization, whether or not the Insured was a member thereof, EXCLUDING loss covered under Insuring Agreement A.

**G. COUNTERFEIT CURRENCY**

Loss caused by the Insured in good faith having received or accepted (1) any money orders which prove to be Counterfeit or to contain an Alteration or (2) paper currencies or coin of the United States of America or Canada which prove to be Counterfeit. This Insuring Agreement G does not cover loss covered under Insuring Agreement A.

**H. UNCOLLECTIBLE ITEMS OF DEPOSIT**

Loss resulting from the payment of dividends, issuance of Fund shares or redemptions or exchanges permitted from an account with the Fund as a consequence of

- (1) uncollectible Items of Deposit of a Fund's customer, shareholder or subscriber credited by the Insured or its agent to such person's Fund account, or
- (2) any Item of Deposit processed through an automated clearing house which is reversed by a Fund's customer, shareholder or subscriber and is deemed uncollectible by the Insured;

PROVIDED, that (a) Items of Deposit shall not be deemed uncollectible until the Insured's collection procedures have failed, (b) exchanges of shares between Funds with exchange privileges shall be covered hereunder only if all such Funds are insured by the Underwriter for uncollectible Items of Deposit, and (c) the Insured Fund shall have implemented and maintained a policy to hold Items of Deposit for the minimum number of days stated in its Application (as amended from time to time) before paying any dividend or permitting any withdrawal with respect to such Items of Deposit (other than exchanges between Funds). Regardless of the number of transactions between Funds in an exchange program, the minimum number of days an Item of Deposit must be held shall begin from the date the Item of Deposit was first credited to any Insured Fund.

This Insuring Agreement H does not cover loss covered under Insuring Agreement A.

**I. PHONE/ELECTRONIC TRANSACTIONS**

Loss caused by a Phone/Electronic Transaction, where the request for such Phone/Electronic Transaction:

- (1) is transmitted to the Insured or its agents by voice over the telephone or by Electronic Transmission; and
- (2) is made by an individual purporting to be a Fund shareholder or subscriber or an authorized agent of a Fund shareholder or subscriber; and
- (3) is unauthorized or fraudulent and is made with the manifest intent to deceive;

PROVIDED, that the entity receiving such request generally maintains and follows during the Bond Period all Phone/Electronic Transaction Security Procedures with respect to all Phone/Electronic Transactions; and

EXCLUDING loss resulting from:

- (1) the failure to pay for shares attempted to be purchased; or
- (2) any redemption of Investment Company shares which had been improperly credited to a shareholder's account where such shareholder (a) did not cause, directly or indirectly, such shares to be credited to such account, and (b) directly or indirectly received any proceeds or other benefit from such redemption; or
- (3) any redemption of shares issued by an Investment Company where the proceeds of such redemption were requested to be paid or made payable to other than (a) the Shareholder of Record, or (b) any other person or bank account designated to receive redemption proceeds (i) in the initial account application, or (ii) in writing (not to include Electronic Transmission) accompanied by a signature guarantee; or
- (4) any redemption of shares issued by an Investment Company where the proceeds of such redemption were requested to be sent to other than any address for such account which was designated (a) in the initial account application, or (b) in writing (not to include Electronic Transmission), where such writing is received at least one (1) day prior to such redemption request, or (c) by voice over the telephone or by Electronic Transmission at least fifteen (15) days prior to such redemption; or
- (5) the intentional failure to adhere to one or more Phone/Electronic Transaction Security Procedures; or
- (6) a Phone/Electronic Transaction request transmitted by electronic mail or transmitted by any method not subject to the Phone/Electronic Transaction Security Procedures; or
- (7) the failure or circumvention of any physical or electronic protection device, including any firewall, that imposes restrictions on the flow of electronic traffic in or out of any Computer System.

This Insuring Agreement I does not cover loss covered under Insuring Agreement A, Fidelity or Insuring Agreement J, Computer Security .

**GENERAL AGREEMENTS**

**A. ADDITIONAL OFFICES OR EMPLOYEES CONSOLIDATION OR MERGER NOTICE**

1. Except as provided in paragraph 2 below, this Bond shall apply to any additional office(s) established by the Insured during the Bond Period and to all Employees during the Bond Period, without the need to give notice thereof or pay additional premiums to the Underwriter for the Bond Period.



2. If during the Bond Period an Insured Investment Company shall merge or consolidate with an institution in which such Insured is the surviving entity, or purchase substantially all the assets or capital stock of another institution, or acquire or create a separate investment portfolio, and shall within sixty (60) days notify the Underwriter thereof, then this Bond shall automatically apply to the Property and Employees resulting from such merger, consolidation, acquisition or creation from the date thereof; provided, that the Underwriter may make such coverage contingent upon the payment of an additional premium.

#### **B. WARRANTY**

No statement made by or on behalf of the Insured, whether contained in the Application or otherwise, shall be deemed to be an absolute warranty, but only a warranty that such statement is true to the best of the knowledge of the person responsible for such statement.

#### **C. COURT COSTS AND ATTORNEYS FEES**

The Underwriter will indemnify the Insured against court costs and reasonable attorneys' fees incurred and paid by the Insured in defense of any legal proceeding brought against the Insured seeking recovery for any loss which, if established against the Insured, would constitute a loss covered under the terms of this Bond; provided, however, that with respect to Insuring Agreement A this indemnity shall apply only in the event that

1. an Employee admits to having committed or is adjudicated to have committed a Dishonest or Fraudulent Act or Theft which caused the loss; or
2. in the absence of such an admission or adjudication, an arbitrator or arbitrators acceptable to the Insured and the Underwriter concludes, after a review of an agreed statement of facts, that an Employee has committed a Dishonest or Fraudulent Act or Theft which caused the loss.

The Insured shall promptly give notice to the Underwriter of any such legal proceeding and upon request shall furnish the Underwriter with copies of all pleadings and other papers therein. At the Underwriter's election the Insured shall permit the Underwriter to conduct the defense of such legal proceeding in the Insured's name, through attorneys of the Underwriter's selection. In such event, the Insured shall give all reasonable information and assistance which the Underwriter shall deem necessary to the proper defense of such legal proceeding.

If the amount of the Insured's liability or alleged liability in any such legal proceeding is greater than the amount which the Insured would be entitled to recover under this Bond (other than pursuant to this General Agreement C), or if a Deductible Amount is applicable, or both, the indemnity liability of the Underwriter under this General Agreement C is limited to the proportion of court costs and attorneys' fees incurred and paid by the Insured or by the Underwriter that the amount which the Insured would be entitled to recover under this Bond (other than pursuant to this General Agreement C) bears to the sum of such amount plus the amount which the Insured is not entitled to recover. Such indemnity shall be in addition to the Limit of Liability for the applicable Insuring Agreement.

#### **D. INTERPRETATION**

This Bond shall be interpreted with due regard to the purpose of fidelity bonding under Rule 17g-1 of the Investment Company Act of 1940 (i.e., to protect innocent third parties from harm) and to the structure of the investment management industry (in which a loss of Property resulting from a cause described in any Insuring Agreement ordinarily gives rise to a potential legal liability on the part of the Insured), such that the term "loss" as used herein shall include an Insured's legal liability for direct compensatory damages resulting directly from a misappropriation, or measurable diminution in value, of Property.

**THIS BOND, INCLUDING THE FOREGOING INSURING AGREEMENTS  
AND GENERAL AGREEMENTS, IS SUBJECT TO THE FOLLOWING  
PROVISIONS, CONDITIONS AND LIMITATIONS:**

**SECTION 1. DEFINITIONS**

The following terms used in this Bond shall have the meanings stated in this Section:

- A. Alteration** means the marking, changing or altering in a material way of the terms, meaning or legal effect of a document with the intent to deceive.
- B. Application** means the Insured's application (and any attachments and materials submitted in connection therewith) furnished to the Underwriter for this Bond.
- C. Computer System** means (1) computers with related peripheral components, including storage components, (2) systems and applications software, (3) terminal devices, (4) related communications networks or customer communication systems, and (5) related electronic funds transfer systems; by which data or monies are electronically collected, transmitted, processed, stored or retrieved.
- D. Counterfeit** means, with respect to any item, one which is false but is intended to deceive and to be taken for the original authentic item.
- E. Deductible Amount** means, with respect to any Insuring Agreement, the amount set forth under the heading **Deductible Amount** in Item 3 of the Declarations or in any Rider for such Insuring Agreement, applicable to each Single Loss covered by such Insuring Agreement.
- F. Depository** means any securities depository (other than any foreign securities depository) in which an Investment Company may deposit its Securities in accordance with Rule 17f-4 under the Investment Company Act of 1940.
- G. Dishonest or Fraudulent Act** means any dishonest or fraudulent act, including larceny and embezzlement as defined in Section 37 of the Investment Company Act of 1940, committed with the conscious manifest intent (1) to cause the Insured to sustain a loss and (2) to obtain financial benefit for the perpetrator or any other person (other than salaries, commissions, fees, bonuses, awards, profit sharing, pensions or other employee benefits). A Dishonest or Fraudulent Act does not mean or include a reckless act, a negligent act, or a grossly negligent act.
- H. Electronic Transmission** means any transmission effected by electronic means, including but not limited to a transmission effected by telephone tones, Telefacsimile, wireless device, or over the Internet.
- I. Employee** means:
- (1) each officer, director, trustee, partner or employee of the Insured, and
  - (2) each officer, director, trustee, partner or employee of any predecessor of the Insured whose principal assets are acquired by the Insured by consolidation or merger with, or purchase of assets or capital stock of, such predecessor, and

- (3) each attorney performing legal services for the Insured and each employee of such attorney or of the law firm of such attorney while performing services for the Insured, and
  
- (4) each student who is an authorized intern of the Insured, while in any of the Insured's offices, and

