

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Form N-Q  
March 27, 2019

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-22011

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York  
(Address of principal executive offices)

10036  
(Zip code)

John H. Gernon

522 Fifth Avenue, New York, New York 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-0289

Date of fiscal year end: October 31,

Date of reporting period: January 31, 2019

---

**Item 1. Schedule of Investments.**

The Registrant's schedule of investments as of the close of the reporting period prepared pursuant to Rule 12-12 of Regulation S-X is as follows:

---

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Portfolio of Investments

First Quarter Report

January 31, 2019 (unaudited)

(Showing Percentage of Total Value of Investments)

|   |     | Face<br>Amount<br>(000) |    | Value<br>(000) |
|---|-----|-------------------------|----|----------------|
| <b>Fixed Income Securities (93.1%)</b>  |     |                         |    |                |
| <b>Argentina (2.5%)</b>   |     |                         |    |                |
| <b>Corporate Bonds (2.5%)</b>   |     |                         |    |                |
| Autonomous City of Buenos Aires Argentina,<br>BADLAR + 3.25%, 48.97%, 3/29/24 (a) | ARS | 92,677                  | \$ | 2,345          |
| Banco Hipotecario SA,<br>3 Month USD LIBOR + 4.00%, 48.63%, 11/7/22 (a)(b)        |     | 25,000                  |    | 650            |
| Provincia de Buenos Aires,<br>BADLAR + 3.83%, 51.03%, 5/31/22 (a)                 |     | 218,010                 |    | 5,629          |
| Provincia de Mendoza Argentina,<br>BADLAR + 4.38%, 51.06%, 6/9/21 (a)             |     | 172,370                 |    | 4,450          |
| Tarjeta Naranja SA,<br>BADLAR + 3.50%, 48.13%, 4/11/22 (a)(b)                     | \$  | 5,150                   |    | 1,977          |
| YPF SA,<br>BADLAR + 4.00%, 51.73%, 7/7/20 (a)(b)                                  |     | 9,137                   |    | 3,754          |
|   |     |                         |    | 18,805         |
| <b>Brazil (15.3%)</b>   |     |                         |    |                |
| <b>Sovereign (15.3%)</b>  |     |                         |    |                |
| Brazil Notas do Tesouro Nacional, Series F,<br>10.00%, 1/1/21 1/1/25              | BRL | 392,361                 |    | 113,518        |
| <b>Chile (1.0%)</b>   |     |                         |    |                |
| <b>Sovereign (1.0%)</b>   |     |                         |    |                |
| Bonos de la Tesoreria de la Republica en pesos,<br>5.00%, 3/1/35                  | CLP | 3,570,000               |    | 5,721          |
| Chile Government International Bond,<br>5.50%, 8/5/20                             |     | 1,165,000               |    | 1,828          |
|   |     |                         |    | 7,549          |
| <b>Colombia (5.6%)</b>  |     |                         |    |                |
| <b>Corporate Bond (0.2%)</b>  |     |                         |    |                |
| Fideicomiso PA Costera, TIPS<br>6.25%, 1/15/34 (b)                                | COP | 4,979,415               |    | 1,633          |
| <b>Sovereign (5.4%)</b>   |     |                         |    |                |
| Colombia Government International Bond,<br>9.85%, 6/28/27                         |     | 1,466,000               |    | 580            |
| Colombian TES,<br>6.00%, 4/28/28  |     | 15,000,000              |    | 4,629          |
| 7.75%, 9/18/30  |     | 16,848,100              |    | 5,804          |
| 10.00%, 7/24/24   |     | 44,128,500              |    | 16,737         |
| 11.00%, 7/24/20   |     | 14,087,000              |    | 4,928          |
| Financiera de Desarrollo Territorial SA Findeter,<br>7.88%, 8/12/24 (b)           |     | 21,492,000              |    | 7,058          |
|   |     |                         |    | 39,736         |

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

|  |     |        |        |
|--|-----|--------|--------|
|  |     |        | 41,369 |
| <b>Dominican Republic (0.1%)</b>                             |     |        |        |
| <b>Sovereign (0.1%)</b>                                      |     |        |        |
| Dominican Republic International Bond,<br>8.90%, 2/15/23 (b) | DOP | 22,000 | 422    |

---

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

|   |     |             |        |
|---|-----|-------------|--------|
| <b>Georgia (0.7%)</b>                   |     |             |        |
| <b>Corporate Bond (0.7%)</b>            |     |             |        |
| Bank of Georgia JSC,                    |     |             |        |
| 11.00%, 6/1/20 (b)                      | GEL | 14,300      | 5,413  |
| <b>Hungary (3.5%)</b>                   |     |             |        |
| <b>Sovereign (3.5%)</b>                 |     |             |        |
| Hungary Government Bond,                |     |             |        |
| 3.00%, 10/27/27                         | HUF | 3,481,590   | 12,860 |
| 5.50%, 6/24/25                          |     | 2,992,920   | 12,854 |
|   |     |             | 25,714 |
| <b>India (2.9%)</b>                     |     |             |        |
| <b>Sovereign (2.9%)</b>                 |     |             |        |
| India Government Bond,                  |     |             |        |
| 8.40%, 7/28/24                          | INR | 1,445,000   | 21,285 |
| <b>Indonesia (9.1%)</b>                 |     |             |        |
| <b>Sovereign (9.1%)</b>                 |     |             |        |
| Indonesia Treasury Bond,                |     |             |        |
| 8.38%, 3/15/34                          | IDR | 291,441,000 | 21,098 |
| 8.75%, 5/15/31                          |     | 412,855,000 | 30,670 |
| 9.00%, 3/15/29                          |     | 204,725,000 | 15,629 |
|   |     |             | 67,397 |
| <b>Malaysia (4.5%)</b>                  |     |             |        |
| <b>Sovereign (4.5%)</b>                 |     |             |        |
| Malaysia Government Bond,               |     |             |        |
| 3.96%, 9/15/25                          | MYR | 27,854      | 6,794  |
| 4.18%, 7/15/24                          |     | 86,575      | 21,397 |
| 4.23%, 6/30/31                          |     | 19,500      | 4,728  |
|   |     |             | 32,919 |
| <b>Mexico (10.0%)</b>                   |     |             |        |
| <b>Sovereign (10.0%)</b>                |     |             |        |
| Mexican Bonos,                          |     |             |        |
| Series M                                |     |             |        |
| 6.50%, 6/10/21                          | MXN | 137,760     | 6,946  |
| 7.50%, 6/3/27                           |     | 212,300     | 10,487 |
| 7.75%, 5/29/31                          |     | 113,776     | 5,569  |
| 8.00%, 12/7/23                          |     | 129,000     | 6,693  |
| 10.00%, 12/5/24                         |     | 97,500      | 5,507  |
| Petroleos Mexicanos,                    |     |             |        |
| (Units)                                 |     |             |        |
| 7.65%, 11/24/21 (b)(c)                  |     | 791,300     | 38,620 |
|   |     |             | 73,822 |
| <b>Peru (3.9%)</b>                      |     |             |        |
| <b>Sovereign (3.9%)</b>                 |     |             |        |
| Peru Government Bond,                   |     |             |        |
| (Units)                                 |     |             |        |
| 5.70%, 8/12/24 (c)                      | PEN | 44,037      | 13,770 |
| 6.15%, 8/12/32 (b)                      |     | 20,660      | 6,322  |
| Peruvian Government International Bond, |     |             |        |
| (Units)                                 |     |             |        |
| 5.70%, 8/12/24 (b)(c)                   |     | 14,001      | 4,378  |

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

|   |     |         |        |
|---|-----|---------|--------|
| 8.20%, 8/12/26 (c)                        |     | 13,154  | 4,656  |
|   |     |         | 29,126 |
| <b>Poland (9.9%)</b>                      |     |         |        |
| <b>Sovereign (9.9%)</b>                   |     |         |        |
| Poland Government Bond,                   |     |         |        |
| 5.25%, 10/25/20                           | PLN | 75,898  | 21,735 |
| Republic of Poland Government Bond,       |     |         |        |
| 3.25%, 7/25/25                            |     | 29,850  | 8,435  |
| 5.75%, 9/23/22                            |     | 141,500 | 43,210 |
|   |     |         | 73,380 |
| <b>Romania (1.2%)</b>                     |     |         |        |
| <b>Sovereign (1.2%)</b>                   |     |         |        |
| Romania Government Bond,                  |     |         |        |
| 4.75%, 2/24/25                            | RON | 31,330  | 7,627  |
| 5.80%, 7/26/27                            |     | 6,090   | 1,580  |
|   |     |         | 9,207  |
| <b>Russia (5.2%)</b>                      |     |         |        |
| <b>Sovereign (5.2%)</b>                   |     |         |        |
| Russian Federal Bond - OFZ,               |     |         |        |
| 6.40%, 5/27/20                            | RUB | 185,800 | 2,799  |
| 7.00%, 8/16/23                            |     | 391,387 | 5,796  |
| 7.05%, 1/19/28                            |     | 61,200  | 881    |
| 7.10%, 10/16/24                           |     | 500,000 | 7,382  |
| 7.60%, 7/20/22                            |     | 438,000 | 6,669  |
| 8.15%, 2/3/27                             |     | 961,800 | 14,897 |
|   |     |         | 38,424 |
| <b>South Africa (7.3%)</b>                |     |         |        |
| <b>Sovereign (7.3%)</b>                   |     |         |        |
| Republic of South Africa Government Bond, |     |         |        |
| 8.25%, 3/31/32                            | ZAR | 37,243  | 2,579  |
| 8.75%, 1/31/44                            |     | 260,000 | 17,973 |
| South Africa Government Bond,             |     |         |        |
| 6.75%, 3/31/21                            |     | 83,700  | 6,291  |
| 7.25%, 1/15/20                            |     | 24      | 2      |
| 7.75%, 2/28/23                            |     | 54,000  | 4,074  |
| 8.00%, 1/31/30                            |     | 328,200 | 22,908 |
|   |     |         | 53,827 |
| <b>Thailand (5.2%)</b>                    |     |         |        |
| <b>Sovereign (5.2%)</b>                   |     |         |        |
| Thailand Government Bond,                 |     |         |        |
| 3.63%, 6/16/23                            | THB | 630,000 | 21,512 |
| 3.85%, 12/12/25                           |     | 477,460 | 16,826 |
|   |     |         | 38,338 |
| <b>Turkey (3.6%)</b>                      |     |         |        |
| <b>Sovereign (3.6%)</b>                   |     |         |        |
| Turkey Government Bond,                   |     |         |        |
| 7.10%, 3/8/23                             | TRY | 19,550  | 2,891  |
| 8.00%, 3/12/25                            |     | 24,250  | 3,520  |
| 9.20%, 9/22/21                            |     | 22,000  | 3,632  |
| 10.50%, 1/15/20                           |     | 29,475  | 5,340  |

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

|  |     |            |            |
|--|-----|------------|------------|
| 10.60%, 2/11/26  |     | 30,700     | 5,069      |
| 11.00%, 2/24/27  |     | 34,850     | 5,814      |
|  |     |            | 26,266     |
| <b>Uruguay (1.6%)</b>  |     |            |            |
| <b>Sovereign (1.6%)</b>  |     |            |            |
| Uruguay Government International Bond,   |     |            |            |
| 8.50%, 3/15/28 (b)   | UYU | 69,890     | 1,894      |
| 9.88%, 6/20/22   |     | 17,260     | 534        |
| 9.88%, 6/20/22 (b)   |     | 304,500    | 9,416      |
|  |     |            | 11,844     |
| <b>Total Fixed Income Securities (Cost \$790,775)</b>                          |     |            | 688,625    |
| <b>Short-Term Investments (6.9%)</b>   |     |            |            |
| <b>U.S. Treasury Securities (1.2%)</b>   |     |            |            |
| U.S. Treasury Bills,   |     |            |            |
| 2.38%, 3/21/19 (d)   | \$  | 8,230      | 8,204      |
| 2.39%, 3/21/19 (d)   |     | 326        | 325        |
| <b>Total U.S. Treasury Securities (Cost \$8,529)</b>                           |     |            | 8,529      |
| <b>Shares</b>  |     |            |            |
| <b>Investment Company (2.6%)</b>   |     |            |            |
| Morgan Stanley Institutional Liquidity Funds - Treasury Securities Portfolio - |     |            |            |
| Institutional Class (e) (Cost \$19,586)  |     | 19,586,499 | 19,586     |
| <b>Face Amount (000)</b>   |     |            |            |
| <b>Egypt (3.1%)</b>  |     |            |            |
| <b>Sovereign (3.1%)</b>  |     |            |            |
| Egypt Treasury Bills,  |     |            |            |
| 16.30%, 3/5/19   | EGP | 77,225     | 4,314      |
| 16.40%, 3/5/19   |     | 133,550    | 7,460      |
| 16.57%, 3/5/19   |     | 204,675    | 11,430     |
| <b>Total Sovereign (Cost \$23,217)</b>   |     |            | 23,204     |
| <b>Total Short-Term Investments (Cost \$51,332)</b>                            |     |            | 51,319     |
| <b>Total Investments (100.0%) (Cost \$842,107) (f)(g)(h)</b>                   |     |            | 739,944    |
| <b>Liabilities in Excess of Other Assets</b>                                   |     |            | (218,006)  |
| <b>Net Assets</b>  |     |            | \$ 521,938 |

Country assignments and aggregations are based generally on third party vendor classifications and information, and may be different from the assignments and aggregations under the policies set forth in the Fund's prospectus and/or statement of additional information relating to geographic classifications.

- 
- (a) Floating or Variable rate securities: The rates disclosed are as of January 31, 2019. For securities based on a published reference rate and spread, the reference rate and spread are indicated in the description in the Portfolio of Investments. Certain variable rate securities may not be based on a published reference rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description in the Portfolio of Investments.
-

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

- (b) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
  - (c) Consists of one or more classes of securities traded together as a unit.
  - (d) Rate shown is the yield to maturity at January 31, 2019.
  - (e) The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds - Treasury Securities Portfolio - (the Liquidity Funds ), an open-end management investment company managed by the Adviser. Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Fund due to its investment in the Liquidity Funds. For the three months ended January 31, 2019, advisory fees paid were reduced by approximately \$8,000 relating to the Fund s investment in the Liquidity Funds.
  - (f) Securities are available for collateral in connection with open foreign currency forward exchange contracts and futures contracts.
  - (g) The Fund is permitted to purchase and sell securities ( cross-trade ) from and to other Morgan Stanley Funds as well as other funds and client accounts for which the Adviser or an affiliate of the Adviser serves as investment adviser, pursuant to procedures approved by the Directors in compliance with Rule 17a-7 under the Act (the Rule ). Each cross-trade is executed at the current market price in compliance with provisions of the Rule. For the three months ended January 31, 2019, the Fund did not engage in any cross-trade transactions.
  - (h) At January 31, 2019, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately \$16,680,000 and the aggregate gross unrealized depreciation is approximately \$124,268,000, resulting in net unrealized depreciation of approximately \$107,588,000.
- BADLAR Buenos Aires Deposits of Large Amount Rate.  
LIBOR London Interbank Offered Rate.  
OFZ Obilgatsyi Federal novo Zaima (Russian Federal Loan Obligation).  
TIPS Treasury Inflation Protected Security.
-

**Foreign Currency Forward Exchange Contracts:**

The Fund had the following foreign currency forward exchange contracts open at January 31, 2019:

| Counterparty                    |     | Contracts<br>to<br>Deliver<br>(000) |     | In<br>Exchange<br>For<br>(000) | Delivery<br>Date | Unrealized<br>Appreciation<br>(Depreciation)<br>(000) |
|---------------------------------|-----|-------------------------------------|-----|--------------------------------|------------------|---|
| JPMorgan Chase Bank NA          | BRL | 213,788                             | \$  | 54,382                         | 2/4/19           | \$ (4,235)  |
| JPMorgan Chase Bank NA          | BRL | 12,700                              | \$  | 3,478                          | 2/4/19           | (4)   |
| JPMorgan Chase Bank NA          | \$  | 58,542                              | BRL | 213,788                        | 2/4/19           | 75  |
| JPMorgan Chase Bank NA          | \$  | 3,395                               | BRL | 12,700                         | 2/4/19           | 87  |
| State Street Bank and Trust Co. | BRL | 201,088                             | \$  | 55,064                         | 2/4/19           | (71)  |
| State Street Bank and Trust Co. | \$  | 53,424                              | BRL | 201,088                        | 2/4/19           | 1,711   |
| State Street Bank and Trust Co. | BRL | 201,088                             | \$  | 53,324                         | 3/6/19           | (1,722)   |
| Bank of America NA              | \$  | 2,132                               | THB | 68,000                         | 3/28/19          | 47  |
| Bank of America NA              | ZAR | 52,000                              | \$  | 3,719                          | 3/28/19          | (178)   |
| Barclays Bank PLC               | MYR | 20,000                              | \$  | 4,892                          | 3/28/19          | 14  |
| BNP Paribas SA                  | COP | 18,230,000                          | \$  | 5,799                          | 3/28/19          | (60)  |
| BNP Paribas SA                  | HUF | 1,090,000                           | \$  | 3,890                          | 3/28/19          | (74)  |
| BNP Paribas SA                  | MXN | 375,300                             | \$  | 19,405                         | 3/28/19          | (69)  |
| BNP Paribas SA                  | \$  | 11,217                              | CLP | 7,565,000                      | 3/28/19          | 320   |
| BNP Paribas SA                  | \$  | 12,248                              | CZK | 274,100                        | 3/28/19          | (49)  |
| BNP Paribas SA                  | \$  | 4,041                               | RON | 16,510                         | 3/28/19          | (57)  |
| Goldman Sachs International     | INR | 1,577,670                           | \$  | 22,009                         | 3/28/19          | (43)  |
| Goldman Sachs International     | PLN | 68,000                              | \$  | 18,104                         | 3/28/19          | (193)   |
| Goldman Sachs International     | RUB | 112,000                             | \$  | 1,666                          | 3/28/19          | (36)  |
| UBS AG                          | \$  | 1,465                               | RON | 6,000                          | 3/28/19          | (17)  |
|                                 |     |                                     |     |                                |                  | \$ (4,554)  |

**Futures Contracts:**

The Fund had the following futures contracts open at January 31, 2019:

|                           | Number<br>of<br>Contracts | Expiration<br>Date | Notional Amount<br>(000) | Value<br>(000) | Unrealized<br>Depreciation<br>(000) |
|---------------------------|---------------------------|--------------------|--------------------------|----------------|-------------------------------------|
| <b>Short:</b>             |                           |                    |                          |                |                                     |
| German Euro Bund          | 150                       | Mar-19             | (15,000)                 | \$ (28,444)    | \$ (562)                            |
| U.S. Treasury 10 yr. Note | 89                        | Mar-19             | (8,900)                  | (10,900)       | (309)                               |
|                           |                           |                    |                          |                | \$ (871)                            |

|     |                   |
|-----|-------------------|
| ARS | Argentine Peso    |
| BRL | Brazilian Real    |
| CLP | Chilean Peso      |
| COP | Colombian Peso    |
| CZK | Czech Koruna      |
| DOP | Dominican Peso    |
| EGP | Egyptian Pound    |
| GEL | Georgian Lari     |
| HUF | Hungarian Forint  |
| IDR | Indonesian Rupiah |
| INR | Indian Rupee      |
| MXN | Mexican Peso      |

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

|     |                    |
|-----|--------------------|
| MYR | Malaysian Ringgit  |
| PEN | Peruvian Nuevo Sol |
| PLN | Polish Zloty       |
| RON | Romanian New Leu   |
| RUB | Russian Ruble      |
| THB | Thai Baht          |
| TRY | Turkish Lira       |
| UYU | Uruguay Peso       |
| ZAR | South African Rand |

---

**Portfolio Composition**

| <b>Classification</b>  | <b>Percentage of<br/>Total Investments</b> |
|------------------------|--|
| Sovereign              | 89.6%                                      |
| Short-Term Investments | 6.9  |
| Other*                 | 3.5  |
| Total Investments      | 100.0%**                                   |

---

\* Industries and/or investment types representing less than 5% of total investments.

\*\* Does not include open short futures contracts with a value of approximately \$39,344,000 and total unrealized depreciation of approximately \$871,000. Does not include open foreign currency forward exchange contracts with net unrealized depreciation of approximately \$4,554,000.

---

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

**Notes to the Portfolio of Investments • January 31, 2019 (unaudited)**

In August 2018, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2018-13, Fair Value Measurement (Topic 820) - Disclosures Framework - Changes to Disclosure Requirements of Fair Value Measurement ( ASU 2018-13 ) which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 would be effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years; however, management has elected to early adopt ASU 2018-13 effective with the current reporting period as permitted by the standard. The impact of the Fund's adoption was limited to changes in the Fund's financial statement disclosures regarding fair value, primarily those disclosures related to transfers between levels of the fair value hierarchy and disclosure of the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements, when applicable.

**Security Valuation:** (1) Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service/vendor. The pricing service/vendor may employ a pricing model that takes into account, among other things, bids, yield spreads and/or other market data and specific security characteristics. Alternatively, if a valuation is not available from an outside pricing service/vendor, and the security trades on an exchange, the security may be valued at its latest reported sale price (or at the exchange official closing price if such exchange reports an official closing price), prior to the time when assets are valued. If there are no sales on a given day and if there is no official exchange closing price for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available in the relevant exchanges; (2) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the Adviser ) determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors (the Directors ). Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange ( NYSE ). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (3) futures are valued at the settlement price on the exchange on which they trade or, if a settlement price is unavailable, at the last sale price on the exchange; (4) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; and (5) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value as of the close of each business day.

The Directors have responsibility for determining in good faith the fair value of the investments, and the Directors may appoint others, such as the Fund's Adviser or a valuation committee, to assist the Directors in determining fair value and to make the actual calculations pursuant to the fair valuation methodologies previously approved by the Directors. Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

**Fair Value Measurement:** FASB Accounting Standards Codification™ ( ASC ) 820, Fair Value Measurement ( ASC 820 ), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to

---

distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below:

- Level 1 unadjusted quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

---

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

The following is a summary of the inputs used to value the Fund's investments as of January 31, 2019:

| Investment Type                                    | Level 1<br>Unadjusted<br>quoted<br>prices<br>(000) | Level 2<br>Other<br>significant<br>observable<br>inputs<br>(000) | Level 3<br>Significant<br>unobservable<br>inputs<br>(000) | Total<br>(000)    |
|--|--|--|---|-------------------|
| <b>Assets:</b>                                     |  |  |   |                   |
| <b>Fixed Income Securities</b>                     |  |  |   |                   |
| Corporate Bonds                                    | \$   | \$ 25,851  | \$  | \$ 25,851         |
| Sovereign  |  | 662,774  |   | 662,774           |
| <b>Total Fixed Income Securities</b>               |  | <b>688,625</b>   |   | <b>688,625</b>    |
| <b>Short-Term Investments</b>                      |  |  |   |                   |
| U.S. Treasury Securities                           |  | 8,529  |   | 8,529             |
| Investment Company                                 | 19,586   |  |   | 19,586            |
| Sovereign  |  | 23,204   |   | 23,204            |
| <b>Total Short-Term Investments</b>                | <b>19,586</b>                                      | <b>31,733</b>  |   | <b>51,319</b>     |
| <b>Foreign Currency Forward Exchange Contracts</b> | \$   | \$ 2,254   | \$  | \$ 2,254          |
| <b>Total Assets</b>                                | <b>19,586</b>                                      | <b>722,612</b>   |   | <b>742,198</b>    |
| <b>Liabilities:</b>                                |  |  |   |                   |
| <b>Foreign Currency Forward Exchange Contracts</b> |  | (6,808)  |   | (6,808)           |
| <b>Futures Contracts</b>                           | (871)  |  |   | (871)             |
| <b>Total Liabilities</b>                           | <b>(871)</b>                                       | <b>(6,808)</b>   |   | <b>(7,679)</b>    |
| <b>Total</b>                                       | <b>\$ 18,715</b>                                   | <b>\$ 715,804</b>  | <b>\$</b>   | <b>\$ 734,519</b> |

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes.

**Item 2. Controls and Procedures.**

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the registrant in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits.**

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto.

---

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ John H. Gernon  
John H. Gernon  
Principal Executive Officer  
March 19, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ John H. Gernon  
John H. Gernon  
Principal Executive Officer  
March 19, 2019

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
March 19, 2019

---