MORGAN STANLEY
Form 10-K
February 27, 2012
**Table of Contents**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

*For the year ended December 31, 2011*

Commission File Number 1-11758

(Exact name of Registrant as specified in its charter)

| | | | |
|---|---|---|---|
| **Delaware** | **1585 Broadway** | **36-3145972** | **(212) 761-4000** |
| (State or other jurisdiction of incorporation or organization) | **New York, NY 10036** | (I.R.S. Employer Identification No.) | (Registrant s telephone number, including area code) |
| | (Address of principal executive offices, including zip code) | | |

| Title of each class | Name of exchange on which registered |
|---|---|
| **Securities registered pursuant to Section 12(b) of the Act:** | |
| Common Stock, $0.01 par value | New York Stock Exchange |
| Depositary Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value | New York Stock Exchange |
| 6 1/4% Capital Securities of Morgan Stanley Capital Trust III (and Registrant s guaranty with respect thereto) | New York Stock Exchange |
| 6 1/4% Capital Securities of Morgan Stanley Capital Trust IV (and Registrant s guaranty with respect thereto) | New York Stock Exchange |
| 5 3/4% Capital Securities of Morgan Stanley Capital Trust V (and Registrant s guaranty with respect thereto) | New York Stock Exchange |
| 6.60% Capital Securities of Morgan Stanley Capital Trust VI (and Registrant s guaranty with respect thereto) | New York Stock Exchange |
| 6.60% Capital Securities of Morgan Stanley Capital Trust VII (and Registrant s guaranty with respect thereto) | New York Stock Exchange |
| 6.45% Capital Securities of Morgan Stanley Capital Trust VIII (and Registrant s guaranty with respect thereto) | New York Stock Exchange |
| Capital Protected Notes due September 30, 2012 | NYSE Arca, Inc. |
| MPS℠ due March 30, 2012 | NYSE Arca, Inc. |
| Market Vectors ETNs due March 31, 2020 (2 issuances); Market Vectors ETNs due April 30, 2020 (2 issuances) | NYSE Arca, Inc. |
| Morgan Stanley Cushing® MLP High Income Index ETNs due March 21, 2031 | NYSE Arca, Inc. |
| Morgan Stanley S&P 500 Crude Oil Linked ETNs due July 1, 2031 | NYSE Arca, Inc. |

Indicate by check mark if Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ¨ NO x

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large Accelerated Filer x | Accelerated Filer ¨ |
| Non-Accelerated Filer ¨ | Smaller reporting company ¨ |
| (Do not check if a smaller reporting company) | |

Indicate by check mark whether Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES ¨ NO x

As of June 30, 2011, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $44,205,856,161. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2012, there were 1,978,634,958 shares of Registrant s common stock, $0.01 par value, outstanding.

**Documents Incorporated by Reference:** Portions of Registrant s definitive proxy statement for its 2012 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

Table of Contents

ANNUAL REPORT ON FORM 10-K

*for the year ended December 31, 2011*

Table of Contents

**Table of Contents**

Table of Contents

## Forward-Looking Statements

We have included in or incorporated by reference into this report, and from time to time may make in our public filings, press releases or other public statements, certain statements, including (without limitation) those under Legal Proceedings in Part I, Item 3, Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, that may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control.

The nature of our business makes predicting the future trends of our revenues, expenses and net income difficult. The risks and uncertainties involved in our businesses could affect the matters referred to in such statements, and it is possible that our actual results may differ from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in the forward-looking statements include (without limitation):

- the effect of economic and political conditions and geopolitical events;
- the effect of market conditions, particularly in the global equity, fixed income, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets;
- the impact of current, pending and future legislation (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act )), regulation (including capital, leverage and liquidity requirements), and legal actions in the U.S. and worldwide;
- the level and volatility of equity, fixed income and commodity prices, interest rates, currency values and other market indices;
- the availability and cost of both credit and capital as well as the credit ratings assigned to our unsecured short-term and long-term debt;
- investor sentiment and confidence in the financial markets;
- the performance of our acquisitions, joint ventures, strategic alliances or other strategic arrangements;
- our reputation;
- inflation, natural disasters and acts of war or terrorism;
- the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations;
- technological changes; and

- other risks and uncertainties detailed under Business Competition and Business Supervision and Regulation in Part I, Item 1, Risk Factors in Part I, Item 1A and elsewhere throughout this report.

Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made, whether as a result of new information, future events or otherwise except as required by applicable law. You should, however, consult further disclosures we may make in future filings of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments thereto or in future press releases or other public statements.

Table of Contents

**Part I**

## Item 1. Business.

## Overview.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. The Company is a financial holding company regulated by the Board of Governors of the Federal Reserve System (the Federal Reserve ) under the Bank Holding Company Act of 1956, as amended (the BHC Act ). The Company conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers. At December 31, 2011, the Company had 61,899 employees worldwide. Unless the context otherwise requires, the terms the Company, we, us and our mean Morgan Stanley and its consolidated subsidiaries.

Financial information concerning the Company, its business segments and geographic regions for each of the 12 months ended December 31, 2011 ( 2011 ), December 31, 2010 ( 2010 ) and December 31, 2009 ( 2009 ) is included in the consolidated financial statements and the notes thereto in Financial Statements and Supplementary Data in Part II, Item 8.

## Available Information.

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC ). You may read and copy any document the Company files with the SEC at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including the Company) file electronically with the SEC. The Company s electronic SEC filings are available to the public at the SEC s internet site, *www.sec.gov.*

The Company s internet site is *www.morganstanley.com*. You can access the Company s Investor Relations webpage at *www.morganstanley.com/about/ir*. The Company makes available free of charge, on or through its Investor Relations webpage, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act ), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company also makes available, through its Investor Relations webpage, via a link to the SEC s internet site, statements of beneficial ownership of the Company s equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about the Company s corporate governance at *www.morganstanley.com/about/company/governance.* The Company s Corporate Governance webpage includes the Company s Amended and Restated Certificate of Incorporation; Amended and Restated Bylaws; charters for its Audit Committee, Compensation, Management Development and Succession Committee, Nominating and Governance Committee, Operations and Technology Committee, and Risk Committee; Corporate Governance Policies; Policy Regarding Communication with the Board of Directors; Policy Regarding Director Candidates Recommended by Shareholders; Policy Regarding Corporate Political Contributions; Policy Regarding Shareholder Rights Plan; Code of Ethics and Business Conduct; Code of Conduct; and Integrity Hotline information.

Table of Contents

Morgan Stanley s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer, Chief Financial Officer and Deputy Chief Financial Officer and Controller. The Company will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC ( NYSE ) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, 1585 Broadway, New York, NY 10036 (212-761-4000). The information on the Company s internet site is not incorporated by reference into this report.

## Business Segments.

The Company is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management.

## Institutional Securities.

The Company provides financial advisory and capital-raising services to a diverse group of corporate and other institutional clients globally, primarily through wholly owned subsidiaries that include Morgan Stanley & Co. LLC ( MS&Co. ), Morgan Stanley & Co. International plc and Morgan Stanley Asia Limited, and certain joint venture entities that include Morgan Stanley MUFG Securities Co., Ltd. ( MSMS ) and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ( MUMSS ). The Company, primarily through these entities, also conducts sales and trading activities worldwide, as principal and agent, and provides related financing services on behalf of institutional investors.

**Investment Banking and Corporate Lending Activities.**

***Capital Raising.*** The Company manages and participates in public offerings and private placements of debt, equity and other securities worldwide. The Company is a leading underwriter of common stock, preferred stock and other equity-related securities, including convertible securities and American Depositary Receipts ( ADRs ). The Company is also a leading underwriter of fixed income securities, including investment grade debt, non-investment grade instruments, mortgage-related and other asset-backed securities, tax-exempt securities and commercial paper and other short-term securities.

***Financial Advisory Services.*** The Company provides corporate and other institutional clients globally with advisory services on key strategic matters, such as mergers and acquisitions, divestitures, joint ventures, corporate restructurings, recapitalizations, spin-offs, exchange offers and leveraged buyouts and takeover defenses as well as shareholder relations. The Company also provides advice concerning rights offerings, dividend policy, valuations, foreign exchange exposure, financial risk management strategies and financial planning. In addition, the Company furnishes advice and services regarding project financings and provides advisory services in connection with the purchase, sale, leasing and financing of real estate.

***Corporate Lending.*** The Company provides loans or lending commitments, including bridge financing, to selected corporate clients through its subsidiaries, including Morgan Stanley Bank, N.A ( MSBNA ). These loans and commitments have varying terms, may be senior or subordinated and/or secured or unsecured, are generally contingent upon representations, warranties and contractual conditions applicable to the borrower, and may be syndicated, hedged or traded by the Company*. The borrowers may be rated investment grade or non-investment grade.

**Sales and Trading Activities.**

The Company conducts sales, trading, financing and market-making activities on securities and futures exchanges and in over-the-counter ( OTC ) markets around the world. The Company s Institutional Securities sales and trading activities comprise Equity Trading; Fixed Income and Commodities; Clients and Services; Research; and Investments.

2

Table of Contents

***Equity Trading.*** The Company acts as principal (including as a market-maker) and agent in executing transactions globally in equity and equity-related products, including common stock, ADRs, global depositary receipts and exchange-traded funds.

The Company s equity derivatives sales, trading and market-making activities cover equity-related products globally, including equity swaps, options, warrants and futures overlying individual securities, indices and baskets of securities and other equity-related products. The Company also issues and makes a principal market in equity-linked products to institutional and individual investors.

***Fixed Income and Commodities.*** The Company trades, invests and makes markets in fixed income securities and related products globally, including, among other products, investment and non-investment grade corporate debt, distressed debt, bank loans, U.S. and other sovereign securities, emerging market bonds and loans, convertible bonds, collateralized debt obligations, credit, currency, interest rate and other fixed income-linked notes, securities issued by structured investment vehicles, mortgage-related and other asset-backed securities and real estate-loan products, municipal securities, preferred stock and commercial paper, money-market and other short-term securities. The Company is a primary dealer of U.S. federal government securities and a member of the selling groups that distribute various U.S. agency and other debt securities. The Company is also a primary dealer or market-maker of government securities in numerous European, Asian and emerging market countries.

The Company trades, invests and makes markets globally in listed futures and OTC swaps, forwards, options and other derivatives referencing, among other things, interest rates, currencies, investment grade and non-investment grade corporate credits, loans, bonds, U.S. and other sovereign securities, emerging market bonds and loans, credit indexes, asset-backed security indexes, property indexes, mortgage-related and other asset-backed securities and real estate loan products.

The Company trades, invests and makes markets in major foreign currencies, such as the British pound, Canadian dollar, euro, Japanese yen and Swiss franc, as well as in emerging markets currencies. The Company trades these currencies on a principal basis in the spot, forward, option and futures markets.

Through the use of repurchase and reverse repurchase agreements, the Company acts as an intermediary between borrowers and lenders of short-term funds and provides funding for various inventory positions. The Company also provides financing to customers for commercial and residential real estate loan products and other securitizable asset classes. In addition, the Company engages in principal securities lending with clients, institutional lenders and other broker-dealers.

The Company advises on investment and liability strategies and assists corporations in their debt repurchases and tax planning. The Company structures debt securities, derivatives and other instruments with risk/return factors designed to suit client objectives, including using repackaged asset and other structured vehicles through which clients can restructure asset portfolios to provide liquidity or reconfigure risk profiles.

The Company invests and makes markets in the spot, forward, physical derivatives and futures markets in several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, liquefied natural gas and related products and indices. The Company is a market-maker in exchange-traded options and futures and OTC options and swaps on commodities, and offers counterparties hedging programs relating to production, consumption, reserve/inventory management and structured transactions, including energy-contract securitizations and monetization. The Company is an electricity power marketer in the U.S. and owns electricity-generating facilities in the U.S. and Europe.

The Company owns TransMontaigne Inc. and its subsidiaries, a group of companies operating in the refined petroleum products marketing and distribution business, and owns a minority interest in Heidmar Holdings LLC, which owns a group of companies that provide international marine transportation and U.S. marine logistics services.

Table of Contents

***Clients and Services.*** The Company provides financing services, including prime brokerage, which offers, among other services, consolidated clearance, settlement, custody, financing and portfolio reporting services to clients trading multiple asset classes. In addition, the Company s institutional distribution and sales activities are overseen and coordinated through Clients and Services.

***Research.*** The Company s research department ( Research ) coordinates globally across all of the Company s businesses and consists of economists, strategists and industry analysts who engage in equity and fixed income research activities and produce reports and studies on the U.S. and global economy, financial markets, portfolio strategy, technical market analyses, individual companies and industry developments. Research examines worldwide trends covering numerous industries and individual companies, the majority of which are located outside the U.S.; provides analysis and forecasts relating to economic and monetary developments that affect matters such as interest rates, foreign currencies, securities, derivatives and economic trends; and provides analytical support and publishes reports on asset-backed securities and the markets in which such securities are traded and data are disseminated to investors through third-party distributors, proprietary internet sites such as Client Link, and the Company s global representatives.

***Investments.*** The Company from time to time makes investments that represent business facilitation or other investing activities. Such investments are typically strategic investments undertaken by the Company to facilitate core business activities. From time to time, the Company may also make investments and capital commitments to public and private companies, funds and other entities.

The Company sponsors and manages investment vehicles and separate accounts for clients seeking exposure to private equity, infrastructure, mezzanine lending and real estate-related and other alternative investments. The Company may also invest in and provide capital to such investment vehicles. See also Asset Management herein.

**Operations and Information Technology.**

The Company s Operations and Information Technology departments provide the process and technology platform that supports Institutional Securities sales and trading activity, including post-execution trade processing and related internal controls over activity from trade entry through settlement and custody, such as asset servicing. This is done for transactions in listed and OTC transactions in commodities, equity and fixed income securities, including both primary and secondary trading, as well as listed, OTC and structured derivatives in markets around the world. This activity is undertaken through the Company s own facilities, through membership in various clearing and settlement organizations, and through agreements with unaffiliated third parties.

## Global Wealth Management Group.

The Company s Global Wealth Management Group, which includes the Company s 51% interest in Morgan Stanley Smith Barney Holdings LLC ( MSSB ), provides comprehensive financial services to clients through a network of more than 17,500 global representatives in approximately 765 locations at year-end. As of December 31, 2011, the Company s Global Wealth Management Group had $1,649 billion in client assets.

**Clients.**

Global Wealth Management Group professionals serve individual investors and small-to-medium sized businesses and institutions with an emphasis on ultra high net worth, high net worth and affluent investors. Global representatives are located in branches across the U.S. and provide solutions designed to accommodate individual investment objectives, risk tolerance and liquidity needs. Call centers are available to meet the needs of emerging affluent clients. Outside the U.S., Global Wealth Management Group offers financial services to clients in Europe, the Middle East, Asia, Australia, Canada and Latin America.

Table of Contents

**Products and Services.**

The Company s Global Wealth Management Group provides clients with a comprehensive array of financial solutions, including products and services from the Company, Citigroup Inc. ( Citi ) and third-party providers, such as insurance companies and mutual fund families. Global Wealth Management Group provides brokerage and investment advisory services covering various types of investments, including equities, options, futures, foreign currencies, precious metals, fixed income securities, mutual funds, structured products, alternative investments, unit investment trusts, managed futures, separately managed accounts and mutual fund asset allocation programs. Global Wealth Management Group also engages in fixed income principal trading, which primarily facilitates clients trading or investments in such securities. In addition, Global Wealth Management Group offers education savings programs, financial and wealth planning services, and annuity and other insurance products.

In addition, Global Wealth Management Group offers its clients access to several cash management services through various banks and other third parties, including deposits, debit cards, electronic bill payments and check writing, as well as lending products through affiliates such as Morgan Stanley Private Bank, National Association ( MS Private Bank ) and MSBNA, including securities based lending, mortgage loans and home equity lines of credit. Global Wealth Management Group also provides trust and fiduciary services, offers access to cash management and commercial credit solutions to qualified small- and medium-sized businesses in the U.S., and provides individual and corporate retirement solutions, including individual retirement accounts and 401(k) plans and U.S. and global stock plan services to corporate executives and businesses.

Global Wealth Management Group provides clients a variety of ways to establish a relationship and conduct business, including brokerage accounts with transaction-based pricing and investment advisory accounts with asset-based fee pricing.

**Operations and Information Technology.**

As a result of the MSSB joint venture, the operations and technology supporting the Global Wealth Management Group is provided by a combination of the Company and MSSB s Operations and Information Technology departments and by Citi. Pursuant to contractual agreements, the Company, MSSB and Citi perform various broker-dealer related functions, such as execution and clearing of brokerage transactions, margin lending and custody of client assets. For the Company and MSSB, these activities are undertaken through their own facilities, through memberships in various clearing and settlement organizations, and through agreements with unaffiliated third parties. Citi also provides certain other services and systems to support the Global Wealth Management Group through transition services agreements with MSSB.

## Asset Management.

The Company s Asset Management business segment is one of the largest global investment management organizations of any full-service financial services firm and offers clients a diverse array of equity, fixed income and alternative investments and merchant banking strategies. Portfolio managers located in the U.S., Europe and Asia manage investment products ranging from money market funds to equity and fixed income strategies, alternative investment and merchant banking products in developed and emerging markets across geographies and market cap ranges.

The Company offers a range of alternative investment, real estate investing and merchant banking products for institutional investors and high net worth individuals. The Company s alternative investments platform includes funds of hedge funds, funds of private equity funds and portable alpha strategies. The Company s alternative investments platform also includes minority stakes in Lansdowne Partners, Avenue Capital Group and Traxis Partners LP. The Company s real estate and merchant banking businesses include its real estate investing business, private equity funds, corporate mezzanine debt investing group and infrastructure investing group. The

Table of Contents

Company typically acts as general partner of, and investment adviser to, its alternative investment, real estate and merchant banking funds and typically commits to invest a minority of the capital of such funds with subscribing investors contributing the majority.

**Institutional Investors.**

The Company provides investment management strategies and products to institutional investors worldwide, including corporations, pension plans, endowments, foundations, sovereign wealth funds, insurance companies and banks through a broad range of pooled vehicles and separate accounts. Additionally, the Company provides sub-advisory services to various unaffiliated financial institutions and intermediaries. A Global Sales and Client Service team is engaged in business development and relationship management for consultants to help serve institutional clients.

**Intermediary Clients and Individual Investors.**

The Company offers open-end and alternative investment funds and separately managed accounts to individual investors through affiliated and unaffiliated broker-dealers, banks, insurance companies, financial planners and other intermediaries. Closed-end funds managed by the Company are available to individual investors through affiliated and unaffiliated broker-dealers. The Company also distributes mutual funds through numerous retirement plan platforms. Internationally, the Company distributes traditional investment products to individuals outside the U.S. through non-proprietary distributors and distributes alternative investment products through affiliated broker-dealers and banks.

**Operations and Information Technology.**

The Company s Operations and Information Technology departments provide or oversee the process and technology platform required to support its asset management business. Support activities include transfer agency, mutual fund accounting and administration, transaction processing and certain fiduciary services on behalf of institutional, intermediary and high net worth clients. These activities are undertaken through the Company s own facilities, through membership in various clearing and settlement organizations, and through agreements with unaffiliated third parties.

## Competition.

All aspects of the Company s businesses are highly competitive, and the Company expects them to remain so. The Company competes in the U.S. and globally for clients, market share and human talent in all aspects of its business segments. The Company s competitive position depends on its reputation and the quality and consistency of its long-term investment performance. The Company s ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain highly qualified employees while managing compensation and other costs. The Company competes with commercial banks, brokerage firms, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. Such changes could result in the Company s remaining competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity. See also Supervision and Regulation and Risk Factors herein.

**Institutional Securities and Global Wealth Management Group.**

The Company s competitive position for its Institutional Securities and Global Wealth Management Group business segments depends on innovation, execution capability and relative pricing. The Company competes directly in the U.S. and globally with other securities and financial services firms and broker-dealers and with others on a regional or product basis.

Table of Contents

The Company s ability to access capital at competitive rates (which is generally dependent on the Company s credit ratings) and to commit capital efficiently, particularly in its capital-intensive underwriting and sales, trading, financing and market-making activities, also affects its competitive position. Corporate clients may request that the Company provide loans or lending commitments in connection with certain investment banking activities, and such requests are expected to increase in the future.

It is possible that competition may become even more intense as the Company continues to compete with financial institutions that may be larger, or better capitalized, or may have a stronger local presence and longer operating history in certain areas. Many of these firms have the ability to offer a wide range of products and services that may enhance their competitive position and could result in pricing pressure in our businesses. The complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for the Company to remain competitive.

The Company has experienced intense price competition in some of its businesses in recent years. In particular, the ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions. The trend toward direct access to automated, electronic markets will likely continue. It is possible that the Company will experience competitive pressures in these and other areas in the future as some of its competitors may seek to obtain market share by reducing prices.

**Asset Management.**

Competition in the asset management industry is affected by several factors, including the Company s reputation, investment objectives, quality of investment professionals, performance of investment strategies or product offerings relative to peers and an appropriate benchmark index, advertising and sales promotion efforts, fee levels, the effectiveness of and access to distribution channels and investment pipelines, and the types and quality of products offered. The Company s alternative investment products, such as private equity funds, real estate and hedge funds, compete with similar products offered by both alternative and traditional asset managers.

## Supervision and Regulation

As a major financial services firm, the Company is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where it operates. Moreover, in response to the financial crisis, legislators and regulators, both in the U.S. and around the world, are in the process of adopting and implementing a wide range of reforms that will result in major changes to the way the Company is regulated and conducts its business. It will take time for the comprehensive effects of these reforms to emerge and be understood.

**Regulatory Outlook.**

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. While certain portions of the Dodd-Frank Act were effective immediately, other portions will be effective only following extended transition periods. Moreover, implementation of the Dodd-Frank Act will be accomplished through numerous rulemakings by multiple governmental agencies, only a portion of which have been completed. It remains difficult to assess fully the impact that the Dodd-Frank Act will have on the Company and on the financial services industry generally. In addition, various international developments, such as the adoption of risk-based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision (the Basel Committee ), known as Basel III, will impact the Company in the coming years.

It is likely that 2012 and subsequent years will see further material changes in the way major financial institutions are regulated in both the U.S. and other markets in which the Company operates, although it remains difficult to predict which further reform initiatives will become law, how such reforms will be implemented or the exact impact they will have on the Company s business, financial condition, results of operations and cash flows for a particular future period.

Table of Contents

**Financial Holding Company.**

The Company has operated as a bank holding company and financial holding company under the BHC Act since September 2008.

***Consolidated Supervision.***

As a bank holding company, the Company is subject to comprehensive consolidated supervision, regulation and examination by the Federal Reserve. As a result of the Dodd-Frank Act, the Federal Reserve also gained heightened authority to examine, prescribe regulations and take action with respect to all of the Company s subsidiaries. In particular, as a result of the Dodd-Frank Act, the Company is subject to (among other things) significantly revised and expanded regulation and supervision, to more intensive scrutiny of its businesses and plans for expansion of those businesses, to new activities limitations, to the Volcker Rule, to a systemic risk regime which will impose especially high capital and liquidity requirements, and to comprehensive new derivatives regulation. In addition, the Bureau of Consumer Financial Protection has exclusive rulemaking and primary enforcement and examination authority over the Company and its subsidiaries with respect to federal consumer financial laws, to the extent applicable.

***Scope of Permitted Activities.*** The BHC Act provides a two-year period from September 21, 2008, the date that the Company became a bank holding company, for the Company to conform or dispose of certain nonconforming activities as defined by the BHC Act. Three one-year extensions may be granted by the Federal Reserve upon approval of the Company s application for each extension. The Company has received the second of these extensions with respect to certain activities relating to its real estate and other funds businesses. It has also disposed of certain nonconforming assets and conformed certain activities to the requirements of the BHC Act. Although conformance activities continue with respect to these businesses, it is possible that the Company will be required, in 2012, to seek Federal Reserve approval for the third additional year permitted by the BHC Act. The Federal Reserve may grant an extension if it finds that the extension will not be detrimental to the public interest. Based on the nonconforming real estate and other investments and businesses which are required to be sold, the Company believes there would be no material adverse impact on the Company s financial condition or operations.

In addition, the Company is engaged in discussions with the Federal Reserve regarding its commodities activities, as the BHC Act also grandfathers activities related to the trading, sale or investment in commodities and underlying physical properties, provided that the Company was engaged in any of such activities as of September 30, 1997 in the United States and provided that certain other conditions that are within the Company s reasonable control are satisfied. If the Federal Reserve were to determine that any of the Company s commodities activities did not qualify for the BHC Act grandfather exemption, then the Company would likely be required to divest any such activities that did not otherwise conform to the BHC Act by the end of any extensions of the grace period. At this time the Company does not believe, based on its interpretation of applicable law, that any such required divestment would have a material adverse impact on its financial condition or operations.

***Activities Restrictions under the Volcker Rule.*** A section of the BHC Act added by the Dodd-Frank Act (the Volcker Rule ) will, over time, prohibit banking entities, including the Company and its affiliates, from engaging in proprietary trading, as defined by the regulators. The Volcker Rule will also require banking entities to either restructure or unwind certain investments and relationships with hedge funds and private equity funds, as such terms are defined in the Volcker Rule and by the regulators. Comments on proposed regulations to implement the substantive Volcker Rule provisions were due by February 13, 2012. It is unclear whether final rules will be in place by July 21, 2012 when the Volcker Rule is scheduled to become effective.

Banking entities will have a two-year transition period to come into full compliance with the Volcker Rule, subject to the possibility of extensions. While full compliance with the Volcker Rule will likely only be required

8

Table of Contents

by July 2014, subject to extensions, the Company s business and operations are expected to be impacted earlier, as operating models, investments and legal structures must be reviewed and gradually adjusted to the new legal environment. The Company continues to review its private equity fund, hedge fund and proprietary trading operations. With respect to the proprietary trading prohibition of the Volcker Rule, the Company has previously announced plans to dispose of its in-house proprietary quantitative trading unit, Process-Driven Trading ( PDT ), by the end of 2012. For the year ended December 31, 2011, PDT did not have a material impact on the Company s financial condition, results of operations and liquidity. The Company has also previously exited other standalone proprietary trading businesses (defined as those businesses dedicated solely to investing the Company s capital), and the Company is continuing to liquidate legacy positions related to those businesses.

There remains considerable uncertainty about the interpretation of the proposed rules, and we are unable to predict what the final version of the rules will be or the impact they may have on our businesses. We are closely monitoring regulatory developments related to the Volcker Rule, and when the regulations are final, we will be in a position to complete a review of our relevant activities and make plans to implement compliance with the Volcker Rule.

***Capital and Liquidity Standards.*** The Federal Reserve establishes capital requirements for the Company and evaluates its compliance with such capital requirements. The Office of the Comptroller of the Currency (the OCC ) establishes similar capital requirements and standards for the Company s national bank subsidiaries. Under current capital requirements, for the Company to remain a financial holding company, its bank subsidiaries must qualify as well capitalized by maintaining a total capital ratio (total capital to risk-weighted assets) of at least 10% and a Tier 1 capital ratio of at least 6%. The capital standards applicable to the Company s bank subsidiaries also apply directly to the Company, as a holding company, and require it to remain well capitalized to maintain its status as a financial holding company. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk-based and leverage capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and their particular condition, risk profile and growth plans. In addition, under the Federal Reserve s leverage rules, bank holding companies that have implemented the Federal Reserve s risk-based capital measure for market risk, such as the Company, are subject to a Tier 1 minimum leverage ratio of 3%.

The Company calculates its capital ratios and risk-weighted assets in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. In December 2007, the U.S. banking regulators published final regulations incorporating the Basel II Accord, which requires internationally active banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In June 2011, the U.S. banking regulators published final regulations implementing a provision of the Dodd-Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to capital requirements that are not less than the generally applicable risk-based capital requirements. As a result, the generally applicable capital standards, which are based on Basel I standards, but may themselves change over time, will serve as a permanent floor to minimum capital requirements calculated under the Basel II standard the Company is currently required to implement, as well as future capital standards.

In addition, when implemented, Basel III will impose a new minimum Tier 1 common equity ratio of 4.5%, a minimum Tier 1 equity ratio of 6%, and the minimum total capital ratio will remain at 8.0% (plus a 2.5% capital conservation buffer consisting of common equity in addition to these ratios). The new capital conservation buffer will impose a common equity requirement above the new minimum that can be depleted under stress. Basel III also introduces new liquidity measures designed to monitor banking institutions for their ability to meet short-term

**Table of Contents**

cash flow needs and to address longer-term structural liquidity mismatches. The Federal Reserve is expected to propose rules implementing Basel III in the U.S. in 2012. However, many provisions, once adopted, will be subject to extended phase-in periods.

The Federal Reserve has indicated that it intends to implement a provision under Basel III that would require global systemically important banks ( G-SIBs ), such as the Company, to hold an additional capital buffer. Although the Federal Reserve has not yet issued a proposed rule to implement this G-SIB surcharge, in November 2011 the Financial Stability Board endorsed a Basel Committee proposal providing that the capital surcharge would range from 1% to 2.5% of risk-weighted assets, and that the largest systemically important financial institutions could potentially be subject to a 3.5% capital surcharge.

See also Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Regulatory Requirements in Part II, Item 7 herein.

***Capital Planning, Stress Tests and Dividends.*** U.S. banking regulators have recently imposed new capital planning and stress test requirements on large bank holding companies, including the Company. As of December 2011, bank holding companies with $50 billion or more of consolidated assets, such as the Company, must submit annual capital plans to the Federal Reserve, taking into account the results of separate stress tests designed by the bank holding company and the Federal Reserve. The scenario provided by the Federal Reserve in 2011 includes a sizable shortfall in U.S. economic activity and employment, accompanied by a sizeable decline in global economic activity, sharp market price movements in European sovereign and financial sectors, among other adverse circumstances. The capital plans must include a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any capital distribution (i.e., payments of dividends or stock repurchases), and any similar action that the Federal Reserve determines could impact the bank holding company s consolidated capital. The capital plans must include a discussion of how the bank holding company will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common ratio of 5%, and serve as a source of strength to its subsidiary depository institutions.

Beginning in 2012, bank holding companies subject to the capital planning requirements, including the Company, must submit their capital plans in January each year, and the Federal Reserve must object to them, in whole or in part, or provide written notice of non-objection by March 31 each year. If the Federal Reserve objects to the capital plan, or if certain material events occur after approval of a plan, the bank holding company must submit a revised capital plan within 30 days. In addition, even with an approved capital plan, the bank holding company must seek the approval of the Federal Reserve before taking a capital action if, among other reasons, the bank holding company would not meet its regulatory capital requirements after taking the proposed capital action. In addition to capital planning requirements, the OCC, the Federal Reserve and the FDIC have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including the Company, MSBNA and other depository institution subsidiaries of the Company, if, in the banking regulator s opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. All of these policies and other requirements could influence the Company s ability to pay dividends, or require it to provide capital assistance to MSBNA or MS Private Bank under circumstances under which the Company would not otherwise decide to do so.

See also Capital and Liquidity Standards above.

***Systemic Risk Regime.*** The Dodd-Frank Act established a new regulatory framework applicable to financial institutions deemed to pose systemic risks. Bank holding companies with $50 billion or more in consolidated assets, such as the Company, became automatically subject to the systemic risk regime in July 2010. A new oversight body, the Financial Stability Oversight Council (the Council ), can recommend prudential standards, reporting and disclosure requirements to the Federal Reserve for systemically important financial institutions, and must approve any finding by the Federal Reserve that a financial institution poses a grave threat to financial stability and must undertake mitigating actions. The Council is also empowered to designate systemically

Table of Contents

important payment, clearing and settlement activities of financial institutions, subjecting them to prudential supervision and regulation, and, assisted by the new Office of Financial Research within the U.S. Department of the Treasury ( U.S. Treasury ) (established by the Dodd-Frank Act), can gather data and reports from financial institutions, including the Company.

In December 2011, the Federal Reserve issued proposed rules to implement certain requirements of the systemic risk regime. Among other provisions, the proposed rules would require systemically important financial institutions, such as the Company, to maintain a sufficient quantity of highly liquid assets to survive a projected 30-day liquidity stress event, to conduct regular liquidity stress tests, and to implement various liquidity risk management requirements. More generally, the proposed rules would require institutions to comply with a range of corporate governance requirements, such as establishment of a risk committee of the board of directors and appointment of a chief risk officer, both of which the Company already has.

The proposed rules would also limit the aggregate exposure of each of the largest systemically important financial institutions, including the Company, to each other such institution to 10% of the aggregate capital and surplus of each institution, and limit the aggregate exposure of such institutions to any other bank holding company with $50 billion or more of consolidated assets to 25% of each institution s aggregate capital and surplus. In addition, the proposed rules would create a new early remediation regime to address financial distress or material management weaknesses determined with reference to four levels of early remediation, including heightened supervisory review, initial remediation, recovery, and resolution assessment, with specific limitations and requirements tied to each level. The proposed rules would also subject systemically important financial institutions to regular stress tests, including institution-administered tests and separate tests conducted by the Federal Reserve, and require publication of public summaries of institutions self-administered stress tests.

The systemic risk regime also provides that, for institutions posing a grave threat to U.S. financial stability, the Federal Reserve, upon Council vote, must limit that institution s ability to merge, restrict its ability to offer financial products, require it to terminate activities, impose conditions on activities or, as a last resort, require it to dispose of assets. Upon a grave threat determination by the Council, the Federal Reserve must issue rules that require financial institutions subject to the systemic risk regime to maintain a debt-to-equity ratio of no more than 15-to-1 if the Council considers it necessary to mitigate the risk. The Federal Reserve also has the ability to establish further standards, including those regarding contingent capital, enhanced public disclosures, and limits on short-term debt, including off-balance sheet exposures.

See also Capital and Liquidity Standards above and Orderly Liquidation Authority below.

***Orderly Liquidation Authority.*** Under the Dodd-Frank Act, financial companies, including bank holding companies such as Morgan Stanley and certain covered subsidiaries, can be subjected to a new orderly liquidation authority. The U.S. Treasury must first make certain extraordinary financial distress and systemic risk determinations. Absent such U.S. Treasury determinations, the Company as a bank holding company would remain subject to the U.S. Bankruptcy Code.

The orderly liquidation authority went into effect in July 2010, and rulemaking to render it fully operative is proceeding in stages, with some implementing regulations now finalized and others planned but not yet proposed. If the Company were subjected to the orderly liquidation authority, the FDIC would be appointed receiver, which would give the FDIC considerable rights and powers that it must exercise with the goal of liquidating and winding up the Company, including (i) the FDIC s right to assign assets and liabilities and transfer some to a third party or bridge financial company without the need for creditor consent or prior court review; (ii) the ability of the FDIC to differentiate among creditors, including by treating junior creditors better than senior creditors, subject to a minimum recovery right to receive at least what they would have received in bankruptcy liquidation; and (iii) the broad powers given the FDIC to administer the claims process to determine which creditor receives what, and in which order, from assets not transferred to a third party or bridge financial institution.

Table of Contents

**U.S. Bank Subsidiaries.**

***U.S. Banking Institutions.*** MSBNA, primarily a wholesale commercial bank, offers consumer lending and commercial lending services in addition to deposit products. Certain foreign exchange activities are also conducted in MSBNA. As an FDIC-insured national bank, MSBNA is subject to supervision, regulation and examination by the OCC.

MS Private Bank conducts certain mortgage lending activities primarily for customers of its affiliate retail broker-dealer, Morgan Stanley Smith Barney LLC ( MSSB LLC ). MS Private Bank also offers certain deposit products, as well as personal trust and prime brokerage custody services. MS Private Bank is an FDIC-insured national bank whose activities are subject to supervision, regulation and examination by the OCC.

***Prompt Corrective Action.*** The Federal Deposit Insurance Corporation Improvement Act of 1991 provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards. Current regulations generally apply only to insured banks and thrifts such as MSBNA or MS Private Bank and not to their parent holding companies, such as Morgan Stanley. The Federal Reserve is, however, subject to limitations, authorized to take appropriate action at the holding company level. In addition, as described above, under the systemic risk regime, the Company will become subject to an early remediation protocol in the event of financial distress.

***Transactions with Affiliates.*** The Company s U.S. subsidiary banks are subject to Sections 23A and 23B of the Federal Reserve Act, which impose restrictions on any extensions of credit to, purchase of assets from, and certain other transactions with, any affiliates. These restrictions include limits on the total amount of credit exposure that they may have to any one affiliate and to all affiliates, as well as collateral requirements, and they require all such transactions to be made on market terms. Under the Dodd-Frank Act, the affiliate transaction limits will be substantially broadened. Implementing rulemaking is called for by July 2012. At that time, the Company s U.S. banking subsidiaries will also become subject to more onerous lending limits. Both reforms will place limits on the Company s U.S. banking subsidiaries ability to engage in derivatives, repurchase agreements and securities lending transactions with other affiliates of the Company.

***FDIC Regulation.*** An FDIC insured depository institution is generally liable for any loss incurred or expected to be incurred by the FDIC in connection with the failure of an insured depository institution under common control by the same bank holding company. As FDIC-insured depository institutions, MSBNA and MS Private Bank are exposed to each other s losses. In addition, both institutions are exposed to changes in the cost of FDIC insurance. In 2010, the FDIC adopted a restoration plan to replenish the reserve fund over a multi-year period. Under the Dodd-Frank Act, some of the restoration must be paid for exclusively by large depository institutions, including MSBNA, and assessments are calculated using a new methodology that generally favors banks that are mostly funded by deposits.

**Institutional Securities and Global Wealth Management Group.**

***Broker-Dealer Regulation.*** The Company s primary U.S. broker-dealer subsidiaries, MS&Co. and MSSB LLC, are registered broker-dealers with the SEC and in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and are members of various self-regulatory organizations, including the Financial Industry Regulatory Authority, Inc. ( FINRA ), and various securities exchanges and clearing organizations. In addition, MS&Co. and MSSB LLC are registered investment advisers with the SEC. Broker-dealers are subject to laws and regulations covering all aspects of the securities business, including sales and trading practices, securities offerings, publication of research reports, use of customers funds and securities, capital structure, recordkeeping and retention, and the conduct of their directors, officers, representatives and other associated persons. Broker-dealers are also regulated by securities administrators in those states where they do business. Violations of the laws and regulations governing a broker-dealer s actions could result in censures, fines, the

[Table of Contents](#)

issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of such broker-dealer or its officers or employees, or other similar consequences by both federal and state securities administrators.

The Dodd-Frank Act includes various provisions that affect the regulation of broker-dealer sales practices and customer relationships. For example, the SEC is authorized to adopt a fiduciary duty applicable to broker-dealers when providing investment advice to retail customers. The Dodd-Frank Act also creates a new category of regulation for municipal advisors, which are subject to a fiduciary duty with respect to certain activities. The U.S. Department of Labor is considering revisions to regulations under the Employee Retirement Income Security Act of 1974 that could subject broker-dealers to a fiduciary duty and prohibit specified transactions for a wider range of customer interactions. These developments may impact the manner in which affected businesses are conducted, decrease profitability and increase potential liabilities. If the SEC exercises authority provided to it under the Dodd-Frank Act to prohibit or limit the use of mandatory arbitration pre-dispute agreements between a broker-dealer and its customers, it may materially increase the Company s litigation costs.

Margin lending by broker-dealers is regulated by the Federal Reserve s restrictions on lending in connection with customer and proprietary purchases and short sales of securities, as well as securities borrowing and lending activities. Broker-dealers are also subject to maintenance and other margin requirements imposed under FINRA and other self-regulatory organization rules. In many cases, the Company s broker-dealer subsidiaries margin policies are more stringent than these rules.

As registered U.S. broker-dealers, certain subsidiaries of the Company are subject to the SEC s net capital rule and the net capital requirements of various exchanges, other regulatory authorities and self-regulatory organizations. Many non-U.S. regulatory authorities and exchanges also have rules relating to capital and, in some cases, liquidity requirements that apply to the Company s non-U.S. broker-dealer subsidiaries. These rules are generally designed to measure general financial integrity and/or liquidity and require that at least a minimum amount of net and/or more liquid assets be maintained by the subsidiary. See also Consolidated Supervision and Capital Standards above. Rules of FINRA and other self-regulatory organizations also impose limitations and requirements on the transfer of member organizations assets.

Compliance with regulatory capital requirements may limit the Company s operations requiring the intensive use of capital. Such requirements restrict the Company s ability to withdraw capital from its broker-dealer subsidiaries, which in turn may limit its ability to pay dividends, repay debt, or redeem or purchase shares of its own outstanding stock. Any change in such rules or the imposition of new rules affecting the scope, coverage, calculation or amount of capital requirements, or a significant operating loss or any unusually large charge against capital, could adversely affect the Company s ability to pay dividends or to expand or maintain present business levels. In addition, such rules may require the Company to make substantial capital infusions into one or more of its broker-dealer subsidiaries in order for such subsidiaries to comply with such rules.

MS&Co. and MSSB LLC are members of the Securities Investor Protection Corporation ( SIPC ), which provides protection for customers of broker-dealers against losses in the event of the insolvency of a broker-dealer. SIPC protects customers eligible securities held by a member broker-dealer up to $500,000 per customer for all accounts in the same capacity subject to a limitation of $250,000 for claims for uninvested cash balances. To supplement this SIPC coverage, each of MS&Co. and MSSB LLC have purchased additional protection for the benefit of their customers in the form of an annual policy issued by certain underwriters and various insurance companies that provides protection for each eligible customer above SIPC limits subject to an aggregate firmwide cap of $1 billion with no per client sublimit for securities and a $1.9 million per client limit for the cash portion of any remaining shortfall. As noted under Systemic Risk Regime, the Dodd-Frank Act contains special provisions for the orderly liquidation of covered financial institutions (which could potentially include MS&Co. and/or MSSB LLC). While these provisions are generally intended to provide customers of covered broker-dealers with protections at least as beneficial as they would enjoy in a broker-dealer liquidation proceeding under the Securities Investor Protection Act, the details and implementation of such protections are subject to further rulemaking.

Table of Contents

Over the past few years, the SEC has undertaken a review of a wide range of equity market structure issues. As a part of this review, the SEC has adopted new regulations and proposed various rules regarding market transparency. A new short sale uptick rule that limits the ability to sell short securities that have experienced specified price declines is now in effect. The SEC also adopted rules requiring broker-dealers to maintain risk management controls and supervisory procedures with respect to providing access to securities markets, which will become fully effective in 2012. In addition, in an effort to prevent volatile trading, self-regulatory organizations have adopted trading pauses, more commonly referred to as circuit breakers, with respect to certain securities. It is possible that the SEC or self-regulatory organizations could propose or adopt additional market structure rules in the future.

The provisions, new rules and proposals discussed above could result in increased costs and could otherwise adversely affect trading volumes and other conditions in the markets in which we operate.

***Regulation of Registered Futures Activities and Certain Commodities Activities.*** As registered futures commission merchants, MS&Co. and MSSB LLC are subject to net capital requirements of, and their activities are regulated by, the U.S. Commodity Futures Trading Commission (the CFTC ) and various commodity futures exchanges. The Company s futures and options-on-futures businesses also are regulated by the National Futures Association ( NFA ), a registered futures association, of which MS&Co. and MSSB LLC and certain of their affiliates are members. These regulatory requirements differ for clearing and non-clearing firms, and they address obligations related to, among other things, the registration of the futures commission merchant and certain of its associated persons, membership with the NFA, the segregation of customer funds and the holding apart of a secured amount, the use of customer funds, the receipt of an acknowledgment of certain written risk disclosure statements, the receipt of trading authorizations, the furnishing of daily confirmations and monthly statements, recordkeeping and reporting obligations, the supervision of accounts and antifraud prohibitions. Among other things, the NFA has rules covering a wide variety of areas such as advertising, telephone solicitations, risk disclosure, discretionary trading, disclosure of fees, minimum capital requirements, reporting and proficiency testing. MS&Co. and MSSB LLC have affiliates that are registered as commodity trading advisors and/or commodity pool operators, or are operating under certain exemptions from such registration pursuant to CFTC rules and other guidance. Under CFTC and NFA rules, commodity trading advisors who manage accounts and are registered with the NFA must distribute disclosure documents and maintain specified records relating to their activities, and clients and commodity pool operators have certain responsibilities with respect to each pool they operate. For each pool, a registered commodity pool operator must prepare and distribute a disclosure document; distribute periodic account statements; prepare and distribute audited annual financial reports; and keep specified records concerning the participants, transactions and operations of each pool, as well as records regarding transactions of the commodity pool operator and its principals. Violations of the rules of the CFTC, the NFA or the commodity exchanges could result in remedial actions, including fines, registration restrictions or terminations, trading prohibitions or revocations of commodity exchange memberships.

The Company s commodities activities are subject to extensive and evolving energy, commodities, environmental, health and safety and other governmental laws and regulations in the U.S. and abroad. Intensified scrutiny of certain energy markets by U.S. federal, state and local authorities in the U.S. and abroad and by the public has resulted in increased regulatory and legal enforcement and remedial proceedings involving energy companies, including those engaged in power generation and liquid hydrocarbons trading. Terminal facilities and other assets relating to the Company s commodities activities also are subject to environmental laws both in the U.S. and abroad. In addition, pipeline, transport and terminal operations are subject to state laws in connection with the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent wastes for disposal. See also Scope of Permitted Activities above.

On October 18, 2011, the CFTC adopted a position limits rule that, when effective, would impose position limits on a trader s positions in futures, options, and swaps on 28 energy, metals, and agricultural commodities. In

December 2011, industry organizations filed a lawsuit against the CFTC challenging the validity of the rule. This rule, if it withstands legal challenge and becomes effective, may affect trading strategies and affect the profitability of various businesses and transactions.

***Derivatives Regulation.*** Through the Dodd-Frank Act, the Company will face a comprehensive U.S. regulatory regime for its activities in certain OTC derivatives. The regulation of swaps and security-based swaps (collectively, Swaps ) in the U.S. will be effected and implemented through CFTC, SEC and other agency regulations, which are currently being adopted.

The Dodd-Frank Act requires central clearing of certain types of Swaps, public and regulatory reporting, and mandatory trading on regulated exchanges or execution facilities. These requirements are subject to some exceptions and will be phased in over time. However, market participants, including the Company s entities engaging in Swaps, will have to centrally clear, report and trade on an exchange or execution facility certain Swap transactions that are currently uncleared, not reported publicly and executed bilaterally.

The Dodd-Frank Act also requires the registration of swap dealers and major swap participants with the CFTC and security-based swap dealers and major security-based swap participants with the SEC (collectively, Swaps Entities ). Certain subsidiaries of the Company will be required to register as a swap dealer and security-based swap dealer and it is possible some subsidiaries may register as a major swap participant and major security-based swap participant. Swaps Entities will be subject to a comprehensive regulatory regime with new obligations for the Swaps activities for which they are registered, including new capital requirements, a new margin regime for uncleared Swaps and a new segregation regime for collateral of counterparties to uncleared Swaps. Swaps Entities also will be subject to additional duties, including internal and external business conduct and documentation standards with respect to their Swaps counterparties.

The specific parameters of these Swaps Entities requirements are being developed through CFTC, SEC and bank regulator rulemakings. The impact of the regulation on Morgan Stanley entities required to register remains unclear. It is likely, however, that the Company will face increased costs due to the registration and regulatory requirements listed above. Complying with the proposed regulation of Swaps Entities could require the Company to restructure its Swaps businesses, require extensive systems changes, require personnel changes, and raise additional potential liabilities and regulatory oversight. Compliance with Swap-related regulatory capital requirements may require the Company to devote more capital to its Swaps business. The extraterritorial impact of the rules also remains unclear.

Morgan Stanley Swap Entities will also be subject to new rules under the Dodd-Frank Act regarding segregation of customer collateral for cleared transactions, position limits, large trader reporting regimes, compensation requirements and anti-fraud and anti-manipulation requirements related to activities in Swaps.

The European Union ( E.U. ) is in the process of amending its OTC derivatives regulations. In October 2011, the E.U. published a proposal to amend the Markets in Financial Instruments Directive and recently reached an accord to require central clearing of certain OTC derivatives. The Company currently expects that, when the E.U. OTC derivatives regime is fully implemented, it will be similar to derivatives regulation under the Dodd-Frank Act, including with respect to the scope of derivatives covered, and mandatory clearing, reporting, and trading requirements. It is unclear at present how the E.U. and U.S. derivatives regulation will interact.

***Non-U.S. Regulation.*** The Company s institutional securities businesses also are regulated extensively by non-U.S. regulators, including governments, securities exchanges, commodity exchanges, self-regulatory organizations, central banks and regulatory bodies, especially in those jurisdictions in which the Company maintains an office. Certain Morgan Stanley subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidiaries engaged in banking and trust activities outside the U.S. are regulated by various government agencies in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activity. For instance, the U.K.

Financial Services Authority ( FSA ) and several

U.K. securities and futures exchanges, including the London Stock Exchange and Euronext.liffe, regulate the Company s activities in the U.K.; the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) and the Deutsche Bôrse AG regulate its activities in the Federal Republic of Germany; Eidgenôssische Finanzmarktaufsicht (the Financial Market Supervisory Authority) regulates its activities in Switzerland; the Financial Services Agency, the Bank of Japan, the Japanese Securities Dealers Association and several Japanese securities and futures exchanges, including the Tokyo Stock Exchange, the Osaka Securities Exchange and the Tokyo International Financial Futures Exchange, regulate its activities in Japan; the Hong Kong Securities and Futures Commission, the Hong Kong Monetary Authority and the Hong Kong Exchanges and Clearing Limited regulate its operations in Hong Kong; and the Monetary Authority of Singapore and the Singapore Exchange Limited regulate its business in Singapore.

**Asset Management.**

Many of the subsidiaries engaged in the Company s asset management activities are registered as investment advisers with the SEC. Many aspects of the Company s asset management activities are subject to federal and state laws and regulations primarily intended to benefit the investor or client. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict the Company from carrying on its asset management activities in the event that it fails to comply with such laws and regulations. Sanctions that may be imposed for such failure include the suspension of individual employees, limitations on the Company engaging in various asset management activities for specified periods of time or specified types of clients, the revocation of registrations, other censures and significant fines. In order to facilitate its asset management business, the Company owns a registered U.S. broker-dealer, Morgan Stanley Distribution, Inc., which acts as distributor to the Morgan Stanley mutual funds and as placement agent to certain private investment funds managed by the Company s asset management business segment. See also Institutional Securities and Global Wealth Management Group Broker-Dealer Regulation above.

As a result of the passage of the Dodd-Frank Act, the Company s asset management activities will be subject to certain additional laws and regulations, including, but not limited to, additional reporting and recordkeeping requirements (including with respect to clients that are private funds), restrictions on sponsoring or investing in, or maintaining certain other relationships with, hedge funds and private equity funds under the Volcker Rule (subject to certain limited exceptions) and certain rules and regulations regarding trading activities, including trading in derivatives markets. Many of these new requirements may increase the expenses associated with the Company s asset management activities and/or reduce the investment returns the Company is able to generate for its asset management clients. Many important elements of the Dodd-Frank Act will not be known until rulemaking is finalized and certain final regulations are adopted. See also Activities Restrictions under the Volcker Rule and Derivatives Regulation above.

The Company s Asset Management business is also regulated outside the U.S. For example, the FSA regulates the Company s business in the U.K.; the Financial Services Agency regulates the Company s business in Japan; the Securities and Exchange Board of India regulates the Company s business in India; and the Monetary Authority of Singapore regulates the Company s business in Singapore.

**Anti-Money Laundering and Economic Sanctions.**

The Company s Anti-Money Laundering ( AML ) program is coordinated on an enterprise-wide basis. In the U.S., for example, the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, imposes significant obligations on financial institutions to detect and deter money laundering and terrorist financing activity, including requiring banks, bank holding company subsidiaries, broker-dealers, futures commission merchants, and mutual funds to implement AML programs, verify the identity of customers that maintain accounts, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Outside the U.S., applicable laws, rules and regulations similarly require designated types of financial institutions to implement AML programs. The Company has implemented policies, procedures and internal controls that are designed to

Table of Contents

comply with all applicable AML laws and regulations. The Company has also implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Treasury s Office of Foreign Assets Control ( OFAC ), which enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on external threats to the U.S. foreign policy, national security, or economy; by other governments; or by global or regional multilateral organizations, such as the United Nations Security Council.

**Anti-Corruption.**

The Company is subject to the Foreign Corrupt Practices Act ( FCPA ), which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. The Company is also subject to applicable anti-corruption laws in the jurisdictions in which it operates, such as the U.K. Bribery Act, which became effective on July 1, 2011. The Company has implemented policies, procedures, and internal controls that are designed to comply with such laws, rules, and regulations.

**Protection of Client Information.**

Many aspects of the Company s business are subject to legal requirements concerning the use and protection of certain customer information, including those adopted pursuant to the Gramm-Leach-Bliley Act and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., the E.U. Data Protection Directive and various laws in Asia, including the Japanese Personal Information (Protection) Law, the Hong Kong Personal Data (Protection) Ordinance and the Australian Privacy Act. The Company has adopted measures designed to comply with these and related applicable requirements in all relevant jurisdictions.

**Research.**

Both U.S. and non-U.S. regulators continue to focus on research conflicts of interest. Research-related regulations have been implemented in many jurisdictions. New and revised requirements resulting from these regulations and the global research settlement with U.S. federal and state regulators (to which the Company is a party) have necessitated the development or enhancement of corresponding policies and procedures.

**Compensation Practices and Other Regulation.**

The Company s compensation practices are subject to oversight by the Federal Reserve. In June 2010, the Federal Reserve and other federal regulators issued final guidance applicable to all banking organizations, including those supervised by the Federal Reserve. This guidance was promulgated in accordance with compensation principles and standards for banks and other financial companies, which were designed to encourage the sound compensation practices established by the Financial Stability Board at the direction of the leaders of the Group of Twenty Finance Ministers and Central Bank Governors. The guidance was designed to help ensure that incentive compensation paid by banking organizations does not encourage imprudent risk-taking that threatens the organizations safety and soundness. The scope and content of the Federal Reserve s policies on executive compensation are continuing to develop and may change based on findings from its horizontal review process, and the Company expects that these policies will evolve over a number of years. In this regard, in October 2011, the Federal Reserve published its first report detailing findings from its horizontal review process. In the report, the Federal Reserve announced its intention to implement the compensation disclosure requirements adopted in July 2011 by the Basel Committee.

The Company is subject to the compensation-related provisions of the Dodd-Frank Act, which may impact its compensation practices. Pursuant to the Dodd-Frank Act, among other things, federal regulators, including the Federal Reserve, must prescribe regulations to require covered financial institutions, including the Company, to report the structures of all of their incentive-based compensation arrangements and prohibit incentive-based payment arrangements that encourage inappropriate risks by providing employees, directors or principal shareholders with compensation that is excessive or that could lead to material financial loss to the covered financial institution. In April 2011, seven federal agencies, including the Federal Reserve, jointly proposed an interagency rule implementing this requirement. The proposed rule is expected to be finalized in 2012. Further, pursuant to Dodd-Frank, the SEC must direct listing exchanges to require companies to implement policies relating to disclosure of incentive-based compensation that is based on publicly reported financial information and the clawback of such compensation from current or former executive officers following certain accounting restatements.

In addition to the guidelines issued by the Federal Reserve and referenced above, the Company s compensation practices may also be impacted by other regulations promulgated in accordance with the Financial Stability Board compensation principles and standards. These standards are to be implemented by local regulators. For instance, in December 2010, the FSA published a policy statement outlining amendments to the Remuneration Code, which governs remuneration of employees at certain banks, to address compensation-related rules under the E.U. Capital Requirements Directive. In October 2011, the FSA finalized and published additional guidance with respect to the Remuneration Code.

For a discussion of certain risks relating to the Company s regulatory environment, see Risk Factors herein.

## Executive Officers of Morgan Stanley.

The executive officers of Morgan Stanley and their ages and titles as of February 27, 2012 are set forth below. Business experience for the past five years is provided in accordance with SEC rules.

**Gregory J. Fleming (49)**. Executive Vice President and President of Asset Management (since February 2010) and President of Global Wealth Management Group of Morgan Stanley (since January 2011). President of Research of Morgan Stanley (February 2010 to January 2011). Senior Research Scholar at Yale Law School and Distinguished Visiting Fellow of the Center for the Study of Corporate Law at Yale Law School (January 2009 to December 2009). President of Merrill Lynch & Co., Inc. ( Merrill Lynch ) (February 2008 to January 2009). Co-President of Merrill Lynch (May 2007 to February 2008). Executive Vice President and Co-President of the Global Markets and Investment Banking Group of Merrill Lynch (August 2003 to May 2007).

**James P. Gorman (53)**. Chairman of the Board of Directors (since January 2012) and Chief Executive Officer and Director of Morgan Stanley (since January 2010) and Chairman of Morgan Stanley Smith Barney (since June 2009). Co-President (December 2007 to December 2009) and Co-Head of Strategic Planning (October 2007 to December 2009). President and Chief Operating Officer of the Global Wealth Management Group (February 2006 to April 2008).

**Eric F. Grossman (45)**. Executive Vice President and Chief Legal Officer of Morgan Stanley (since January 2012). Global Head of Legal (September 2010 to January 2012). Global Head of Litigation (January 2006 to September 2010) and General Counsel of the Americas (May 2009 to September 2010). General Counsel of Global Wealth Management Group (November 2008 to June 2009) and General Counsel of Morgan Stanley Smith Barney (June 2009 to September 2010). Partner at the law firm of Davis Polk & Wardwell LLP (June 2001 to December 2005).

**Keishi Hotsuki (49)**. Chief Risk Officer of Morgan Stanley (since May 2011). Interim Chief Risk Officer (January 2011 to May 2011) and Head of the Market Risk Department (since March 2008). Director of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (since May 2010). Global Head of Market Risk Management at Merrill Lynch (June 2005 to September 2007).

**Colm Kelleher (54)**. Executive Vice President and Co-President of Institutional Securities of Morgan Stanley (since January 2010). Chief Financial Officer and Co-Head of Strategic Planning (October 2007 to December 2009). Head of Global Capital Markets (February 2006 to October 2007). Co-Head of Fixed Income Europe (May 2004 to February 2006).

Table of Contents

**Ruth Porat (54)**. Executive Vice President and Chief Financial Officer of Morgan Stanley (since January 2010). Vice Chairman of Investment Banking (September 2003 to December 2009). Global Head of Financial Institutions Group (September 2006 to December 2009) and Chairman of the Financial Sponsors Group (July 2004 to September 2006) within the Investment Banking Division.

**James A. Rosenthal (58)**. Executive Vice President and Chief Operating Officer of Morgan Stanley (since January 2011). Head of Corporate Strategy (January 2010 to May 2011). Chief Operating Officer of Morgan Stanley Smith Barney (January 2010 to August 2011). Head of Firmwide Technology and Operations (March 2008 to January 2010). Chief Financial Officer of Tishman Speyer (May 2006 to March 2008).

**Paul J. Taubman (51)**. Executive Vice President and Co-President of Institutional Securities of Morgan Stanley (since January 2010). Global Head of Investment Banking (January 2008 to December 2009). Global Co-Head of Investment Banking (July 2007 to January 2008) and Global Head of Mergers and Acquisitions (May 2005 to July 2007).

Table of Contents

## Item 1A. Risk Factors.

**Liquidity and Funding Risk.**

Liquidity and funding risk refers to the risk that we will be unable to finance our operations due to a loss of access to the capital markets or difficulty in liquidating our assets. Liquidity and funding risk also encompasses our ability to meet our financial obligations without experiencing significant business disruption or reputational damage that may threaten our viability as a going concern. For more information on how we monitor and manage liquidity and funding risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Part II, Item 7 herein.

***Liquidity is essential to our businesses and we rely on external sources to finance a significant portion of our operations.***

Liquidity is essential to our businesses. Our liquidity could be negatively affected by our inability to raise funding in the long-term or short-term debt capital markets or our inability to access the secured lending markets. Factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, including concerns regarding the sovereign debt crisis in Europe, could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects due to factors such as if we were to incur large trading losses, are downgraded by the rating agencies, suffer a decline in the level of our business activity, or if regulatory authorities take significant action against us, or we discover significant employee misconduct or illegal activity. If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets, such as our investment and trading portfolios, to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations, cash flows and financial condition.

Global markets and economic conditions have been negatively impacted by the ability of certain E.U. member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the E.U. governments financial support programs and the possibility that other E.U. member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of E.U. members. These factors, or market perceptions concerning such matters, could have an adverse effect on our business, financial condition and liquidity. In particular, in connection with certain of our Institutional Securities business segment activities, we have exposure to European peripheral countries, which are defined as exposures in Greece, Ireland, Italy, Portugal and Spain. At January 3, 2012, exposure before hedges to European peripheral countries was approximately $5,044 million and net exposure after hedges was approximately $3,056 million. Exposure includes obligations from sovereign governments, corporations, and financial institutions. In addition, at December 31, 2011, we had European peripheral country exposure for overnight deposits with banks of approximately $448 million. See Quantitative and Qualitative Disclosure about Market Risk Credit Risk Country Risk Exposure Select European Countries.

***Our borrowing costs and access to the debt capital markets depend significantly on our credit ratings.***

The cost and availability of unsecured financing generally are dependent on our short-term and long-term credit ratings. Factors that are important to the determination of our credit ratings include the level and quality of our earnings, capital adequacy, liquidity, risk appetite and management, asset quality, business mix and actual and perceived levels of government support.

Our debt ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit

Table of Contents

derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business segment, we may be required to provide additional collateral to certain counterparties in the event of a credit ratings downgrade. Our long-term credit ratings by Moody s Investor Services, Inc ( Moody s ) and Standard & Poor s Ratings Services ( S&P ) are currently at different levels (commonly referred to as split ratings ). At December 31, 2011, the amounts of additional collateral or termination payments that could be called by counterparties under the terms of such agreements in the event of a downgrade of our long-term credit rating under various scenarios were as follows: $919 million (A3 Moody s/A- S&P); $3,989 million (Baa1 Moody s/ BBB+ S&P); and $4,743 million (Baa2 Moody s/BBB S&P). In addition, we are required to pledge additional collateral to certain exchanges and clearing organizations in the event of a credit rating downgrade. At December 31, 2011, the increased collateral requirement at certain exchanges and clearing organizations under various scenarios was $118 million (A3 Moody s/A- S&P); $1,183 million (Baa1 Moody s/ BBB+ S&P); and $1,775 million (Baa2 Moody s/BBB S&P).

The rating agencies are continuing to monitor certain issuer specific factors that are important to the determination of our credit ratings including governance, the level and quality of earnings, capital adequacy, funding and liquidity, risk appetite and management, asset quality, strategic direction, and business mix. Additionally, the agencies will look at other industry-wide factors such as regulatory or legislative changes, macro-economic environment, and perceived levels of government support, and it is possible that they could downgrade our ratings and those of similar institutions. See also Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Credit Ratings in Part II, Item 7 herein.

***We are a holding company and depend on payments from our subsidiaries.***

The parent holding company depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In particular, many of our subsidiaries, including our broker-dealer subsidiaries, are subject to laws, regulations and self-regulatory organization rules that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws, regulations and rules may hinder our ability to access funds that we may need to make payments on our obligations. Furthermore, as a bank holding company, we may become subject to a prohibition or to limitations on our ability to pay dividends or repurchase our stock. The OCC, the Federal Reserve and the FDIC have the authority, and under certain circumstances the duty, to prohibit or to limit the payment of dividends by the banking organizations they supervise, including us and our bank holding company subsidiaries.

***Our liquidity and financial condition have in the past been, and in the future could be, adversely affected by U.S. and international markets and economic conditions.***

Our ability to raise funding in the long-term or short-term debt capital markets or the equity markets, or to access secured lending markets, has in the past been, and could in the future be, adversely affected by conditions in the U.S. and international markets and economy. Global market and economic conditions have been particularly disrupted and volatile in recent years and continue to be, including as a result of the sovereign debt crisis in the E.U. In particular, our cost and availability of funding have been, and may in the future be, adversely affected by illiquid credit markets and wider credit spreads. Continued turbulence in the U.S., the E.U. and other international markets and economies could adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

**Market Risk.**

Market risk refers to our exposure to adverse changes in the values of our portfolios and financial instruments due to changes in market prices or rates. For more information on how we monitor and manage market risk, see Quantitative and Qualitative Disclosure about Market Risk in Part II, Item 7A herein.

Table of Contents

***Our results of operations may be materially affected by market fluctuations and by global and economic conditions and other factors.***

Our results of operations may be materially affected by market fluctuations due to global and economic conditions and other factors. Our results of operations in the past have been, and in the future may continue to be, materially affected by many factors, including the effect of economic and political conditions and geopolitical events; the effect of market conditions, particularly in the global equity, fixed income, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets; the impact of current, pending and future legislation (including the Dodd-Frank Act), regulation (including capital, leverage and liquidity requirements), and legal actions in the U.S. and worldwide; the level and volatility of equity, fixed income and commodity prices, interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to our unsecured short-term and long-term debt; investor sentiment and confidence in the financial markets; the performance of the Company s acquisitions, joint ventures, strategic alliances or other strategic arrangements (including MSSB and with Mitsubishi UFJ Financial Group, Inc. ( MUFG )); our reputation; inflation, natural disasters, and acts of war or terrorism; the actions and initiatives of current and potential competitors, as well as governments, regulators and self-regulatory organizations; and technological changes or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to our businesses are likely to increase costs, thereby affecting results of operations. These factors also may have an impact on our ability to achieve our strategic objectives.

The results of our Institutional Securities business segment, particularly results relating to our involvement in primary and secondary markets for all types of financial products, are subject to substantial fluctuations due to a variety of factors, such as those enumerated above that we cannot control or predict with great certainty. These fluctuations impact results by causing variations in new business flows and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from our principal investments. During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets, as well as the level of client assets, may also decrease, which would negatively impact the results of our Global Wealth Management Group business segment. In addition, fluctuations in global market activity could impact the flow of investment capital into or from assets under management or supervision and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact our Asset Management business segment.

***We may experience declines in the value of our financial instruments and other losses related to volatile and illiquid market conditions.***

Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of our securities particularly during periods of market displacement. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, such as crowded trades. Our risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. However, severe market events have historically been difficult to predict, as seen in recent years, and we could realize significant losses if extreme market events were to occur.

Table of Contents

***Holding large and concentrated positions may expose us to losses***

Concentration of risk may reduce revenues or result in losses in our market-making, investing, block trading, underwriting and lending businesses in the event of unfavorable market movements. We commit substantial amounts of capital to these businesses, which often results in our taking large positions in the securities of, or making large loans to, a particular issuer or issuers in a particular industry, country or region.

***We have incurred, and may continue to incur, significant losses in the real estate sector.***

We finance and acquire principal positions in a number of real estate and real estate-related products for our own account, for investment vehicles managed by affiliates in which we also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets. At December 31, 2011, the consolidated statements of financial condition included amounts representing real estate investment assets of consolidated subsidiaries of approximately $2.0 billion, including noncontrolling interests of approximately $1.6 billion. In addition, we had contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to real estate investments of $0.8 billion at December 31, 2011.

We also originate loans secured by commercial and residential properties. Further, we securitize and trade in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. These businesses have been, and may continue to be, adversely affected by the downturn in the real estate sector. In connection with these activities, we have provided, or otherwise agreed to be responsible for, certain representations and warranties. Under certain circumstances, we may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. Between 2004 and December 31, 2011, we sponsored approximately $148 billion of residential mortgage-backed securities ( RMBS ) primarily containing U.S. residential loans. Of that amount, we made representations and warranties concerning approximately $47 billion of loans and agreed to be responsible for the representations and warranties made by third-party sellers, many of which are now insolvent, on approximately $21 billion of loans. At December 31, 2011, the current unpaid principal balance ( UPB ) for all the residential assets subject to such representations and warranties was approximately $23.5 billion and the cumulative losses associated with U.S. RMBS were approximately $10.5 billion. We did not make, or otherwise agree to be responsible, for the representations and warranties made by third party sellers on approximately $80 billion of residential loans that we securitized during that time period. We have not sponsored any U.S. RMBS transactions since 2007.

We have also made representations and warranties in connection with our role as an originator of certain commercial mortgage loans that we securitized in commercial mortgage-backed securities ( CMBS ). Between 2004 and 2010, we originated approximately $44 billion and $27 billion of U.S. and non-U.S. commercial mortgage loans, respectively, that were placed into CMBS sponsored by us. At December 31, 2011, the current UPB for all U.S. commercial mortgage loans subject to such representations and warranties was $35.2 billion. At December 31, 2011, the current UPB when known for all non-U.S. commercial mortgage loans, subject to such representations and warranties was approximately $13.9 billion and the UPB at the time of sale when the current UPB is not known was $0.4 billion.

Over the last several years, the level of litigation and investigatory activity focused on residential mortgage and credit crisis-related matters has increased materially in the financial services industry. As a result, we have been and expect that we may continue to become, the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future. We continue to monitor our real estate-related activities in order to manage our exposures and potential liability from these markets and businesses. See Legal Proceedings Residential Mortgage and Credit Crisis Related Matters in Part I, Item 3 herein.

23

Table of Contents

**Credit Risk.**

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations. For more information on how we monitor and manage credit risk, see Quantitative and Qualitative Disclosure about Market Risk Risk Management Credit Risk in Part II, Item 7A herein.

***We are exposed to the risk that third parties that are indebted to us will not perform their obligations.***

We incur significant credit risk exposure through the Institutional Securities business segment. This risk may arise from a variety of business activities, including but not limited to entering into swap or other derivative contracts under which counterparties have obligations to make payments to us; extending credit to clients through various lending commitments; providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; and posting margin and/or collateral to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties. We incur credit risk in traded securities and loan pools whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

We also incur credit risk in the Global Wealth Management Group business segment lending to individual investors, including, but not limited to, margin and non-purpose loans collateralized by securities, residential mortgage loans and home equity lines of credit.

While we believe current valuations and reserves adequately address our perceived levels of risk, there is a possibility that continued difficult economic conditions may further negatively impact our clients and our current credit exposures. In addition, as a clearing member firm, we finance our customer positions and we could be held responsible for the defaults or misconduct of our customers. Although we regularly review our credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

***A default by another large financial institution could adversely affect financial markets generally.***

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect us. See also Systemic Risk Regime under Business Supervision and Regulation in Part I, Item 1 herein.

**Operational Risk.**

Operational risk refers to the risk of financial or other loss, or damage to a firm s reputation, resulting from inadequate or failed internal processes, people, resources, systems or from other internal or external events (*e.g.*, internal or external fraud, legal and compliance risks, damage to physical assets, security breaches, etc.). We may incur operational risk across our full scope of business activities, including revenue-generating activities (*e.g.*, sales and trading), support functions (*e.g.*, information technology and trade processing) or other strategic decisions (*e.g.*, the integration of MSSB or other joint ventures, acquisitions or strategic alliances). Legal and compliance risk is included in the scope of operational risk and is discussed below under Legal Risk. For more information on how we monitor and manage operational risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Operational Risk in Part II, Item 7A herein.

***We are subject to operational risk that could adversely affect our businesses.***

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions we process are increasingly

24

complex. We perform the functions required to operate our different businesses either by ourselves or through agreements with third parties. We rely on the ability of our employees, our internal systems and systems at technology centers operated by third parties to process a high volume of transactions.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. In the event of a breakdown or improper operation of our or a third party s systems or improper or unauthorized action by third parties or our employees, we could suffer financial loss, an impairment to our liquidity, a disruption of our businesses, regulatory sanctions or damage to our reputation.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and may be vulnerable to unauthorized access, mishandling or misuse, computer viruses or malware, cyber attacks and other events that could have a security impact on such systems. If one or more of such events occur, this potentially could jeopardize our or our clients or counterparties personal, confidential, proprietary or other information processed and stored in, and transmitted through, our computer systems. Furthermore, such events could cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations, which could result in reputational damage, litigation or regulatory fines or penalties not covered by insurance maintained by us, and adversely affect our business, financial condition or results of operations.

Despite the business contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business and the communities where we are located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, catastrophic events, electrical, environmental, communications or other services we use, our employees or third parties with whom we conduct business.

**Legal and Regulatory Risk.**

Legal and compliance risk includes the risk of exposure to fines, penalties, judgments, damages and/or settlements in connection with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements or litigation. Legal risk also includes contractual and commercial risk such as the risk that a counterparty s performance obligations will be unenforceable. In today s environment of rapid and possibly transformational regulatory change, we also view regulatory change as a component of legal risk. For more information on how we monitor and manage legal risk, see Risk Management Legal Risk in Part II, Item 7A herein.

***The financial services industry is subject to extensive regulation, which is undergoing major changes that will impact our business.***

Like other major financial services firms, we are subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where we operate, and face the risk of investigations and proceedings by governmental and self-regulatory agencies in all countries in which we conduct our business. Interventions by authorities may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In addition to the monetary consequences, these measures could, for example, impact our ability to engage in, or impose limitations on, certain of our businesses. The number of these investigations and proceedings, as well as the amount of penalties and fines sought, has increased substantially in recent years with regard to many firms in the financial services industry, including us. Significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. The Dodd-Frank Act also provides a bounty to whistleblowers who present the SEC with information related to securities laws violations that leads to a successful enforcement action. As a result of this bounty, it is possible we could face an increased number of investigations by the SEC.

Table of Contents

In response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, or are currently considering enacting, financial market reforms that have resulted and could result in major changes to the way our global operations are regulated. In particular, as a result of the Dodd-Frank Act, we are subject to significantly revised and expanded regulation and supervision, to more intensive scrutiny of our businesses and any plans for expansion of those businesses, to new activities limitations, to a systemic risk regime which will impose especially high capital and liquidity requirements, and to comprehensive new derivatives regulation. Certain portions of the Dodd-Frank Act were effective immediately, while other portions will be effective only following rulemaking and extended transition periods, but many of these changes could in the future materially impact the profitability of our businesses, the value of assets we hold, expose us to additional costs, require changes to business practices or force us to discontinue businesses, could adversely affect our ability to pay dividends, or could require us to raise capital, including in ways that may adversely impact our shareholders or creditors. While there continues to be uncertainty about the exact impact of these changes, we do know that the Company will be subject to a more complex regulatory framework, and will incur costs to comply with new requirements as well as to monitor for compliance in the future.

For example, the Volcker Rule provision of the Dodd-Frank Act will have an impact on us, including potentially limiting various aspects of our business. Regulators have proposed regulations to implement the substantive Volcker Rule provisions and comments were due by February 13, 2012. It is unclear whether final rules will be in place by July 21, 2012 when the Volcker Rule is to become effective. Even with the publication of proposed rules, however, it is still too early to determine any additional limitations on the Company beyond the restriction on standalone proprietary trading. There remains considerable uncertainty about the interpretation of the proposed rules, and we are also unable to predict what the final version of the rules will be or the impact they may have on our businesses. We are closely monitoring regulatory developments related to the Volcker Rule, and when the regulations are final, we will be in a position to complete a review of our relevant activities and make plans to implement compliance with the Volcker Rule.

***The financial services industry faces substantial litigation and is subject to regulatory investigations, and we may face damage to our reputation and legal liability.***

We have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, as well as investigations or proceedings brought by regulatory agencies, arising in connection with our activities as a global diversified financial services institution. Certain of the actual or threatened legal or regulatory actions include claims for substantial compensatory and/or punitive damages, claims for indeterminate amounts of damages, or may result in penalties, fines, or other results adverse to us. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress. Like any large corporation, we are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information.

Substantial legal liability could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. For example, recently, the level of litigation activity focused on residential mortgage and credit crisis related matters has increased materially in the financial services industry. As a result, we have been and expect that we may continue to become, the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future and there can be no assurance that additional material losses will not be incurred from residential mortgage claims that have not yet been notified to us or are not yet determined to be material. For more information regarding legal proceedings in which we are involved see Legal Proceedings in Part I, Item 3 herein.

***Our business, financial condition and results of operations could be adversely affected by governmental fiscal and monetary policies.***

We are affected by fiscal and monetary policies adopted by regulatory authorities and bodies of the U.S. and other governments. For example, the actions of the Federal Reserve and international central banking authorities

Table of Contents

directly impact our cost of funds for lending, capital raising and investment activities and may impact the value of financial instruments we hold. In addition, such changes in monetary policy may affect the credit quality of our customers. Changes in domestic and international monetary policy are beyond our control and difficult to predict.

***Our commodities activities subject us to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose us to significant costs and liabilities.***

In connection with the commodities activities in our Institutional Securities business segment, we engage in the production, storage, transportation, marketing and trading of several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, liquefied natural gas and related products and indices. In addition, we are an electricity power marketer in the U.S. and own electricity generating facilities in the U.S. and Europe; we own TransMontaigne Inc. and its subsidiaries, a group of companies operating in the refined petroleum products marketing and distribution business; and we own a minority interest in Heidmar Holdings LLC, which owns a group of companies that provide international marine transportation and U.S. marine logistics services. As a result of these activities, we are subject to extensive and evolving energy, commodities, environmental, health and safety and other governmental laws and regulations. In addition, liability may be incurred without regard to fault under certain environmental laws and regulations for the remediation of contaminated areas. Further, through these activities we are exposed to regulatory, physical and certain indirect risks associated with climate change. Our commodities business also exposes us to the risk of unforeseen and catastrophic events, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, accidents on land and at sea, wars, and terrorist attacks that could result in personal injuries, loss of life, property damage, and suspension of operations.

Although we have attempted to mitigate our pollution and other environmental risks by, among other measures, adopting appropriate policies and procedures for power plant operations, monitoring the quality of petroleum storage facilities and transport vessels and implementing emergency response programs, these actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, our financial condition, results of operations and cash flows may be adversely affected by these events.

We are engaged in discussions with the Federal Reserve regarding our commodities activities, as the BHC Act provides a grandfather exemption for activities related to the trading, sale or investment in commodities and underlying physical properties, provided that we were engaged in any of such activities as of September 30, 1997 in the United States and provided that certain other conditions that are within our reasonable control are satisfied. If the Federal Reserve were to determine that any of our commodities activities did not qualify for the BHC Act grandfather exemption, then we would likely be required to divest any such activities that did not otherwise conform to the BHC Act by the end of any extensions of the BHC Act grace period. See also Scope of Permitted Activities under Business Supervision and Regulation in Part I, Item 1 herein.

We also expect the other laws and regulations affecting our commodities business to increase in both scope and complexity. During the past several years, intensified scrutiny of certain energy markets by federal, state and local authorities in the U.S. and abroad and the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies engaged in the activities in which we are engaged. For example, the U.S. and the E.U. have increased their focus on the energy markets which has resulted in increased regulation of companies participating in the energy markets, including those engaged in power generation and liquid hydrocarbons trading. In addition, new regulation of OTC derivatives markets in the U.S. and similar legislation proposed or adopted abroad will impose significant new costs and impose new requirements on our commodities derivatives activities. We may incur substantial costs or loss of revenue in complying with current or future laws and regulations and our overall businesses and reputation may be adversely affected by the current legal environment. In addition, failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties.

Table of Contents

***A failure to address conflicts of interest appropriately could adversely affect our businesses.***

As a global financial services firm that provides products and services to a large and diversified group of clients, including corporations, governments, financial institutions and individuals, we face potential conflicts of interest in the normal course of business. For example, potential conflicts can occur when there is a divergence of interests between us and a client, among clients, or between an employee on the one hand and us or a client on the other. We have policies, procedures and controls that are designed to address potential conflicts of interest. However, identifying and mitigating potential conflicts of interest can be complex and challenging, and can become the focus of media and regulatory scrutiny. Indeed, actions that merely appear to create a conflict can put our reputation at risk even if the likelihood of an actual conflict has been mitigated. It is possible that potential conflicts could give rise to litigation or enforcement actions, which may lead to our clients being less willing to enter into transactions in which a conflict may occur and could adversely affect our businesses.

Our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions. In addition, our status as a bank holding company supervised by the Federal Reserve subjects us to direct Federal Reserve scrutiny with respect to transactions between our domestic subsidiary banks and their affiliates.

**Risk Management.**

***Our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.***

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. For example, market conditions over the last several years have involved unprecedented dislocations and highlight the limitations inherent in using historical information to manage risk. Management of market, credit, liquidity, operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Our trading risk management strategies and techniques also seek to balance our ability to profit from trading positions with our exposure to potential losses. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. We may, therefore, incur losses in the course of our trading activities. For more information on how we monitor and manage market and certain other risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk in Part II, Item 7A herein.

**Competitive Environment.**

***We face strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect our revenue and profitability.***

The financial services industry and all aspects of our businesses are intensely competitive, and we expect them to remain so. We compete with commercial banks, brokerage firms, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet. We compete on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, reputation, risk appetite and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. Such changes

Table of Contents

could result in our remaining competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity. We have experienced and may continue to experience pricing pressures as a result of these factors and as some of our competitors seek to increase market share by reducing prices. For more information regarding the competitive environment in which we operate, see Business Competition and Business Supervision and Regulation in Part I, Item 1 herein.

***Automated trading markets may adversely affect our business and may increase competition.***

We have experienced intense price competition in some of our businesses in recent years. In particular, the ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions. The trend toward direct access to automated, electronic markets will likely continue. We have experienced and it is likely that we will continue to experience competitive pressures in these and other areas in the future as some of our competitors may seek to obtain market share by reducing prices.

***Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.***

Our people are our most important resource and competition for qualified employees is intense. In order to attract and retain qualified employees, we must compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense as compensation is highly variable and changes based on business and individual performance and market conditions. If we are unable to continue to attract and retain highly qualified employees, or do so at rates necessary to maintain our competitive position, or if compensation costs required to attract and retain employees become more expensive, our performance, including our competitive position, could be materially adversely affected. The financial industry has and may continue to experience more stringent regulation of employee compensation, including limitations relating to incentive-based compensation, clawback requirements and special taxation, which could have an adverse effect on our ability to hire or retain the most qualified employees.

**International Risk.**

***We are subject to numerous political, economic, legal, operational, franchise and other risks as a result of our international operations which could adversely impact our businesses in many ways.***

We are subject to political, economic, legal, tax, operational, franchise and other risks that are inherent in operating in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls, increased taxes and levies and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases.

Various emerging market countries have experienced severe political, economic and financial disruptions, including significant devaluations of their currencies, capital and currency exchange controls, high rates of inflation and low or negative growth rates in their economies. Crime and corruption, as well as issues of security and personal safety, also exist in certain of these countries. These conditions could adversely impact our businesses and increase volatility in financial markets generally.

The emergence of a disease pandemic or other widespread health emergency, or concerns over the possibility of such an emergency as well as natural disasters, terrorist activities or military actions, could create economic and financial disruptions in emerging markets and other areas throughout the world, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses around the world.

Table of Contents

As a U.S. company, we are required to comply with the economic sanctions and embargo programs administered by OFAC and similar multi-national bodies and governmental agencies worldwide and the FCPA. A violation of a sanction or embargo program or of the FCPA or similar laws prohibiting certain payments to governmental officials, such as the U.K. Bribery Act, could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties.

**Acquisition and Joint Venture Risk.**

***We may be unable to fully capture the expected value from acquisitions, joint ventures, minority stakes and strategic alliances.***

In connection with past or future acquisitions, joint ventures (including MSSB) or strategic alliances (including with MUFG), we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients, trading counterparties and business partners. In the case of joint ventures and minority stakes, we are subject to additional risks and uncertainties because we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

For example, the ownership arrangements relating to the Company s joint venture in Japan with MUFG of their respective investment banking and securities businesses are complex. MUFG and the Company have integrated their respective Japanese securities businesses by forming two joint venture companies, MUMSS and MSMS. During the first quarter of 2011, the Company recorded a loss of $655 million arising from its 40% stake in MUMSS related to certain fixed income trading positions at MUMSS, which is a subsidiary of MUFG that is controlled and risk managed by MUFG. While MUFG contributed $370 million in capital to MUMSS in connection with the trading losses, additional losses could be incurred by MUMSS in the future. See Management s Discussion and Analysis of Financial Condition and Results of Operations Other Matters Japanese Securities Joint Venture in Part II, Item 7 herein.

In addition, conflicts or disagreements between us and any of our joint venture partners may negatively impact the benefits to be achieved by the relevant joint venture.

There is no assurance that any of our acquisitions will be successfully integrated or yield all of the positive benefits anticipated. If we are not able to integrate successfully our past and future acquisitions, there is a risk that our results of operations, financial condition and cash flows may be materially and adversely affected.

Certain of our business initiatives, including expansions of existing businesses, may bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and may expose us to new asset classes and new markets. These business activities expose us to new and enhanced risks, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks, and reputational concerns regarding the manner in which these assets are being operated or held.

For more information regarding the regulatory environment in which we operate, see also Business Supervision and Regulation in Part I, Item 1 herein.

## Item 1B. Unresolved Staff Comments.

The Company, like other well-known seasoned issuers, from time to time receives written comments from the staff of the SEC regarding its periodic or current reports under the Exchange Act. There are no comments that remain unresolved that the Company received not less than 180 days before the end of the year to which this report relates that the Company believes are material.

**Table of Contents**

## Item 2. Properties.

The Company and its subsidiaries have offices, operations and data centers located around the world. The Company s properties that are not owned are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located. The Company believes the facilities it owns or occupies are adequate for the purposes for which they are currently used and are well maintained. The Company s principal offices consist of the following properties:

| Location | Owned/ Leased | Lease Expiration | Approximate Square Footage as of December 31, 2011(A) |
|---|---|---|---|
| **U.S. Locations** | | | |
| 1585 Broadway<br>New York, New York<br>*(Global Headquarters and Institutional Securities Headquarters)* | Owned | N/A | 1,346,500 square feet |
| 2000 Westchester Avenue<br>Purchase, New York<br>*(Global Wealth Management Group Headquarters)* | Owned | N/A | 597,400 square feet |
| 522 Fifth Avenue<br>New York, New York<br>*(Asset Management Headquarters)* | Owned | N/A | 581,250 square feet |
| New York, New York<br>*(Several locations)* | Leased | 2012 2024 | 2,403,600 square feet |
| Brooklyn, New York<br>*(Several locations)* | Leased | 2012 2023 | 530,400 square feet |
| Jersey City, New Jersey<br>*(Several locations)* | Leased | 2012 2014 | 495,300 square feet |
| **International Locations** | | | |
| 20 Bank Street<br>London | Leased | 2038 | 546,500 square feet |

| | | | |
|---|---|---|---|
| *(London Headquarters)* | | | |
| Canary Wharf | Leased(B) | 2036 | 625,950 square feet |
| London | | | |
| *(Several locations)* | | | |
| 1 Austin Road West | Leased | 2019 | 572,600 square feet |
| Kowloon | | | |
| *(Hong Kong Headquarters)* | | | |
| Sapporo s Yebisu Garden Place, | Leased | 2013(C) | 336,000 square feet |
| Ebisu, Shibuya-ku | | | |
| *(Tokyo Headquarters)* | | | |

(A) The indicated total aggregate square footage leased does not include space occupied by Morgan Stanley branch offices.
(B) The Company holds the freehold interest in the land and building.
(C) Option to return any amount of space up to the full space with six months prior notice.

Table of Contents

## Item 3. Legal Proceedings.

In addition to the matters described below, in the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company s business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income.

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. The Company cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings could be material to the Company s operating results and cash flows for a particular period depending on, among other things, the level of the Company s revenues or income for such period.

Over the last several years, the level of litigation and investigatory activity focused on residential mortgage and credit crisis related matters has increased materially in the financial services industry. As a result, the Company expects that it may become the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future and, while the Company has identified below certain proceedings that the Company believes to be material, individually or collectively, there can be no assurance that additional material losses will not be incurred from residential mortgage claims that have not yet been notified to the Company or are not yet determined to be material.

**Residential Mortgage and Credit Crisis Related Matters.**

***Regulatory and Governmental Matters.*** The Company is responding to subpoenas and requests for information from certain regulatory and governmental entities concerning the origination, financing, purchase, securitization and servicing of subprime and non-subprime residential mortgages and related matters such as residential mortgage backed securities ( RMBS ), collateralized debt obligations ( CDOs ), structured investment vehicles ( SIVs ) and credit default swaps backed by or referencing mortgage pass through certificates. These matters include, but are not limited to, investigations related to the Company s due diligence on the loans that it purchased for securitization, the Company s communications with ratings agencies, the Company s disclosures to investors, and the Company s handling of servicing and foreclosure related issues.

***Class Actions.*** Beginning in December 2007, several purported class action complaints were filed in the United States District Court for the Southern District of New York (the SDNY ) asserting claims on behalf of participants in the Company s 401(k) plan and employee stock ownership plan against the Company and other

32

**Table of Contents**

parties, including certain present and former directors and officers, under the Employee Retirement Income Security Act of 1974 ( ERISA ). In February 2008, these actions were consolidated in a single proceeding, which is styled *In re Morgan Stanley ERISA Litigation*. The consolidated complaint relates in large part to the Company s subprime and other mortgage related losses, but also includes allegations regarding the Company s disclosures, internal controls, accounting and other matters. The consolidated complaint alleges, among other things, that the Company s common stock was not a prudent investment and that risks associated with its common stock and its financial condition were not adequately disclosed. Plaintiffs are seeking, among other relief, class certification, unspecified compensatory damages, costs, interest and fees. On December 9, 2009, the court denied defendants motion to dismiss the consolidated complaint.

On March 16, 2011, a purported class action, styled *Coulter v. Morgan Stanley & Co. Incorporated et al.*, was filed in the SDNY asserting claims on behalf of participants in the Company s 401(k) plan and employee stock ownership plan against the Company and certain current and former officers and directors for breach of fiduciary duties under ERISA. The complaint alleges, among other things, that defendants knew or should have known that from January 2, 2008 to December 31, 2008, the plans investment in Company stock was imprudent given the extraordinary risks faced by the Company and its common stock during that period. Plaintiffs are seeking, among other relief, class certification, unspecified compensatory damages, costs, interest and fees. On July 20, 2011, plaintiffs filed an amended complaint and on October 28, 2011, defendants filed a motion to dismiss the amended complaint.

On February 12, 2008, a plaintiff filed a purported class action, which was amended on November 24, 2008, naming the Company and certain present and former senior executives as defendants and asserting claims for violations of the securities laws. The amended complaint, which is styled *Joel Stratte-McClure, et al. v. Morgan Stanley, et al.*, is currently pending in the SDNY. Subject to certain exclusions, the amended complaint asserts claims on behalf of a purported class of persons and entities who purchased shares of the Company s common stock during the period June 20, 2007 to December 19, 2007 and who suffered damages as a result of such purchases. The allegations in the amended complaint relate in large part to the Company s subprime and other mortgage related losses, but also include allegations regarding the Company s disclosures, internal controls, accounting and other matters. Plaintiffs are seeking, among other relief, class certification, unspecified compensatory damages, costs, interest and fees. On April 27, 2009, the Company filed a motion to dismiss the amended complaint. On April 4, 2011, the court granted defendants motion to dismiss and granted plaintiffs leave to file an amended complaint with respect to certain of their allegations. On June 9, 2011, plaintiffs filed a second amended complaint in response to the court s order of April 4, 2011. On August 8, 2011, defendants filed a motion to dismiss the second amended complaint.

On May 7, 2009, the Company was named as a defendant in a purported class action lawsuit brought under Sections 11, 12 and 15 of the Securities Act of 1933, as amended (the Securities Act ), alleging, among other things, that the registration statements and offering documents related to the offerings of approximately $17 billion of mortgage pass through certificates in 2006 and 2007 contained false and misleading information concerning the pools of residential loans that backed these securitizations. The plaintiffs sought, among other relief, class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. This case, which was consolidated with an earlier lawsuit and is currently styled *In re Morgan Stanley Mortgage Pass-Through Certificate Litigation*, is pending in the SDNY. On August 17, 2010, the court dismissed the claims brought by the lead plaintiff, but gave a different plaintiff leave to file a second amended complaint. On September 10, 2010, that plaintiff, together with several new plaintiffs, filed a second amended complaint which purported to assert claims against the Company and others on behalf of a class of investors who purchased approximately $4.7 billion of mortgage pass through certificates issued in 2006 by seven trusts collectively containing residential mortgage loans. The second amended complaint asserted claims under Sections 11, 12 and 15 of the Securities Act, and alleged, among other things, that the registration statements and offering documents related to the offerings contained false and misleading information concerning the pools of residential loans that backed these securitizations. The plaintiffs sought, among other relief, class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. On September 15, 2011, the court granted in part and denied in part the defendants motion to dismiss and granted the plaintiffs request to file another amended complaint. On September 29, 2011, the defendants moved for reconsideration of a portion of the court s decision partially denying the motion to dismiss. On September 30, 2011, the plaintiffs filed a third amended complaint purporting to bring claims on behalf of a class of investors who purchased approximately $2.7 billion of mortgage pass through certificates issued in 2006 by five trusts. The defendants moved to dismiss the third amended complaint on October 17, 2011.

Beginning in 2007, the Company was named as a defendant in several putative class action lawsuits brought under Sections 11 and 12 of the Securities Act, related to its role as a member of the syndicates that underwrote offerings of securities and mortgage pass through certificates for certain non-Morgan Stanley related entities that have been exposed to subprime and other mortgage-related losses. The plaintiffs in these actions allege, among other things, that the registration statements and offering documents for the offerings at issue contained material misstatements or omissions related to the extent to which the issuers were exposed to subprime and other mortgage-related risks and other matters and seek various forms of relief including class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. The Company s exposure to potential losses in these cases may be impacted by various factors including, among other things, the financial condition of the entities that issued or sponsored the securities and mortgage pass through certificates at issue, the principal amount of the offerings underwritten by the Company, the financial condition of co-defendants and the willingness and ability of the issuers (or their affiliates) to indemnify the underwriter defendants. Some of these cases, including *In Re Washington Mutual, Inc. Securities Litigation, In re: Lehman Brothers Equity/Debt Securities Litigation* and *In re IndyMac Mortgage-Backed Securities Litigation*, relate to issuers or sponsors (or their affiliates) that have filed for bankruptcy or have been placed into receivership.

*In re: Lehman Brothers Equity/Debt Securities Litigation* is pending in the SDNY and relates to several offerings of debt and equity securities issued by Lehman Brothers Holdings Inc. during 2007 and 2008. The Company underwrote approximately $232 million of the principal amount of the offerings at issue. On September 23, 2011, a group of underwriter defendants, including the Company, reached an agreement in principle with the class plaintiffs to settle the litigation. On December 15, 2011, the Court presiding over this action issued an order preliminarily approving the settlement. The settlement hearing is currently scheduled for April 12, 2012.

*In re IndyMac Mortgage-Backed Securities Litigation* is pending in the SDNY and relates to offerings of mortgage pass through certificates issued by seven trusts sponsored by affiliates of IndyMac Bancorp during 2006 and 2007. The Company underwrote over $1.4 billion of the principal amount of the offerings originally at issue. On June 21, 2010, the court granted in part and denied in part the underwriter defendants motion to dismiss the amended consolidated class action complaint. The Company underwrote approximately $46 million of the principal amount of the offerings at issue following the court s June 21, 2010 decision. On May 17, 2010, certain putative plaintiffs filed a motion to intervene in the litigation in order to assert claims related to additional offerings. The principal amount of the additional offerings underwritten by the Company is approximately $1.2 billion. On June 21, 2011, the Company successfully opposed the motion to add the additional plaintiffs as to the Company. On July 20, 2011 and July 21, 2011, certain of the additional plaintiffs filed appeals in the United States Court of Appeals for the Second Circuit. The Company is opposing the appeals.

*Luther, et al. v. Countrywide Financial Corporation*, et al., pending in the Superior Court of the State of California, involves claims related to the Company s role as an underwriter of various residential mortgage backed securities offerings issued by affiliates of Countrywide Financial Corporation. The amended complaint includes allegations that the registration statements and the offering documents contained false and misleading statements about the residential mortgage loans backing the securities. The Company underwrote approximately $6.3 billion of the principal amount of the offerings at issue. On January 6, 2010, the Court dismissed the case for lack of subject matter jurisdiction. On May 18, 2011, a California court of appeals reversed the dismissal and reinstated the complaint. On December 19, 2011, defendants moved to dismiss the complaint. On February 3, 2012, defendants moved to stay the case pending resolution of a securities class action brought by the same plaintiffs, styled *Maine State Retirement System v. Countrywide Financial Corporation, et al.*, in the United States District Court for the Central District of California.

Table of Contents

***Other Litigation.*** On August 25, 2008, the Company and two ratings agencies were named as defendants in a purported class action related to securities issued by a SIV called Cheyne Finance (the Cheyne SIV ). The case is styled *Abu Dhabi Commercial Bank, et al. v. Morgan Stanley & Co. Inc., et al.* and is pending in the SDNY. The complaint alleges, among other things, that the ratings assigned to the securities issued by the SIV were false and misleading because the ratings did not accurately reflect the risks associated with the subprime RMBS held by the SIV. On September 2, 2009, the court dismissed all of the claims against the Company except for plaintiffs claims for common law fraud. On June 15, 2010, the court denied plaintiffs motion for class certification. On July 20, 2010, the court granted plaintiffs leave to replead their aiding and abetting common law fraud claims against the Company, and those claims were added in an amended complaint filed on August 5, 2010. On December 27, 2011, the court permitted plaintiffs to reinstate their causes of action for negligent misrepresentation and breach of fiduciary duty against the Company. The Company moved to dismiss these claims on January 10, 2012. On January 5, 2012, the court permitted plaintiffs to amend their complaint and assert a negligence claim against the Company. The amended complaint was filed on January 9, 2012 and the Company moved to dismiss the negligence claim on January 17, 2012. On January 23, 2012, the Company moved for summary judgment with respect to the fraud and aiding and abetting fraud claims. Plaintiffs have not alleged the amount of their alleged investments, and are seeking, among other relief, unspecified compensatory and punitive damages. There are 15 plaintiffs in this action asserting claims related to approximately $983 million of securities issued by the SIV.

On September 25, 2009, the Company was named as a defendant in a lawsuit styled *Citibank, N.A. v. Morgan Stanley & Co. International, PLC*, pending in the SDNY. The lawsuit relates to a credit default swap referencing the Capmark VI CDO, which was structured by Citibank, N.A. ( Citi N.A. ). At issue is whether, as part of the swap agreement, Citi N.A. was obligated to obtain the Company s prior written consent before it exercised its rights to liquidate Capmark upon the occurrence of certain contractually-defined credit events. Citi N.A. is seeking approximately $245 million in compensatory damages plus interest and costs. On May 25, 2011, the court issued an order denying the Company s motion for summary judgment and granting Citi N.A. s cross motion for summary judgment. On June 27, 2011, the court entered a final judgment against the Company for approximately $269 million plus post-judgment interest, and the Company filed a notice of appeal with the United States Court of Appeals for the Second Circuit, which appeal is now pending.

On December 14, 2009, Central Mortgage Company ( CMC ) filed a complaint against the Company, in a matter styled *Central Mortgage Company v. Morgan Stanley Mortgage Capital Holdings LLC*, pending in the Court of Chancery of the State of Delaware. The complaint alleged that that Morgan Stanley Mortgage Capital Holdings LLC improperly refused to repurchase certain mortgage loans that CMC, as servicer, was required to repurchase from the Federal Home Loan Mortgage Corporation ( Freddie Mac ) and the Federal National Mortgage Association ( Fannie Mae ). On November 4, 2011, CMC filed an amended complaint adding claims related to its purchase of servicing rights in connection with approximately $4.1 billion of residential loans deposited into RMBS trusts sponsored by the Company. The amended complaint asserts claims for breach of contract, quasi-contract, equitable and tort claims and seeks compensatory damages and equitable remedies, including rescission, injunctive relief, damages, restitution and disgorgement. On January 9, 2012, the Company moved to dismiss the amended complaint.

**Table of Contents**

On December 23, 2009, the Federal Home Loan Bank of Seattle filed a complaint against the Company and another defendant in the Superior Court of the State of Washington, styled *Federal Home Loan Bank of Seattle v. Morgan Stanley & Co. Inc., et al.* An amended complaint was filed on September 28, 2010. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiff of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sold to plaintiff by the Company was approximately $233 million. The complaint raises claims under the Washington State Securities Act and seeks, among other things, to rescind the plaintiff s purchase of such certificates. On October 18, 2010, defendants filed a motion to dismiss the action. By orders dated June 23, 2011 and July 18, 2011, the court denied defendants omnibus motion to dismiss plaintiff s amended complaint and on August 15, 2011, the court denied the Company s individual motion to dismiss the amended complaint.

On March 15, 2010, the Federal Home Loan Bank of San Francisco filed two complaints against the Company and other defendants in the Superior Court of the State of California. These actions are styled *Federal Home Loan Bank of San Francisco v. Credit Suisse Securities (USA) LLC, et al.*, and *Federal Home Loan Bank of San Francisco v. Deutsche Bank Securities Inc. et al.*, respectively. Amended complaints were filed on June 10, 2010. The complaints allege that defendants made untrue statements and material omissions in connection with the sale to plaintiff of a number of mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly sold to plaintiff by the Company in these cases was approximately $704 million and $276 million, respectively. The complaints raise claims under both the federal securities laws and California law and seek, among other things, to rescind the plaintiff s purchase of such certificates. On April 18, 2011, defendants in these actions filed an omnibus demurrer and motion to strike the amended complaints. On July 29, 2011 and September 8, 2011, the court presiding over both actions sustained defendants demurrers with respect to claims brought under the Securities Act, and overruled defendants demurrers with respect to all other claims.

On June 10, 2010, the Company was named as a new defendant in a pre-existing purported class action related to securities issued by a SIV called Rhinebridge plc ( Rhinebridge SIV ). The case is styled *King County, Washington, et al.* v. IKB Deutsche Industriebank AG, et al. and is pending in the SDNY. The complaint asserts claims for common law fraud and aiding and abetting common law fraud and alleges, among other things, that the ratings assigned to the securities issued by the SIV were false and misleading, including because the ratings did not accurately reflect the risks associated with the subprime RMBS held by the SIV. On July 15, 2010, the Company moved to dismiss the complaint. That motion was denied on October 29, 2010. On December 27, 2011, the court permitted plaintiffs to amend their complaint and assert causes of action for negligence, negligent misrepresentation, and breach of fiduciary duty against the Company. The amended complaint was filed on January 10, 2012 and the Company moved to dismiss the negligence, negligent misrepresentation, and breach of fiduciary duty claims on January 31, 2012. The case is pending before the same judge presiding over the litigation concerning the Cheyne SIV, described above. While reserving their ability to act otherwise, plaintiffs have indicated that they do not currently plan to file a motion for class certification. Plaintiffs have not alleged the amount of their alleged investments, and are seeking, among other relief, unspecified compensatory and punitive damages.

On July 9, 2010, Cambridge Place Investment Management Inc. filed a complaint against the Company and other defendants in the Superior Court of the Commonwealth of Massachusetts, styled *Cambridge Place Investment Management Inc. v. Morgan Stanley & Co., Inc., et al.* The complaint asserts claims on behalf of certain clients of plaintiff s affiliates and alleges that defendants made untrue statements and material omissions in the sale of a number of mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company or sold to plaintiff s affiliates clients by the Company was approximately $242 million. The complaint raises claims under the Massachusetts Uniform Securities Act and seeks, among other things, to rescind the plaintiff s purchase of such certificates. On February 11, 2011, Cambridge Place Investment Management Inc. filed a second complaint against the Company and other defendants in the Superior Court of the Commonwealth of Massachusetts also styled *Cambridge Place*

Table of Contents

*Investment Management Inc. v. Morgan Stanley & Co., Inc. et al*. The complaint asserts claims on behalf of clients of plaintiff s affiliates, and alleges that the defendants made untrue statements and material omissions in selling certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued or underwritten by the Company or sold to plaintiff s affiliates clients by the Company was approximately $102 million. The complaint raises claims under the Massachusetts Uniform Securities Act and seeks, among other things, to rescind the plaintiff s purchase of such certificates. On October 14, 2011, plaintiffs filed an amended complaint in each action. On November 22, 2011, defendants filed a motion to dismiss the amended complaints.

On July 15, 2010, The Charles Schwab Corp. filed a complaint against the Company and other defendants in the Superior Court of the State of California, styled *The Charles Schwab Corp. v. BNP Paribas Securities Corp., et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to one of plaintiff s subsidiaries of a number of mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sold to plaintiff s subsidiary by the Company was approximately $180 million. The complaint raises claims under both the federal securities laws and California law and seeks, among other things, to rescind the plaintiff s purchase of such certificates. Plaintiff filed an amended complaint on August 2, 2010. On September 22, 2011, defendants filed demurrers to the amended complaint. On October 13, 2011, plaintiff voluntarily dismissed its claims brought under the Securities Act. On January 27, 2012, the court, in a ruling from the bench, substantially overruled defendants demurrers.

On July 15, 2010, China Development Industrial Bank ( CDIB ) filed a complaint against the Company, which is styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated* and is pending in the Supreme Court of the State of New York, New York County. The Complaint relates to a $275 million credit default swap referencing the super senior portion of the STACK 2006-1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Company misrepresented the risks of the STACK 2006-1 CDO to CDIB, and that the Company knew that the assets backing the CDO were of poor quality when it entered into the credit default swap with CDIB. The complaint seeks compensatory damages related to the approximately $228 million that CDIB alleges it has already lost under the credit default swap, rescission of CDIB s obligation to pay an additional $12 million, punitive damages, equitable relief, fees and costs. On September 30, 2010, the Company filed a motion to dismiss the complaint. On February 28, 2011, the Court denied the Company s motion to dismiss the complaint. On March 21, 2011, the Company appealed the order denying its motion to dismiss the complaint. On July 7, 2011, the appellate court affirmed the lower court s decision denying the Company s motion to dismiss.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed two complaints against the Company and other defendants. One was filed in the Circuit Court of the State of Illinois and is styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al*. The other was filed in the Superior Court of the State of California and is styled *Federal Home Loan Bank of Chicago v. Bank of America Securities LLC, et al*. The complaints allege that defendants made untrue statements and material omissions in the sale to plaintiff of a number of mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sold to plaintiff by the Company in the two actions was approximately $203 million and $75 million respectively. The complaint filed in Illinois raises claims under Illinois law. The complaint filed in California raises claims under the federal securities laws, Illinois law and California law. Both complaints seek, among other things, to rescind the plaintiff s purchase of such certificates. On March 24, 2011, the Court presiding over *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al.* granted plaintiff leave to file an amended complaint. On May 27, 2011, defendants filed a motion to dismiss the amended complaint, which motion is currently pending. On September 15, 2011, plaintiff filed an amended complaint in *Federal Home Loan Bank of Chicago v. Bank of America Securities LLC, et al*. On December 1, 2011, defendants filed a demurrer to the amended complaint, which demurrer is currently pending.

Table of Contents

On April 20, 2011, the Federal Home Loan Bank of Boston filed a complaint against the Company and other defendants in the Superior Court of the Commonwealth of Massachusetts styled *Federal Home Loan Bank of Boston v. Ally Financial, Inc. F/K/A GMAC LLC et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiff of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $550 million. The complaint raises claims under the Massachusetts Uniform Securities Act, the Massachusetts consumer protection act and common law and seeks, among other things, to rescind the plaintiff s purchase of such certificates. On May 26, 2011, defendants removed the case to the United States District Court for the District of Massachusetts, and on June 22, 2011, plaintiff filed a motion to remand the case back to state court.

On July 5, 2011, Allstate Insurance Company and certain of its affiliated entities filed a complaint against the Company in New York State Supreme Court styled *Allstate Insurance Company, et al. v. Morgan Stanley, et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiff of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued and/or sold to plaintiffs by the Company was approximately $104 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud and negligent misrepresentation and seeks, among other things, compensatory and/or rescissionary damages associated with plaintiffs purchases of such certificates. On September 9, 2011, plaintiffs filed an amended complaint. On October 14, 2011, defendants filed a motion to dismiss the amended complaint, which motion is currently pending.

On July 18, 2011, the Western and Southern Life Insurance Company and certain affiliated companies filed a complaint against the Company and other defendants in the Court of Common Pleas in Ohio, styled *Western and Southern Life Insurance Company, et al. v. Morgan Stanley Mortgage Capital Inc., et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiffs of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The amount of the certificates allegedly sold to plaintiffs by the Company was approximately $153 million. The complaint raises claims under the Ohio Securities Act, federal securities laws, and common law and seeks, among other things, to rescind the plaintiffs purchases of such certificates.

On September 2, 2011, the Federal Housing Finance Agency ( FHFA ), as conservator for Fannie Mae and Freddie Mac, filed 17 complaints against numerous financial services companies, including the Company. A complaint against the Company and other defendants was filed in the Supreme Court of the State of New York, styled *Federal Housing Finance Agency, as Conservator v. Morgan Stanley et al*. The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to Fannie Mae and Freddie Mac of residential mortgage pass through certificates with an original unpaid balance of approximately $11 billion. The complaint raises claims under federal and state securities laws and common law and seeks, among other things, rescission and compensatory and punitive damages. On September 26, 2011, defendants removed the action to the SDNY and on October 26, 2011, the FHFA moved to remand the action back to the Supreme Court of the State of New York.

On September 2, 2011, the FHFA, as conservator for Freddie Mac, also filed a complaint against the Company and other defendants in the Supreme Court of the State of New York, styled *Federal Housing Finance Agency, as Conservator v. General Electric Company et al*. The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to Freddie Mac of residential mortgage pass through certificates with an original unpaid balance of approximately $549 million. The complaint raises claims under federal and state securities laws and common law and seeks, among other things, rescission and compensatory and punitive damages. On October 6, 2011, defendants removed the action to the SDNY and on November 7, 2011, the FHFA moved to remand the action back to the Supreme Court of the State of New York.

On November 4, 2011, the Federal Deposit Insurance Corporation, as receiver for Franklin Bank S.S.B, filed two complaints against the Company in the District Court of the State of Texas. Each is styled *Federal Deposit*

*Insurance Corporation, as Receiver for Franklin Bank S.S.B v. Morgan Stanley & Company LLC F/K/A Morgan Stanley & Co. Inc.* and alleges that the Company made untrue statements and material omissions in connection with the sale to plaintiff of mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly underwritten and sold to plaintiff by the Company in these cases was approximately $67 million and $35 million, respectively. The complaints each raise claims under both federal securities law and the Texas Securities Act and each seeks, among other things, compensatory damages associated with plaintiff s purchase of such certificates.

On January 20, 2012, Sealink Funding Limited filed a complaint against the Company in the Supreme Court of the State of New York styled *Sealink Funding Limited v. Morgan Stanley, et al*. Plaintiff purports to be the assignee of claims of certain special purpose vehicles ( SPVs ) formerly sponsored by SachsenLB Europe. The complaint alleges that defendants made untrue statements and material omissions in the sale to the SPVs of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company and/or sold by the Company was approximately $556 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud and negligent misrepresentation and seeks, among other things, compensatory and/or rescissionary damages associated with plaintiffs purchases of such certificates.

On January 25, 2012, Dexia SA/NV and certain of its affiliated entities filed a complaint against the Company in the Supreme Court of the State of New York styled *Dexia SA/NV et al. v. Morgan Stanley, et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiffs of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company and/or sold to plaintiffs by the Company was approximately $680 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud and negligent misrepresentation and seeks, among other things, compensatory and/or rescissionary damages associated with plaintiffs purchases of such certificates.

On January 25, 2012, Bayerische Landesbank, New York Branch filed a complaint against the Company in the Supreme Court of the State of New York styled *Bayerische Landesbank, New York Branch v. Morgan Stanley, et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiff of certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company and/or sold to plaintiff by the Company was approximately $486 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud and negligent misrepresentation and seeks, among other things, compensatory and/or rescissionary damages associated with plaintiffs purchases of such certificates.

***Other Matters.*** On a case-by-case basis the Company has entered into agreements to toll the statute of limitations applicable to potential civil claims related to RMBS, CDOs and other mortgage-related products and services when the Company has concluded that it is in its interest to do so.

On October 18, 2011, the Company received a letter from Gibbs & Bruns LLP (the Law Firm ), which is purportedly representing a group of investment advisers and holders of mortgage pass through certificates issued by RMBS trusts that were sponsored or underwritten by the Company. The letter asserted that the Law Firm s clients collectively hold 25% or more of the voting rights in 17 RMBS trusts sponsored or underwritten by the Company and that these trusts have an aggregate outstanding balance exceeding $6 billion. The letter alleged generally that large numbers of mortgages in these trusts were sold or deposited into the trusts based on false and/or fraudulent representations and warranties by the mortgage originators, sellers and/or depositors. The letter also alleged generally that there is evidence suggesting that the Company has failed prudently to service mortgage loans in these trusts. On January 31, 2012, the Law Firm announced that its clients hold over 25% of the voting rights in 69 RMBS trusts securing over $25 billion of RMBS sponsored or underwritten by the Company, and that its clients had issued instructions to the trustees of these trusts to open investigations into

allegedly ineligible mortgages held by these trusts. The Law Firm s press release also indicated that the Law Firm s clients anticipate that they may provide additional instructions to the trustees, as needed, to further the investigations.

**Shareholder Derivative Matter.**

On February 11, 2010, a shareholder derivative complaint styled *Security, Police and Fire Professionals of America Retirement Fund, et al. v. John J. Mack et al.* was filed in the Supreme Court of the State of New York. The complaint is purportedly for the benefit of the Company, and is brought against certain current and former directors and officers of the Company, to recover damages for alleged acts of corporate waste, breaches of the duty of loyalty, and unjust enrichment based on the amount of compensation awarded to an undefined group of employees for fiscal years 2006, 2007 and 2009. The complaint seeks, among other relief, unspecified compensatory damages, restitution and disgorgement of compensation, benefits and profits, and institution of certain corporate governance reforms. On December 9, 2010, the court granted defendants motion to dismiss the complaint and on February 4, 2011, plaintiffs noticed an appeal of that dismissal, which appeal is pending.

**China Matter.**

As disclosed in February 2009, the Company uncovered actions initiated by an employee based in China in an overseas real estate subsidiary that appear to have violated the Foreign Corrupt Practices Act. The Company terminated the employee, reported the activity to appropriate authorities and is cooperating with investigations by the United States Department of Justice and the SEC.

The following matters were terminated during the quarter ended December 31, 2011:

*In Re Washington Mutual, Inc. Securities Litigation*, which had been pending in the United States District Court for the Western District of Washington, involved claims under the Securities Act related to three offerings by Washington Mutual Inc. in 2006 and 2007. The Company was one of several underwriters who participated in the offerings. The Company underwrote approximately $1.3 billion of the securities covered by the class certified by the court. On November 4, 2011, a final settlement among the parties was approved by the court.

*Employees Retirement System of the Government of the Virgin Islands v. Morgan Stanley & Co. Incorporated, et al.*, which had been pending in the SDNY, involved claims for common law fraud and unjust enrichment against the Company related to the Libertas III CDO. On November 3, 2011, the Court dismissed the action with prejudice.

*MBIA Insurance Corporation v. Morgan Stanley, et al.* which had been pending in New York Supreme Court, Westchester County, involved claims for fraud, breach of contract and unjust enrichment against the Company related to MBIA Insurance Corporation s ( MBIA s ) contract to insure approximately $223 million of residential mortgage pass through certificates related a second lien securitization sponsored by the Company in June 2007. On December 13, 2011, the Company and MBIA entered into an agreement to settle this litigation and to resolve certain claims that the Company had against MBIA.

## Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

## Part II

### Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Morgan Stanley s common stock trades on the NYSE under the symbol MS. As of February 23, 2012, the Company had 90,959 holders of record; however, the Company believes the number of beneficial owners of common stock exceeds this number.

The table below sets forth, for each of the last eight quarters, the low and high sales prices per share of the Company s common stock as reported by Bloomberg Financial Markets and the amount of any cash dividends per share of the Company s common stock declared by its Board of Directors for such quarter.

| | Low Sale Price | High Sale Price | Dividends |
|---|---|---|---|
| **2011:** | | | |
| Fourth Quarter | $ 11.58 | $ 19.67 | $ 0.05 |
| Third Quarter | $ 12.49 | $ 24.46 | $ 0.05 |
| Second Quarter | $ 21.76 | $ 28.24 | $ 0.05 |
| First Quarter | $ 26.70 | $ 31.04 | $ 0.05 |
| **2010:** | | | |
| Fourth Quarter | $ 23.95 | $ 27.77 | $ 0.05 |
| Third Quarter | $ 22.40 | $ 28.05 | $ 0.05 |
| Second Quarter | $ 23.14 | $ 32.29 | $ 0.05 |
| First Quarter | $ 26.15 | $ 33.27 | $ 0.05 |

Table of Contents

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the fourth quarter of the year ended December 31, 2011.

**Issuer Purchases of Equity Securities**

(dollars in millions, except per share amounts)

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs(C) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| **Month #1 (October 1, 2011 October 31, 2011)** | | | | |
| Share Repurchase Program(A) | | | | $ 1,560 |
| Employee Transactions(B) | 83,427 | $ 15.16 | | |
| **Month #2 (November 1, 2011 November 30, 2011)** | | | | |
| Share Repurchase Program(A) | | | | $ 1,560 |
| Employee Transactions(B) | 30,453 | $ 15.91 | | |
| **Month #3 (December 1, 2011 December 31, 2011)** | | | | |
| Share Repurchase Program(A) | | | | $ 1,560 |
| Employee Transactions(B) | 239,301 | $ 15.12 | | |
| **Total** | | | | |
| Share Repurchase Program(A) | | | | $ 1,560 |
| Employee Transactions(B) | 353,181 | $ 15.20 | | |

(A) On December 19, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $6 billion of the Company s outstanding stock under a share repurchase program (the Share Repurchase Program ). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Company are subject to regulatory approval.

(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares; (3) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units; and (4) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset the cash payment for fractional shares. The Company s employee and director stock compensation plans provide that the value of the shares withheld, delivered or attested, shall be valued using the fair market value of the Company s common stock on the date the relevant transaction occurs, using a valuation methodology established by the Company.

(C) Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Company deems appropriate.

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Table of Contents

**Stock performance graph.** The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of the Company s common stock, the S&P 500 Stock Index ( S&P 500 ) and the S&P 500 Financials Index ( S5FINL ) for the last five years. The graph assumes a $100 investment at the closing price on December 29, 2006 and reinvestment of dividends on the respective dividend payment dates without commissions. Historical prices are adjusted to reflect the spin-off of Discover Financial Services completed on June 30, 2007. This graph does not forecast future performance of the Company s common stock.

| | MS | S&P 500 | S5FINL |
|---|---|---|---|
| 12/29/2006 | $ 100.00 | $ 100.00 | $ 100.00 |
| 12/31/2007 | $ 79.72 | $ 103.53 | $ 79.16 |
| 12/31/2008 | $ 24.91 | $ 63.69 | $ 34.08 |
| 12/31/2009 | $ 46.82 | $ 78.62 | $ 39.12 |
| 12/31/2010 | $ 43.36 | $ 88.67 | $ 43.36 |
| 12/30/2011 | $ 24.31 | $ 88.67 | $ 35.38 |

Table of Contents

## Item 6. Selected Financial Data.

**MORGAN STANLEY**

**SELECTED FINANCIAL DATA**

**(dollars in millions, except share and per share data)**

| | 2011 | 2010 | 2009(1)(2) | Fiscal 2008 | Fiscal 2007 | One Month Ended December 31, 2008(2) |
|---|---|---|---|---|---|---|
| **Income Statement Data:** | | | | | | |
| Revenues: | | | | | | |
| Investment banking | $ 4,991 | $ 5,122 | $ 5,020 | $ 4,057 | $ 6,321 | $ 196 |
| Principal transactions: | | | | | | |
| Trading | 12,392 | 9,406 | 7,723 | 6,083 | 1,843 | (1,491) |
| Investments | 573 | 1,825 | (1,034) | (3,888) | 3,328 | (205) |
| Commissions and fees | 5,379 | 4,947 | 4,233 | 4,443 | 4,654 | 213 |
| Asset management, distribution and administration fees | 8,502 | 7,919 | 5,841 | 4,839 | 5,486 | 292 |
| Other | 209 | 1,271 | 707 | 3,855 | 696 | 108 |
| Total non-interest revenues | 32,046 | 30,490 | 22,490 | 19,389 | 22,328 | (887) |
| Interest income | 7,264 | 7,311 | 7,477 | 38,928 | 61,256 | 1,089 |
| Interest expense | 6,907 | 6,414 | 6,687 | 36,226 | 57,124 | 1,138 |
| Net interest | 357 | 897 | 790 | 2,702 | 4,132 | (49) |
| Net revenues | 32,403 | 31,387 | 23,280 | 22,091 | 26,460 | (936) |
| Non-interest expenses: | | | | | | |
| Compensation and benefits | 16,403 | 15,923 | 14,331 | 11,759 | 15,981 | 578 |
| Other | 9,886 | 9,233 | 7,819 | 8,905 | 7,453 | 473 |
| Total non-interest expenses | 26,289 | 25,156 | 22,150 | 20,664 | 23,434 | 1,051 |
| Income (loss) from continuing operations before income taxes | 6,114 | 6,231 | 1,130 | 1,427 | 3,026 | (1,987) |
| Provision for (benefit from) income taxes | 1,418 | 754 | (297) | 132 | 719 | (721) |
| Income (loss) from continuing operations | 4,696 | 5,477 | 1,427 | 1,295 | 2,307 | (1,266) |
| Discontinued operations(3): | | | | | | |
| Gain (loss) from discontinued operations | (175) | 577 | (114) | 831 | 1,432 | (22) |
| Provision for (benefit from) income taxes | (124) | 352 | (93) | 348 | 490 | (3) |
| Net gain (loss) from discontinued operations | (51) | 225 | (21) | 483 | 942 | (19) |
| Net income (loss) | 4,645 | 5,702 | 1,406 | 1,778 | 3,249 | (1,285) |
| Net income applicable to noncontrolling interests | 535 | 999 | 60 | 71 | 40 | 3 |
| Net income (loss) applicable to Morgan Stanley | $ 4,110 | $ 4,703 | $ 1,346 | $ 1,707 | $ 3,209 | $ (1,288) |
| Earnings (loss) applicable to Morgan Stanley common shareholders(4) | $ 2,067 | $ 3,594 | $ (907) | $ 1,495 | $ 2,976 | $ (1,624) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Amounts applicable to Morgan Stanley: | | | | | | |
| Income (loss) from continuing operations | $ 4,161 | $ 4,478 | $ 1,383 | $ 1,262 | $ 2,269 | $ (1,266) |
| Net gain (loss) from discontinued operations | (51) | 225 | (37) | 445 | 940 | (22) |
| Net income (loss) applicable to Morgan Stanley | $ 4,110 | $ 4,703 | $ 1,346 | $ 1,707 | $ 3,209 | $ (1,288) |

44

Table of Contents

| | 2011 | 2010 | 2009(1)(2) | Fiscal 2008 | Fiscal 2007 | One Month Ended December 31, 2008(2) |
|---|---|---|---|---|---|---|
| **Per Share Data:** | | | | | | |
| Earnings (loss) per basic common share(5): | | | | | | |
| Income (loss) from continuing operations | $ 1.28 | $ 2.49 | $ (0.73) | $ 1.05 | $ 2.08 | $ (1.60) |
| Net gain (loss) from discontinued operations | (0.03) | 0.15 | (0.04) | 0.40 | 0.89 | (0.02) |
| Earnings (loss) per basic common share | $ 1.25 | $ 2.64 | $ (0.77) | $ 1.45 | $ 2.97 | $ (1.62) |
| Earnings (loss) per diluted common share(5): | | | | | | |
| Income (loss) from continuing operations | $ 1.26 | $ 2.45 | $ (0.73) | $ 1.01 | $ 2.03 | $ (1.60) |
| Net gain (loss) from discontinued operations | (0.03) | 0.18 | (0.04) | 0.38 | 0.87 | (0.02) |
| Earnings (loss) per diluted common share | $ 1.23 | $ 2.63 | $ (0.77) | $ 1.39 | $ 2.90 | $ (1.62) |
| Book value per common share(6) | $ 31.42 | $ 31.49 | $ 27.26 | $ 30.24 | $ 28.56 | $ 27.53 |
| Dividends declared per common share | $ 0.20 | $ 0.20 | $ 0.17 | $ 1.08 | $ 1.08 | $ 0.27 |
| **Balance Sheet and Other Operating Data:** | | | | | | |
| Total assets | $ 749,898 | $ 807,698 | $ 771,462 | $ 659,035 | $ 1,045,409 | $ 676,764 |
| Total capital(7) | 211,201 | 222,757 | 213,974 | 192,297 | 191,085 | 208,008 |
| Long-term borrowings(7) | 149,152 | 165,546 | 167,286 | 141,466 | 159,816 | 159,255 |
| Morgan Stanley shareholders equity | 62,049 | 57,211 | 46,688 | 50,831 | 31,269 | 48,753 |
| Return on average common shareholders equity | 3.9% | 8.5% | N/M | 3.4% | 6.9% | N/M |
| Average common shares outstanding(4): | | | | | | |
| Basic | 1,654,708,640 | 1,361,670,938 | 1,185,414,871 | 1,028,180,275 | 1,001,878,651 | 1,002,058,928 |
| Diluted | 1,675,271,669 | 1,411,268,971 | 1,185,414,871 | 1,073,496,349 | 1,024,836,645 | 1,002,058,928 |

N/M Not Meaningful.

(1) Information includes Morgan Stanley Smith Barney Holdings LLC effective May 31, 2009 (see Note 3 to the consolidated financial statements).
(2) On December 16, 2008, the Board of Directors of the Company approved a change in the Company s fiscal year-end from November 30 to December 31 of each year. This change to the calendar year reporting cycle began January 1, 2009. As a result of the change, the Company had a one-month transition period in December 2008.
(3) Prior-period amounts have been recast for discontinued operations. See Notes 1 and 25 to the consolidated financial statements for information on discontinued operations.
(4) Amounts shown are used to calculate earnings per basic and diluted common share.
(5) For the calculation of basic and diluted earnings per common share, see Note 16 to the consolidated financial statements.
(6) Book value per common share equals common shareholders equity of $60,541 million at December 31, 2011, $47,614 million at December 31, 2010, $37,091 million at December 31, 2009, $31,676 million at November 30, 2008, $30,169 million at November 30, 2007 and $29,585 million at December 31, 2008, divided by common shares outstanding of 1,927 million at December 31, 2011, 1,512 million at December 31, 2010, 1,361 million at December 31, 2009, 1,048 million at November 30, 2008, 1,056 million at November 30, 2007 and 1,074 million at December 31, 2008.
(7) These amounts exclude the current portion of long-term borrowings and include junior subordinated debt issued to capital trusts.

45

Table of Contents

## Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

## Introduction.

Morgan Stanley, a financial holding company, is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management. The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Unless the context otherwise requires, the terms Morgan Stanley and the Company mean Morgan Stanley and its consolidated subsidiaries.

A summary of the activities of each of the Company s business segments is as follows:

*Institutional Securities* provides capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign exchange and commodities; and investment activities.

*Global Wealth Management Group*, which includes the Company s 51% interest in Morgan Stanley Smith Barney Holdings LLC ( MSSB ), provides brokerage and investment advisory services to individual investors and small-to-medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income principal trading, which primarily facilitates clients trading or investments in such securities.

*Asset Management* provides a broad array of investment strategies that span the risk/return spectrum across geographies, asset classes and public and private markets to a diverse group of clients across the institutional and intermediary channels as well as high net worth clients.

See Notes 1 and 25 to the consolidated financial statements for a discussion of the Company s discontinued operations.

The results of operations in the past have been, and in the future may continue to be, materially affected by many factors, including the effect of economic and political conditions and geopolitical events; the effect of market conditions, particularly in the global equity, fixed income, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets; the impact of current, pending and future legislation (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act )), regulation (including capital, leverage and liquidity requirements), and legal actions in the United States of America ( U.S. ) and worldwide; the level and volatility of equity, fixed income, and commodity prices and interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to the Company s unsecured short-term and long-term debt; investor sentiment and confidence in the financial markets; the performance of the Company s acquisitions, joint ventures, strategic alliances or other strategic arrangements (including MSSB and with Mitsubishi UFJ Financial Group, Inc. ( MUFG )); the Company s reputation; inflation, natural disasters and acts of war or terrorism; the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations and technological changes; or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to the Company s businesses are likely to increase costs, thereby affecting results of operations. These factors also may have an impact on the Company s ability to achieve its strategic objectives. For a further discussion of these and other important factors that could affect the Company s business, see Business Competition and Business Supervision and Regulation in Part I, Item 1, Risk

Factors in Part I, Item 1A, and Other Matters herein.

Table of Contents

## Executive Summary.

***Financial Information and Statistical Data (dollars in millions, except where noted and per share amounts).***

| | 2011 | 2010 | 2009(1) |
|---|---|---|---|
| **Net revenues:** | | | |
| Institutional Securities | $ 17,208 | $ 16,169 | $ 12,742 |
| Global Wealth Management Group | 13,423 | 12,636 | 9,390 |
| Asset Management | 1,887 | 2,685 | 1,294 |
| Intersegment Eliminations | (115) | (103) | (146) |
| Consolidated net revenues | $ 32,403 | $ 31,387 | $ 23,280 |
| **Net income** | $ 4,645 | $ 5,702 | $ 1,406 |
| **Net income applicable to noncontrolling interests** | 535 | 999 | 60 |
| **Net income applicable to Morgan Stanley** | $ 4,110 | $ 4,703 | $ 1,346 |
| **Income (loss) from continuing operations applicable to Morgan Stanley:** | | | |
| Institutional Securities | $ 3,461 | $ 3,766 | $ 1,499 |
| Global Wealth Management Group | 665 | 519 | 283 |
| Asset Management | 35 | 205 | (391) |
| Intersegment Eliminations | | (12) | (8) |
| Income from continuing operations applicable to Morgan Stanley | $ 4,161 | $ 4,478 | $ 1,383 |
| **Amounts applicable to Morgan Stanley:** | | | |
| Income from continuing operations applicable to Morgan Stanley | $ 4,161 | $ 4,478 | $ 1,383 |
| Net gain (loss) from discontinued operations applicable to Morgan Stanley(2) | (51) | 225 | (37) |
| **Net income applicable to Morgan Stanley** | $ 4,110 | $ 4,703 | $ 1,346 |
| **Earnings (loss) applicable to Morgan Stanley common shareholders** | $ 2,067 | $ 3,594 | $ (907) |
| **Earnings (loss) per basic common share:** | | | |
| Income (loss) from continuing operations | $ 1.28 | $ 2.49 | $ (0.73) |
| Net gain (loss) from discontinued operations(2) | (0.03) | 0.15 | (0.04) |
| Earnings (loss) per basic common share(3) | $ 1.25 | $ 2.64 | $ (0.77) |
| **Earnings (loss) per diluted common share:** | | | |
| Income from continuing operations | $ 1.26 | $ 2.45 | $ (0.73) |
| Net gain (loss) from discontinued operations(2) | (0.03) | 0.18 | (0.04) |
| Earnings (loss) per diluted common share(3) | $ 1.23 | $ 2.63 | $ (0.77) |
| **Regional net revenues(4):** | | | |
| Americas | $ 22,331 | $ 21,477 | $ 18,798 |
| Europe, Middle East and Africa | 6,761 | 5,590 | 2,486 |
| Asia | 3,311 | 4,320 | 1,996 |

| | | | |
|---|---|---|---|
| Net revenues | $ 32,403 | $ 31,387 | $ 23,280 |

Table of Contents

*Financial Information and Statistical Data (dollars in millions, except where noted and per share amounts) (Continued).*

| | 2011 | 2010 | 2009(1) |
|---|---|---|---|
| **Average common equity (dollars in billions)(5):** | | | |
| Institutional Securities | $ 26.2 | $ 17.7 | $ 18.1 |
| Global Wealth Management Group | 7.6 | 6.8 | 4.6 |
| Asset Management | 2.2 | 2.1 | 2.2 |
| Parent capital | 18.4 | 15.5 | 8.1 |
| Total from continuing operations | 54.4 | 42.1 | 33.0 |
| Discontinued operations | | 0.3 | 1.1 |
| Consolidated average common equity | $ 54.4 | $ 42.4 | $ 34.1 |
| **Return on average common equity(5):** | | | |
| Institutional Securities(5) | 7% | 19% | N/A |
| Global Wealth Management Group | 6% | 7% | N/A |
| Asset Management | N/M | 8% | N/A |
| Consolidated | 4% | 9% | N/M |
| **Book value per common share(6)** | $ 31.42 | $ 31.49 | $ 27.26 |
| **Tangible common equity(7)** | $ 53,850 | $ 40,667 | $ 29,479 |
| **Tangible book value per common share(8)** | $ 27.95 | $ 26.90 | $ 21.67 |
| **Effective income tax rate provision from continuing operations(9)** | 23.2% | 12.1% | (26.2)% |
| **Worldwide employees** | 61,899 | 62,542 | 60,494 |
| **Average liquidity (dollars in billions)(10):** | | | |
| Parent company liquidity | $ 78 | $ 65 | $ 61 |
| Bank and other subsidiaries liquidity | 99 | 94 | 93 |
| Total liquidity | $ 177 | $ 159 | $ 154 |
| **Capital ratios at December 31, 2011, 2010 and 2009(11):** | | | |
| Total capital ratio | 17.8% | 16.0% | 16.2% |
| Tier 1 common capital ratio | 13.0% | 10.2% | 8.1% |
| Tier 1 capital ratio | 16.6% | 15.5% | 15.2% |
| Tier 1 leverage ratio | 6.8% | 6.6% | 5.8% |
| **Consolidated assets under management or supervision (dollars in billions)(12):** | | | |
| Asset Management(13) | $ 287 | $ 272 | $ 259 |
| Global Wealth Management Group | 494 | 477 | 379 |
| Total | $ 781 | $ 749 | $ 638 |
| **Institutional Securities:** | | | |
| Pre-tax profit margin(14) | 27% | 27% | 10% |
| **Global Wealth Management Group:** | | | |
| Global representatives(15) | 17,649 | 18,440 | 18,284 |
| Annualized revenues per global representative (dollars in thousands)(15)(16) | $ 744 | $ 686 | $ 664 |
| Assets by client segment (dollars in billions): | | | |
| $10 million or more | $ 510 | $ 522 | $ 453 |
| $1 million to $10 million | 709 | 707 | 637 |
| Subtotal $1 million or more | 1,219 | 1,229 | 1,090 |

| | | | |
|---|---|---|---|
| $100,000 to $1 million | 388 | 399 | 418 |
| Less than $100,000 | 42 | 41 | 52 |
| Total client assets | $ 1,649 | $ 1,669 | $ 1,560 |

Table of Contents

*Financial Information and Statistical Data (dollars in millions, except where noted and per share amounts) (Continued).*

| | 2011 | 2010 | 2009(1) |
|---|---|---|---|
| Fee-based assets as a percentage of total client assets | 30% | 28% | 24% |
| Client assets per global representative(15)(17) | $ 93 | $ 91 | $ 85 |
| Global retail net new assets (dollars in billions) | $ 35.8 | $ 22.9 | $ (15.3) |
| Global fee-based asset flows (dollars in billions) | $ 42.5 | $ 32.7 | $ 13.4 |
| Bank deposits (dollars in billions)(18) | $ 111 | $ 113 | $ 112 |
| Global retail locations | 765 | 851 | 930 |
| Pre-tax profit margin(14) | 10% | | |