06/22/17 6.1/1

RESOLUTION NO. 21288

Background

It is necessary and desirable for The Illinois State Toll Highway Authority (the "*Tollway*") to retain certain financial firms to provide, on an as-needed basis, underwriting services in connection with the issuance of new bonds.

The Tollway issued the Request for Proposals #16-0155 for Bond Underwriting Services (the "*RFP*") to establish two pools of financial firms to be available to provide, on an as-needed basis, bond underwriting services for Tollway financings for an initial term of three years with renewal options of up to two years.

Proposals received pursuant to the RFP were: (a) reviewed by the Procurement Department for administrative compliance and vendor responsibility; and (b) evaluated by an evaluation committee for Responsiveness (as defined in the RFP). As a result of the review and evaluation of the proposals, certain financial firms were determined to be qualified to provide the aforementioned bond underwriting services, after which pricing was negotiated with such firms. As a result of the review and evaluation of the proposals and subsequent price negotiation, it is deemed in the best interest of the Tollway to select the following financial firms to serve, on an as-needed basis, as Senior Managing Underwriter or Co-Senior Managing Underwriter for a Tollway bond issuance:

Citigroup Global Markets Inc.;
Goldman, Sachs & Co.;
Jefferies, LLC;
J.P. Morgan Securities LLC;
Loop Capital Markets LLC;
Merrill Lynch Pierce Fenner & Smith Incorporated;
Morgan Stanley & Co. LLC;
Piper Jaffray & Co.;
PNC Capital Markets LLC;
RBC Capital Markets, LLC;

RESOLUTION NO. 21288

Background-Continued

Samuel A. Ramirez & Co., Inc.;
Siebert Cisneros Shank & Co. LLC;
Wells Fargo Bank, N.A.; and
William Blair & Company. L.L.C. (collectively the "*Senior Pool*");

and to select the following financial firms to serve, on an as-needed basis, as Co-Managing Underwriter for a Tollway bond issuance:

Academy Securities, Inc.;
Bernardi Securities Inc.;
Blaylock Van, LLC;
Cabrera Capital Markets, LLC;
George K. Baum & Company;
Hutchinson Shockey Erley & Co.;
Janney Montgomery Scott LLC;
KeyBanc Capital Markets Inc.;
Mesirow Financial, Inc.;
Oppenheimer & Co. Inc.;
Raymond James & Associates, Inc.;
Rice Securities, LLC;
Robert W. Baird & Co. Incorporated; and
Stifel Nicolaus & Company, Inc. (collectively the "*Co-Manager Pool*")

Resolution

The selection of the aforementioned firms to provide, on an as-needed basis, the described bond underwriting services for an initial term of three years is approved. The Chief Financial Officer is authorized to negotiate the terms and conditions of agreements with each of the firms in the Senior Pool, subject to review and approval of the Acting General Counsel and pricing not to exceed $2.00 per $1,000 bond par amount for the takedown portion of the underwriting discount. The Chairman or the Executive Director is authorized to execute any and all documents necessary to effectuate said agreements and the

RESOLUTION NO. 21288

Resolution-Continued

Chief Financial Officer is authorized to issue warrants in payment thereof. As needed for each bond issuance, the Chairman or the Executive Director is authorized to assign a bond underwriting group consisting of firms from the Senior Pool and Co-Manager Pool, each assignment to be made consistent with the considerations for making such assignments contained in the RFP. Firms in the Senior Pool are deemed eligible to serve as bond remarketing agent.

Approved by: [redacted]
Chairman

STATE OF ILLINOIS
CONTRACT

Illinois Tollway

Bond Underwriting Services

16-0155G

The Parties to this contract are the State of Illinois acting through the undersigned Agency (collectively the State) and the Vendor. This contract, consisting of the signature page and numbered sections listed below and any attachments referenced in this contract, constitute the entire contract between the Parties concerning the subject matter of the contract, and in signing the contract, the Contractor affirms that the Certifications and if applicable the Financial Disclosures and Conflicts of Interest attached hereto are true and accurate as of the date of the Contractor's execution of the contract. This contract supersedes any prior contracts between the Parties concerning the subject matter of this contract. This contract can be signed in multiple counterparts upon agreement of the Parties.

1. **DESCRIPTION OF SUPPLIES AND SERVICES**
2. **PRICING**
3. **TERM AND TERMINATION**
4. **STANDARD BUSINESS TERMS AND CONDITIONS**
5. **SUPPLEMENTAL PROVISIONS**
6. **FORMS A or FORMS B**
7. **TAXPAYER IDENTIFICATION NUMBER PAGE**
8. **VENDORS RESPONSE TO RFP #16-0155 AND RFP #16-0155**

NOTE: This contract establishes the terms and conditions under which the Vendor is available to be assigned by The Illinois State Toll Highway Authority (the "Tollway"), on an as-needed basis as determined by the Tollway, to underwrite Tollway bonds or other debt. Any such underwriting shall be pursuant to a bond purchase agreement or other appropriate form of agreement entered into by the Vendor and the Tollway at the time the Vendor underwrites the Tollway bonds or other debt. Such bond purchase agreement or other appropriate form of agreement shall be the exclusive agreement governing any such underwriting with respect to each party's performance, duties, rights, responsibilities, obligations and liabilities.

In consideration of the mutual covenants and agreements contained in this contract, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to the terms and conditions set forth herein and have caused this contract to be executed by their duly authorized representatives on the dates shown on the following CONTRACT SIGNATURES page.

VENDOR

Vendor Name: Morgan Stanley & Co. LLC	Address: 440 South LaSalle St., Chicago, IL 60605
Signature: [redacted]	Date: 9/7/17
Printed Name: William R. Daley	Email: William.Daley@morganstanley.com
Title: Managing Director	Phone: 312-706-4058
	Fax: 312-777-2319

STATE OF ILLINOIS

Procuring Agency: Illinois Tollway	Phone: 630/241-6800
Street Address: 2700 Ogden Avenue	Fax: 630/795-7908
City, State ZIP: Downers Grove, IL 60515	
Official Signature: [redacted]	Date: 10/26/17
Printed Name: Greg Bedalov	
Official's Title: Executive Director	
Approved as to Form and Constitutionality Legal Signature: [redacted]	Date: 10-20-2017
Legal Printed Name: Robert Lane	
Legal's Title: Senior Assistant Attorney General	
Procurement Signature: [redacted]	Date: 10/25/17
Procurement Printed Name: John Donato	
Procurement's Title: Chief of Procurement	

AGENCY/UNIVERSITY USE ONLY **NOT PART OF CONTRACTUAL PROVISIONS**

Agency Reference # 17-101081 Project Title: Bond Underwriting Services

Contract # 16-0155G Procurement Method (IFB, RFP, Small, etc.): RFP

IPB Ref. #22039948 IPB Publication Date: Award Code: B

Subcontractor Utilization? □ Yes □ No Subcontractor Disclosure? □ Yes □ No

Funding Source Obligation #

Small Business Set-Aside? □ Yes □ No

Minority Owned Business? □ Yes □ No Percentage

Female-Owned Business? □ Yes □ No Percentage

Persons With Disabilities Owned Business? □ Yes □ No Percentage

Other Preferences?

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1. DESCRIPTION OF SUPPLIES AND SERVICES

1.1. **SUPPLIES AND/OR SERVICES REQUIRED:** The Vendor agrees to be one of a pool of multiple firms (the "Senior Pool") available to provide services, on an as-needed basis as determined by the Tollway, as Senior Managing Underwriter or Co-Senior Managing Underwriter in connection with Tollway bond issues and for the compensation specified in Section 2. A Senior Managing Underwriter of a bond issue must be able to perform the following duties: book runner; leader of the underwriting syndicate; pricing coordinator; lead marketer of the bond issue; structuring the financing (in consultation with any applicable Tollway financial / municipal advisor(s), and Tollway management / staff); review all documentation related to the bond issuance; compliance with disclosure and other requirements of this contract and any Bond Purchase Agreement; investor liaison; preparation of rating materials and presentations; and all other services conventional for a senior managing underwriter. A Co-Senior Managing Underwriter must be able to be a co-leader of the underwriting syndicate; assist, as may be requested by the Tollway, with the structuring of the financing and review of documentation; assist the Senior Managing Underwriter(s) with the marketing of the issue; and provide any other services conventional for a Co-Senior Managing Underwriter. The Co-Senior Managing Underwriter is expected to be integral to the transaction and participate in any aspects of the financing as determined to be necessary by the Tollway. In addition to duties specific to bond issuances to which firms are assigned, firms in the Senior Pool are expected to keep the Tollway informed of fixed income market conditions, especially with respect to the municipal bond market, and other matters pertinent to public finance, and to meet with the Tollway upon request, and at least once annually, to provide detailed consideration of and recommendations regarding items the Vendor considers pertinent to the Tollway. Firms in the Senior Pool are eligible to provide remarketing services for Tollway variable rate bond issues.

1.2. **MILESTONES AND DELIVERABLES:** The timing of assignment(s), if any, of the Vendor to provide bond underwriting services and the amount of bonds, if any, for which such services are to be provided will depend on a variety of factors, including but not limited to: the extent, if any, to which the Tollway assigns the Vendor to provide such services; whether the Vendor completes any such assignment(s); the size(s) of the bond transaction(s), if any, to which the Vendor is assigned; the rate of progress of the Tollway's *Move Illinois Capital Program*; factors which may impact likelihood of refunding (e.g. fixed income market conditions, regulatory changes, changes among swap counterparties and/or credit enhancement providers, etc.); and other factors. The current, estimated projection of Tollway new money bond par amount issued during 2017 – 2022 is as follows: $300,000,000 IN 2017; $300,000,000 IN 2018; $400,000,000 IN 2019; $400,000,000 IN 2020; $200,000,000 IN 2021; AND $400,000,000 IN 2022. **This projection is subject to change.** The number and amounts of any refinancings will depend on market conditions and other factors. Two series of bonds will become callable at par during 2017-2022: (i) all $279.3M of Series 2010A-1; and (ii) a $100M portion of Series 2009A. Significant amounts of other bonds, including synthetic fixed rate bonds, may be refunded during 2017-2022, depending on market conditions and other factors.

1.3. **VENDOR / STAFF SPECIFICATIONS:** The Vendor must be registered, and remain registered and in good standing, as a broker dealer with the Municipal Securities Rulemaking Board. The Offeror and assigned personnel must remain current with any ongoing requirements for such registration to be maintained.

1.4. **TRANSPORTATION AND DELIVERY:** n.a.

1.5. **SUBCONTRACTING:**

Subcontractors are not allowed.

For purposes of this section, subcontractors are those specifically hired by the Vendor to perform all or part of the work covered by the contract. If subcontractors will be utilized, Vendor must identify below the names and addresses of all subcontractors it will be entering into a contractual agreement that has an annual value of $50,000 or more in the performance of this Contract, together with a description of the work to be performed by the subcontractor and the anticipated amount of money to the extent the information is known that each subcontractor is expected to receive pursuant to the Contract. Attach additional sheets as necessary.

1.5.1. Will subcontractors be utilized? □ Yes ☒ No

- Subcontractor Name: Click here to enter text

  Amount to be paid: Click here to enter text

  Address: Click here to enter text

  Description of work: Click here to enter text

- Subcontractor Name: Click here to enter text

  Amount to be paid: Click here to enter text

  Address: Click here to enter text

  Description of work: Click here to enter text

1.5.2. All contracts with the subcontractors identified above must include the Standard Certifications completed and signed by the subcontractor.

1.5.3. If the annual value of any the subcontracts is more than $50,000, then the Vendor must provide to the State the Financial Disclosures and Conflicts of Interest for that subcontractor.

1.5.4. If the subcontractor is registered in the Illinois Procurement Gateway (IPG) and the Vendor is using the subcontractor's Standard Certifications or Financial Disclosures and Conflicts of Interest from the IPG, then the Vendor must also provide a completed Forms B for the subcontractor.

1.5.5. If at any time during the term of the Contract, Vendor adds or changes any subcontractors, Vendor will be required to promptly notify, in writing, the State Purchasing Officer or the Chief Procurement Officer of the names and addresses and the expected amount of money that each new or replaced subcontractor will receive pursuant to the Contract. Any subcontracts entered into prior to award of the Contract are done at the Vendor's and subcontractor's risk.

1.6. **WHERE SERVICES ARE TO BE PERFORMED:** Unless otherwise disclosed in this section all services shall be performed in the United States. If the Vendor performs the services purchased hereunder in another country in violation of this provision, such action may be deemed by the State as a breach of the contract by Vendor.

Vendor shall disclose the locations where the services required shall be performed and the known or anticipated value of the services to be performed at each location. If the Vendor received additional consideration in the evaluation based on work being performed in the United States, it shall be a breach of contract if the Vendor shifts any such work outside the United States.

Vendor may limit this information to the public finance office(s) and underwriting desk(s) from which it expects to provide services, and need not consider sales professionals.

- Location where services will be performed: Click here to enter text

  Value of services performed at this location: Click here to enter text

- Location where services will be performed: Click here to enter text

  Value of services performed at this location: Click here to enter text

2. PRICING

2.1 **TYPE OF PRICING:** The Illinois Office of the Comptroller requires the State to indicate whether the contract value is firm or estimated at the time it is submitted for obligation. The maximum rate of this contract for its initial three year term is firm at $2.00 per $1,000.00 par amount of bonds underwritten. This maximum rate is approved by the Tollway's Board of Directors. The total dollar value of this contract for its initial three year term is estimated at $200,000, and may be modified pursuant to Tollway Board approval as provided by written resolution or otherwise in accordance with authority delegated by the Board.

2.2 **EXPENSES ALLOWED:** The underwriting discount may include, subject to Tollway approval, expenses customary, reasonable and necessary for the issuance of revenue bonds by a governmental agency.

2.3 **DISCOUNT:** Not applicable. The State may receive a __% discount for payment within __ days of receipt of correct invoice.

2.4 **VENDOR'S PRICING:** Attach additional pages if necessary.

2.4.1 Vendor's Price for the Initial Term:

Underwriting Takedowns ***(expressed as $ per $1,000 par amount of bonds)***	
Bond Maturity*	**Underwriting Takedown**
Weekly Mode Variable Rate	**$0.75**
1 Yr Fixed Rate	**$1.25**
2 Yrs Fixed Rate	**$1.25**
3 Yrs Fixed Rate	**$1.25**
4 Yrs Fixed Rate	**$1.50**
5 Yrs Fixed Rate	**$1.75**
6 Yrs Fixed Rate	**$2.00**
7 Yrs Fixed Rate	**$2.00**
8 Yrs Fixed Rate	**$2.00**
9 Yrs Fixed Rate	**$2.00**
10+ Yrs Fixed Rate	**$2.00**

** Maturities to be rounded to nearest year for purposes of determining applicable takedown. For variable rate bonds with modes one year or greater, the mode will be deemed a "maturity" for purposes of determining applicable takedown per the above chart.*

The above takedown compensations will apply whether the bonds are tax-exempt or taxable, and whether the bonds are senior lien or junior lien. Any underwriter discount will consist of the applicable takedown per the above and customary underwriting expenses. No management fee will be included. Compensation and expense reimbursement for underwriting an assigned transaction will be included in the applicable bond purchase agreement or other appropriate form of agreement and will be fully contingent on the closing of such transaction.

2.4.2 Renewal Compensation: If the contract is renewed, the price shall be at the same maximum rate as for the initial term unless a different compensation or formula for determining the renewal compensation is stated in this section.

2.5 **MAXIMUM AMOUNT:** Vendor's compensation under this Contract shall not exceed $240,000.00 during the initial term without a formal amendment.

3. TERM AND TERMINATION

DL 10/13/17 SF 10/19/17

3.1 **TERM OF THIS CONTRACT:** This contract has an initial term of October 27, 2017 to October 14, 2020. If a start date is not identified, the term shall commence upon the last dated signature of the Parties.

3.1.1 In no event will the total term of the contract, including the initial term, any renewal terms and any extensions, exceed 10 years.

3.1.2 Vendor shall not commence billable work in furtherance of the contract prior to final execution of the contract except when permitted pursuant to 30 ILCS 500/20-80.

3.2 RENEWAL:

3.2.1. Any renewal is subject to the same terms and conditions as the original contract unless otherwise provided in the pricing section. The State may renew this contract for any or all of the option periods specified, may exercise any of the renewal options early, and may exercise more than one option at a time based on continuing need and favorable market conditions, when in the best interest of the State. The contract may neither renew automatically nor renew solely at the Vendor's option.

3.2.2. Pricing for the renewal term(s), or the formula for determining price, is shown in the pricing section of this contract.

3.2.3. The State reserves the right to renew for a total of up to two years in any one of the following manners:

3.2.3.1 One renewal covering the entire renewal allowance;

3.2.3.2 Individual one-year renewals up to and including the entire renewal allowance; or

3.2.3.3 Any combination of full or partial year renewals up to and including the entire renewal allowance.

3.3 **TERMINATION FOR CAUSE:** The State may terminate this contract, in whole or in part, immediately upon notice to the Vendor if: (a) the State determines that the actions or inactions of the Vendor, its agents, employees or subcontractors have caused, or reasonably could cause, jeopardy to health, safety, or property, or (b) the Vendor has notified the State that it is unable or unwilling to perform the contract.

If Vendor fails to perform to the State's satisfaction any material requirement of this contract, is in violation of a material provision of this contract, or the State determines that the Vendor lacks the financial resources to perform the contract, the State shall either: (i) terminate the contract effective immediately; or (ii) provide written notice to the Vendor to cure the problem identified within the period of time specified in such written notice and, if not cured by that date, the State may either: (a) immediately terminate the contract without additional written notice or (b) enforce the terms and conditions of the contract.

immediately terminate the contract without additional written notice or (b) enforce the terms and conditions of the contract.

A termination of this contract will terminate the Vendor's ability to underwrite Tollway bonds or other debt from the date of such termination through the remaining term of the Senior Pool established by procurement process RFP#16-0155. A termination of this contract will not impact the Vendor's responsibilities in connection with any Tollway bond issuance or other transaction underwritten by the Vendor prior to any such termination of this contract.

For termination due to any of the causes contained in this Section, the State retains its rights to seek any available legal or equitable remedies and damages.

3.4 **TERMINATION FOR CONVENIENCE:** The State may, for its convenience and with 30 days prior written notice to Vendor, terminate this contract in whole or in part and without payment of any penalty or incurring any further obligation to the Vendor.

A termination of this contract will terminate the Vendor's ability to underwrite Tollway bonds or other debt from the date of such termination through the remaining term of the Senior Pool established by procurement process RFP#16-0155. A termination of this contract will not impact the Vendor's responsibilities in connection with any Tollway bond issuance or other transaction underwritten by the Vendor prior to any such termination of this contract.

3.5 **AVAILABILITY OF APPROPRIATION:** This contract is contingent upon and subject to the availability of funds. The State, at its sole option, may terminate or suspend this contract, in whole or in part, without penalty or further payment being required, if (1) the Illinois General Assembly or the federal funding source fails to make an appropriation sufficient to pay such obligation, or if funds needed are insufficient for any reason (30 ILCS 500/20-60), (2) the Governor decreases the Department's funding by reserving some or all of the Department's appropriation(s) pursuant to power delegated to the Governor by the Illinois General Assembly, or (3) the Department determines, in its sole discretion or as directed by the Office of the Governor, that a reduction is necessary or advisable based upon actual or projected budgetary considerations. Contractor will be notified in writing of the failure of appropriation or of a reduction or decrease.

4. STANDARD BUSINESS TERMS AND CONDITIONS

4.1 PAYMENT TERMS AND CONDITIONS:

4.1.1 Late Payment: Payments, including late payment charges, will be paid in accordance with the State Prompt Payment Act and rules when applicable. 30 ILCS 540; 74 Ill. Adm. Code 900. This shall be Vendor's sole remedy for late payments by the State. Payment terms contained on Vendor's invoices shall have no force and effect.

4.1.2 Minority Contractor Initiative: Any Vendor awarded a contract under Section 20-10, 20-15, 20-25 or 20-30 of the Illinois Procurement Code (30 ILCS 500) of $1,000 or more is required to pay a fee of $15. The Comptroller shall deduct the fee from the first check issued to the Vendor under the contract and deposit the fee in the Comptroller's Administrative Fund. 15 ILCS 405/23.9.

4.1.3 Expenses: The State will not pay for supplies provided or services rendered, including related expenses, incurred prior to the execution of this contract by the Parties even if the effective date of the contract is prior to execution.

4.1.4 Prevailing Wage: As a condition of receiving payment Vendor must (i) be in compliance with the contract, (ii) pay its employees prevailing wages when required by law, (iii) pay its suppliers and subcontractors according to the terms of their respective contracts, and (iv) provide lien waivers to the State upon request. Examples of prevailing wage categories include public works, printing, janitorial, window washing, building and grounds services, site technician services, natural resource services, security guard and food services. The prevailing wages are revised by the Department of Labor and are available on the Department's official website, which shall be deemed proper notification of any rate changes under this subsection. Vendor is responsible for contacting the Illinois Department of Labor to ensure understanding of prevailing wage requirements at 217-782-6206 or (http://www.state.il.us/agency/idol/index.htm).

4.1.5 Federal Funding: This contract may be partially or totally funded with Federal funds. If federal funds are expected to be used, then the percentage of the good/service paid using Federal funds and the total Federal funds expected to be used will be provided in the award notice.

4.1.6 Invoicing: By submitting an invoice, Vendor certifies that the supplies or services provided meet all requirements of the contract, and the amount billed and expenses incurred are as allowed in the contract. Invoices for supplies purchased, services performed and expenses incurred through June 30 of any year must be submitted to the State no later than July 31 of that year; otherwise Vendor may have to seek payment through the Illinois Court of Claims. 30 ILCS 105/25. All invoices are subject to statutory offset. 30 ILCS 210.

4.1.6.1 Vendor shall not bill for any taxes unless accompanied by proof that the State is subject to the tax. If necessary, Vendor may request the applicable Agency/University state tax exemption number and federal tax exemption information.

4.1.6.2 Vendor shall invoice at the completion of the contract unless invoicing is tied in the contract to milestones, deliverables, or other invoicing requirements agreed to in the contract.

Send invoices to:

Agency:	Illinois Tollway
Attn:	Finance Department
Address:	2700 Ogden Ave
City, State Zip	Downers Grove, Illinois 60515

4.2 **ASSIGNMENT**: This contract may not be assigned, transferred in whole or in part by Vendor without the prior written consent of the State.

4.3 **SUBCONTRACTING:** For purposes of this section, subcontractors are those specifically hired by the Vendor to perform all or part of the work covered by the contract. Vendor must receive prior written approval before use of any subcontractors in the performance of this contract. Vendor shall describe, in an attachment if not already provided, the names and addresses of all authorized subcontractors to be utilized by Vendor in the performance of this contract, together with a description of the work to be performed by the subcontractor and the anticipated amount of money that each subcontractor is expected to receive pursuant to this contract. If required, Vendor shall provide a copy of any subcontracts within 15 days after execution of this contract. All subcontracts must include the same certifications that Vendor must make as a condition of this contract. Vendor shall include in each subcontract the subcontractor certifications as shown on the Standard Subcontractor Certification form available from the State. If at any time during the term of the Contract, Vendor adds or changes any subcontractors, then Vendor must promptly notify, by written amendment to the Contract, the State Purchasing Officer or the Chief Procurement Officer of the names and addresses and the expected amount of money that each new or replaced subcontractor will receive pursuant to the Contract.

4.4 **AUDIT/RETENTION OF RECORDS:** Vendor and its subcontractors shall maintain books and records relating to the performance of the contract or subcontract and necessary to support amounts charged to the State pursuant the contract or subcontract. Books and records, including information stored in databases or other computer systems, shall be maintained by the Vendor for a period of three years, or longer if necessary to comply with regulatory requirements, from the later of the date of final payment under the contract or completion of the contract, and by the subcontractor for a period of three years, or longer if necessary to comply with regulatory requirements, from the later of final payment under the term or completion of the subcontract. If federal funds are used to pay contract costs, the Vendor and its subcontractors must retain its records for five years, or longer if necessary to comply with regulatory requirements. Books and records required to be maintained under this section shall be available for review or audit by representatives of: the procuring Agency/University, the Auditor General, the Executive Inspector General, the Chief Procurement Officer, State of Illinois internal auditors or other governmental entities with monitoring authority, upon reasonable notice and during normal business hours. Vendor and its subcontractors shall cooperate fully with any such audit and with any investigation conducted by any of these entities. Failure to maintain books and records as required by this section shall establish a presumption in favor of the State for the recovery of any funds paid by the State under the contract for which adequate books and records are not available to support the purported disbursement. The Vendor or subcontractors shall not impose a charge for audit or examination of the Vendor's books and records. 30 ILCS 500/20-65.

4.5 **TIME IS OF THE ESSENCE:** Time is of the essence with respect to Vendor's performance of this contract. Vendor shall continue to perform its obligations while any dispute concerning the contract is being resolved unless otherwise directed by the State.

4.6 **NO WAIVER OF RIGHTS:** Except as specifically waived in writing, failure by a Party to exercise or enforce a right does not waive that Party's right to exercise or enforce that or other rights in the future.

4.7 **FORCE MAJEURE:** Failure by either Party to perform its duties and obligations will be excused by unforeseeable circumstances beyond its reasonable control and not due to its negligence, including acts of nature, acts of terrorism, riots, labor disputes, fire, flood, explosion, and governmental prohibition. The non-declaring Party may cancel the contract without penalty if performance does not resume within 30 days of the declaration.

4.8 **CONFIDENTIAL INFORMATION:** Each Party, including its agents and subcontractors, to this contract may have or gain access to confidential data or information owned or maintained by the other Party in the course of carrying out its responsibilities under this contract. Vendor shall presume all information received from the State or to which it gains access pursuant to this contract is confidential. Vendor information, unless clearly marked as confidential and exempt from disclosure under the Illinois Freedom of Information Act, shall be considered public. No confidential data collected, maintained, or used in the course of performance of the contract shall be disseminated except as authorized by law and with the written consent of the disclosing Party, either during the period of the contract or thereafter. The receiving Party must return any and all data collected, maintained, created or used in the course of the performance of the contract, in whatever form it is maintained, promptly at the end of the contract, or earlier at the request of the disclosing Party. The foregoing obligations shall not apply to confidential data or information lawfully in the receiving Party's possession prior to its acquisition from the disclosing Party; received in good faith from a third Party not subject to any confidentiality obligation to the disclosing Party; now is or later becomes publicly known through no breach of confidentiality obligation by the receiving Party; is independently developed by the receiving Party without the use or benefit of the disclosing Party's confidential information. In connection with any offering of securities by the Tollway in which Vendor is involved as an underwriter, agent, dealer or similar participant, nothing in this contract shall: (i) prevent Vendor from complying with all applicable disclosure laws, regulations and principles in connection with such offering; (ii) restrict the ability of Vendor to consider information for due diligence purposes or share information with other underwriters, agents or dealers participating in such offering; (iii) prevent Vendor from retaining documents or other information in connection with due diligence; (iv) prevent Vendor from using any such documents or other information in investigating or defending itself against claims made or threatened by purchasers, regulatory authorities or others in connection with such offering. Any provision of this section that conflicts with the Vendor's disclosure obligations under state or federal securities laws or rules is excepted from this section.

4.9 **USE AND OWNERSHIP:** All work performed or supplies created by Vendor under this contract, whether written documents or data, goods or deliverables of any kind, shall be deemed work for hire under copyright law and all intellectual property and other laws, and the State of Illinois is granted sole and exclusive ownership to all such work, unless otherwise agreed in writing. Vendor hereby assigns to the State all right, title, and interest in and to such work including any related intellectual property rights, and/or waives any and all claims that Vendor may have to such work including any so-called "moral rights" in connection with the work. Vendor acknowledges the State may use the work product for any purpose. Confidential data or information contained in such work shall be subject to confidentiality provisions of this contract.

4.10 INDEMNIFICATION: The Vendor shall indemnify and hold harmless the State of Illinois, The Illinois State Tollway Highway Authority, its officers, employees, and agents from any and all costs, demands, expenses, losses, claims, damages, liabilities, settlements, and judgments, including in-house and contracted attorneys' fees and expenses, arising out of: (a) any breach or violation by Vendor of any of its certifications, representations, warranties, covenants or agreements; (b) any actual or alleged death or injury to any person, damage to any real or personal property, or any other damage or loss claimed to result in whole or in part from Vendor's negligent performance; (c) any act, activity or omission of Vendor or any of its employees, representatives, subcontractors or agents; or (d) any actual or alleged claim that the services or goods provided under this contract infringe, misappropriate, or otherwise violate any intellectual property (patent, copyright, trade secret, or trademark) rights of a third party.

4.11 INSURANCE: The Vendor shall procure and maintain for the duration of the contract, insurance against claims for injuries to persons or damage to property which may arise from or in connection with the performance of the work by the Vendor, his/her agents, representatives, employees or subcontractors. Work shall not commence until insurance required by this section has been obtained and documentation submitted to the Tollway for acceptance. All coverages must be with Insurance Companies with an A.M. Best Company financial strength rating of "A minus" or better. Insurance coverage shall not limit Vendor's obligation to indemnify, defend or settle any claims.

A. Minimum Scope of Insurance Coverage shall be at least as broad as:
   1. Commercial General Liability coverage on an unmodified, Insurance Service Office "Occurrence" form, current edition or an alternative form providing equivalent protection.
   2. Automobile Liability on an unmodified, Insurance Service Office form, current edition or an alternative form providing equivalent protection.
   3. Worker's Compensation insurance as required by the State of Illinois and including Employers Liability.

B. Minimum Limits of Insurance Contractor or vendor shall maintain no less than:
   1. Commercial General Liability: $1,000,000 each occurrence for bodily injury, personal injury, and property damage and $2,000,000 general aggregate and $2,000,000 products/completed operations aggregate.
   2. Automobile Liability: $1,000,000 combined single limit per accident for bodily injury and property damage.
   3. Worker's Compensation and Employers Liability: Statutory Limits with Employers Liability limit of not less than $500,000 per occurrence.

In addition to the above, the Vendor shall maintain, for the duration of the contract, professional liability insurance in a minimum amount of the greater of $1,000,000 and any higher amount required by law or regulatory authority. Work shall not commence until documentation acceptable to the Tollway evidencing such professtional liability insurance has been provided.

The Illinois State Toll Highway Authority including all appointed officials and employees, shall be named "Additional Insured" as part of the commercial general liability and automobile liability coverage. This coverage shall be primary for the Additional Insured and not contributing with any other insurance or similar protection available to the Additional Insured, whether said other coverage be primary, contributing or excess.

All deductibles or self-insured retentions must be declared and recognized by the Authority. Proof of insurance shall include originals of the applicable "additional insured" endorsements for approval of the Authority. Any failure by the Authority to request proof of insurance will not waive the requirement of maintenance of minimum protection specified.

4.12 **INDEPENDENT CONTRACTOR:** Vendor shall act as an independent contractor and not an agent or employee of, or joint venture with the State. All payments by the State shall be made on that basis.

4.13 **SOLICITATION AND EMPLOYMENT:** Vendor shall not employ any person employed by the State during the term of this contract to perform any work under this contract. Vendor shall give notice immediately to the Agency's director if Vendor solicits or intends to solicit State employees to perform any work under this contract.

4.14 **COMPLIANCE WITH THE LAW:** The Vendor, its employees, agents, and subcontractors shall comply with all applicable federal, state, and local laws, rules, ordinances, regulations, orders, federal circulars and all license and permit requirements in the performance of this contract. Vendor shall be in compliance with applicable tax requirements and shall be current in payment of such taxes. Vendor shall obtain at its own expense, all licenses and permissions necessary for the performance of this contract.

4.15 **BACKGROUND CHECK:** Whenever the State deems it reasonably necessary for security reasons, the State may conduct, at its expense, criminal and driver history background checks of Vendor's and subcontractors officers, employees or agents. Vendor or subcontractor shall reassign immediately any such individual who, in the opinion of the State, does not pass the background check.

4.16 **APPLICABLE LAW:** This contract shall be construed in accordance with and is subject to the laws and rules of the State of Illinois. The Department of Human Rights' Equal Opportunity requirements (44 Ill. Adm. Code 750) are incorporated by reference. Any claim against the State arising out of this contract must be filed exclusively with the Illinois Court of Claims. 705 ILCS 505/1. The State shall not enter into binding arbitration to resolve any contract dispute. The State of Illinois does not waive sovereign immunity by entering into this contract. The official text of cited statutes is incorporated by reference. An unofficial version can be viewed at (www.ilga.gov/legislation/ilcs/ilcs.asp).

4.17 **ANTI-TRUST ASSIGNMENT:** If Vendor does not pursue any claim or cause of action it has arising under federal or state antitrust laws relating to the subject matter of the contract, then upon request of the Illinois Attorney General, Vendor shall assign to the State rights, title and interest in and to the claim or cause of action.

4.18 **CONTRACTUAL AUTHORITY:** The Agency that signs for the State of Illinois shall be the only State entity responsible for performance and payment under the contract. When the Chief Procurement Officer or authorized designee signs in addition to an Agency, they do so as approving officer and shall have no liability to Vendor. When the Chief Procurement Officer or authorized designee, or State Purchasing Officer signs a master contract on behalf of State agencies, only the Agency that places an order with the Vendor shall have any liability to Vendor for that order.

4.19 **NOTICES:** Notices and other communications provided for herein shall be given in writing by registered or certified mail, return receipt requested, by receipted hand delivery, by courier (UPS, Federal Express or other similar and reliable carrier), by e-mail, or by fax showing the date and time of successful receipt. Notices shall be sent to the individuals who signed the contract using the contact information following the signatures. Each such notice shall be deemed to have been provided at the time it is actually received. By giving notice, either Party may change the contact information.

4.20 **MODIFICATIONS AND SURVIVAL:** Amendments, modifications and waivers must be in writing and signed by authorized representatives of the Parties. Any provision of this contract officially declared void, unenforceable, or against public policy, shall be ignored and the remaining provisions shall be interpreted, as far as possible, to give effect to the Parties' intent. All provisions that by their nature would be expected to survive, shall survive termination. In the event of a conflict between the State's and the Vendor's terms, conditions and attachments, the State's terms, conditions and attachments shall prevail.

4.21 **PERFORMANCE RECORD / SUSPENSION:** Upon request of the State, Vendor shall meet to discuss performance or provide contract performance updates to help ensure proper performance of the contract. The State may consider Vendor's performance under this contract and compliance with law and rule to determine whether to continue the contract, suspend Vendor from doing future business with the State for a specified period of time, or to determine whether Vendor can be considered responsible on specific future contract opportunities.

4.22 **FREEDOM OF INFORMATION ACT:** This contract and all related public records maintained by, provided to or required to be provided to the State are subject to the Illinois Freedom of Information Act (FOIA) (50 ILCS 140) notwithstanding any provision to the contrary that may be found in this contract.

4.23 **SCHEDULE OF WORK:** Any work performed on State premises shall be done during the hours designated by the State and performed in a manner that does not interfere with the State and its personnel.

4.24 **WARRANTIES FOR SUPPLIES AND SERVICES:**

4.24.1. Vendor warrants that the supplies furnished under this contract will: (a) conform to the standards, specifications, drawing, samples or descriptions furnished by the State or furnished by the Vendor and agreed to by the State, including but not limited to all specifications attached as exhibits hereto; (b) be merchantable, of good quality and workmanship, and free from defects for a period of twelve months or longer if so specified in writing, and fit and sufficient for the intended use; (c) comply with all federal and state laws, regulations and ordinances pertaining to the manufacturing, packing, labeling, sale and delivery of the supplies; (d) be of good title and be free and clear of all liens and encumbrances and; (e) not infringe any patent, copyright or other intellectual property rights of any third party. Vendor agrees to reimburse the State for any losses, costs, damages or expenses, including without limitations, reasonable attorney's fees and expenses, arising from failure of the supplies to meet such warranties.

4.24.2. Vendor shall insure that all manufacturers' warranties are transferred to the State and shall provide a copy of the warranty. These warranties shall be in addition to all other warranties, express, implied or statutory, and shall survive the State's payment, acceptance, inspection or failure to inspect the supplies.

4.24.3. Vendor warrants that all services will be performed to meet the requirements of the contract in an efficient and effective manner by trained and competent personnel. Vendor shall monitor performances of each individual and shall reassign immediately any individual who is not performing in accordance with the contract, who is disruptive or not respectful of others in the workplace, or who in any way violates the contract or State policies.

4.25 REPORTING, STATUS AND MONITORING SPECIFICATIONS: Vendor shall immediately notify the State of any event that may have a material impact on Vendor's ability to perform the contract.

4.26 EMPLOYMENT TAX CREDIT: Vendors who hire qualified veterans and certain ex-offenders may be eligible for tax credits. 35 ILCS 5/216, 5/217. Please contact the Illinois Department of Revenue (telephone #: 217-524-4772) for information about tax credits.

5. SUPPLEMENTAL PROVISIONS

5.1. STATE SUPPLEMENTAL PROVISIONS

□ Illinois Tollway Definitions

Click here to enter text.

□ Required Federal Clauses, Certifications and Assurances

Click here to enter text.

□ Public Works Requirements (construction and maintenance of a public work) 820 ILCS 130/4.

Click here to enter text.

□ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, and security services, if valued at more than $200 per month or $2,000 per year or printing) 30 ILCS 500/25-60.

Click here to enter text.

□ Illinois Tollway Specific Terms and Conditions

Click here to enter text.

□ Other (describe)

Click here to enter text.

5.2. TOLLWAY SUPPLEMENTAL PROVISIONS:

□ Definitions

□ Required Federal Clauses, Certifications and Assurances

□ ARRA Requirements (American Recovery and Reinvestment Act of 2009)

□ Public Works Requirements (construction and maintenance of a public work) (820 ILCS 130/4)

□ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, and security services, if valued at more than $200 per month or $2000 per year (30 ILCS 500/25-60)

□ Prevailing Wage (all printing contracts) (30 ILCS 500/25-60)

□ BEP Subcontracting Requirements (Utilization Plan and Letter of Intent)

☒ PAYMENT OF TOLLS: The Vendor shall be required to pay the full amount of tolls, if any, incurred by it during the duration of the contract. Said tolls will not be refunded by the Illinois Tollway. Furthermore, in the event that a final determination is made by the Illinois Tollway that the Contractor has failed to pay any required tolls and associated fines, the Illinois Tollway is authorized to take steps necessary to withhold the amounts of the unpaid tolls and fines from any payment due the contractor by the Illinois Tollway and/or other Tollway of Illinois office, department, commission, board or agency.

5.3 AGENCY SUPPLEMENTAL TERMS AND CONDITIONS:

5.3.1 Order of Precedence:

With respect to any inconsistency or conflict, the following order of precedence shall prevail:

1. Sections 1-7 of this Contract
2. The Vendor's Response to the RFP including Vendor submissions subsequent to the initial proposal that were part of the negotiation process, to the extent applicable and agreed upon (included in Section 8 of this Contract)
3. The RFP, including any addendum thereto (also included in Section 8 of this Contract)

NOTE: This contract establishes the terms and conditions under which the Vendor is available to be assigned by the Tollway, on an as-needed basis as determined by the Tollway, to underwrite Tollway bonds or other debt. Any such underwriting shall be pursuant to a bond purchase agreement or other appropriate form of agreement entered into by the Vendor and the Tollway at the time the Vendor underwrites the Tollway bonds or other debt. Such bond purchase agreement or other appropriate form of agreement shall be the exclusive agreement governing any such underwriting with respect to each party's performance, duties, rights, responsibilities, obligations and liabilities.

5.3.2 Agents and Employees:

Vendor shall be responsible for the negligent acts and omissions of its agents, employees and if applicable, subcontractors in their performance of Vendor's duties under this Contract. Vendor represents that it shall utilize the services of individuals skilled in the profession for which they will be used in performing services or supplying goods hereunder. In the event that the Tollway/Buyer determines that any individual performing services or supplying goods for Vendor hereunder is not providing such skilled services or delivery of goods, it shall promptly notify the Vendor and the Vendor shall replace that individual.

5.3.3 Publicity:

Vendor shall not, in any advertisement or any other type of solicitation for business, state, indicate or otherwise imply that it is under contract to the Tollway/Buyer nor shall the Tollway/Buyer's name be used in any such advertisement or solicitation without prior written approval except as required by law.

5.3.4 Consultation:

Vendor shall keep the Tollway/Buyer fully informed as to the progress of matters covered by this Contract. Where time permits and Vendor is not otherwise prohibited from so doing, Vendor shall offer the Tollway/Buyer the opportunity to review relevant documents prior to filing with any public body or adversarial party.

5.3.5 Third Party Beneficiaries:

There are no third party beneficiaries to this Contract. This Contract is intended only to benefit the Tollway/Buyer and the Vendor.

5.3.6 Successors in Interest:

All the terms, provisions, and conditions of the Contract shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives.

5.3.7 Vendor's Termination Duties:

The Vendor, upon receipt of notice of termination or upon request of the Tollway/Buyer, shall:

5.3.7.1 Cease work under this Contract and take all necessary or appropriate steps to limit disbursements and minimize costs, and furnish a report within thirty (30) days of the date of notice of termination, describing the status of all work under the Contract, including, without limitation, results accomplished, conclusions resulting there from, any other matters the Tollway/Buyer may require;

5.3.7.2 Immediately cease using and return to the Tollway/Buyer any personal property or materials, whether tangible or intangible, provided by the Tollway/Buyer to the Vendor;

5.3.7.3 Comply with the Tollway/Buyer's instructions for the timely transfer of any active files and work product produced by the Vendor under this Contract;

5.3.7.4 Cooperate in good faith with the Tollway/Buyer, its employees, agents and contractors during the transition period between the notification of termination and the substitution of any replacement contractor;

5.3.7.5 Immediately return to the Tollway/Buyer any payments made by the Tollway/Buyer for services that were not rendered by the Vendor.

5.3.8. Inspector General:
The Vendor/Contractor hereby acknowledges that pursuant to Section 8.5 of the Toll Highway Act (605 ILCS 10/8.5) the Inspector General of The Illinois State Toll Highway Authority has the authority to conduct investigations into certain matters including but not limited to allegations of fraud, waste and abuse, and to conduct reviews. The Vendor/Contractor will fully cooperate in any OIG investigation or review. Cooperation includes providing access to all information and documentation related to the goods/services described in this Agreement, and disclosing and making available all personnel involved or connected with these goods/services or having knowledge of these goods/services. All subcontracts must inform Subcontractors of this provision and their duty to comply.

5.4 OVERTIME:

Not applicable. If overtime is contemplated and provided for in this contract, all work performed by Vendor at overtime rates shall be pre-approved by the Tollway/Buyer.

5.5 VENUE AND ILLINOIS LAW:

Any claim against the Tollway arising out of this contract must be filed exclusively with Circuit Court for the Eighteenth Judicial Circuit, DuPage County, Illinois for State claims and the U.S. District Court for the Northern District of Illinois for Federal claims.

5.5.1 Whenever "State" is used or referenced in this Contract, it shall be interpreted to mean the Illinois State Toll Highway Authority.

5.5.2 The State Prompt Payment Act (30 ILCS 40) does not apply to the Tollway. Therefore, the first two sentences of paragraph 4.1.1 are deleted.

5.5.3. The Tollway is not currently an annually appropriated agency. Therefore, to the extent paragraph 3.5 concerns the Tollway being an annually appropriated agency, it does not apply.

5.5.4. The second sentence ofparagraph 4.1.6 does not apply to the Tollway and is deemed stricken.

5.6 REPORT OF A CHANGE IN CIRCUMSTANCES:

The Vendor agrees to report to the Tollway as soon as practically possible, but no later than 21 days following any change in facts or circumstances that might impact the Vendor's ability to satisfy its legal or contractual responsibilities and obligations under this contract. Required reports include, but are not limited to, changes in the Vendor's Certification/Disclosure Forms, the Vendor's IDOT pre-qualification (if/as applicable), or any certification or licensing required for this project. Additionally, Vendor agrees to report to the Tollway within the above timeframe any arrests, indictments, convictions or other matters involving the Vendor, or any of its principals, that might occur while this contract is in effect. This reporting requirement does not apply to common offenses, including but not limited to minor traffic/vehicle offenses.

Further, the Vendor agrees to incorporate substantially similar reporting requirements into the terms of any and all subcontracts relating to work performed under this agreement. The Vendor agrees to forward or relay to the Tollway any reports received from subcontractors pursuant to this paragraph within 21 days.

Finally, the Vendor acknowledges and agrees that the failure of the Vendor to comply with this reporting requirement shall constitute a material breach of contract which may result in this contract being declared void.

Certificate of Registration

STATE BOARD OF ELECTIONS

Registration No. 15449

Morgan Stanley & Co. LLC

1585 Broadway

New York NY 10036

Information for this business last updated on:

Friday, July 15, 2016

Certificate produced on Wednesday, January 18, 2017 at 4:21 PM

Registered

STATE BOARD OF ELECTIONS

ILLINOIS

Business

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

I certify that:

The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and

I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

I am a U.S. person (including a U.S. resident alien).

- If you are an individual, enter your name and SSN as it appears on your Social Security Card.
- If you are a sole proprietor, enter the owner's name on the name line followed by the name of the business and the owner's SSN or EIN.
- If you are a single-member LLC that is disregarded as an entity separate from its owner, enter the owner's name on the name line and the D/B/A on the business name line and enter the owner's SSN or EIN.
- If the LLC is a corporation or partnership, enter the entity's business name and EIN and for corporations, attach IRS acceptance letter (CP261 or CP277).
- For all other entities, enter the name of the entity as used to apply for the entity's EIN and the EIN.

Name: Morgan Stanley Domestic Holdings Inc

Business Name: Morgan Stanley & Co. LLC DBA Morgan Stanley & Company LLC

Taxpayer Identification Number:

Social Security Number:

or

Employer Identification Number: [redacted]

Legal Status (check one):

□ Individual

□ Sole Proprietor

□ Partnership

□ Legal Services Corporation

□ Tax-exempt

□ Corporation providing or billing medical and/or health care services

☒ Corporation NOT providing or billing medical and/or health care services

□ Governmental

□ Nonresident alien

□ Estate or trust

□ Pharmacy (Non-Corp.)

□ Pharmacy/Funeral Home/Cemetery (Corp.)

□ Limited Liability Company (select applicable tax classification)

□ C = corporation

□ P = partnership

Signature of Authorized Representative: [redacted]

Date: February 3, 2017

STATE OF ILLINOIS
FORMS A

A vendor responding to a solicitation by the State of Illinois must return the information requested within this section with their bid or offer if they are not registered in the Illinois Procurement Gateway (IPG). Failure to do so may render their bid or offer non-responsive and result in disqualification.

Please read this entire Forms A and provide the requested information as applicable and per the instructions. All forms and signature areas contained in this Forms A must be completed in full and submitted along with the bid in an Invitation for Bid; and completed in full and submitted along with the technical response and price proposal, which combined will constitute the Offer, in a Request for Proposal.

Vendor Name: Morgan Stanley & Co., LLC (dba Morgan Stanley & Company LLC)	Phone: 312-706-4058
Street Address: 440 S. LaSalle Street	Email: William.Daley@morganstanley.com
City, State Zip: Chicago, IL 60601	Vendor Contact: William Daley

In compliance with the State and Federal Constitutions, the Illinois Human Rights Act, the U.S. Civil Rights Act, and Section 504 of the Federal Rehabilitation Act, the State of Illinois does not discriminate in employment, contracts, or any other activity.

The State of Illinois encourages prospective vendors to consider hiring qualified veterans and Illinois residents discharged from any Illinois adult correctional center, in appropriate circumstances.

OUTLINE

FORMS A

Complete this section if you are not using an IPG (Illinois Procurement Gateway) Registration #

Part

Business and Directory Information .... 1.

Illinois Department of Human Rights Public Contracts Number .... 2.

Authorized to Do Business in Illinois .... 3.

Standard Certifications .... 4.

State Board of Elections .... 5.

Disclosure of Business Operations in Iran .... 6.

Financial Disclosures and Conflicts of Interest .... 7.

Taxpayer Identification Number .... 8.

STATE OF ILLINOIS
BUSINESS AND DIRECTORY INFORMATION

1.1. Name of Business (official name and DBA)

Morgan Stanley & Co. LLC DBA Morgan Stanley & Company LLC

1.2. Business Headquarters (address, phone and fax)

1585 Broadway, New York, NY 10036

(212) 761-4000

(212) 507-3756

1.3. If a Division or Subsidiary of another organization provide the name and address of the parent

Morgan Stanley & Co. LLC is a subsidiary of Morgan Stanley Domestic Holdings Inc., which is a subsidiary of Morgan Stanly Capital Management LLC, which is a subsidiary of Morgan Stanley which is located at 1585 Broadway, New York, New York 10036

1.4. Billing Address

1585 Broadway

New York, NY 10036

1.5. Name of Chief Executive Officer

Matthew E. Berke, Co-CEO

Brian C. Healy, Co-CEO

1.6. Company Web Site Address

www.morganstanley.com

1.7. Type of Organization (sole proprietor, corporation, etc.--should be same as on Taxpayer ID form below)

Limited Liability Company

1.8. Length of time in business

47 Years

1.9. Annual Sales for Offeror's most recently completed fiscal year

According to Morgan Stanley's 10-K, FY 2015 revenues were $32.06 billion

1.10. Show number of full-time employees, on average, during the most recent fiscal year

According to Morgan Stanley's 10-K, there were 56,218 employees as of December 31, 2015

1.11. Is your company at least 51% owned and controlled by individuals in one of the following categories? If "Yes," please check the category that applies:

1.11.1. Minority (30 ILCS 575/2(A)(1) & (3)) □ Yes

1.11.2. Female (30 ILCS 575/2(A)(2) & (4)) □ Yes

1.11.3. Person with Disability (30 ILCS 575/2(A)(2.05) & (2.1)) □ Yes

1.11.4. Disadvantaged (49 CFR 26) □ Yes

1.11.5. Veteran (30 ILCS 500/45-57) □ Yes

STATE OF ILLINOIS

ILLINOIS DEPARTMENT OF HUMAN RIGHTS PUBLIC CONTRACT NUMBER

2.1. If Offeror employed fifteen or more full-time employees at the time of submission of their response to this solicitation or any time during the previous 365-day period leading up to submission, it must have a current IDHR Public Contract Number or have proof of having submitted a completed application for one **prior** to the solicitation opening date. 775 ILCS 5/2-101. If the Agency/University cannot confirm compliance, it will not be able to consider a Vendor's bid or offer. Please complete the appropriate sections below:

Name of Company (and DBA): Morgan Stanley & Co. LLC DBA Morgan Stanley & Company LLC.

□ (check if applicable) The number is not required as the company has not met or exceeded the number of employees that makes registration necessary under the requirements of the Human Rights Act described above.

IDHR Public Contracts Number: 13559700 Expiration Date: 2/13/2018.

2.2. If number has not yet been issued, provide the date a completed application for the number was submitted to IDHR:

2.3. Upon expiration and until their Contractor Identification Number is renewed, companies will not be eligible to be awarded contracts by the State of Illinois or other jurisdictions that require a current IDHR number as a condition of contract eligibility. 44 ILL. ADM. CODE 750.210(a).

2.4. Numbers issued by the Department of Human Rights (or its predecessor agency, the Illinois Fair Employment Practices Commission) prior to July 1, 1998 are no longer valid. This affects numbers below 89999-00-0. Valid numbers begin with 900000-00-0.

2.5. If Offeror's organization holds an expired number, it must re-register with the Department of Human Rights.

2.6. Offeror may obtain an application form by:

2.6.1. Telephone: Call the IDHR Public Contracts Unit at (312) 814-2431 between Monday and Friday, 8:30 AM - 5:00 PM, CST. (TDD (312) 263-1579).

2.6.2. Internet: You may download the form from the Department of Human Rights' website at (http://www2.illinois.gov/dhr/PublicContracts/Pages/default.aspx).

2.6.3. Mail: Write to the Department of Human Rights, Public Contracts Unit, 100 West Randolph Street, Suite 10-100, Chicago, IL 60601.

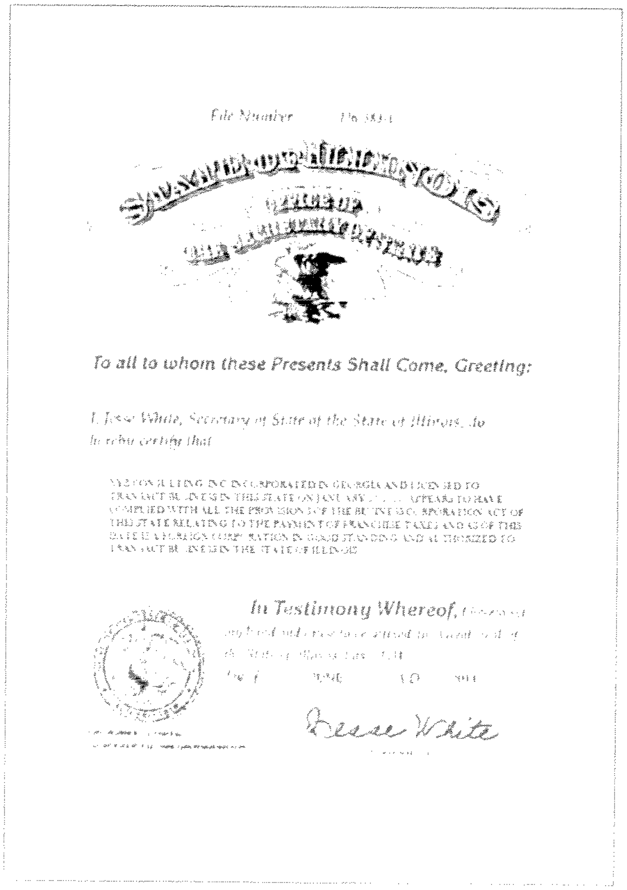
STATE OF ILLINOIS
AUTHORIZED TO TRANSACT BUSINESS OR CONDUCT AFFAIRS IN ILLINOIS

3. A person, other than an individual acting as a sole proprietor, must be a duly constituted legal entity and authorized to transact business or conduct affairs in Illinois prior to submitting an offer. 30 ILCS 500/20-43. Offerors must review and complete certification #4.32 in the Standard Certifications found in Forms A, Part 4.

   Certification #4.32 requires Vendor to check one of two boxes representing its status. The State may request evidence from a vendor that certifies it is authorized to do business in Illinois proving such authorization. Failure to produce evidence in a timely manner may be considered grounds for determining Vendor non-responsive or not responsible.

   For information on registering to transact business or conduct affairs in Illinois, please visit the Illinois Secretary of State's Department of Business Services at their website at (http://cyberdriveillinois.com/departments/business_services/home.html) or your home county clerk.

EVIDENCE OF BEING AUTHORIZED TO TRANSACT BUSINESS OR CONDUCT AFFAIRS IS THE SECRETARY OF STATE'S CERTIFICATE OF GOOD STANDING



File Number [illegible]

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

XYZ CONSULTING INC INCORPORATED IN GEORGIA AND LICENSED TO TRANSACT BUSINESS IN THIS STATE ON JANUARY [illegible], APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE BUSINESS CORPORATION ACT OF THIS STATE RELATING TO THE PAYMENT OF FRANCHISE TAXES, AND AS OF THIS DATE IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

In Testimony Whereof, [illegible]

Jesse White

File Number 0356846-6

STATE OF ILLINOIS

OFFICE OF

THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

MORGAN STANLEY & CO. LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANSACT BUSINESS IN ILLINOIS ON JUNE 01, 2011, UNDER THE ASSUMED NAME OF MORGAN STANLEY & COMPANY LLC, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A FOREIGN LIMITED LIABILITY COMPANY ADMITTED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

SEAL OF THE STATE OF ILLINOIS
AUG. 26th 1818

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 18TH *day of* JANUARY *A.D.* 2017 .

Authentication #: 1701802444 verifiable until 01/18/2018
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

STATE OF ILLINOIS
STANDARD CERTIFICATIONS

Vendor acknowledges and agrees that compliance with this subsection in its entirety for the term of the contract and any renewals is a material requirement and condition of this contract. By executing this contract Vendor certifies compliance with this subsection in its entirety, and is under a continuing obligation to remain in compliance and report any non-compliance.

This subsection, in its entirety, applies to subcontractors used on this contract. Vendor shall include these Standard Certifications in any subcontract used in the performance of the contract using the Standard Certification form provided by the State.

If this contract extends over multiple fiscal years, including the initial term and all renewals, Vendor and its subcontractors shall confirm compliance with this section in the manner and format determined by the State by the date specified by the State and in no event later than July 1 of each year that this contract remains in effect.

If the Parties determine that any certification in this section is not applicable to this contract it may be stricken without affecting the remaining subsections.

4.1. As part of each certification, Vendor acknowledges and agrees that should Vendor or its subcontractors provide false information, or fail to be or remain in compliance with the Standard Certification requirements, one or more of the following sanctions will apply:

- the contract may be void by operation of law,
- the State may void the contract, and
- the Vendor and it subcontractors may be subject to one or more of the following: suspension, debarment, denial of payment, civil fine, or criminal penalty.

Identifying a sanction or failing to identify a sanction in relation to any of the specific certifications does not waive imposition of other sanctions or preclude application of sanctions not specifically identified.

4.2. Vendor certifies it and its employees will comply with applicable provisions of the United States Civil Rights Act, Section 504 of the Federal Rehabilitation Act, the Americans with Disabilities Act, and applicable rules in performance of this contract.

4.3. Vendor, if an individual, sole proprietor, partner or an individual as member of a LLC, certifies he/she is not in default on an educational loan. 5 ILCS 385/3.

4.4. Vendor, if an individual, sole proprietor, partner or an individual as member of a LLC, certifies it he/she has not received (i) an early retirement incentive prior to 1993 under Section 14-108.3 or 16-133.3 of the Illinois Pension Code or (ii) an early retirement incentive on or after 2002 under Section 14-108.3 or 16-133.3 of the Illinois Pension Code. 30 ILCS 105/15a; 40 ILCS 5/14-108.3; 40 ILCS 5/16-133.

4.5. Vendor certifies that it is a legal entity authorized to do business in Illinois prior to submission of a bid, offer, or proposal. 30 ILCS 500/1-15.80, 20-43.

4.6. To the extent there was a current Vendor providing the services covered by this contract and the employees of that Vendor who provided those services are covered by a collective bargaining agreement, Vendor certifies (i) that it will offer to assume the collective bargaining obligations of the prior employer, including any existing collective bargaining agreement with the bargaining representative of any existing collective bargaining unit or units performing substantially similar work to the services covered by the contract subject to its bid or offer; and (ii) that it shall offer employment to all employees currently employed in any existing bargaining unit who perform substantially similar work to the work that will be performed pursuant to this contract. This does not apply to heating, air conditioning, plumbing and electrical service contracts. 30 ILCS 500/25-80.

4.7. Vendor certifies it has neither been convicted of bribing or attempting to bribe an officer or employee of the State of Illinois or any other State, nor made an admission of guilt of such conduct that is a matter of record. 30 ILCS 500/50-5.

4.8. If Vendor has been convicted of a felony, Vendor certifies at least five years have passed after the date of completion of the sentence for such felony, unless no person held responsible by a prosecutor's office for the facts upon which the conviction was based continues to have any involvement with the business. 30 ILCS 500/50-10.

4.9. If Vendor or any officer, director, partner, or other managerial agent of Vendor has been convicted of a felony under the Sarbanes-Oxley Act of 2002, or a Class 3 or Class 2 felony under the Illinois Securities Law of 1953, Vendor certifies at least five years have passed since the date of the conviction. Vendor further certifies that it is not barred from being awarded a contract and acknowledges that the State shall declare the contract void if this certification is false. 30 ILCS 500/50-10.5.

4.10. Vendor certifies it is not barred from having a contract with the State based upon violating the prohibitions related to either submitting/writing specifications or providing assistance to an employee of the State of Illinois by reviewing, drafting, directing, or preparing any invitation for bids, a request for proposal, or request of information, or similar assistance (except as part of a public request for such information). 30 ILCS 500/50-10.5(e), *amended* by Pub. Act No. 97-0895 (August 3, 2012).

4.11. Vendor certifies that it and its affiliates are not delinquent in the payment of any debt to the State (or if delinquent has entered into a deferred payment plan to pay the debt), and Vendor and its affiliates acknowledge the State may declare the contract void if this certification is false or if Vendor or an affiliate later becomes delinquent and has not entered into a deferred payment plan to pay off the debt. 30 ILCS 500/50-11, 50-60.

4.12. Vendor certifies that it and all affiliates shall collect and remit Illinois Use Tax on all sales of tangible personal property into the State of Illinois in accordance with provisions of the Illinois Use Tax Act and acknowledges that failure to comply may result in the contract being declared void. 30 ILCS 500/50-12.

4.13. Vendor certifies that it has not been found by a court or the Pollution Control Board to have committed a willful or knowing violation of the Environmental Protection Act within the last five years, and is therefore not barred from being awarded a contract. 30 ILCS 500/50-14.

4.14. Vendor certifies it has neither paid any money or valuable thing to induce any person to refrain from bidding on a State contract, nor accepted any money or other valuable thing, or acted upon the promise of same, for not bidding on a State contract. 30 ILCS 500/50-25.

4.15. Vendor certifies it is not in violation of the "Revolving Door" provisions of the Illinois Procurement Code. 30 ILCS 500/50-30.

4.16. Vendor certifies that it has not retained a person or entity to attempt to influence the outcome of a procurement decision for compensation contingent in whole or in part upon the decision or procurement. 30 ILCS 500/50-38.

4.17. Vendor certifies that if it has hired a person required to register under the Lobbyist Registration Act to assist in obtaining any State contract, that none of the lobbyist's costs, fees, compensation, reimbursements, or other remuneration were billed to the State. 30 ILCS 500\50-38.

4.18. Vendor certifies it will report to the Illinois Attorney General and the Chief Procurement Officer any suspected collusion or other anti-competitive practice among any bidders, offerors, contractors, proposers, or employees of the State. 30 ILCS 500/50-40, 50-45, 50-50.

4.19. Vendor certifies steel products used or supplied in the performance of a contract for public works shall be manufactured or produced in the United States, unless the executive head of the procuring Agency/University grants an exception. 30 ILCS 565.

4.20. Drug Free Workplace

4.20.1. If Vendor employs 25 or more employees and this contract is worth more than $5,000, Vendor certifies it will provide a drug free workplace pursuant to the Drug Free Workplace Act.

4.20.2. If Vendor is an individual and this contract is worth more than $5000, Vendor certifies it shall not engage in the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance during the performance of the contract. 30 ILCS 580.

4.21. Vendor certifies that neither Vendor nor any substantially owned affiliate is participating or shall participate in an international boycott in violation of the U.S. Export Administration Act of 1979 or the applicable regulations of the United States. Department of Commerce. 30 ILCS 582.

4.22. Vendor certifies it has not been convicted of the offense of bid rigging or bid rotating or any similar offense of any state or of the United States. 720 ILCS 5/33 E-3, E-4.

4.23. Vendor certifies it complies with the Illinois Department of Human Rights Act and rules applicable to public contracts, which include providing equal employment opportunity, refraining from unlawful discrimination, and having written sexual harassment policies. 775 ILCS 5/2-105.

4.24. Vendor certifies it does not pay dues to or reimburse or subsidize payments by its employees for any dues or fees to any "discriminatory club." 775 ILCS 25/2.

4.25. Vendor certifies that no foreign-made equipment, materials, or supplies furnished to the State under the contract have been or will be produced in whole or in part by forced labor or indentured labor under penal sanction. 30 ILCS 583.

STATE OF ILLINOIS
STANDARD CERTIFICATIONS

4.26. Vendor certifies that no foreign-made equipment, materials, or supplies furnished to the State under the contract have been produced in whole or in part by the labor of any child under the age of 12. 30 ILCS 584.

4.27. Vendor certifies that any violation of the Lead Poisoning Prevention Act, as it applies to owners of residential buildings, has been mitigated. 410 ILCS 45.

4.28. Vendor warrants and certifies that it and, to the best of its knowledge, its subcontractors have and will comply with Executive Order No. 1 (2007). The Order generally prohibits Vendors and subcontractors from hiring the then-serving Governor's family members to lobby procurement activities of the State, or any other unit of government in Illinois including local governments if that procurement may result in a contract valued at over $25,000. This prohibition also applies to hiring for that same purpose any former State employee who had procurement authority at any time during the one-year period preceding the procurement lobbying activity.

4.29. Vendor certifies that information technology, including electronic information, software, systems and equipment, developed or provided under this contract comply with the applicable requirements of the Illinois Information Technology Accessibility Act Standards as published at (www.dhs.state.il.us/iitaa) 30 ILCS 587.

4.30. Vendor certifies that it has read, understands, and is in compliance with the registration requirements of the Elections Code (10 ILCS 5/9-35) and the restrictions on making political contributions and related requirements of the Illinois Procurement Code. 30 ILCS 500/20-160 and 50-37. Vendor will not make a political contribution that will violate these requirements.

In accordance with section 20-160 of the Illinois Procurement Code, Vendor certifies as applicable:

□ Vendor is not required to register as a business entity with the State Board of Elections.

or

☒ Vendor has registered with the State Board of Elections. As a registered business entity, Vendor acknowledges a continuing duty to update the registration as required by the Act.

4.31. Vendor certifies that if it is awarded a contract through the use of the preference required by the Procurement of Domestic Products Act, then it shall provide products pursuant to the contract or a subcontract that are manufactured in the United States. 30 ILCS 517.

4.32. A person (other than an individual acting as a sole proprietor) must be a duly constituted legal entity and authorized to transact business or conduct affairs in Illinois prior to submitting a bid or offer. 30 ILCS 500/20-43. If you do not meet these criteria, then your bid or offer will be disqualified.

Vendor must make one of the following two certifications by checking the appropriate box.

A. □ Vendor certifies it is an individual acting as a sole proprietorand is therefore not subject to the requirements of section 20-43 of the Procurement Code.

STATE OF ILLINOIS
STANDARD CERTIFICATIONS

B. ☒ Vendor certifies that it is a legal entity, and was authorized to transact business or conduct affairs in Illinois as of the date for submitting this bid or offer. The State may require Vendor to provide evidence of compliance before award.

4.33. Vendor certifies that, for the duration of this contract it will:

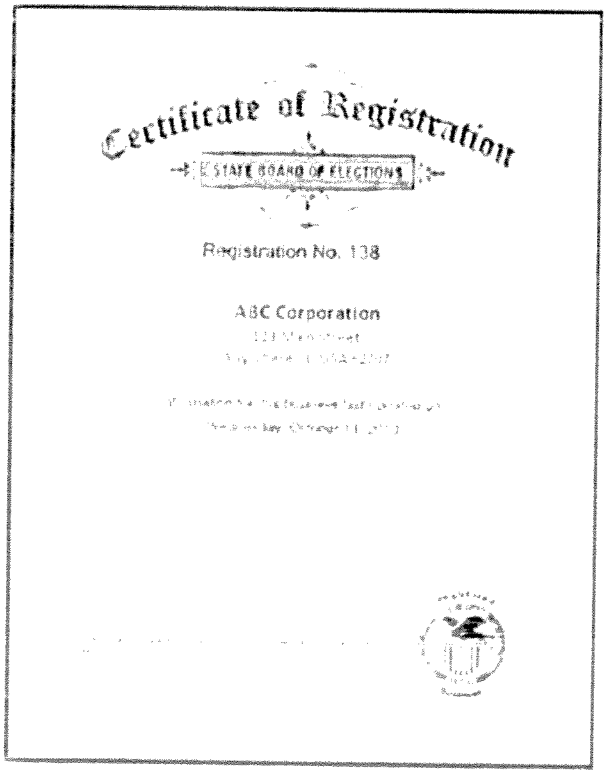
- post its employment vacancies in Illinois and border states on the Department of Employment Security's IllinoisJobLink.com website or its successor system; or
- will provide an online link to these employment vacancies so that this link is accessible through the IllinoisJobLink.com website it successor system; or
- is exempt from 20 ILCS 1005/1005-47 because the contract is for construction-related services as that term is defined in section 1-15.20 of the Procurement Code; or the contract is for construction and vendor is a party to a contract with a bona fide labor organization and performs construction. (20 ILCS 1005/1005-47).

STATE OF ILLINOIS
STATE BOARD OF ELECTIONS

5. Section 50-37 of the Illinois Procurement Code prohibits political contributions of certain vendors, bidders and offerors. Additionally, section 9-35 of the Illinois Election Code governs provisions relating to reporting and making contributions to state officeholders, declared candidates for State offices and covered political organizations that promote the candidacy of an officeholder or declared candidate for office. The State may declare any resultant contract void if these Acts are violated.

   Generally, if a vendor, bidder, or offeror is an entity doing business for profit (i.e. sole proprietorship, partnership, corporation, limited liability company or partnership, or otherwise) and has contracts with State agencies that annually total more than $50,000 or whose aggregate pending bids or proposals and current State contracts that total more than $50,000, the vendor, bidder, or offeror is prohibited from making political contributions and must register with the State Board of Elections. 30 ILCS 500/20-160.

EVIDENCE OF REGISTRATION WITH THE STATE BOARD OF ELECTIONS
IS THE CERTIFICATE OF REGISTRATION



Certificate of Registration

STATE BOARD OF ELECTIONS

Registration No. 138

ABC Corporation

[illegible]

[illegible]

[illegible]

[illegible]

STATE OF ILLINOIS
DISCLOSURE OF BUSINESS OPERATIONS WITH IRAN

6. In accordance with 30 ILCS 500/50-36, each bid, offer, or proposal submitted for a State contract, other than a small purchase defined in Section 20-20 of the Illinois Procurement Code, will include a disclosure of whether or not the bidder, offeror, or proposing entity, or any of its corporate parents or subsidiaries, within the 24 months before submission of the bid, offer, or proposal had business operations that involved contracts with or provision of supplies or services to the Government of Iran, companies in which the Government of Iran has any direct or indirect equity share, consortiums or projects commissioned by the Government of Iran and:

   - more than 10% of the company's revenues produced in or assets located in Iran involve oil-related activities or mineral-extraction activities; less than 75% of the company's revenues produced in or assets located in Iran involve contracts with or provision of oil-related or mineral – extraction products or services to the Government of Iran or a project or consortium created exclusively by that Government; and the company has failed to take substantial action; or

   - the company has, on or after August 5, 1996, made an investment of $20 million or more, or any combination of investments of at least $10 million each that in the aggregate equals or exceeds $20 million in any 12- month period that directly or significantly contributes to the enhancement of Iran's ability to develop petroleum resources of Iran.

A bid or offer that does not include this disclosure may be given a period after the bid or offer is submitted to cure non-disclosure. A chief procurement officer may consider the disclosure when evaluating the bid or offer or awarding the contract.

☒ There are no business operations that must be disclosed to comply with the above cited law.

□ The following business operations are disclosed to comply with the above cited law:

STATE OF ILLINOIS
FINANCIAL DISCLOSURES AND CONFLICTS OF INTEREST

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

☒ Vendor

□ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Bond Underwriting Services
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP #16-0155
Vendor Name	Morgan Stanley & Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley and Co. LLC DBA Morgan Stanley & Company LLC
Disclosing Entity's Parent Entity	Morgan Stanley Domestic Holdings Inc.
Subcontractor	None
Instrument of Ownership or Beneficial Interest	Limited Liability Company Membership Agreement (Series LLC, Low-Profit Limited Liability Company) □ If you selected Other, please describe:

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

□ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. □ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☒ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☒ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Morgan Stanley Domestic Holdings Inc.	1585 Broadway, New York, NY 10036	100%	

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Morgan Stanley Domestic Holdings Inc.	1585 Broadway, New York, NY 10036	100%	

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☒ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☒ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z	
Name	Address

STEP 3

DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

☒ Yes □ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity
William Daley, Managing Director	1585 Broadway New York, NY 10036	Morgan Stanley Employee
Stephen Fortino, Executive Director	1585 Broadway New York, NY 10036	Morgan Stanley Employee

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: The above employees are paid a regular salary and bonuses but do not receive any additional compensation for their Lobbyist duties.

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No

2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No

3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No

4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No

5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No

6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No

2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered "Yes" in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

STEP 7

POTENTIAL CONFLICTS OF INTEREST RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley & Co. LLC dba Morgan Stanley & Company LLC

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No

5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarter ended September 30, 2016 describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html. *In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and MSDH *are also involved, from time to time, in investigations and proceedings by governmental and/or regulatory agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target* *or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

☒ Yes □ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #
IHDA IFA State of IL IL Tollway	Rotating Pool	Current	TBD	2013-HAD-FL-01-0 # 2014-AUG-006 Underwriter #22032069 112-0045 Bond Underwriting

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley & Co. LLC dba Morgan Stanley & Company LLC

FINANCIAL DISCLOSURES AND CONFLICTS OF INTEREST

Signature: [redacted]

Date: 2/3/2017

Printed Name: William Daley

Title: Managing Director

Phone Number: 312-706-4058

Email Address: William.Daley@morganstanley.com

STATE OF ILLINOIS

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

□ Vendor

☒ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Underwriter RFQ
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP#16-0155
Vendor Name	Morgan Stanley and Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley Domestic Holdings Inc.
Disclosing Entity's Parent Entity	Morgan Stanley Capital Management LLC
Subcontractor	None.
Instrument of Ownership or Beneficial Interest	Other ☒ If you selected Other, please describe: Membership Interest

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

□ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. □ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☒ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☒ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2

DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Morgan Stanley Capital Management LLC	1585 Broadway, New York, NY 10036	100%	

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Morgan Stanley Capital Management LLC	1585 Broadway, New York, NY 10036	100%	

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☒ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☒ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z

Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

□ Yes ☒ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: N/A

STEP 4
PROHIBITED CONFLICTS OF INTEREST
(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No
2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No
3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No
4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No
5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No
6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS
(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No
2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6

EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered "Yes" in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley Domestic Holdings

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No

5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarter ended September 30, 2016 describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html. *In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and MSDH *are also involved, from time to time, in investigations and proceedings by governmental and/or regulatory* *agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

☐ Yes ☒ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley Domestic Holdings Inc

Signature: [redacted] Date: 2/3/2017

Printed Name: Tushar Mehta

Title: Vice President

Phone Number: (212) 762-8276

Email Address: Tushar.Mehta@morganstanley.com

STATE OF ILLINOIS

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

□ Vendor

☒ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Underwriter RFQ
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP#16-0155
Vendor Name	Morgan Stanley and Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley Capital Management LLC.
Disclosing Entity's Parent Entity	Morgan Stanley
Subcontractor	None.
Instrument of Ownership or Beneficial Interest	Other ☒ If you selected Other, please describe: Stock

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

□ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. □ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☒ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☒ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Morgan Stanley	1585 Broadway, New York, NY 10036	100%	

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Morgan Stanley	1585 Broadway, New York, NY 10036	100%	

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☒ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☒ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z	
Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT
(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

□ Yes ☒ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: N/A

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No

2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No

3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No

4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No

5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No

6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No

2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered "Yes" in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley Capital Management LLC

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No

5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarter ended September 30, 2016 describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at https://www.morganstanley.com/about/ir/sec_filings.html. In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and

MSDH *are also involved, from time to time, in investigations and proceedings by governmental and/or regulatory agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

□ Yes ☒ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley Capital Management

Signature: [redacted] ______________________ Date: 2/3/2017

Printed Name: Tushar Mehta

Title: Vice President

Phone Number: (212) 762-8276

Email Address: Tushar.Mehta@morganstanley.com

STATE OF ILLINOIS
FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

□ Vendor

☒ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Bond Underwriting Services
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP #16-0155
Vendor Name	Morgan Stanley and Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley
Disclosing Entity's Parent Entity	N/A
Subcontractor	None.
Instrument of Ownership or Beneficial Interest	Corporate Stock (C-Corporation, S-Corporation, Professional Corporation, Service Corporation) ☒ If you selected Other, please describe:

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

☒ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. ☒ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3. Morgan Stanley's most recent 10-K can be found at: http://www.morganstanley.com/about-us-ir/pdf/MS_10K_December_31_2015_Final_w.bookmarks.pdf

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

□ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

□ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

□ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z	
Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

□ Yes ☒ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: N/A

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No

2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No

3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No

4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No

5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No

6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No

2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered "Yes" in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No

5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarters ended March 31, 2016, June 30, 2016, and September 30, 2016, describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html. *In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and MSDH *are also involved, from time to time, in investigations and proceedings by governmental* *and/or regulatory agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

□ Yes ☒ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley

[redacted]

Signature: ______________________ Date: January 23, 2017

[redacted]

Printed Name: Jacob E. Tyler

Title: Assistant Secretary

Phone Number: 212 762 7325

Email Address: Jacob.Tyler@morganstanley.com

Illinois State Toll Highway Authority

Response to Request for Proposal – Bond Underwriting Services

February 3, 2017

Submitted By: **Morgan Stanley & Co. LLC**

One Financial Place
440 South LaSalle St., 37th Floor
Chicago, IL 60605

Illinois Tollway

Morgan Stanley

MSRB G-23 and Municipal Advisor Disclaimer

(a) Morgan Stanley & Co. LLC (“Morgan Stanley”) is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act to you with respect to the information and material contained in this communication; (b) Morgan Stanley is acting for its own interests; (c) you should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material; and (d) Morgan Stanley seeks to serve as an underwriter on a future transaction and not as a financial advisor or municipal advisor. The information provided is for discussion purposes only in anticipation of serving as underwriter. The primary role of an underwriter is to purchase securities with a view to distribution in an arm’s-length commercial transaction with the issuer. The underwriter has financial and other interests that differ from those of the issuer and obligated persons.

Any non-historical interest rates used herein are hypothetical and take into consideration conditions in today’s market and other factual information such as the issuer’s or obligated person’s credit rating, geographic location and market sector. As such, these rates should not be viewed as rates that Morgan Stanley guarantees to achieve for the transaction. Any information about interest rates and terms for SLGs is based on current publically available information and treasury or agency rates for open-market escrows are based on current market interest rates for these types of credits and should not be seen as costs or rates that Morgan Stanley guarantees to achieve for the transaction.

Section 1

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Section 2

Transmittal Letter

Morgan Stanley & Co. LLC
440 South LaSalle St.
One Financial Place
Chicago, IL 60605

February 3, 2017

Illinois Tollway
Procurement
2700 Ogden Ave.
Downers Grove, Illinois 60515

To Whom It May Concern:

On behalf of Morgan Stanley, I am pleased to submit our response to the Request for Proposals for Bond Underwriting Services for the Illinois State Toll Highway Authority (the "Tollway"). I believe Morgan Stanley is highly qualified to serve as a senior manager in the Tollway's underwriting pool. We acknowledge receipt of Addendum #1. Morgan Stanley is not requesting confidential treatment of information.

I hope you find the enclosed information responsive to your request. Should you require additional information or have any questions about the enclosed, please do not hesitate to contact me for any additional information you may need.

Sincerely,

[redacted]

William R. Daley
Managing Director

440 South LaSalle St.
Chicago, IL 60605
Tel: (312) 706-4058
Fax: (312) 777-2319
William.Daley@morganstanley.com

Section 3

Executive Summary

Tab 3 Executive Summary

Morgan Stanley is pleased to submit our response to the Request for Proposals for Bond Underwriting Services for the Illinois State Toll Highway Authority (the "Tollway"). Morgan Stanley has a long history of service to the Tollway, having served most recently as senior manager on the Tollway's $300 million 2016 Series B and $400 million 2014 Series C transactions. Over the years, Morgan Stanley has dedicated significant resources to ensure all the Tollway's policy and financing goals are achieved. We strive to provide the Tollway with innovative products and structures to achieve the lowest cost of capital. We believe Morgan Stanley is best qualified to continue serving the Tollway as senior manager for the proposed underwriting pool. Below, we provide a summary of some of the highlights of our proposal.

Required Information

Role of Firm. Morgan Stanley & Co. LLC (the "Firm" or "Morgan Stanley") proposes for qualification to the Tollway's Senior Pool. Morgan Stanley understands that qualification in the Senior Pool would be expected to qualify Morgan Stanley to serve, on an as/if-needed basis at the Tollway's discretion, as Senior Managing Underwriter or Co-Senior Managing Underwriter.

Scope of Services. The Firm stands ready to serve in the following capacities, as outlined in section D.2.(1): book runner, leader of the underwriting syndicate, pricing coordinator, lead marketer of the bond issue, structuring the financing (in consultation with the Tollway's financial/municipal advisor(s), if any, and Tollway management and staff), review all documentation related to the bond issuance, compliance with disclosure standards, investor liaison, preparation of rating materials and presentations, and all other services conventional for a senior managing underwriter. In addition to servicing as book runner, Morgan Stanley is prepared to serve as co-senior and co-manager. Outside of specific transactional duties, Morgan Stanley intends to monitor the Tollway's debt portfolio for refunding opportunities, provide updates to the fixed income and municipal markets, and to regularly meet with the Tollway to discuss various strategic opportunities.

Good Standing. Morgan Stanley is registered and in good standing as a broker dealer with the Municipal Securities Rulemaking Board.

Standard Terms and Conditions. The Firm agrees with the Standard Terms and Conditions outlined in Section 3 F, except as noted in Section 3 G.

Overview of Qualifications

As Senior Manager to the Tollway, Morgan Stanley will continue to provide extensive municipal financing experience and expertise, as well as strong national and local distribution capabilities. Specifically, ***Morgan Stanley has served as the senior manager on over $12.5 billion of negotiated transportation revenue financings since January 1, 2014, including $6.7 billion of negotiated toll road, highway, and street financings.*** In addition to significant relevant financing experience, including numerous transactions for the Tollway, Morgan Stanley also maintains a significant physical presence in the State of Illinois, with over 1,500 employees. Primary coverage for the Tollway is conducted out of the Firm's Chicago regional headquarters and both Mr. Daley and Mr. Fortino work out of the Chicago office and have significant experience working with the Tollway, having primary coverage responsibilities for many years as well as serving as senior or joint senior manager on recent financings.

Morgan Stanley has an unmatched distribution system combining coverage of all levels of institutional investors with one of the largest retail distribution networks in the United States. The Firm's institutional fixed income professionals have access to more than 9,000 investors who manage approximately 75% of all assets in the United States and 50% worldwide and cover a comprehensive range of potential institutional purchasers of the Tollway's offerings. ***Additionally, after the Morgan Stanley Wealth Management acquisition, the Firm has exclusive access to a distribution network of 15,909 financial advisors in 609 offices across the country serving nearly 5.9 million clients with total assets of over $1.9 trillion.*** In addition to a leading distribution network, the Firm maintains one of the largest and most liquid capital positions on Wall Street. Subsequently, Morgan Stanley is firmly positioned, if necessary, to underwrite all or a portion of the Tollway's bonds in even the most turbulent of markets.

Morgan Stanley appreciates the opportunity to respond to the Tollway's Request for Proposals to serve as senior managing underwriter. As demonstrated throughout our response, Morgan Stanley is uniquely qualified to assist the Tollway as it implements its transformative capital improvement program and we look forward to continuing our service to the Tollway as one of its senior managers.

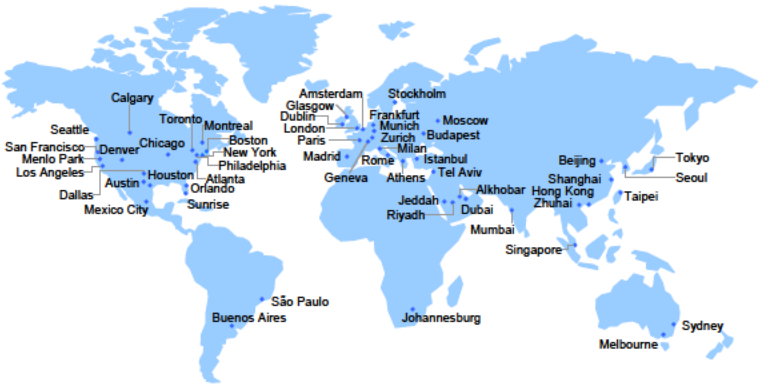
Section 4

Experience/Qualifications

Tab 4(a) Experience/Qualifications of the Firm

Morgan Stanley

Worldwide Institutional Securities Presence



Firm Description and Structure. Morgan Stanley & Co. LLC was incorporated in the State of Delaware in 1969 and is a wholly-owned subsidiary of Morgan Stanley, a publicly traded corporation listed on the NYSE (symbol: MS). The Firm provides a high caliber of investment banking services to a large and diversified group of governmental and corporate clients. The Firm has leading market positions in our primary businesses – securities and investment management. The Firm's businesses include securities underwriting and distribution, financial advisory services, including advice on mergers and acquisitions, restructurings, real estate, project finance, and commodities as well as market-making activities in equity and fixed income securities and related products and derivatives. Morgan Stanley also provides prime brokerage and investment advisory services, credit and other lending products, cash management, and retirement plan services. The Firm ranks among the five largest firms in underwriting fixed income securities globally, employs 55,000 people in 40 countries throughout 765 offices, and is headquartered in New York City. We believe that Morgan Stanley has unmatched origination and distribution capabilities, which reach all levels of retail and institutional investors. Morgan Stanley's latest financial statements, including SEC filings, earnings releases, and annual reports may be found at the following website: http://www.morganstanley.com/about/ir/index.html.

Municipal Securities Department. In contrast to several other major firms, Morgan Stanley aligns its municipal investment bankers, underwriting, salesforce, traders, short-term remarketing, and capital markets groups in one cohesive organizational group under the umbrella of the Municipal Securities Department ("MSD"). The mission of our Municipal Securities Department since its inception in 1982 has reflected the Firm's overall strategy: to provide the highest caliber of investment banking and transaction execution services to meet our municipal clients' financial needs in all markets. Accordingly, Morgan Stanley consistently ranks among the top senior underwriters of municipal debt and has ranked #4 every year since 2009 in negotiated financings. In 2016, Morgan Stanley underwrote over $33.8 billion of bonds across 388 transactions.

Public Finance Office Locations

Public Finance Headquarters 1585 Broadway, 16th Floor New York, NY 10036 37 Employees	**Underwriting, Sales & Trading** 1585 Broadway, 2nd Floor New York, NY 10036 45 Employees	**Chicago, Illinois** 440 South LaSalle Street, 37th Floor Chicago, Illinois 60605 4 Employees
Los Angeles, California 1999 Avenue of the Stars, Suite 2400 Los Angeles, California 90067 3 Employees	**Denver, Colorado** 1400 16th Street, Suite 4045 Denver, Colorado, 80202 2 Employees	**Washington, DC** 1775 I Street, NW Washington, DC 20006 2 Employees
Ft. Lauderdale, Florida 2400 East Commercial Blvd, Suite 1200 Ft. Lauderdale, Florida 33308 1 Employee	**Sunrise, Florida** 1560 Sawgrass Corp Pkwy, Suite 466 Sunrise, Florida 33323 1 Employee	**Austin, Texas** 106 E 6th Street Austin, TX 78701 1 Employee
San Antonio, Texas 755 E Mulberry Ave, Suite 300 San Antonio, TX 78212 1 Employee	**San Francisco, California** 555 California Street, Suite 2200 San Francisco, California 94104 12 Employees	**Philadelphia, Pennsylvania** Two Town Place Bryn Mawr, PA 19010 1 Employee
Albany, New York 80 State Street, 12th Floor Albany, NY 12207 1 Employee	**Nashville, Tennessee** 3102 West End Avenue Nashville, TN 37203 1 Employee	

Structurally, the Municipal Securities Department is part of Morgan Stanley's Institutional Securities business unit and contains six banking groups: National Infrastructure (includes: Transportation, Water and Wastewater/Pooled Loan/SRF), Housing, Public Power, Corporate-Backed, Health Care, and Higher Education. Morgan Stanley's public finance bankers are primarily located at the New York City headquarters; however, there are 12 additional offices across the country, as shown in the table above, including an office in the City of Chicago. The Firm currently employs 112 professionals in the Municipal Securities Department: 67 in Public Finance banking and 45 in sales, trading, derivatives, and underwriting.

Minority, Female, Veteran or Disabled Firms. Morgan Stanley is not a minority, women-owned, veteran, or disabled business; however, the Firm is committed to efforts which promote diversity through our hiring and in our interactions with our clients and vendors/subcontractors. We recognize that equal access and equal opportunity, along with diversity in our business processes, is an important part of doing business. As such, our commitment to diversity includes providing these firms with an opportunity to bid on and participate in direct contracting with the Firm. Morgan Stanley has a long-standing history of working with minority, woman-owned, veteran or disabled, and regional firms in structuring, financing and selling municipal bonds. We have developed syndicate practices to optimize the ability of minority and women-owned syndicate members to distribute bonds and participate in the underwriting process. Furthermore, we have often engaged women and minority firms as underwriters' counsel and have advocated the use of women and minority bond counsel to issuers throughout the country. In order to grow minority, women-owned woman-owned, veteran or disabled underwriting firm capacity and expertise in municipal finance, Morgan Stanley encourages meaningful exposure throughout the transaction and ensuring these firms have a strong level of involvement. Morgan Stanley has an excellent record in assuring meaningful participation by local, minority-owned, women-owned, veteran, and disabled firms on financings, and our reputation for fair and equitable inclusion is unsurpassed in the industry.

Morgan Stanley Wealth Management. In June 2013, Morgan Stanley attained full ownership of Morgan Stanley Wealth Management (MSWM) which gives exclusive access to a distribution network of 15,909 financial advisors in 609 offices across the country serving nearly 5.9 million clients with total assets of over $1.9 trillion. Morgan Stanley's full ownership of the MSWM network has strengthened the Firm's balance sheet, increased our retail capabilities, and provided our municipal clients with a stable source of liquidity. To better leverage the scale provided by MSWM, Morgan Stanley's Municipal Securities Department merged its institutional and retail municipal sales and trading desks into a single organization. This provides broader inventory and greater purchasing power through a fully integrated trading operation, and allows issuers to benefit from an integrated institutional distribution network combined with the largest U.S. network of financial advisors. ***Clients of MSWM hold nearly $3.6 billion of bonds from issuers in the State of Illinois, including over $63.6 million of the Tollway's bonds.***

Illinois and Chicago Presence. Morgan Stanley maintains a significant presence in the State of Illinois, with over 1,500 employees. The Firm's Midwestern regional headquarters are located in the City of Chicago at 440 South LaSalle Street, Chicago, IL 60605. Currently, 177 individuals are employed at this office, including 4 public finance professionals. Primary coverage for the Tollway is conducted out of the Firm's Chicago regional headquarters. ***Morgan Stanley, primarily through our retail brokerage, Morgan Stanley Wealth Management, also maintains a presence at 20 other locations in the State with 746 financial advisors that serve over 343,000 client accounts with total assets of $109.5 billion, including $5.8 billion of directly-held municipal securities.***

Morgan Stanley Wealth Management Illinois Presence

- Morgan Stanley Wealth Management is one of the top retail firms in the State of Illinois by number of brokers as well as assets under management
- The Firm's 746 financial advisors in the State manage over 343,000 accounts with more than $109 5 billion in retail client assets, including over $5 8 billion in directly held municipal assets
- MSWM currently has 20 retail offices in the State of Illinois:
  - Barrington
  - Bourbonnais
  - Champaign
  - Chicago
  - Chicago- First National
  - Chicago- Mercantile
  - Chicago- PWM
  - Decatur
  - Deerfield
  - Geneva
  - Lake Forest
  - Naperville- East
  - Naperville- West
  - Northfield
  - Oak Brook
  - Orland Park
  - Peoria
  - Rockford
  - Shiloh
  - Springfield

State of Illinois and City of Chicago Community Citizenship. Morgan Stanley offices and individuals have contributed to or are members of numerous charitable organizations that serve communities across the City of Chicago and throughout the State of Illinois. ***Last year, Morgan Stanley made direct corporate and foundation contributions of over $1.2 million to charitable organizations operating in the State of Illinois and $59.9 million in total corporate and employee contributions nationally. Over $814,000 of these corporate and foundation contributions were to Chicago-based organizations.*** Some of these organizations include the Chicago Children's Museum, Chicago Symphony Orchestra, La Rabida Children's Hospital, Chicago Cares Inc., Mercy Home for Boys & Girls, Junior Achievement of Chicago, Art Institute of Chicago, March of Dimes, Greater Chicago Food Depository, among others. In addition to financial contributions, ***Morgan Stanley employees volunteered 12,000 hours in the State of Illinois, including 6,500 hours in the City of Chicago.*** Morgan Stanley views the participation of its employees in charitable and volunteer activities as vital and plans to continue its steadfast support of these worthwhile endeavors within the State of Illinois and nationwide. These charitable organizations include the Boys and Girls Club of Chicago, Christopher House, Family Focus, the Anixter Center, Heart of Illinois United Way, Bright Hope, The Posse Foundation, Ingalls Hospital, Lincoln Park Community Shelter and Chicago Cares, among many others.

Leading Senior Manager of Transportation Revenue Bonds. Morgan Stanley has developed its transportation practice to provide investment banking services to all areas of public sector transportation. Our expertise includes (i) toll roads and bridges, (ii) state highway funds, (iii) leveraging federal funds, (iv) sales/excise tax, (v) public transit, (vi) public private partnerships (vii) aviation and (viii) seaports. The ever-changing nature of transportation finance requires a firm to have in-depth knowledge of all possible opportunities. ***Morgan Stanley has served as the senior manager on over $12.5 billion of negotiated transportation revenue financings since January 1, 2014.*** In addition to the toll road clients discussed below, we have executed senior managed transactions for numerous transportation revenue issuers nationwide, ***including the City of Chicago O'Hare International Airport, New York Metropolitan Transportation Authority, Dallas Area Rapid Transit Authority, Alamo Regional Mobility Authority Kentucky Turnpike Authority, Metropolitan Washington Airports Authority, Utah Transit Authority, Kansas Department of Transportation, Oregon Department of Transportation, Dormitory Authority of the State of New York, State of Hawaii, State of Massachusetts, and the State of Mississippi.*** We have provided a list of these transactions in Tab 9.

Morgan Stanley Toll Road Financing Experience. Our specific toll road financing experience includes leading the quantitative analysis for some of the largest toll road issuers in the country. Morgan Stanley has executed a variety of structures for toll road issuers including current interest bonds, SIFMA index floating rate bonds, LIBOR floating rate tender notes, capital appreciation bonds, and convertible capital appreciation bonds, among others. ***Morgan Stanley has served as senior manager on nearly $6.7 billion of negotiated toll road, highway, and street financings since January 1, 2014.*** We have executed senior managed transactions for numerous toll road issuers, including the ***Illinois State Toll Highway Authority, Pennsylvania Turnpike, North Texas Tollway, Texas***

Transportation Commission, Miami-Dade County Expressway Authority, and the E-470 Public Highway Authority, among others. Through these experiences, we have developed a deep understanding of the particular challenges and opportunities that are unique to toll road transactions and have developed credit and structuring alternatives that are well-received by rating analysts and investors. ***Since 2014, Morgan Stanley ranks as the #2 underwriter in negotiated toll road, highway, and street financings with a 19% market share.*** The matrix below illustrates how we have used our skill set to assist our toll road clients in developing and implementing financing plans that synthesize various areas of transportation finance.

Morgan Stanley Contribution to Toll Revenue Bond Issuers

Contribution	North Texas Tollway	TxDOT	Penn Turnpike	MDX	Illinois State Toll Highway	E-470 Highway
Evaluating Revenue Bond Structures	●	●	●	●	●	●
Risk Allocations	●					
Pricing/Structuring Products	●	●	●	●	●	●
Multi-Party Business Arrangements	●		●			
Public-Public Partnership	●					
Structuring Reserve/Capital Projects	●	●	●	●	●	●
Performing Complex Proforma and Modeling Analysis	●	●	●	●	●	●
Knowledge of Transportation Finance	●	●	●	●	●	●
Experience w/Legislative Programs and Advocacy	●	●	●			●
Federal/State Transportation Funding	●	●	●		●	
Assessment of Market Conditions	●	●	●	●	●	●
Marketing of BBB-rated Bonds						●
Experience with Taxable Bonds	●		●		●	
Experience with Deferred Interest Product	●		●			●
Rating Agency Experience	●	●	●	●	●	●

Additional Relevant Client Experience. Morgan Stanley is a leading underwriter of municipal securities nationally and consistently ranks among the top senior managing underwriters each year. ***As mentioned previously, the Firm ranked #4 in negotiated and competitive underwriting in 2016.*** In addition to the toll road clients listed above, Morgan Stanley has also served as senior manager to many other issuers across the country, covering all segments of the municipal market. The table below provides an overview of the services we have provided to a number of other Illinois or large revenue bond issuers over the past several years. This experience includes financings for issuers implementing large, complex capital programs and debt restructurings including the State of Illinois and City of Chicago, among others. Morgan Stanley recently served as senior manager on two financings for the City of Chicago, including the $1.1 billion General Obligation Series 2015A and Taxable Series 2015B financing and the $1.1 billion O'Hare International Airport General Airport Senior Lien Revenue Bonds, Series 2016DEFG transaction. Morgan Stanley is a leading underwriter to issuers within the State of Illinois and to other large revenue bond issuers nationally.

Morgan Stanley Contribution to Other Relevant Issuers

Contribution	State of Illinois	MetPier	City of Chicago	Met Water	Citizens Energy Group
Complex Revenue Bond Structures		●	●		●
Multiple Lien Structures					●
Acquisition Financing Structure					●
Complex Bond Defeasance/Refunding	●	●	●	●	●
Pricing/Structuring Products	●	●	●	●	●
Structuring Reserve/Capital Projects		●	●	●	●
Performing Complex Proforma and Modeling Analysis		●	●		●
Experience w/Legislative/Regulatory Programs	●	●			●
Assessment of Market Conditions	●	●	●	●	●
Experience with Taxable Bonds	●	●	●	●	
Experience with Deferred Interest Products		●			
Investor Roadshow/Outreach	●	●	●	●	●
Rating Agency Experience	●	●	●	●	●

Tab 4(b) Experience/Qualifications of Personnel

In order to provide the Tollway with the highest level of service, Morgan Stanley has assigned a financing team that possesses extensive experience with the Tollway, transportation financings generally and financings for issuers in the State of Illinois. Below, we provide full details of the Morgan Stanley team.

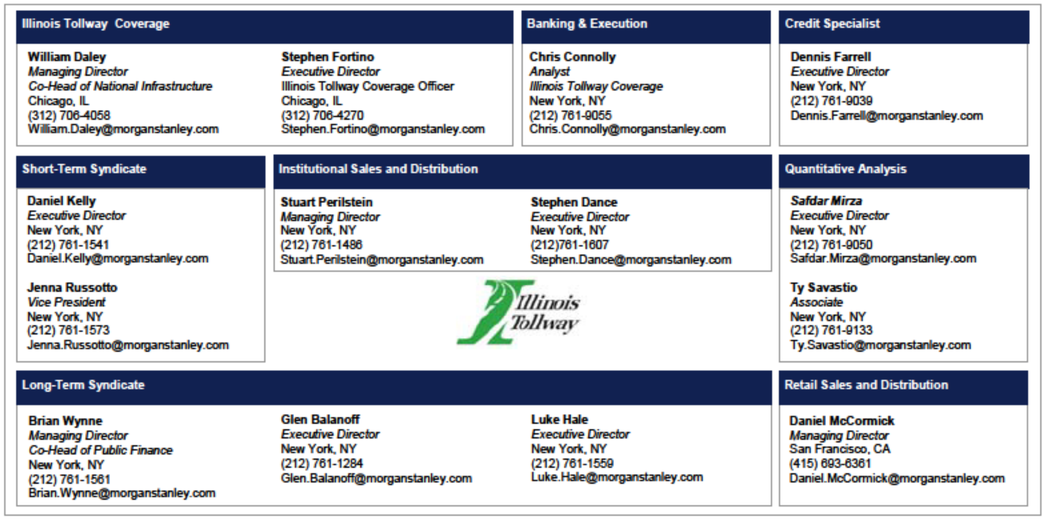
William Daley, Managing Director and Co-Head of National Infrastructure Group. Mr. Daley joined Morgan Stanley in January 2006 and currently serves as the Co-Head of Public Finance's National Infrastructure Group and a Managing Director in the Chicago office. Mr. Daley will be directly responsible for overseeing this engagement. He is responsible for working with a variety of municipal clients in Illinois, Ohio, Pennsylvania, New York, Massachusetts, Iowa and Indiana. His recent Illinois financing experience includes the City of Chicago's $1.1 billion O'Hare International Airport General Airport Senior Lien Revenue Bonds, Series 2016DEFG financing and $1.1 billion General Obligation Series 2015A and Taxable Series 2015B financing. Mr. Daley also served as the lead Morgan Stanley banker on the Illinois Tollway's $300 million 2016 Series B and $400 million 2014 Series C transactions. Previously, Mr. Daley served as Vice President for Government and Industry Relations for Fannie Mae where he was responsible for developing and maintaining relationships with members of the U.S. Senate and U.S. House of Representatives. Mr. Daley received his MBA from Northwestern University's Kellogg School of Management and a B.A. in Marketing from Providence College.

Investment Banking

William Daley (11 years experience, all with Morgan Stanley), Managing Director, and **Stephen Fortino** (14 years experience, 10 years with Morgan Stanley), Executive Director, will serve as the Tollway's lead bankers and day-to-day contacts. Both have significant experience working with the Tollway, having primary coverage responsibilities for many years as well as serving as senior or joint senior manager on recent financings. **Chris Connolly** (2 years experience with Morgan Stanley), Analyst, will assist in the banking and execution of any transaction. **Safdar Mirza**, (22 years experience, 16 years with Morgan Stanley), Executive Director and Head of Municipal Capital Markets, and **Ty Savastio**, (4 years experience, 2 years with Morgan Stanley) Associate, will provide all quantitative and capital markets support.

Underwriting, Marketing and Sales

[redacted]



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References. Please refer to Tab 9 for a listing of three references from transactions within the past twelve months.

Planned Changes. To the best of our knowledge, there are no planned changes or initiatives that, in the next twelve months, could significantly change any of the information provided in this proposal.

Section 5

Financial Capacity

Morgan Stanley

Strong Capital Base and Commitment of Capital. Morgan Stanley maintains one of the largest and most liquid capital positions on Wall Street. ***At the end of FY 2016Q3 (Sept. 30), the Firm reported over $226 billion of total capital, including $77.1 billion in equity capital, $10.2 billion in net capital, and $8.1 billion in excess net capital.*** Morgan Stanley's capital strength is further illustrated by our Tier 1 Capital (highest quality) Ratio of 18.8%, which was the highest of any public securities firm, as of the end of FY 2016Q3. Please see the table and chart below.

Morgan Stanley Capital Figures

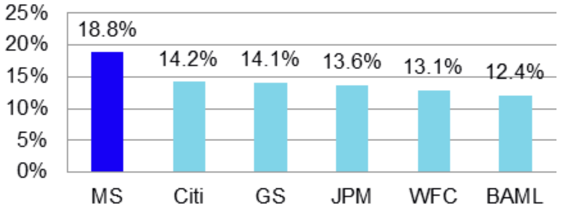
FY 2014 through 2016 (Sept. 30, 2016)

($MM)	2016Q3	2015	2014
Total Capital[1]	226,299	209,068	203,174
Equity Capital	77,149	78,052	75,768
Net Capital[2]	10,170	10,254	6,593
Excess Net Capital[2]	8,093	8,458	4,928

[1] Excludes current portion of LT borrowings; includes junior subordinated debt issued to capital trusts
[2] Morgan Stanley & Co. LLC only

Industry-Leading Financial Strength

Tier 1 Capital Ratio as of the Quarter Ended Sept. 30, 2016



Willingness to Commit Capital. Morgan Stanley realizes that the amount of a Firm's capital is not meaningful unless the Firm makes an absolute commitment to put its capital at risk for its clients. Morgan Stanley does not anticipate placing any limitations on the amount of excess net capital available to underwrite offerings for municipal clients. Allocations are not made to individual business units; rather, adequate capital is provided in response to business needs as they arise. Regulatory restrictions specify that the capital position required for the underwriting of a municipal debt transaction with two investment-grade ratings must be equal to 7% of the offering. ***Accordingly, the Firm's excess net capital of approximately $8.1 billion allows us to incur an underwriting liability of over $115.6 billion.*** Morgan Stanley's underwriting capacity is not based on "arranged" or "borrowed" capital. Morgan Stanley is firmly positioned, if necessary, to underwrite all or a portion of the Tollway's bonds in even the most turbulent of markets.

Select Recent Morgan Stanley Underwriting Commitments

Past Twelve Months

Pricing Date	Issuer Name	Par ($000s)	Underwritten ($000s)	Underwritten (%)
11/22/2016	The Metropolitan District of Hartford	108,315	108,315	100%
6/22/2016	Metropolitan Transportation Authority	673,990	55,080	8%
9/29/2016	Commonwealth of Massachusetts	125,410	50,935	41%
3/31/2016	Pennsylvania Turnpike Commission	389,155	45,685	12%

Morgan Stanley has consistently demonstrated its willingness to commit capital in underwriting our clients' new issues and in actively supporting those securities in the secondary market. ***For example, in 2016 alone, Morgan Stanley underwrote over $769 million of bonds for our municipal clients on a negotiated basis.*** In addition, as part of the recent O'Hare Airport financing, Morgan Stanley provided a back-stop to purchase a significant portion of the longest maturities at 5 basis points over the pricing launch levels prior to the order period, allowing for certainty in an otherwise turbulent market. Recent negotiated underwriting commitments are listed in the table above and a case study for a recent transaction highlighting our willingness to commit capital is provided below.

The Metropolitan District, Hartford County, Connecticut. On October 31, 2016, Morgan Stanley was mandated by the Metropolitan District, Hartford County ("MDC" or "the District") subsequent to a response for proposal submitted on the same day. Market volatility after the November 8th presidential election resulted in the 30-year MMD AAA rate index increasing by over 80 basis points and intraday movements as wide as 22 bps during the period between the elections (November 8th) and the pricing (November 22nd). Given the credit issues associated with the City of Hartford, MDC management was in the process of proposing a budget and reserve funding plan to cover missed or delayed Hartford ad valorem tax assessment payments when Morgan Stanley was brought on board. To enact the contingency and to facilitate marketing, MDC accelerated the meeting for its Board to review the 2017 Budget and Reserve Plan to November 22nd. Morgan Stanley recommended and the District Board also approved procuring bond insurance from Assured Guaranty. To increase MDC's available transaction options and execution certainty, particularly given (1) ongoing post-election market volatility, (2) the Thanksgiving market holiday, and (3) the near-term liquidity need to repay maturing BANs due December 1, 2016, ***Morgan Stanley offered to underwrite all of the bonds in a bought deal. In one of the most volatile markets of several years, Morgan Stanley leveraged its strong balance sheet and assumed 100% market rate risk and credit event risk for the entire offering (post-sale).*** Indicative of the ongoing market volatility, from sale until closing, underlying 30-year MMD rates increased by 29 bps.

Expansion of Competitive Underwriting Footprint. Morgan Stanley is committed to growing its market share in the competitive space. In 2015, Morgan Stanley ranked #4 in competitive underwriting on a national level, having underwritten $8.2 billion of bonds with a 9.4% market share, versus having ranked #6 and #13 with a 4.3% and 1.8% market share in 2013 and 2012, respectively.

Support of the Tollway's Bonds in the Secondary Market. Morgan Stanley understands that active secondary market support fosters investor participation, which improves pricing for the primary market bond offerings, as buyers can be certain of liquidity in their bonds. ***Since January 1, 2014, the Firm has executed an aggregate 795 institutional trades (buy/sell) totaling approximately $512.9 million and 1,346 retail trades (buy/sell) totaling $91.3 million in the secondary market for the Tollway.*** This level of secondary market trading volume provides our desk with insights of the positions that large holders of the Tollway's securities have taken and how those positions might change in the future. Importantly, our active trading also informs us of the investors who hold smaller positions in the Tollway's paper, which might provide an opportunity to expand the buyer base for future offerings.

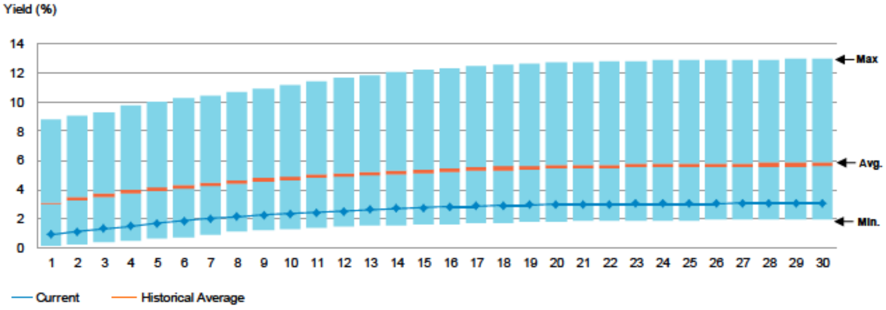
Section 6

Technical Approach

New Money Strategies

Historical and Current MMD in Context

Since Inception (1982 to Present)



MMD Interest Rate Analysis

Since Inception (1982 to Present)

Year	1	2	3	4	5	6	7	8	9	10	15	20	25	30
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2037	2042	2047
Current	0.90	1.09	1.29	1.46	1.66	1.84	2.00	2.12	2.24	2.33	2.72	2.96	3.01	3.06
Average	3.02	3.36	3.60	3.81	4.00	4.18	4.35	4.50	4.64	4.75	5.25	5.51	5.64	5.67
Minimum	0.11	0.25	0.36	0.44	0.62	0.74	0.89	1.08	1.20	1.29	1.57	1.80	1.88	1.93
Maximum	8.75	9.00	9.25	9.75	10.00	10.20	10.40	10.60	10.90	11.10	12.15	12.65	12.80	12.90
Spread Analysis														
Current - Average	**-2.12**	**-2.27**	**-2.31**	**-2.35**	**-2.34**	**-2.34**	**-2.35**	**-2.38**	**-2.40**	**-2.42**	**-2.53**	**-2.55**	**-2.63**	**-2.61**
Current - Minimum	**0.79**	**0.84**	**0.93**	**1.02**	**1.04**	**1.10**	**1.11**	**1.04**	**1.04**	**1.04**	**1.15**	**1.16**	**1.13**	**1.13**

Market Driven Plan of Finance. One of the most important elements in obtaining the best pricing is to develop a plan of finance that takes advantage of the current low interest rate environment and positive market conditions for fixed-income borrowers. Municipal bond rates remain low from a historical perspective, as shown in the adjacent chart, but have seen significant volatility over the past several months following the 2016 Presidential Election. Demand has remained strong, especially for low and mid-rated credits, as investors are actively seeking out opportunities to earn higher yield. Municipal bond funds experienced 8 consecutive weeks of outflows following the election, but have stabilized in recent weeks. The shape of the yield curve and very low level of interest rates indicates that issuers with ongoing capital borrowing requirements should have a preference for long-term fixed rate bonds and could consider amounts larger than planned, with acknowledgement of the spread between investment of proceeds and cost of borrowing. Below, we offer suggestions as to how the Tollway can take advantage of current market conditions to enhance its plan of finance for the Move Illinois Capital Program.

Variable Rate Debt Portfolio

Series	Par ($MM)	Product	Insurer	Mode	LOC Provider	LOC Expiration	Swap CP	Swap Rate
2007A-1	350.0	VRDB	No	Weekly	Citi, Mizuho	1/31/2017, 3/18/2016	GS, Citi	3.972%
2007A-2	350.0	VRDB	No	Weekly	RBC, BMO, NTC, BTM	3/17/2018, 3/18/2018 (BMO)	BofA, WF	3.972%
2008A-1	383.1	VRDB	AGM	Weekly	JPM, BofA	2/3/2017	BNY, DB	3.774%
2008A-2	95.8	VRDB	AGM	Weekly	JPM	2/3/2017	BofA	3.774%
Total	**1,178.9**							

Issue Traditional Fixed Rate Bonds for the Upcoming Financings. Current market conditions indicate that the Tollway should continue to issue fixed rate bonds. As mentioned above, although interest rates have increased since the election in November 2016, MMD rates remain relatively low from a historical perspective. ***Given current market conditions, our recommendation would be for the Tollway to issue its initial $300 million of the 2017 new money bonds as a fixed rate financing.*** This fixed rate approach will allow the Tollway to capture low rates while insulating itself from future volatility in interest rates, sovereign credit risks, bank credit risks, political risk, and global economic concerns. As we have discussed with the Tollway over the past several years, an alternative to consider would be to seek authority to issue 30-year final maturity debt as opposed to its current 25-year structure. This will allow the Tollway to further take advantage of low long-term interest rates and provide additional debt capacity. Furthermore, as the Tollway already has significant variable rate debt and interest rate swap exposure, it may be prudent to continue to issue fixed rate bonds so as not to increase the Tollway's dependence on liquidity providers and bank counterparties. The table above summarizes the Tollway's current swap and variable rate exposure.

Assuming a fixed rate transaction, it will be important to have a flexible financing schedule due to recent volatility in the municipal market. The transactions which have recently had the greatest success are those that have been able to adapt and move quickly to take advantage of market conditions. Avoiding weeks with large dollar volume of issuance will likely result in better execution. As senior manager, Morgan Stanley would work with the Tollway to monitor market conditions and market supply to help the Tollway best position itself for aggressive pricing.

Proactive Rating Agency Strategy. The Tollway's credit position remains strong and is well-positioned to continue to finance the remainder of its Move Illinois Capital Program. The Tollway has been very successful in creating a transparent dialogue with the rating agencies and clearly articulating its borrowing needs under the $12 billion Move Illinois Capital Program. Continuing to maintain this positive relationship going forward is important as the Tollway is in the middle of a large and complex capital plan that projects additional new money bond issuance of $1.6 billion from 2017 – 2021. As the Tollway has successfully done over the past several years, the increase in debt levels as well as the importance of the capital plan and its underlying drivers will need to be carefully communicated to the rating agencies to demonstrate that the Tollway's management team is capable of implementing this large program. It will also need to continue to highlight that the approved toll increases will be sufficient to finance the anticipated capital program. The Tollway currently has a 1.3x additional bonds test (ABT) and toll covenant on the Senior lien. As senior manager, Morgan Stanley would use Tollway projections on revenues post the rate increases and create a finance plan which balances timing of bond issues, interest rate risk, negative arbitrage in the project fund (based on expected project spend timeline) and ability to structure the resulting debt service within the existing bond covenants to minimize rating impact of the bond financings and lower interest rate costs.

As senior manager, we would also explore credit structures that may be able to generate incremental bonding capacity for the Tollway. For example, certain issuers have been able to generate additional bonding capacity and financing flexibility on a junior lien basis. Utilizing the junior lien would allow the Tollway to incorporate TIFIA financing into its capital structure should the federal government expand the current program in future reauthorizations. A junior lien would have a higher credit spread due to the rating downgrade, but will also benefit from relaxed credit metric requirements. The Tollway may also wish to consider a series by series debt service reserve fund on the Junior Lien which provides the flexibility to finance a reserve fund only if market conditions require. We would work within the current constraints of the Master Indenture and provide an analysis as to where the Tollway could generate maximum bonding capacity and flexibility.

As senior manager to the Tollway, Morgan Stanley would help the Tollway and its financial advisors manage a dialogue with the rating agencies, with the goal of preserving the Aa3 / AA- / AA- (M/S/F) ratings. A well-structured presentation that illustrates the ability to maintain the Tollway's greater than 2x times coverage factor should result in maintenance of current ratings even with the significant borrowing program.

Credit Strengths

	Moody's	S&P	Fitch
Large Integrated Toll Road System	✓	✓	✓
Essential for Chicago Transportation	✓	✓	✓
Strong Debt Service Coverage	✓	✓	✓
Experienced Management Team	✓		✓
Diverse User Base	✓		
Strong Liquidity	✓	✓	✓
Demonstrated Rate-Making Flexibility	✓		✓

Credit Concerns

	Moody's	S&P	Fitch
Commercial Traffic Revenue Concentration	✓		
Reduced Traffic Levels	✓		✓
Large Capital Program	✓	✓	✓
Exposure to Annually Increasing Pensions	✓		

Highlight Strong Market Position. The Tollway is an essential road network for travel in the Chicago and Northern Illinois metropolitan area. Since 1974, toll transactions have grown in nearly every year with a 5-year compound annual growth rate (CAGR) of 1.5%. We recommend focusing on the size and strength of the Tollway and the stability of toll revenues historically. Furthermore, we recommend highlighting demographic trends in the Tollway's service area that underpin traffic & revenue studies, which in turn support the Tollway's current and projected debt service coverage ratios. Additionally, emphasizing the proven willingness to implement significant toll increases when necessary is another credit positive. Moody's also touts the Tollway's experienced management team and processes for electronic toll collection and enforcement. Overall, the large service area with a stable long-term history of toll revenues, solid debt service coverage levels, and strong economic/demographic base are three credit strengths that cannot be over emphasized.

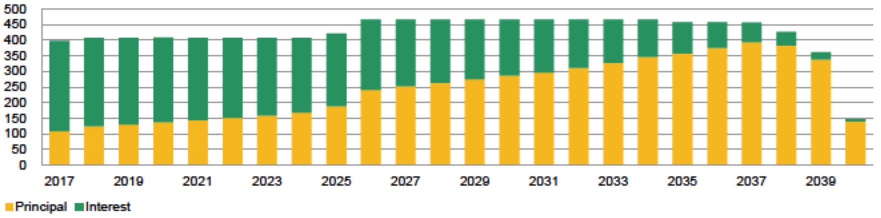
Demonstrate Capital Plan Affordability. All three agencies cite the large Move Illinois Capital Program as the Tollway's most significant credit issue. Emphasis on the affordability of the Move Illinois Capital Program and well-managed expected toll increases, in combination with the stable service area should convince the rating agencies of the long-term regional and Tollway benefit of the capital program. There is concern that if traffic levels were to decline, the ability to maintain debt service coverage ratios could be impacted. Additionally, traffic levels over the past several years have performed well, despite the rate hikes. While the 40% commercial rate increase happened in January 2015, commercial traffic increased 2.8% in FY 2015. Moody's has also included the exposure to annually increasing contributions for state pension funding costs and possible pressure due to state's weak credit profile as a credit challenge. These concerns are mitigated by the essential role of the Tollway for Chicago-area travel and the stable long-term toll revenues generated by the road system.

Refunding Recommendations

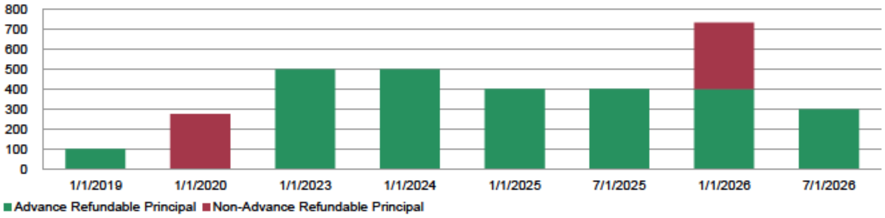
Morgan Stanley diligently monitors the Tollway's outstanding debt for potential economic refunding opportunities or opportunities to unwind portions of its existing synthetic fixed rate debt portfolio to provide an economic benefit to the Tollway or reduce variable rate/swap exposure. The current historically low interest rate environment has provided an opportunity for many issuers to lock-in economic refunding savings on both current and advance refundings. However, the current low interest rate environment and MMD/SIFMA relationship would make terminating swaps relatively expensive from an all-in cost perspective, as described later. Current opportunities are discussed below.

Overview of Outstanding Debt. The Tollway's debt service profile, shown in the adjacent graphic, is approximately level at $408 million per year through FY 2024 before rising to $466 million through FY 2034 and declining steadily thereafter. The current final maturity on the Tollway's bonds occurs in FY 2040. Maximum Annual Debt Service (MADS) currently occurs in FY 2034 at $465.8 million. As the Tollway continues to issue new money bonds over the next several years to fund the Move Illinois Capital Program, remaining cognizant of the effect on MADS and the overall shape of the debt service profile are important considerations.

Illinois Tollway Debt Service
As of January 2017
($MM)



Call Date Concentration for Fixed Rate Bonds
As of January 2017
($MM)



The adjacent chart details the Tollway's callable par by call date for its fixed rate bonds. The Series 2007A and 2008A Bonds are weekly Variable Rate Demand Bonds and can be redeemed at par on any business day (but are currently swapped to fixed). As seen in the nearby chart, the Tollway has a number of call dates within the next ten years with candidates that can be advance refunded on a tax-exempt. In the more immediate future, there are two refunding opportunities for the Tollway to monitor: the 2009 Series A Bonds and the 2010 Series A-1 Bonds. The 2009 Series A Bonds were issued as Build America Bonds (BABs), $100 million of which carry an upcoming call date of January 1, 2019. Given that proceeds from the 2009 Series A financing were used for capital projects, the callable 2024 term bond can be advance refunded on a tax-exempt basis. The 2010 Series A-1 Bonds were issued to currently refund the 2008 Series A-2 Bonds, which advance refunded the 2006 Series A-1 Bonds. Given that federal tax law prevents more than one advance refunding for a particular lineage of bonds, the 2010 Series A-1 Bonds are not eligible for advance refunding on a tax-exempt basis. As discussed below, three main options exist for the Tollway: wait until October 3, 2019 to execute a current refunding, execute a forward refunding, or execute a taxable advance refunding prior to the call date. Beyond five years, the 2013 Series A, 2014 Series B, 2014 Series C, 2015 Series A, 2015 Series B, and 2016 Series B all have significant callable par amounts and are advance refundable on a tax-exempt basis.

Savings Targets
Base Sliding Scale - Years From Call to Maturity

0 - 1 Year	0.25%
1 -2 Years	1.00%
2 -3 Years	2.00%
3 Years +	3.00%

Sliding Scale Savings Target. To account for the savings potential of maturities of varying length, the Tollway may want to consider a sliding scale savings target, under which the percentage savings target on a maturity-by-maturity basis is adjusted based on the number of years from the call date to maturity. The value of a bond maturing ten years after the call date is inherently higher than the value of a bond maturing one year after the call date and, therefore, any savings thresholds should consider these call option values. The table above provides a sample sliding scale based on the call option value of various maturities. As the Tollway considers its refunding opportunities, both in the near and long term, a sliding scale may provide a framework for candidate selection.

2009 Series A Crossover Refunding. Given that the Build America Bond Program was first instituted in April 2009 and that most BAB financings utilized a make whole call, there have been a limited number of BAB refundings to date. However, for those transactions that were structured with an optional par call, like the Tollway's 2024 term bond, given the current interest rate environment and the time until the call date, there can be opportunities to refund these BABs to generate savings.

The Tollway could consider a tax-exempt "advance refunding" of its callable 2009 Series A Toll Highway Senior Priority Revenue Bonds, which were issued with a 10 year par call. The current legal opinions and market refunding dynamics with respect to BABs makes it unlikely that these bonds can be advance refunded with a legal and economic defeasance escrow while still preserving the Federal BAB subsidy. Therefore, such a structure would be a variant of what we normally think of as an advance refunding; we evaluate this alternative to control for two prominent issues concerning an advance refunding of outstanding BABs:

a) ***Escrow sizing at the gross coupon.*** Recall BABs were initially issued at a higher, gross coupon, after which then the Tollway receives a BABs subsidy. What investors receive (gross coupon) is different than what the Tollway pays on a net basis (gross coupon, net of BABs subsidy). In order to fully defease BABs, the Tollway would have to fund an escrow that ignores the subsidy since bond holders must be guaranteed their receipt of the gross interest due until the call date (BABs subsidy is subject to change, as we know with sequestration several years ago). This makes a true advance refunding more expensive, as the escrow size would be larger due to the gross interest constraints noted herein.

b) ***Escrows should logically be sized at the gross coupon because once bonds are defeased, the BABs subsidy could be eliminated.*** This further supports why an escrow funded at the gross BABs coupon is expected. If BABs are fully defeased, there would be concern that the federal government would no longer pay the subsidy associated with the now-defeased BABs since the Bonds would now be pre-refunded bonds, and no longer supported by the Tollway's credit.

To resolve the issues noted above, the general market approach has been to propose a "cross-over" refunding. Proceeds of new bonds would be for the purpose of calling the outstanding BABs at the future call date. However, the "escrow" (which would normally fund the gross interest due on the BABs) would fund the interest due on the new refunding bonds (akin to capitalized interest, for example). At the call date the bonds would "cross-over" and the outstanding BABs are redeemed/called by the new refunding bonds. This structure would be far more efficient and more conservative to execute than a traditional advance refunding. With the current cut to its BAB subsidy due to sequestration, the Tollway currently receives a 32.585% net subsidy. One additional consideration with respect to a cross-over refunding is that both the refunded and refunding bonds are legally outstanding until the BABs are called, which can potentially have an impact on the Tollway's financial metrics. However, given the small size of the callable BABs relative to the Tollway's overall operations, this impact should be manageable. Additionally, the rating agencies have generally gotten comfortable with this structure. Below, we present a maturity-by-maturity refunding analysis for the 2009 Series A BABs, analyzing potential crossover refunding savings under four subsidy scenarios: full 35% subsidy, current 6.90% cut to the BABs subsidy, double the current subsidy reduction, and full elimination of the subsidy. The varying subsidy assumptions illustrate the wide range of possibilities that exist. Given the Tollway's upcoming new money needs, current savings levels of the crossover refunding, and interest rate volatility, we would recommend the Tollway monitor its refunding opportunities closer to pricing.

2009 Series A BABs Crossover Refunding Analysis
Market Conditions as of January 23, 2017

						BASE CASE FULL 35% SUBSIDY		SCENARIO 1 CURRENT SEQUESTRATION (6.9% REDUCTION IN SUBSIDY)			SCENARIO 2 DOUBLE SEQUESTRATION (13.8% REDUCTION IN SUBSIDY)			SCENARIO 3 FULL SEQUESTRATION (SUBSIDY ELIMINATED)		
Series	Maturity	Stated Coupon	Effective Coupon[1]	Refunded Par	Call Date	Savings %	Escrow Efficiency (%)	Effective Coupon[1]	Savings %	Escrow Efficiency (%)	Effective Coupon[1]	Savings %	Escrow Efficiency (%)	Effective Coupon	Savings %	Escrow Efficiency (%)
2009A	1/1/2020	5.293%	3.440%	$18,460,000	1/1/2019	0.59%	45.44%	3.568%	0.71%	50.06%	3.696%	0.83%	53.94%	5.293%	2.34%	76.43%
2009A	1/1/2021	5.293%	3.440%	$15,105,000	1/1/2019	1.62%	59.78%	3.568%	1.86%	63.01%	3.696%	2.10%	65.75%	5.293%	5.10%	82.06%
2009A	1/1/2022	5.293%	3.440%	$16,975,000	1/1/2019	2.06%	57.35%	3.568%	2.41%	61.16%	3.696%	2.77%	64.33%	5.293%	7.20%	82.18%
2009A	1/1/2023	5.293%	3.440%	$13,830,000	1/1/2019	2.10%	52.12%	3.568%	2.56%	57.04%	3.696%	3.03%	61.03%	5.293%	8.84%	81.78%
2009A	1/1/2024	5.293%	3.440%	$13,690,000	1/1/2019	1.83%	44.41%	3.568%	2.40%	51.12%	3.696%	2.97%	56.38%	5.293%	10.09%	81.18%

(1) Effective coupons are net of subsidy

Non-Advance Refundable 2010 Series A-1 Bonds. As discussed above, a portion of the 2010 Series A-1 Bonds cannot be advance refunded on a tax-exempt basis until October 3, 2019, which is 90 days before their January 1, 2020 call date. Should the Tollway wish to refund the 2010 Series A-1 bonds before October 3, 2019, it has two main options: a taxable advance refunding and a forward refunding. Of course, the Tollway can always wait until October 3, 2019 to currently refund the 2010 Series A-1 Bonds. To assist the Tollway in evaluating its alternatives related to non-advance refundable bonds, Morgan Stanley has developed a comprehensive model that compares the results of a theoretical advance refunding in the current market to a taxable advance refunding and a forward delivery tax-exempt refunding. Morgan Stanley's Refunding Alternatives Model provides an overview of savings under both a taxable and forward delivery refunding for the 2010 Series A-1 Bonds and is shown on the following page. While the theoretical advance refunding is not actionable, we include it in our model because it provides a good basis of comparison for the other alternatives (i.e. the consideration to do a forward refunding or a taxable refunding are stronger when these alternatives provide savings closer to the theoretical advance refunding). The model indicates that both options provide limited savings in the current market. The Tollway should continue to monitor the refunding alternatives for its 2010 Series A-1 as the call date gets closer to evaluate the potential economic benefits.

Refunding Alternatives - Rates as of 01/23/2017 - Settlement 04/01/2017

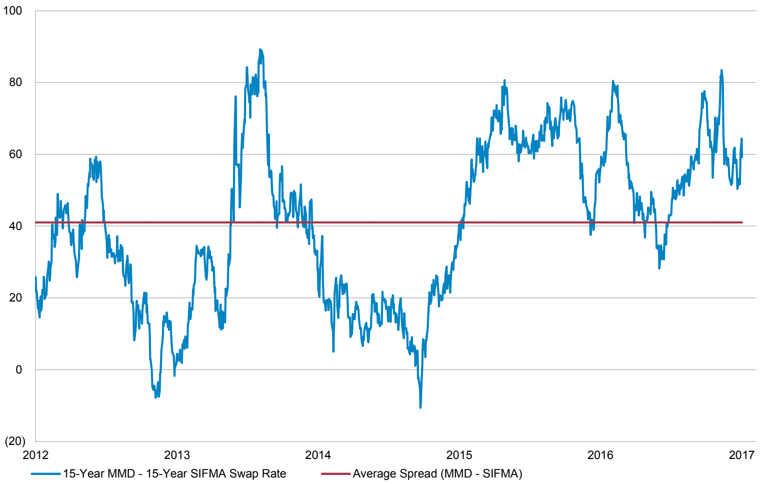
Candidate						Theoretical Advance Refunding				Taxable Ref.		Forward Refunding			
				Call	Call		Pricing	Escrow		Pricing			Pricing	Forward	
Series	Maturity	Coupon	Principal	Date	Price	Coupon	Yield	Yield	Savings	Yield	Savings	Delivery	Yield	Prem.	Savings
2010A-1	1/1/2020	4.125	1,620,000	1/1/2020	100.000	5.000	1.428	1.370	-.87	1.895	-2.23	10/3/2019	3.232	1.804	-1.41
2010A-1	1/1/2021	4.000	1,700,000	1/1/2020	100.000	5.000	1.655	1.370	.73	2.268	-1.65	10/3/2019	3.459	1.804	-.96
2010A-1	1/1/2022	4.000	1,740,000	1/1/2020	100.000	5.000	1.898	1.370	1.76	2.548	-1.38	10/3/2019	3.702	1.804	-.96
2010A-1	1/1/2023	4.125	1,825,000	1/1/2020	100.000	5.000	2.133	1.370	2.65	2.798	-1.18	10/3/2019	3.937	1.804	-1.05
2010A-1	1/1/2024	4.250	1,905,000	1/1/2020	100.000	5.000	2.348	1.370	3.40	3.010	-1.00	10/3/2019	4.152	1.804	-1.24
2010A-1	1/1/2025	5.000	41,880,000	1/1/2020	100.000	5.000	2.520	1.370	6.92	3.195	1.75	10/3/2019	4.324	1.804	1.08
2010A-1	1/1/2026	5.000	22,500,000	1/1/2020	100.000	5.000	2.665	1.370	7.68	3.315	2.15	10/3/2019	4.469	1.804	.82
2010A-1	1/1/2026	5.250	18,600,000	1/1/2020	100.000	5.000	2.665	1.370	8.94	3.315	3.36	10/3/2019	4.469	1.804	1.98
2010A-1	1/1/2027	5.000	27,585,000	1/1/2020	100.000	5.000	2.790	1.370	8.32	3.415	2.50	10/3/2019	4.594	1.804	.47
2010A-1	1/1/2027	4.500	16,665,000	1/1/2020	100.000	5.000	2.790	1.370	5.43	3.415	-.26	10/3/2019	4.594	1.804	-2.14
2010A-1	1/1/2028	5.000	29,295,000	1/1/2020	100.000	5.000	2.903	1.370	8.09	3.515	2.64	10/3/2019	4.707	1.804	.03
2010A-1	1/1/2029	5.000	15,000,000	1/1/2020	100.000	5.000	3.005	1.370	7.15	3.615	2.61	10/3/2019	4.809	1.804	-.48
2010A-1	1/1/2029	5.250	18,160,000	1/1/2020	100.000	5.000	3.005	1.370	8.92	3.615	4.31	10/3/2019	4.809	1.804	1.10
2010A-1	1/1/2030	5.250	37,045,000	1/1/2020	100.000	5.000	3.098	1.370	8.21	3.715	4.24	10/3/2019	4.902	1.804	.67
2010A-1	1/1/2031	5.000	41,040,000	1/1/2020	100.000	5.000	3.180	1.370	5.52	3.815	2.03	10/3/2019	4.984	1.804	-1.63

Variable Rate Bonds and Interest Rate Swap Considerations. As described earlier, the Tollway has nearly $1.2 billion of variable rate debt, all of which are synthetically fixed rate via interest rate swap agreements. Given that the Tollway does not have a Swap Advisor nor a Safe Harbor letter, we are limited in our ability to discuss the specific existing swaps and potential refinancing alternatives. Nonetheless, as we have discussed periodically with the Tollway over the past several years, there could be market environments that allow the Tollway to opportunistically unwind a portion of its existing synthetic fixed rate swaps with minimal cost and issue fixed rate refunding bonds to reduce costs, variable rate exposure and counterparty risk. The decision as to whether to utilize additional swaps, maintain the current swap portfolio or consider unwinding a portion of the outstanding swaps is complex, with both financial and policy implications. Developing a framework to help analyze and evaluate these alternatives will be important. Within this framework there are several factors to consider:

1) Internal policies – what level of variable rate debt and swap exposure is management and the Board comfortable with? Are there policy initiatives to modify the current debt profile?
2) Risk appetite – swaps and the underlying variable rate debt are subject to certain risks that traditional fixed rate bonds are not, including swap and bank counterparty risk, mark-to-market risk, termination risk, refinancing risk and remarketing/bank liquidity risk (in the case of VRDBs), among others.
3) Market opportunities – where are current swap rates and how do these rates compare to fixed rate bonds? How does this relationship compare to historical levels? The answer to these questions will help inform whether the current market presents a relatively attractive time to consider entering into additional swaps or unwinding existing swaps.

To date, the Tollway has successfully utilized variable rate debt and swaps to create a synthetic fixed component to its debt profile. Accordingly, while the Tollway is generally not exposed to interest rate risk associated with these bonds due to the synthetically fixed nature, it is exposed to other risks such as bank counterparty risk that need to be considered when evaluating whether to terminate existing swaps and issue fixed rate refunding bonds or maintain its existing debt profile.

While the decision to utilize swaps is generally made based on the financial benefits they provide as compared to traditional fixed rate alternatives, debt and risk policies generally inform these decisions as well. Overall levels of variable rate debt and swap exposure need to be consistent with any established debt/risk guidelines. When making any decisions as to potentially adding additional swap exposure or terminating existing swaps, these decisions need to first be evaluated in the context of these guidelines to make sure they are consistent with the Tollway's appetite for risk. These nonfinancial policies need to be an integral part of the framework for evaluating swap alternatives.



Historical Spread Between 15-Year MMD and SIFMA
January 2012 to Present

From a financial perspective, developing a market-based framework to evaluate the relative value of swaps versus traditional fixed rate bonds will be an effective tool in determining market opportunities to unwind existing swaps and/or potentially add additional swaps. What ultimately determines the attractiveness of each opportunity is the relationship between the Tollway's bond borrowing cost (MMD) and the respective swap index (SIFMA). Evaluating this relationship and how it compares to historical levels, averages, etc. can inform the Tollway on what opportunities make sense in various interest rate environments. The graph to the right provides a historical view of the spread between 15-year MMD and 15-year SIFMA swap rates as well the average spread between these indices. When these values are higher, new synthetic fixed swaps become more attractive and the opportunity to unwind an existing synthetic fixed swap with a fixed rate refunding becomes less attractive. Alternatively, when the spread is lower, fixed rates bonds are more attractive and potential opportunities exist to refinance synthetic fixed structures economically with fixed rate bonds. The relationship between these two rates is what will ultimately drive the attractiveness of each opportunity as equivalent changes in both rates will result in approximately the same all-in borrowing cost (inclusive of the annualized cost of the swap termination). For example, when rates decrease, the bonding cost will be lower, however the swap termination value will be higher. When there is a favorable divergence in MMD and SIFMA rates (i.e. when the spread between MMD and SIFMA is lower) is when the Tollway would realize the most attractive opportunity to unwind a portion of its swaps and issue fixed rate bonds. Utilizing this relative value metric to evaluate potential opportunities to unwind swaps will be a critical component of the Tollway's framework. In the current market, the spread between 15-year MMD and SIFMA (approximate final maturity of the Tollway's outstanding swaps) is above the average spread so unwinding swaps and issuing fixed rate refunding bonds is currently less attractive.

Recent Financings

Pennsylvania Turnpike Commission. On March 30, 2016, Morgan Stanley served as Senior Manager for the Pennsylvania Turnpike's Subordinate Revenue Bonds, Series A of 2016. The bond offering consisted of $203.7 million Turnpike Sub-Series A-1 of 2016 (new money) Bonds and $185.455 million Turnpike Sub-Series A-2 of 2016 (refunding) Bonds. The Sub-Series 2016A-1 Bonds were issued to make payments to PennDOT, fund mass transit and various capital projects. As a result of an aggressive marketing period, which included an electronic investor roadshow, and retail and institutional outreach, the Commission achieved some of its tightest credit spreads for their Subordinate Lien Bonds. The Sub-Series 2016A-1 Bonds used a mix of 3%, 3.25%, and 5% coupon bonds to diversify the issue and meet retail and institutional demand. This resulted in an all-in cost of 4.06%. Given the credit spreads achieved on the new money bonds, the Commission asked Morgan Stanley about the feasibility of executing a follow-on refunding transaction that afternoon to take advantage of the strong market. While the new money bonds were structured with December 1 maturities, Morgan Stanley recommended structuring the refunding bonds with June 1 maturities to capture the benefit of the intra-year steepness of the yield curve. Given the aggressive pricing levels, and enhancement in savings realized by the use of June 1 maturities, the Commission elected to advance refund $198.525 million of its outstanding bonds. Morgan Stanley committed to underwriting the refunding bonds at the same spreads as the new money bonds, pricing off of the Mid MMD index as opposed to Late MMD. ***Overall, the refunding achieved $20.7 million of net present value savings or 10.4% of refunded par.*** The overall transaction received $1.2 billion of orders and was 3.19x oversubscribed on an aggregate basis. The Bonds priced during a strong market and resulted in the commission lowering its credit spreads by 2 to 9 basis points in certain maturities. ***Morgan Stanley Committed $45.3 million or 11.6% of total par of its own capital on the transaction.***

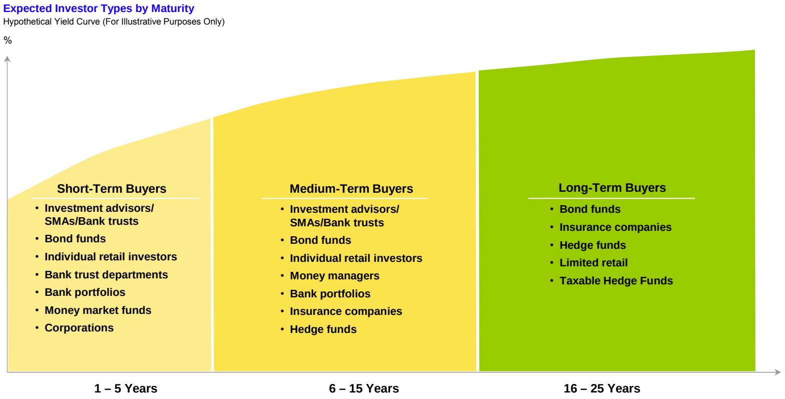
City of Chicago O'Hare International Airport. On November 30, 2016, Morgan Stanley served as lead underwriter for the City of Chicago's O'Hare International Airport General Airport Senior Lien Revenue Bonds, Series 2016 DEFG. Market conditions at the time of the sale were particularly challenging as 30-Year MMD had increased 72 basis points in the 22 days between the 2016 Presidential Election and pricing day. The market environment was drastically different from when the City of Chicago had come to market one month earlier with a similar sized refunding transaction. To ensure investors had a thorough understanding of the O'Hare credit, Morgan Stanley worked extensively with the City, the Department of Aviation, and the financial advisors to craft a comprehensive investor outreach program, including an electronic roadshow presentation and one-on-one investor calls. The electronic roadshow was viewed by 50 investors, 24 of which placed orders during the sale. Morgan Stanley coordinated one-on-one calls with five investors, allowing potential purchasers to interact directly with selected City and Aviation staff. After an extensive pre-marketing process, Morgan Stanley had investor “reads” for approximately $750 million of the $1.1 billion financing with limited demand for the $255 million 2052 maturity. In order to allow the City to complete the financing, ***Morgan Stanley demonstrated its leadership by committing its own capital and gave a backstop for the $255 million of 2052 bonds at no more than 5 bps wider than the pre-marketing levels.*** This backstop provided the City with the assurance that the transaction would be completed at acceptable pricing levels. During the day of pricing, Morgan Stanley was able to find investors for nearly the entire O’Hare loan, but ultimately did commit to underwrite $25 million of unsold bonds to help the City complete the financing. ***Due to strong demand for selected maturities, Morgan Stanley lowered yields by approximately 5 basis points on certain bonds.***

Texas Department of Transportation. On October 6, 2016, Morgan Stanley served as senior manager on the Texas Transportation Commission’s issuance of $601.210 million State Highway Fund First Tier Revenue Bonds, Series 2016A. Proceeds of the Series 2016-A Bonds will be used to finance State highway improvement projects that are eligible for funding. The Morgan Stanley led syndicate conducted an extensive pre-marketing campaign, including creating an online investor presentation viewed by 36 investors. Despite difficult market conditions and a $14 billion supply the week of pricing, the bonds were well received, enabling yields to be lowered at re-pricing. Ultimately, over 42 investors placed orders for the Series 2016A bonds. ***TxDOT achieved an all-in TIC of 1.82% for the Series 2016A issue with an average life of 5.783 years.***

Leading a Negotiated Sale

A coordinated sales, marketing and underwriting program will lead to the best execution and lowest funding cost for the Tollway. Several factors are critical components in developing and implementing an issuance strategy to meet the Tollway’s optimal pricing objective for a $300 million senior lien fixed rate bond issue.

Identification of Buyer Base. Morgan Stanley expects a wide distribution for any of the Tollway’s tax-exempt fixed rate financing to a variety of investors, including retail investors, investment advisors, insurance companies, bond funds and trust departments. We have included in the adjacent chart where we anticipate these buyers would likely participate along the yield curve. Given that the proposed financing will have maturities in years 15 through 25, we expect medium and long-term buyers, such as bond funds, insurance companies, money managers, and investment advisors, among others, to participate. We expect retail investors could participate in any of the Tollway’s tax-exempt financings, depending on market conditions at the time of pricing. Our marketing and distribution strategy would target institutional investors and strive to generate retail participation to achieve the lowest cost of capital for the Tollway’s proposed issue.



Strategies for a Successful Sale. A carefully coordinated credit and marketing strategy will ensure the Tollway reaches all pockets of investor demand for any of its securities. By reaching the broadest investor base, the Tollway will be able to achieve the lowest cost of capital.

- **Careful Coordination with the Rating Agencies.** Morgan Stanley has significant experience working with nearly all major transportation issuers, including the Tollway and its financial advisors for its 2016 Series B and 2014 Series C financings, to create effective rating agency presentations and a long-term rating agency strategy. The goal of this process would be to ensure the rating agencies understand the Tollway’s financing plans and thoroughly understand the underlying credit and provide the appropriate ratings for the financing, especially given the additional debt to be issued under the Move Illinois Capital Program. Please see our discussion of rating agency strategy above in Tab 6(a).
- **Emphasize the Strength of the Tollway’s Credit.** Given the disappearance of AAA bond insurers from the municipal market, investors are looking more closely at the underlying credit of an issuer. As a result, in our education process to maximize the Tollway’s distribution, a more intensive pre-marketing campaign will be necessary along with an internal credit report emphasizing the credit strengths of the Tollway’s credit including i) diverse and large system; ii) essential component of the region’s transportation network; iii) strong debt service coverage levels; iv) well-established history of steady revenue growth; v) ambitious Move Illinois Capital Program; vi) well thought out capital program and vii) experienced management team.
- **Structuring Alternatives.** While most transactions utilize market standard 5% coupons and an optional call in 10 years, as part of marketing a specific transaction, we would explore with the Tollway a range of coupon and call alternatives to meet specific investor interest and better meet the Tollway’s goals. Examples include 4% coupon bonds with a lower yield-to-maturity as compared to a 5% coupon structure as well as shorter call alternatives to

better diversify the Tollway’s call date concentration. Any discussion of coupon and call features would be evaluated on both an absolute and option adjusted basis to help the Tollway determine the most advantageous finance plan.

- **Marketing Strategy.** Morgan Stanley will develop a comprehensive marketing strategy to ensure maximum participation from both retail and institutional investors for Illinois Tollway financings. Additionally, it will be important for the Tollway to proactively challenge the “Illinois Penalty” by engaging directly with investors. As an Illinois issuer with a dedicated user revenue stream and not dependent on funding from the State, the Morgan Stanley team would work to ensure investors understand this credit and to ultimately minimize the Illinois penalty. Specific strategies are detailed in the following question.
- **Coordination with Co-Managers.** Morgan Stanley has a long history of strong working relationships with syndicate members and actively coordinating activities of the entire syndicate to maximize participation in our clients’ transactions. In difficult market conditions, full participation by the entire syndicate is key to a successful pricing. When Morgan Stanley serves as a senior manager, we work closely with co-managers to ensure all syndicate members have: 1) timely receipt of information, 2) the opportunity to provide substantive input into the marketing process, 3) accurate information on retention levels, allocation policies and designation rules, 4) information on changing maturity size to allow co-managers to concentrate on specific maturities and minimize duplicate orders, and 5) full coordination on order flow and pricing bonds.
- **Syndicate Participation and Fair Allocation.** We recognize the role co-managers will play in broadening the distribution of any upcoming Tollway financing, and we would ensure a fair and equitable allotment of bonds to the syndicate. As the Tollway has done in recent sales, utilizing a group net policy ensures that all syndicate members receive compensation based upon their participation in the offering. However, in order to provide syndicate members with an incentive to support any of the Tollway’s tax-exempt financings, we recommend a net designated transaction with allocations made in the following order: retail orders (if applicable at the time of pricing), with priority to Illinois retail followed by national retail; net designated orders; and member orders.
- **Investor Internet Presentation/Conference Call.** We would suggest that an Internet presentation/conference call be arranged approximately one week prior to any pricing to provide institutional investors and retail brokers with the opportunity to learn more about the Tollway and the pledge of revenues securing the bonds. Most importantly, this will focus the retail brokers on the issue to pre-market the financing in advance of any planned retail order period.
- **Retail Priority Order Period.** Depending on market conditions, we have found priority retail order periods to be extremely effective at maximizing access for retail investors. During this period, Illinois retail and trust and investment advisors will be given the highest priority, which ensures that they will be filled if there are enough securities in each maturity. National retail will be given second priority. Even though bonds issued in Illinois are not exempt from State income taxes, we believe that State and national retail could still be very interested in the Tollway’s bonds. Retail investor demand may provide pricing pressure on institutional investors to bid more aggressively on the day of pricing because of the perceived liquidity in the market created by a successful Retail Order Period.

Executing the Finance Plan. The steps and strategies noted above are intended to provide the Tollway with the lowest all-in financing cost. In the current market, we believe the Tollway would price at attractive spreads to MMD, as shown in the table to the right. Given the current debt profile, recent Tollway financings have utilized deferred amortization structures with a majority of the bonds in the very longest maturities. Assuming the Authority continues to utilize this strategy, it will have an additional maturity in its 25-year final structure with which to amortize bonds (January 1, 2042). In the current market, a $300 million new money financing with deferred amortization (assumed amortization on January 1, 2040 – 2042, with the bulk in 2042) would result in an all-in TIC of 4.26% with an average life of 24.2 years.

New Money Financing Summary

Market Conditions as of January 23, 2017

Par Amount	$300,000,000
Premium	$35,316,000
Deposit to Project Fund	$318,516,000
DSRF Contribution	$15,000,000
Arbitrage Yield	3 55%
All-In TIC	4 26%
Average Life	24.17 Years

Proposed Coupon Structure

Market Conditions as of January 23, 2017

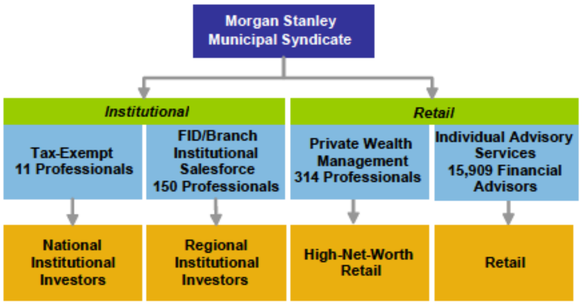
Maturity Date	Coupon	Early MMD	Spread to MMD (bps)	Pricing Yield[1]
January 1, 2018	3.000%	0.900%	10	1.000%
January 1, 2019	4.000%	1.090%	15	1.240%
January 1, 2020	5.000%	1.290%	20	1.490%
January 1, 2021	5.000%	1.460%	25	1.710%
January 1, 2022	5.000%	1.660%	30	1.960%
January 1, 2023	5.000%	1.840%	35	2.190%
January 1, 2024	5.000%	2.000%	40	2.400%
January 1, 2025	5.000%	2.120%	44	2.560%
January 1, 2026	5.000%	2.230%	47	2.700%
January 1, 2027	5.000%	2.320%	50	2.820%
January 1, 2028	5.000%	2.400%	53	2.930%
January 1, 2029	5.000%	2.480%	55	3.030%
January 1, 2030	5.000%	2.570%	55	3.120%
January 1, 2031	5.000%	2.650%	55	3.200%
January 1, 2032	5.000%	2.710%	55	3.260%
January 1, 2033	5.000%	2.770%	55	3.320%
January 1, 2034	5.000%	2.830%	55	3.380%
January 1, 2035	5.000%	2.880%	55	3.430%
January 1, 2036	5.000%	2.920%	55	3.470%
January 1, 2037	5.000%	2.950%	55	3.500%
January 1, 2042	5.000%	3.000%	55	3.550%

[1]: Assumes Par Call on 1/1/2027

Morgan Stanley Distribution System

We believe Morgan Stanley has an unmatched distribution system combining coverage of all levels of institutional investors with one of the largest retail distribution networks in the United States. This combination will enable the Tollway to tap the most important pockets of market demand for its financings. Through creating strong demand for the Tollway's bonds, we believe that we will be able to achieve the best possible price for its securities. The adjacent figure illustrates the strength and breadth of Morgan Stanley's distribution network.

Morgan Stanley's Municipal Securities Distribution Network


Morgan Stanley Municipal Syndicate
Institutional
Retail
Tax-Exempt 11 Professionals
FID/Branch Institutional Salesforce 150 Professionals
Private Wealth Management 314 Professionals
Individual Advisory Services 15,909 Financial Advisors
National Institutional Investors
Regional Institutional Investors
High-Net-Worth Retail
Retail

Institutional Distribution Capabilities. Morgan Stanley is widely recognized as a premier institutional firm with long-standing relationships with tax-exempt and taxable institutional investors and a willingness to provide secondary market liquidity to institutional purchasers of bonds. ***In the New York headquarters, the Firm maintains a team of 11 institutional municipal salespersons, with an average of over 20 years of municipal bond experience, who are exclusively dedicated to the 150 largest institutions that regularly buy municipal securities and two dedicated middle markets municipal sales representatives.*** Additionally, Morgan Stanley markets municipal bonds through a salesforce of 150 generalists in our Fixed Income Division, who cover accounts in the United States and globally. Morgan Stanley supports its institutional municipal salespeople with a team of 12 institutional municipal traders. Together, the Firm's institutional fixed income professionals have access to more than 9,000 investors who manage approximately 75% of all assets in the United States and 50% worldwide and cover a comprehensive range of potential institutional purchasers of the Tollway's offerings.

Retail Distribution Capabilities. As previously stated, Morgan Stanley completed the full acquisition of MSWM in 2013 and now has exclusive access to a distribution network of 15,909 financial advisors in 609 offices across the country serving nearly 5.9 million clients with total assets of over $1.9 trillion. Within the State of Illinois, Morgan Stanley Wealth Management maintains a presence at 20 locations with 746 financial advisors that serve over 343,000 client accounts with total assets of $109.5 billion, including $5.8 billion of directly-held municipal securities.

The size and structure of the MSWM retail network provides tremendous distribution strength, and, important for the placement of primary offerings, allows for: (i) specific geographical targeting of retail investors and (ii) tailored marketing based on a highly customized assessment of each unique portfolio, investor goals, and risk tolerance. Morgan Stanley's leading retail distribution platform enables issuers to access broad retail demand without reliance on third-party retail distribution agreements. Direct retail distribution empowers the Tollway to select purchasers of its bonds and provides greater influence over bond trading after pricing.

High-Net-Worth Retail. Morgan Stanley's ***Private Wealth Management Group ("PWM")*** caters to high-net-worth individuals across the globe, further enhancing our distribution capabilities. The individuals serviced by PWM purchase securities directly rather than through intermediaries, such as bond funds, and these individuals represent an important class of investors in municipal obligations. PWM utilizes the expertise of 314 professionals in cities throughout the United States.

Marketing the Tollway's Bonds

As the Tollway's senior manager, Morgan Stanley will customize and craft a carefully coordinated, sequential investor education and marketing process. One of the most important aspects of a successful sale is to begin the marketing process early and maximize marketing touch-points. Our four-pronged marketing and distribution approach presented to the right aims to achieve the broadest distribution for the Tollway's bonds with the objective of achieving the lowest cost of capital.

Step	Strategies
Position the Credit	• Provide salesforce and investors with comprehensive, consistent and timely information to effectively communicate the Tollway's credit story
Identify Key Investors	• Target current bond holders and other key investors that could give large orders on the issue and provide confidence to other investors ("Price Leaders) • Work with credit analysts to secure credit approval
Engage Institutional and Retail Investors	• Utilize online investor roadshow, one-on-one conference calls, broker/FA outreach in L offices to engage investors and address any credit concerns ahead of pricing.
Execute the Pricing	• Leverage Morgan Stanley's leading national institutional and retail distribution systems to reach the full range of potential investors • Commit capital to support efficient pricing.

Position the Credit. Unlike many other firms, our municipal sales force is complemented by our dedicated Investor Marketing and Municipal Research Credit Manager, Dennis Farrell. Mr. Farrell will discuss the Tollway's credit internally with the underwriters and the sales force, as well as externally, with the credit analysts for investors, providing insight into investor concerns regarding the credit and financing plan. Dennis was formerly the head of public finance at Moody's.

Identify Key Investors. In determining the institutional investors to target in the Tollway's financings, the Tollway should consider its current bondholders. In the adjacent table, we have identified major institutional holders of the Tollway's bonds. In addition to targeting current large investors, like Vanguard, BlackRock, and Nuveen, among others, Morgan Stanley would market the Tollway's bonds to additional institutional investors that are in our distribution system and that are under-represented holders of the Tollway's bonds. Further, MSWM will actively reach out to the brokers with sizeable Illinois redemptions around the pricing of the Tollway's issuances in order to market the bonds to clients to replace their maturing Illinois holdings. As mentioned previously, clients of MSWM hold nearly $3.6 billion of bonds from issuers in the State of Illinois, including over $63.6 million of the Tollway's bonds.

Top 15 Illinois Tollway Bondholders

Rank	Firm Name	Par Amount ($000)
1	Vanguard	307,229
2	BlackRock	297,759
3	Nuveen	227,257
4	PineBridge Investments	176,875
5	Capital Research & Management	162,025
6	Fidelity Management & Research	126,942
7	JP Morgan Asset Management	118,745
8	Wellington Management	103,199
9	Prudential Investments	101,718
10	State Farm	100,000
11	AllianceBernstein	97,024
12	PIMCO	96,701
13	Deutsche Asset Management	81,575
14	Metropolitan Life Insurance	70,985
15	Wells Capital Management	68,443

As discussed with the Tollway in the past, we have identified several key buyers of Toll Revenue bonds who are underrepresented in the Tollway's portfolio including Franklin Templeton, Western Asset Management (WAMCO), Chubb, and Loews. Morgan Stanley has direct relationships with each of these investors. In order to maximize distribution of the Tollway's bonds, we would recommend reaching out to these investors and the broader investor community with an internet roadshow and investor conference call. The Tollway's management and staff should then be available for follow-up one-on-one phone calls. Additionally, as described earlier, to the extent that it is economically advantageous, the Tollway should be flexible in the structuring of its offerings. If a potential major investor desires a particular structure in terms of couponing, Morgan Stanley will work with the Tollway to attempt to meet these special needs.

Bond Holder Analysis

	Top 20 Holder of Comparable Credits?			Illinois Tollway
Investor	Illinois Tollway	NYS Thruway	PA Turnpike	Holdings
Alliance Bernstein	✓	✓		Moderate
Blackrock	✓	✓	✓	Strong
Chubb		✓		Underweight
Columbia	✓		✓	Moderate
Deutsche Asset Management	✓	✓	✓	Moderate
Fidelity	✓	✓	✓	Strong
Franklin Templeton		✓	✓	Underweight
J.P. Morgan Invesment Management	✓	✓		Strong
Loews		✓	✓	Underweight
Nuveen	✓	✓	✓	Strong
PIMCO	✓		✓	Moderate
Vanguard	✓	✓	✓	Strong
WAMCO			✓	Underweight

Strong = Top 10
Moderate = Top 20
Underweight = Not Top 20 Holder

Engage Institutional and Retail Investors. A healthy balance of institutional and retail orders in a pricing is extremely important to maintaining a diverse investor base as well as stable trading levels for the Tollway's bonds. Retail investors may be less yield sensitive while institutional investors buy in large block sizes and are generally the major participants in any given financing. In sum, the more broad and diverse the Tollway's investor base, the more aggressive the pricing will likely be, resulting in a lower cost of capital.

Institutional Investors

As noted above, we would begin our institutional marketing efforts with large holders of outstanding Tollway bonds and comparable credits as well as known buyers in each segment of the yield curve. In order to maximize institutional investor participation, we propose undertaking the following steps:

- **Investor Outreach.** Through a proactive reverse inquiry process with major investors, Morgan Stanley will be able to assess any credit and structuring concerns of major buyers, including those who have bought transactions similar to the Tollway's. Dennis Farrell will coordinate this marketing effort directly with potential institutional buyers. To the extent investor's portfolios hold maturities of credits similar to the Tollway that are coming due, Morgan Stanley will identify this additional capacity ahead of the sale and seek to replace these with the new refunding maturities.
- **Internet Roadshow.** As described in our response included in Tab 6(a), an important part of our marketing will be an internet roadshow, during which the Tollway will have the opportunity to present to potential investors its credit highlights as well as the particulars of the upcoming financing. An internet roadshow has proven to be an effective tool for many of our recent senior managed financings, as it has been in the Tollway's recent financings.
- **Institutional Salesforce Meetings.** In addition to an aggressive investor outreach program, Morgan Stanley will organize several informational meetings with our institutional salesforce at least a week before pricing. Our salesforce communicates with the largest investors in the market on a daily basis and these meetings will ensure that the salesforce has the information in advance to communicate a consistent message to investors regarding the positive credit features of the Tollway's bonds.

Retail Investors

Retail investors are generally more credit and rating sensitive than yield sensitive and have strong demand for high quality credits. Leveraging retail demand creates momentum for the institutional order period, which encourages aggressive pricing overall. Morgan Stanley, through MSWM, has one of the largest domestic retail salesforces in the nation and the ability to market directly to retail investors. On the following page, we discuss tactics to help drive retail demand.

- **Retail Order Periods/Retail Priority.** The Tollway should consider retail order periods or utilizing retail priority to increase retail investor participation and broaden the investor base for its bonds as market conditions warrant. Retail demand can create momentum for the institutional order period, which in turn, allows for aggressive pricing.
- **Retail Specific Marketing Strategy with Sales Network.** Prior to an offering, MSWM retail brokers would evaluate portfolios containing Tollway bonds maturing within the next year. The goal would be to replace these maturing bonds with the Tollway's new bonds or offer to buy back bonds that are close to maturity from our customers to create capacity for the new bonds.
- **Retail Structuring.** To maximize retail investor demand, the Tollway should consider retail-friendly structuring alternatives, such as multi-step coupon bonds. We note that "mom and pop" retail investors often prefer coupons at par or slight discounts while "professional retail" investors prefer premium coupons.

Conclusion. The focus of these carefully coordinated, sequential investor education and pricing programs is to generate the widest possible demand for the Tollway's securities. By stimulating greater demand, interest and competition are created among investors, which will translate into a lower cost of borrowing for the Tollway. The elements that we have outlined above will allow for maximum market penetration for the Tollway. Morgan Stanley will identify and target all retail and institutional investors to ensure the most cost-effective and successful financing. The case studies presented throughout this response highlight the strengths of our distribution network and how these strengths can help our municipal clients achieve their financing objectives. We look forward to the opportunity to leverage the resources of the Firm for the marketing and pricing of the Tollway's bonds.

Section 7

Financials

Tab 7 Financials

Electronic copies of Morgan Stanley’s financial statements have been included in PDF format on our electronic copy, as described in the Tollway’s Addendum #1.

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, 2013

Commission File Number 1-11758

Morgan Stanley

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**1585 Broadway** **New York, NY 10036** (Address of principal executive offices, including zip code)	**36-3145972** (I.R.S. Employer Identification No.)	**(212) 761-4000** (Registrant's telephone number, including area 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
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, $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
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 ☒ 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 ☒

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 ☒ 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 ☒ 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 ☒ 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 ☒

As of June 28, 2013, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $45,831,657,254. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2014, there were 1,975,673,438 shares of Registrant's common stock, $0.01 par value, outstanding.

Documents Incorporated by Reference: Portions of Registrant's definitive proxy statement for its 2014 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

Morgan Stanley

ANNUAL REPORT ON FORM 10-K

for the year ended December 31, 2013

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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, possibly materially, 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), policies (including fiscal and monetary) and legal and regulatory actions in the United States ("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, consumer and business sentiment and confidence in the financial markets;
- the performance of our acquisitions, divestitures, 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;
- the effectiveness of our risk management policies;
- technological changes and risks, including cybersecurity risks; 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.

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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, 2013, the Company had 55,794 employees worldwide. Unless the context otherwise requires, the terms "Morgan Stanley," the "Company," "we," "us" and "our" mean Morgan Stanley together with its consolidated subsidiaries.

Financial information concerning the Company, its business segments and geographic regions for each of the 12 months ended December 31, 2013 ("2013"), December 31, 2012 ("2012") and December 31, 2011 ("2011") 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 Activities; Policy Regarding Shareholder Rights Plan; Code of Ethics and Business Conduct; Code of Conduct; and Integrity Hotline information.

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. 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, Wealth Management and Investment 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 and services 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 select corporate clients through its subsidiaries, including Morgan Stanley Bank, N.A ("MSBNA"). These loans and lending commitments have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged 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, swaps and futures, both on exchanges and in over-the-counter ("OTC"), markets around the world. The Company's Institutional Securities sales and trading activities comprise Institutional Equity; Fixed Income and Commodities; Research; and Investments.

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

The Company acts as agent and principal (including as a market-maker) in executing transactions globally in equity derivatives and equity-linked or related products, including options, equity swaps, warrants, structured notes and futures on individual securities, indices and baskets of securities and other equity-related products. The Company offers prime brokerage services to clients, including consolidated clearance, settlement, custody, financing and portfolio reporting. In addition, the Company provides wealth management services to ultra-high net worth and high net worth clients in select regions outside the U.S.

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; and 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, as well as Canada.

The Company trades, invests and makes markets globally in listed swaps and futures and OTC cleared and uncleared 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, and distributes such securitized assets to investors. 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 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 trades, invests and makes markets in the spot, forward, OTC cleared and uncleared swaps, options 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 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.

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. On December 20, 2013, the Company and a subsidiary of Rosneft Oil Company (“Rosneft”) entered into a Purchase Agreement pursuant to which the Company will sell the global oil merchanting unit of its commodities division to Rosneft. The transaction includes the sale of the Company’s minority interest in Heidmar Holdings LLC. The transaction is subject to regulatory approvals and other customary conditions and is expected to close in the second half of 2014. Also on December 20, 2013, the Company announced it is exploring strategic options for its stake in TransMontaigne Inc. and its subsidiaries.

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^{sm} and Matrix^{sm}, 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 “Investment Management” herein.

Operations and Information Technology.

The Company’s Operations and Information Technology departments provide the process and technology platform required to support 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 support is provided for 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.

Wealth Management.

The Company’s Wealth Management business segment provides comprehensive financial services to clients through a network of more than 16,700 global representatives in 649 locations at year-end. As of December 31, 2013, Wealth Management had $1,909 billion in client assets.

Clients.

Wealth Management 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. Wealth Management representatives are located in branches across the U.S. and provide solutions designed to accommodate the individual investment objectives, risk tolerance and liquidity needs of investors residing in and outside the U.S. Call centers are available to meet the needs of emerging affluent clients.

Products and Services.

Wealth Management provides clients with a comprehensive array of financial solutions, including products and services from the Company and third-party providers, such as other financial institutions, insurance companies and mutual fund families. Wealth Management 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. Wealth Management also engages in fixed income principal trading, which primarily facilitates clients' trading or investments in such securities. In addition, Wealth Management offers education savings programs, financial and wealth planning services, and annuity and other insurance products.

In addition, Wealth Management 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 MSBNA and Morgan Stanley Private Bank, National Association ("MSPNA" and, together with MSBNA, the "Subsidiary Banks"), including securities-based lending, mortgage loans and home equity lines of credit. Wealth Management also offers access to 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.

Wealth Management 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.

The Operations and Information Technology departments provide the process and technology platform to support the Wealth Management business segment, including core securities processing, capital markets operations, product services, and alternative investments, margin, payments and related internal controls over activity from trade entry through settlement and custody. This activity is undertaken through the Company's own facilities, through membership in various clearing and settlement organizations, and through agreements with affiliates and unaffiliated third parties.

Investment Management.

The Company's Investment Management business segment, consisting of Traditional Asset Management, Merchant Banking and Real Estate Investing activities, is one of the largest global investment management organizations of any full-service financial services firm and offers clients a broad 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.

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.

Merchant Banking and Real Estate Investing.

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 and real estate funds and portable alpha strategies. The Company's alternative investments platform also includes minority stakes in Lansdowne Partners and Avenue Capital Group. 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 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.

Operations and Information Technology.

The Company's Operations and Information Technology departments provide or oversee the process and technology platform required to support its Investment Management business segment, including transfer agency, mutual fund accounting and administration, transaction processing and certain fiduciary services on behalf of institutional, intermediary and high net worth clients. 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.

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, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial or ancillary 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 left businesses, 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, or new competitors may emerge. See also "—Supervision and Regulation" below and "Risk Factors" in Part I, Item 1A herein.

Institutional Securities and Wealth Management.

The Company's competitive position for its Institutional Securities and Wealth Management 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.

The Company's ability to access capital at competitive rates (which is generally impacted by 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 its 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. In addition, the Company's business is subject to increased regulation in the U.S. and abroad, while certain of its competitors may be subject to less stringent legal and regulatory regimes than the Company, thereby putting the Company at a competitive disadvantage.

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 and comparable fees. The trend toward direct access to automated, electronic markets will likely increase as additional markets move to more automated trading platforms. 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 (in the form of commissions or pricing).

Investment 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, who may be subject to less stringent legal and regulatory regimes than the Company.

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 conducts its business. Moreover, in response to the 2007–2008 financial crisis, legislators and regulators, both in the U.S. and worldwide, are in the process of adopting, finalizing 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.

The Dodd-Frank Act was enacted on July 21, 2010. While certain portions of the Dodd-Frank Act became effective immediately, most other portions are effective following transition periods or through numerous rulemakings by multiple governmental agencies, and although a large number of rules have been proposed, many are still subject to final rulemaking or transition periods. U.S. regulators also plan to propose additional regulations to implement the Dodd-Frank Act. Accordingly, 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 or further revisions to risk-based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision (the "Basel Committee"), including Basel III, and the implementation of those standards in jurisdictions in which the Company operates, will continue to impact the Company in the coming years.

It is likely that 2014 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 the exact impact these changes will have on the Company's business, financial condition, results of operations and cash flows for a particular future period.

Financial Holding Company.

Consolidated Supervision.

The Company has operated as a bank holding company and financial holding company under the BHC Act since September 2008. 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, or will become, 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 a systemic risk regime that will impose heightened capital and liquidity requirements, to new restrictions on activities and investments imposed by a section of the BHC Act added by the Dodd-Frank Act referred to as the "Volcker Rule" and to comprehensive new derivatives regulation. In addition, the Consumer Financial Protection Bureau has primary rulemaking, enforcement and examination authority over the Company and its subsidiaries with respect to federal consumer protection laws, to the extent applicable.

Scope of Permitted Activities. The BHC Act places limits on the activities of bank holding companies and financial holding companies, and grants the Federal Reserve authority to limit the Company's ability to conduct activities. The Company must obtain Federal Reserve Board approval before engaging in certain banking and other financial activities both in the U.S. and internationally. Since becoming a bank holding company in September 2008, the Company has disposed of certain nonconforming assets and conformed certain activities to the requirements of the BHC Act.

In addition, the Company continues to engage 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. At this time, the Company believes, based on its interpretation of applicable law, that (i) such commodities activities qualify for the BHC Act grandfather exemption or otherwise conform to the BHC Act and (ii) if the Federal Reserve were to determine otherwise, any required divestment would not have a material adverse impact on its financial condition. In January 2014, the Federal Reserve issued an advance notice of proposed rulemaking, which seeks public comment on certain matters related to financial holding companies' physical commodity activities and merchant banking investments in nonfinancial companies.

Activities Restrictions under the Volcker Rule. In December 2013, U.S. regulators issued final regulations to implement the Volcker Rule. The Volcker Rule will, over time, prohibit "banking entities," including the Company and its affiliates, from engaging in certain prohibited "proprietary trading" activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market making-related activities, risk mitigating hedging and certain other activities. The Volcker Rule will also require banking entities to either restructure or unwind certain investments and relationships with "covered funds," as defined in the Volcker Rule. Banking entities have until July 21, 2015 to bring all of their activities and investments into conformance with the Volcker Rule, subject to possible extensions. The Volcker Rule requires banking entities to establish comprehensive compliance programs designed to help ensure and monitor compliance with restrictions under the Volcker Rule.

The Company is continuing its review of activities that may be affected by the Volcker Rule, including its trading operations and asset management activities, and is taking steps to establish the necessary compliance programs to comply with the Volcker Rule. The Company had already taken certain steps to comply with the Volcker Rule prior to the issuance of final regulations, including, for example, the divestiture of its in-house proprietary quantitative trading unit in January 2013. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain, and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

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 Subsidiary Banks. Under existing capital regulations, for the Company to remain a financial holding company, its Subsidiary Banks must qualify as "well-capitalized" by maintaining a total risk-based capital ratio (total capital to risk-weighted assets) of at least 10% and a Tier 1 risk-based capital ratio of at least 6%. To maintain its status as a financial holding company, the Company is also required to be "well-capitalized" by maintaining these capital ratios. Effective January 1, 2015, the "well-capitalized" standard for the Company's Subsidiary Banks will be revised to reflect the higher capital requirements in the U.S. Basel III final rule, as defined below. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company's particular condition, risk profile and growth plans. In addition, under the Federal Reserve and OCC's leverage capital rules, the Company and the Subsidiary Banks are subject to a minimum Tier 1 leverage ratio (Tier 1 capital to average total consolidated assets) of 4%.

As of December 31, 2013, the Company calculated its capital ratios and risk-weighted assets in accordance with the existing capital adequacy standards for financial holding companies adopted by the Federal Reserve. These existing capital 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 U.S. banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. On January 1, 2013, the U.S. banking regulators' rules to implement the Basel Committee's market risk capital framework, referred to as "Basel 2.5," became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book, as well as incorporated add-ons for stressed Value-at-Risk and incremental risk requirements.

In December 2010, the Basel Committee reached an agreement on Basel III. In July 2013, the U.S. banking regulators promulgated final rules to implement many aspects of Basel III (the "U.S. Basel III final rule"). The Company became subject to the U.S. Basel III final rule on January 1, 2014. Certain requirements in the U.S. Basel III final rule, including the minimum risk-based capital ratios and new capital buffers, will commence or be phased in over several years.

The U.S. Basel III final rule contains new capital standards that raise capital requirements, strengthen counterparty credit risk capital requirements, introduce a leverage ratio as a supplemental measure to the risk-based ratio and replace the use of externally developed credit ratings with alternatives such as the Organisation for Economic Co-operation and Development's country risk classifications. Under the U.S. Basel III final rule, the Company is subject, on a fully phased-in basis, to a minimum Common Equity Tier 1 risk-based capital ratio of 4.5%, a minimum Tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 8%.

The Company is also subject to a 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed, up to a 2.5% Common Equity Tier 1 countercyclical buffer, on a fully phased-in basis by 2019. Failure to maintain such buffers will result in restrictions on the Company's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. In addition, certain new items will be deducted from Common Equity Tier 1 capital and certain existing deductions will be modified. The majority of these capital deductions is subject to a phase-in schedule and will be fully phased in by 2018. Under the U.S. Basel III final rule, unrealized gains and losses on available-for-sale securities will be reflected in Common Equity Tier 1 capital, subject to a phase-in schedule.

U.S. banking regulators have 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 minimum capital requirements that are not less than the generally applicable risk-based capital requirements. Currently, this minimum "capital floor" is based on Basel I. Beginning on January 1, 2015, the U.S. Basel III final rule will replace the current Basel I-based "capital floor" with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes. The "capital floor" applies to the calculation of minimum risk-based capital requirements as well as the capital conservation buffer and, if deployed, the countercyclical capital buffer.

On February 21, 2014, the Federal Reserve and the OCC approved the Company's and the Subsidiary Banks' respective use of the U.S. Basel III advanced internal ratings-based approach for determining credit risk capital requirements and advanced measurement approaches for determining operational risk capital requirements (collectively, the "advanced approaches method") to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014, subject to the "capital floor" discussed above. One of the stipulations for this approval is that the Company will be required to satisfy certain conditions, as agreed to with the regulators, regarding the modeling used to determine its estimated risk-weighted assets associated with operational risk.

In addition to the U.S. Basel III final rule, the Dodd-Frank Act requires the Federal Reserve to establish more stringent capital requirements for certain bank holding companies, including the Company. The Federal Reserve has indicated that it intends to address this requirement by implementing the Basel Committee's capital surcharge for global systemically important banks ("G-SIBs"). The Financial Stability Board ("FSB") has provisionally identified the G-SIBs and assigned each G-SIB a Common Equity Tier 1 capital surcharge ranging from 1.0% to 2.5% of risk-weighted assets. The Company is provisionally assigned a G-SIB capital surcharge of 1.5%. The FSB has stated that it intends to update the list of G-SIBs annually.

The U.S. Basel III final rule also subjects certain banking organizations, including the Company, to a minimum supplementary leverage ratio of 3% beginning on January 1, 2018. In January 2014, the Basel Committee finalized revisions to the denominator of the Basel III leverage ratio. The revised denominator differs from the supplementary leverage ratio in the treatment of, among other things, derivatives, securities financing transactions and other off-balance sheet items. U.S. banking regulators may issue regulations to implement the revised Basel III leverage ratio.

The U.S. banking regulators have also proposed a rule to implement enhanced supplementary leverage standards for certain large bank holding companies and their subsidiary insured depository institutions, including the Company and the Subsidiary Banks. Under this proposal, a covered bank holding company would need to maintain a leverage buffer of Tier 1 capital of greater than 2% in addition to the 3% minimum (for a total of greater than 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. This proposal would further establish a "well-capitalized" threshold based on a supplementary leverage ratio of 6% for insured depository institution subsidiaries, including the Subsidiary Banks. If this proposal is adopted, its requirements would become effective on January 1, 2018 with public disclosure of the ratio required beginning in 2015.

The Basel Committee has developed two standards intended for use in liquidity risk supervision, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard's objective is to promote the short-term resilience of the liquidity risk profile of banks and bank holding companies. The NSFR has a time horizon of one year and is defined as the ratio of the amount of available stable funding to the amount of required stable funding. This standard's objective is to promote resilience over a longer time horizon. In January 2014, the Basel Committee proposed revisions to the original December 2010 version of the NSFR and continues to contemplate the introduction of the NSFR, including any final revisions, as a minimum standard by January 1, 2018.

In October 2013, the U.S. banking regulators proposed a rule to implement the LCR in the U.S. ("U.S. LCR proposal"). The U.S. LCR proposal would apply to the Company and the Subsidiary Banks. The U.S. LCR proposal is more stringent in certain respects compared to the Basel Committee's version of the LCR, and includes a generally narrower definition of high-quality liquid assets, a different methodology for calculating net cash outflows during the 30-day stress period as well as a shorter, two-year phase-in period that ends on December 31, 2016. The Federal Reserve has also indicated that it may implement regulatory measures related to short-term wholesale funding.

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. Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including the Company, which form part of the Federal Reserve's annual Comprehensive Capital Analysis and Review ("CCAR") framework. Under the Federal Reserve's capital plan final rule, the Company must submit an annual capital plan to the Federal Reserve, taking into account the results of separate stress tests designed by the Company and the Federal Reserve.

The capital plan 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 plan must include a discussion of how the bank holding company will maintain capital above the minimum regulatory capital ratios, including the minimum ratios under the U.S. Basel III final rule that are phased in over the planning horizon, and above a Tier 1 common risk-based capital ratio of 5%, and serve as a source of strength to its subsidiary U.S. depository institutions under supervisory stress scenarios. The capital plan final rule requires that such companies receive no objection from the Federal Reserve before making a capital distribution. In addition, even with an approved capital plan, the bank holding company must seek the approval of the Federal Reserve before making a capital distribution if, among other reasons, the bank holding company would not meet its regulatory capital requirements after making the proposed capital distribution. In addition to capital planning requirements, the OCC, the Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including the Company and the Subsidiary Banks, 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 and repurchase stock, or require it to provide capital assistance to the Subsidiary Banks under circumstances which the Company would not otherwise decide to do so.

The Company expects that, by March 31, 2014, the Federal Reserve will either object or provide a notice of non-objection to the Company's 2014 capital plan that was submitted to the Federal Reserve on January 6, 2014.

In October 2012, the Federal Reserve issued its stress test final rule as required by the Dodd-Frank Act that requires the Company to conduct semi-annual company-run stress tests. Under this rule, the Company is required to publicly disclose the summary results of its company-run stress tests under the severely adverse economic scenario. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve. The capital planning and stress testing requirements for large bank holding companies form part of the Federal Reserve's annual CCAR process.

The Dodd-Frank Act also requires each of the Subsidiary Banks to conduct an annual stress test, although MSPNA was given an exemption by the OCC for the 2014 stress test. MSBNA submitted its 2014 annual company-run stress tests to the OCC and the Federal Reserve on January 6, 2014.

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

Systemic Risk Regime. The Dodd-Frank Act established a 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, 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 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.

Pursuant to the Dodd-Frank Act, the Company must also provide to the Federal Reserve and FDIC, and MSBNA must provide to the FDIC, an annual plan for rapid and orderly resolution in the event of material financial distress. The Company and MSBNA submitted their most recent annual resolution plans to the Federal Reserve and the FDIC, as required, on October 1, 2013.

In February 2014, the Federal Reserve issued final rules to implement certain requirements of the Dodd-Frank Act's systemic risk regime. Effective on January 1, 2015, the final rules will require bank holding companies with $50 billion or more in total consolidated assets, such as the Company, to conduct internal liquidity stress tests, maintain unencumbered highly liquid assets to meet projected net cash outflows for 30 days over the range of liquidity stress scenarios used in internal stress tests, and comply with various liquidity risk management requirements. In addition, the final rules will require institutions to comply with a range of risk management and 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. Under the final rules, upon a grave threat determination by the Council, the Federal Reserve must 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 systemic risk regime 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. 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.

In addition, the Federal Reserve has proposed rules that would limit the aggregate exposure of each bank holding company with $500 billion or more in total consolidated assets, such as the Company, and each company designated by the Council, 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 unaffiliated counterparty to 25% of the institution's aggregate capital and surplus. The proposed rules would also create a new early remediation framework 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 Federal Reserve has stated that it will issue, at a later date, final rules establishing single counterparty credit limits and an early remediation framework.

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

Orderly Liquidation Authority. Under the Dodd-Frank Act, certain financial companies, including bank holding companies such as the Company and certain covered subsidiaries, can be subjected to resolution under a new orderly liquidation authority. The U.S. Treasury Secretary, in consultation with the President of the U.S., must first make certain extraordinary financial distress and systemic risk determinations, and action must be recommended by two-thirds of the FDIC Board and two-thirds of the Federal Reserve Board. Absent such actions, the Company as a bank holding company would remain subject to resolution under the U.S. Bankruptcy Code.

The orderly liquidation authority went into effect in July 2010, and rulemaking is proceeding in stages, with some regulations now finalized and others planned but not yet proposed. If the Company were subject to the orderly liquidation authority, the FDIC would be appointed receiver, which would give the FDIC considerable powers to resolve the Company, including (i) the power to remove officers and directors responsible for the Company's failure and to appoint new directors and officers; (ii) the power to assign assets and liabilities to a third party or bridge financial company without the need for creditor consent or prior court review; (iii) the ability 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 (iv) broad powers to administer the claims process to determine distributions from the assets of the receivership to creditors not transferred to a third party or bridge financial institution. In December 2013, the FDIC released its proposed single point of entry strategy for resolution of a systemically important financial institution under the orderly liquidation authority. The FDIC's release outlines how it would use its powers under the orderly liquidation authority to resolve a systemically important financial institution by placing its top-tier U.S. holding company in receivership and keeping its operating subsidiaries open and out of insolvency proceedings by transferring the operating subsidiaries to a new bridge holding company, recapitalizing the operating subsidiaries and imposing losses on the shareholders and creditors of the holding company in receivership according to their statutory order of priority. The Federal Reserve has indicated that it may also introduce a requirement that certain large bank holding companies maintain a minimum amount of long-term debt at the holding company level to facilitate orderly resolution of those firms.

U.S. Subsidiary Banks.

U.S. Banking Institutions. MSBNA, primarily a wholesale commercial bank, offers retail securities-based 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.

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

Effective October 1, 2013, the lending limits applicable to the Company's U.S. Subsidiary Banks were revised to take into account credit exposure arising from derivative transactions, securities lending, securities borrowing and repurchase and reverse repurchase agreements with third parties.

In January 2014, the OCC proposed a set of specific risk governance guidelines to formalize its heightened expectations for large national banks, including MSBNA. The proposed guidelines set minimum standards for the design and implementation of a bank's risk governance framework and the oversight of that framework by a bank's board of directors.

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" ("PCA") with respect to a depository institution if that institution does not meet certain capital adequacy standards. Current PCA regulations generally apply only to insured banks and thrifts such as MSBNA or MSPNA and not to their parent holding companies. 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. The Dodd-Frank Act also formalized the requirement that bank holding companies, such the Company, serve as a source of strength to their U.S. bank subsidiaries and commit resources to support these subsidiaries in the event such subsidiaries are in financial distress.

Transactions with Affiliates. The Company's U.S. bank subsidiaries 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 limit 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. Effective July 2012, derivatives, securities borrowing and securities lending transactions between the Company's U.S. bank subsidiaries and their affiliates became subject to these restrictions. The Federal Reserve has indicated that it will propose rulemaking to implement these restrictions. These reforms will place limits on the Company's U.S. bank subsidiaries' ability to engage in derivatives, repurchase agreements and securities lending transactions with other affiliates of the Company.

In addition, the Volcker Rule generally prohibits "covered transactions," such as extensions of credit, between (i) the Company or any of its affiliates and (ii) "covered funds" for which the Company or any of its affiliates serve as the investment manager, investment adviser, commodity trading advisor or sponsor and other "covered funds" organized and offered pursuant to specific exemptions in the Volcker Rule.

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 MSPNA 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 FDIC deposit insurance assessments are calculated using a new methodology that generally favors banks that are mostly funded by deposits.

Institutional Securities and Wealth Management.

Broker-Dealer and Investment Adviser 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. 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 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.

In addition, MSSB LLC is a registered investment adviser with the SEC. MSSB LLC's relationship with its investment advisory clients is subject to the fiduciary and other obligations imposed on investment advisors under the Investment Advisers Act of 1940, and the rules and regulations promulgated thereunder as well as various state securities laws. These laws and regulations generally grant the SEC and other supervisory bodies with broad administrative powers to address non-compliance, including the power to restrict or limit MSSB LLC from carrying on its investment advisory and other asset management activities. Other sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain activities for specified periods of time or for specified types of clients, the revocation of registrations, other censures and significant fines.

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 personalized investment advice about securities to retail customers. 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.

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 liquid assets be maintained by the subsidiary. See also "—Financial Holding Company—Consolidated Supervision" and "—Financial Holding Company—Capital and Liquidity 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 "—Financial Holding Company—Systemic Risk Regime" above, 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.

The SEC adopted rules requiring broker-dealers to maintain risk management controls and supervisory procedures with respect to providing access to securities markets, which became fully effective in 2012. In July 2012, the SEC adopted a consolidated audit trail rule, which, when fully implemented, will require broker-dealers to report into one consolidated audit trail comprehensive information about every material event in the lifecycle of every quote, order, and execution in all exchange-listed stocks and options. It is possible that the SEC or self-regulatory organizations could propose or adopt additional market structure rules for equity and fixed income markets 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 Futures Activities and Certain Commodities Activities. As 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"), the National Futures Association (the "NFA"), a registered futures association, and various commodity futures exchanges. MS&Co. and MSSB LLC and certain of their affiliates are registered members of the NFA in various capacities. Rules and regulations of the CFTC, NFA and commodity futures exchanges address obligations related to, among other things, the segregation of customer funds and the holding apart of a secured amount, the use by futures commission merchants of customer funds, recordkeeping and reporting obligations, risk disclosure, risk management and discretionary trading. 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 commodity pool operators that are registered with the NFA must distribute disclosure documents and maintain specified records relating to their activities, and commodity trading advisors and commodity pool operators have certain responsibilities with respect to each pool they advise or operate. 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 "—Financial Holding Company—Scope of Permitted Activities" above.

Derivatives Regulation. Through the Dodd-Frank Act, the Company faces 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. is being, and will continue to be, effected and implemented through the CFTC, SEC and other agency regulations. The CFTC has completed the majority of its regulations in this area, most of which are in effect. The SEC and other agencies charged with regulating Swaps have not yet adopted the majority of their Swap regulations.

Subject to certain limited exceptions, 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. Reporting requirements for CFTC-regulated Swaps are now in effect and certain types of CFTC-regulated interest rate and index credit default swaps are subject to mandatory central clearing. Certain Swaps will be required to be traded on an exchange or execution facility starting in February 2014.

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 of the Company’s subsidiaries have registered with the CFTC as swap dealers and in the future additional subsidiaries may register with the CFTC as swap dealers. One or more subsidiaries of the Company will in the future be required to register with the SEC as security-based swap dealers.

Swaps Entities are or 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 are subject to additional duties, including, among others, internal and external business conduct and documentation standards with respect to their Swaps counterparties, recordkeeping and reporting. The Company’s swap dealers are also subject to new rules under the Dodd-Frank Act regarding segregation of customer collateral for cleared transactions, large trader reporting, and anti-fraud and anti-manipulation requirements related to activities in Swaps.

The specific parameters of these requirements for Swaps have been and continue to be developed through CFTC, SEC and bank regulator rulemakings. While many of the CFTC’s requirements are already final and effective, others are subject to further rulemaking or deferred compliance dates. In particular, the CFTC, SEC and the banking regulators have proposed, but not yet adopted, rules regarding margin and capital requirements for Swaps Entities. In September 2013, the Basel Committee and the International Organization of Securities Commissions released their final policy framework on margin requirements for non-centrally-cleared derivatives. The full impact on the Company of the U.S. agencies’ margin and capital requirements for Swaps Entities will not be known with certainty until the requirements are finalized. In November 2013, the CFTC re-proposed rules that, if finalized as proposed, would limit positions in 28 agricultural, energy and metals commodities, including swaps, futures and options that are economically equivalent to those commodity contracts. Through this re-proposal, the CFTC is taking steps to institute position limits that were previously finalized in November 2011 but were vacated by a federal court in September 2012.

Although the full impact of U.S. derivatives regulation on the Company remains unclear, the Company has already, and will continue to, face increased costs and regulatory oversight due to the registration and regulatory requirements indicated above. Complying with the Swaps rules also has required, and will in the future require, the Company to change its Swaps businesses, and has required, and will in the future require, extensive systems and personnel changes. Compliance with Swap-related partially finalized regulatory capital requirements may require the Company to devote more capital to its Swaps business.

In July 2013, the CFTC issued final guidance on the cross-border application of its Swaps regulations and an exemptive order providing a delay in compliance timing of certain of those regulations as applied to certain non-U.S. entities engaging in Swaps activities. Even with the issuance of the guidance, the full scope of the extraterritorial impact of U.S. Swaps regulation remains unclear.

The E.U. has adopted and implemented certain rules relating to the OTC derivatives market and these rules imposed regulatory reporting beginning in February 2014. The E.U. plans to impose central clearing requirements on OTC derivatives in the future. In addition, other non-U.S. jurisdictions are in the process of adopting and implementing legislation emanating from the G20 commitments that will require, among other things, the central clearing of certain OTC derivatives, mandatory reporting of derivatives and bilateral risk mitigation procedures for non-cleared trades. It remains unclear at present how the non-U.S. and U.S. derivatives regulatory regimes 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. Non-U.S. policy makers and regulators, including the European Commission and European

Supervisory Authorities, continue to propose and adopt numerous market reforms, including those that may further impact the structure of banks, and formulate regulatory standards and measures that will be of relevance and importance to the Company’s European operations. 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 Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”) and several securities and futures exchanges in the United Kingdom (“U.K.”), 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; Eidgenössische 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.

Regulators in the U.K., E.U. and other major jurisdictions have also finalized or are in the process of proposing or finalizing risk-based capital, leverage capital, liquidity, banking structural reforms and other regulatory standards applicable to certain Morgan Stanley subsidiaries that operate in those jurisdictions. For example, the Company’s primary broker-dealer in the U.K., Morgan Stanley & Co. International plc (“MSIP”), is subject to regulation and supervision by the PRA with respect to prudential matters. As a prudential regulator, the PRA seeks to promote the safety and soundness of the firms that it regulates and to minimize the adverse effects that such firms may have on the stability of the U.K. financial system. The PRA has broad legal authority to establish prudential and other standards to pursue these objectives, including approvals of relevant regulatory models, as well as to bring formal and informal supervisory and disciplinary actions against regulated firms to address noncompliance with such standards. MSIP is also regulated and supervised by the FCA with respect to business conduct matters. On January 1, 2014, MSIP became subject to the Capital Requirements Regulation and Capital Requirements (collectively, “CRD IV”), which implements the Basel III and other regulatory requirements for E.U. investment firms, such as MSIP. European Market Infrastructure Regulation introduces new requirements regarding the central clearing, reporting and conduct of business with respect to derivatives. In addition, proposals to revise the Markets in Financial Instruments Directive would introduce various trading and market infrastructure reforms in the E.U. Lawmakers in the E.U. are also in the process of finalizing a proposed directive that would establish a framework for the recovery and resolution of E.U. credit institutions and investment firms, including MSIP.

Investment 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 Investment Management business segment. A number of legal entities within the Company’s Investment Management business 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. See also "—Institutional Securities and Wealth Management—Broker-Dealer and Investment Adviser Regulation" and "—Institutional Securities and Wealth Management—Regulation of Futures Activities and Certain Commodities Activities" 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, "covered funds," as defined in the Volcker Rule, subject to certain limited exemptions, 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. Several important elements of the Dodd-Frank Act will not be known until rulemaking is finalized and certain final regulations are adopted.

The Company is continuing its review of its asset management activities that may be affected by the Volcker Rule and is taking steps to establish the necessary compliance programs to help ensure and monitor compliance with the Volcker Rule. The Company had already taken certain steps to comply with the Volcker Rule prior to the issuance of the final regulations, including, for example, launching new funds that are designed to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain, and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight. See also "—Financial Holding Company—Activities Restrictions under the Volcker Rule."

The Company's Investment Management business is also regulated outside the U.S. For example, the Financial Conduct Authority and the Prudential Regulation Authority regulate the Company's business in the U.K.; the Financial Services Agency regulates the Company's business in Japan; the Hong Kong Securities and Futures Commission regulates the Company's business in Hong Kong; 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 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 and the E.U. as applicable.

Anti-Corruption.

The Company is subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, in the jurisdictions in which it operates. Anti-corruption laws generally prohibit offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. 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 particular, the Company is subject to the Federal Reserve's guidance that is 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 peer review process, and the Company expects that these policies will evolve over a number of years.

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. Further, pursuant to the Dodd-Frank Act, 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, including those promulgated in accordance with the FSB compensation principles and standards, CRD IV, Alternative Investment Fund Managers Directive regulations, the fifth Undertakings for Collective Investment in Transferable Securities Directive and proposed second Markets in Financial Instruments Directive. The FSB standards are to be implemented by local regulators, including in the U.K., where the remuneration of employees of certain banks is governed by the Remuneration Code. In the E.U., beginning on January 1, 2014, the Company's compensation practices with respect to certain employees whose activities have a material impact on the risk profile of the Company's E.U. operations will be subject to CRD IV, which includes a fixed cap on bonuses and other variable remuneration restrictions.

For a discussion of certain risks relating to the Company's regulatory environment, see "Risk Factors" in Part I, Item 1A herein.

Executive Officers of Morgan Stanley.

The executive officers of Morgan Stanley and their ages and titles as of February 25, 2014 are set forth below. Business experience for the past five years is provided in accordance with SEC rules.

Gregory J. Fleming (50). [redacted]

James P. Gorman (55). [redacted]

Eric F. Grossman (47). [redacted]

Keishi Hotsuki (51). [redacted]

Colm Kelleher (56). [redacted]

Ruth Porat (56). [redacted]

James A. Rosenthal (60). [redacted]

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 remaining sovereign debt issues in Europe or fiscal matters in the U.S., could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if investors or 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.

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 impacted by our short-term and long-term credit ratings. 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 rating 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. For example, in November 2013, Moody's Investor Services, Inc. ("Moody's") took certain ratings actions with respect to eight large U.S. banking groups, including downgrading us, to remove certain uplift from the U.S. government support in their ratings. 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.

Our credit ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit 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, or immediately settle any outstanding liability balance with, certain counterparties in the event of a credit ratings downgrade. Termination of our trading and other agreements could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements. The additional collateral or termination payments which may occur in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and Standard & Poor's Financial Services LLC. At December 31, 2013, the future potential collateral amounts and termination payments that could be called or required by counterparties, exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers were $1,522 million and an incremental $3,321 million, respectively.

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, tax restrictions or elections 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, including steps to "ring fence" entities by regulators outside of the U.S. to protect clients and creditors of such entities in the event of financial difficulties involving such entities. 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 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 the last several years and continue to be, including as a result of the European sovereign debt crisis, and uncertainty regarding U.S. fiscal matters. 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 the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio owned by us. For more information on how we monitor and manage market risk, see "Quantitative and Qualitative Disclosure about Market Risk" in Part II, Item 7A.

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), policies (including fiscal and monetary), and legal and regulatory 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, consumer and business sentiment and confidence in the financial markets; the performance of our acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements (including 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; the effectiveness of our risk management policies; and technological changes and risks, including cybersecurity risks; 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 adverse 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 Wealth Management 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 Investment 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 make 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 the last several years, and we could realize significant losses if extreme market events were to occur.

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.

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, 2013, we sponsored approximately $148.0 billion of residential mortgage-backed securities ("RMBS") primarily containing U.S. residential loans. Of that amount, we made representations and warranties concerning approximately $47.0 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 $21.0 billion of loans. At December 31, 2013, the current unpaid principal balance ("UPB") for all the residential assets subject to such representations and warranties was approximately $17.2 billion and the cumulative losses associated with U.S. RMBS were approximately $13.5 billion. We did not make, or otherwise agree to be responsible, for the representations and warranties made by third party sellers on approximately $79.9 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 December 31, 2013, we originated approximately $50.6 billion and $13.0 billion of U.S. and non-U.S. commercial mortgage loans, respectively, that were placed into CMBS sponsored by us. At December 31, 2013, the current UPB for all U.S. commercial mortgage loans subject to such representations and warranties was $33.0 billion. At December 31, 2013, the current UPB when known for all non-U.S. commercial mortgage loans, subject to such representations and warranties was approximately $3.0 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 (both formal and informal) by government and self-regulatory agencies 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 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.

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us. 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; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in 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 Wealth Management business segment lending to individual investors, including, but not limited to, margin and securities-based 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 adverse difficult economic conditions may 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 a 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. For example, increased centralization of trading activities through particular clearing houses, central agents or exchanges as required by provisions of the Dodd-Frank Act may increase our concentration of risk with respect to these entities. 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—Financial Holding Company" in Part I, Item 1 herein.

Operational Risk.

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, legal and compliance risks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue-generating activities (*e.g.*, sales and trading) and control groups (*e.g.*, information technology and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under "Legal, Regulatory and Compliance 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 addition, we may introduce new products or services or change processes, resulting in new operational risk that we may not fully appreciate or identify. In general, the transactions we process are increasingly 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 unaffiliated 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. In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and the systems of third parties with which we do business or that facilitate our business activities, such as vendors. Like other financial services firms, we and our third party providers have been and continue to be subject to unauthorized access, mishandling or misuse, computer viruses or malware, cyber attacks, denial of service attacks and other events. The increased use of smartphones, tablets and other mobile devices may also heighten these and other operational risks. Events such as these could have a security impact on our systems and jeopardize our or our clients' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, our and our third party providers' 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, client dissatisfaction, 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, there can be no assurance that such plans will fully mitigate all potential business continuity risks to us. 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, which are concentrated in the New York metropolitan area, London, Hong Kong and Tokyo. This may include a disruption involving physical site access, terrorist activities, disease pandemics, catastrophic events, natural disasters, extreme weather events, electrical, environmental, computer servers, communications or other services we use, our employees or third parties with whom we conduct business.

Legal, Regulatory and Compliance Risk.

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation we may suffer as a result of our failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. Legal, regulatory and compliance 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, regulatory and compliance risk. For more information on how we monitor and manage legal, regulatory and compliance risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Legal, Regulatory and Compliance 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 conduct our business. These laws and regulations significantly affect the way we do business, and can restrict the scope of our existing businesses and limit our ability to expand our product offerings and pursue certain investments.

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, or will become, subject to (among other things) 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 that imposes heightened capital and liquidity requirements to new restrictions on activities and investments imposed by the Volcker Rule, and to comprehensive new derivatives regulation. While certain portions of the Dodd-Frank Act became effective immediately, most other portions are effective following transition periods or through numerous rulemakings by multiple governmental agencies, and although a large number of rules have been proposed, many are still subject to final rulemaking or transition periods. U.S. regulators also plan to propose additional regulations to implement the Dodd-Frank Act. Many of the changes required by the Dodd-Frank Act could materially impact the profitability of our businesses and the value of assets we hold, expose us to additional costs, require changes to business practices or force us to discontinue businesses, adversely affect our ability to pay dividends and repurchase our stock, or require us to raise capital, including in ways that may adversely impact our shareholders or creditors. In addition, similar regulatory requirements are being proposed by foreign policymakers and regulators, which may be inconsistent or conflict with regulations that we are subject to in the U.S. and, if adopted may adversely affect us. While there continues to be uncertainty about the full 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. We are continuing our review of activities that may be affected by the Volcker Rule, including our trading operations and asset management activities, and are taking steps to establish the necessary compliance programs to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain, and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

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

As a global financial services firm, we face the risk of investigations and proceedings by governmental and self-regulatory organizations 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 compensation to whistleblowers who present the SEC or CFTC with information related to securities or commodities laws violations that leads to a successful enforcement action. As a result of this compensation, it is possible we could face an increased number of investigations by the SEC or CFTC.

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, over the last several years, the level of litigation and investigatory activity (both formal and informal) by government and self-regulatory agencies 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 in the future and there can be no assurance that additional material losses will not be incurred from claims that have not yet been asserted 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 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), 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.; 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. For more information about the planned sale of our global oil merchanting business, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Segments—Institutional Securities—Sale of Global Oil Merchanting Business” in Part II, Item 7 herein.

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 continue to engage 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. 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.

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

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 and reputation.

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 U.S. bank subsidiaries and their affiliates.

Risk Management.

Our risk management strategies may not be fully effective in mitigating our risk exposures 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 risk management strategies, including our hedging strategies, 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. As our businesses change and grow, and the markets in which we operate evolve, our risk management strategies may not always adapt with those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. 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 during the financial crisis involved unprecedented dislocations and highlight the limitations inherent in using historical information to manage risk. Management of market, credit, liquidity, operational, legal, regulatory and compliance 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. For example, to the extent that our trading or investing activities involve less liquid trading markets or are otherwise subject to restrictions on sale or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. We may, therefore, incur losses in the course of our trading or investing 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, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial or ancillary 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 left businesses, been acquired by or merged into other firms or have declared bankruptcy. Such changes 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, or new competitors may emerge. We have experienced and may continue to experience pricing pressures as a result of these factors and as some of our competitors seek to obtain market share by reducing prices. In addition, certain of our competitors may be subject to different, and in some cases, less stringent, legal and regulatory regimes, than we are, thereby putting us at a competitive disadvantage. 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 or comparable fees. The trend toward direct access to automated, electronic markets will likely continue and will likely increase as additional markets move to more automated trading platforms. 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 (in the form of commissions or pricing).

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 or in forms 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, defaults or potential defaults on sovereign debt, 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.

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, as well as applicable anti-corruption laws in the jurisdictions in which we operate. A violation of a sanction, embargo program, or anti-corruption law, 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, divestitures, joint ventures, minority stakes and strategic alliances.

In connection with past or future acquisitions, divestitures, joint ventures or strategic alliances (including with MUFG), we face numerous risks and uncertainties combining, transferring, separating or integrating the relevant businesses and systems, including the need to combine or separate 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. 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.

Item 2. Properties.

The Company has 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, 2013(A)
U.S. Locations			
1585 Broadway New York, New York *(Global Headquarters and Institutional Securities Headquarters)*	Owned	N/A	1,346,500 square feet
2000 Westchester Avenue Purchase, New York *(Wealth Management Headquarters)*	Owned	N/A	597,400 square feet
522 Fifth Avenue New York, New York *(Investment Management Headquarters)*	Owned	N/A	581,250 square feet
New York, New York *(Several locations)*	Leased	2014 – 2029	2,394,600 square feet
Brooklyn, New York *(Several locations)*	Leased	2014 – 2023	344,100 square feet
Jersey City, New Jersey *(Several locations)*	Leased	2014	369,200 square feet
International Locations			
20 Bank Street London *(London Headquarters)*	Leased	2038	546,500 square feet
Canary Wharf London	Leased(B)	2020	454,600 square feet
1 Austin Road West Kowloon *(Hong Kong Headquarters)*	Leased	2019	572,600 square feet
Sapporo's Yebisu Garden Place Ebisu, Shibuya-ku	Leased	2013(C)	300,700 square feet
Otemachi Financial City South Tower Otemachi, Chiyoda-ku *(Tokyo Headquarters)*	Leased	2028(C)	246,700 square feet

(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) The Company began relocating its Tokyo headquarters from Yebisu Garden Place to Otemachi Financial City South Tower beginning in December 2013. The relocation will be complete by March 31, 2014.

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, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Company, and 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. The Company expects future litigation accruals in general to continue to be elevated and the changes in accruals from period to period may fluctuate significantly, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

In many proceedings and investigations, 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 or investigations will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings and investigations will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings or investigations 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 (both formal and informal) by government and self-regulatory agencies 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 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 claims that have not yet been asserted 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 federal and state regulatory and governmental entities, including among others various members of the RMBS Working Group of the Financial Fraud Enforcement Task Force, 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.

On January 30, 2014, the Company reached an agreement in principle with the Staff of the Enforcement Division of the U.S. Securities and Exchange Commission (the "SEC") to resolve an investigation related to certain subprime RMBS transactions sponsored and underwritten by the Company in 2007. Pursuant to the agreement in principle, the Company would be charged with violating Sections 17(a)(2) and 17(a)(3) of the Securities Act, and the Company would pay disgorgement and penalties in an amount of $275 million and would neither admit nor deny the SEC's findings. The SEC has not yet presented the proposed settlement to the Commission and no assurance can be given that it will be accepted.

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 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, 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. 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. On March 28, 2013, the court granted defendants' motions to dismiss both actions. Plaintiffs filed notices of appeal on June 27, 2013 in the United States Court of Appeals for the Second Circuit (the "Second Circuit") in both matters, which have been consolidated on appeal.

On February 12, 2008, a purported class action, styled *Joel Stratte-McClure, et al. v. Morgan Stanley, et al.*, was filed in the SDNY against the Company and certain present and former executives asserting 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 related in large part to the Company's subprime and other mortgage related losses, and also included allegations regarding the Company's disclosures, internal controls, accounting and other matters. On August 8, 2011, defendants filed a motion to dismiss the second amended complaint, which was granted on January 18, 2013. On May 29, 2013, the plaintiffs filed an appeal in the Second Circuit, which appeal is pending.

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"), which is now styled *In re Morgan Stanley Mortgage Pass-Through Certificates Litigation* and is pending in the SDNY. The third amended complaint, filed on September 30, 2011, alleges, among other things, that the registration statements and offering documents related to the offerings of certain mortgage pass-through certificates in 2006 contained false and misleading information concerning the pools of residential loans that backed these securitizations. The plaintiffs seek, among other relief, class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. On January 31, 2013, plaintiffs filed a fourth amended complaint, in which they purport to represent investors who purchased approximately $7.82 billion in mortgage pass-through certificates issued in 2006 by 13 trusts. On August 30, 2013, plaintiffs filed a motion for class certification.

On May 14, 2009, the Company was named as one of several underwriter defendants in a purported class action lawsuit brought under Sections 11, 12 and 15 of the Securities Act which is now styled *In re IndyMac Mortgage-Backed Securities Litigation* and is pending in the SDNY. The claims against the Company relate to offerings of mortgage pass-through certificates issued by several trusts sponsored by affiliates of IndyMac Bancorp during

2006 and 2007. Plaintiff alleges, among other things, that the registration statements and offering documents related to the offerings of certain mortgage pass-through certificates contained false and misleading information concerning the pools of residential loans that backed these securitizations. The plaintiffs seek, among other relief, class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. The amount of the certificates underwritten by the Company at issue in the litigation was approximately $1.68 billion. On August 17, 2012, the court granted class certification with respect to one offering underwritten by the Company. On August 30, 2013, plaintiffs filed a motion to expand the certified class to include additional offerings. IndyMac Bank, which was the sponsor of these securitizations, filed for bankruptcy on July 31, 2008, and the Company's ability to be indemnified by IndyMac Bank is limited.

On October 25, 2010, the Company, certain affiliates and Pinnacle Performance Limited, a special purpose vehicle ("SPV"), were named as defendants in a purported class action related to securities issued by the SPV in Singapore, commonly referred to as Pinnacle Notes. The case is styled *Ge Dandong, et al. v. Pinnacle Performance Ltd., et al.* and is pending in the SDNY. An amended complaint was filed on October 22, 2012. The court denied defendants' motion to dismiss the amended complaint on August 22, 2013 and granted class certification on October 17, 2013. On October 30, 2013, defendants filed a petition for permission to appeal the court's decision granting class certification. On January 31, 2014, plaintiffs filed a second amended complaint. The second amended complaint alleges that the defendants engaged in a fraudulent scheme to defraud investors by structuring the Pinnacle Notes to fail and benefited subsequently from the securities' failure. In addition, the second amended complaint alleges that the securities' offering materials contained material misstatements or omissions regarding the securities' underlying assets and the alleged conflicts of interest between the defendants and the investors. The second amended complaint asserts common law claims of fraud, aiding and abetting fraud, fraudulent inducement, aiding and abetting fraudulent inducement, and breach of the implied covenant of good faith and fair dealing. Plaintiffs seek damages of approximately $138.7 million, rescission, punitive damages, and interest.

Other Litigation. 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.* The amended complaint, filed on September 28, 2010, 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 amended 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 August 11, 2011, plaintiff's Securities Act claims were dismissed with prejudice. The defendants filed answers to the amended complaints on October 7, 2011. On February 9, 2012, defendants' demurrers with respect to all other claims were overruled. On December 20, 2013, plaintiff's negligent misrepresentation claims were dismissed with prejudice. A bellwether trial is currently scheduled to begin in September 2014. The Company is not a defendant in connection with the securitizations at issue in that trial.

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 March 5, 2012, the plaintiff filed a second amended complaint. On April 10, 2012, the Company filed a demurrer to certain causes of action in the second amended complaint, which the court overruled on July 24, 2012. The Company filed its answer to the second amended complaint on August 3, 2012. An initial trial of certain of plaintiff's claims is scheduled to begin in July 2015.

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 NY. 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 March 10, 2011, the Company filed its answer to the complaint.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a complaint against the Company and other defendants in the Circuit Court of the State of Illinois, styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al*. The complaint alleges 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 and asserts claims under Illinois law. The total amount of certificates allegedly sold to plaintiff by the Company at issue in the action was approximately $203 million. The complaint seeks, 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. The Company filed its answer on December 21, 2012. On December 13, 2013, the court entered an order dismissing all claims related to one of the securitizations at issue.

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*. An amended complaint was filed on June 19, 2012 and 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 $385 million. The amended 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. On October 11, 2012, defendants filed motions to dismiss the amended complaint, which was granted in part and denied in part on September 30, 2013. The defendants filed an answer to the amended complaint on December 16, 2013.

On July 5, 2011, Allstate Insurance Company and certain of its affiliated entities filed a complaint against the Company in the Supreme Court of NY, styled *Allstate Insurance Company, et al. v. Morgan Stanley, et al*. An amended complaint was filed on September 9, 2011 and 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 March 15, 2013, the court denied in substantial part the defendants' motion to dismiss the amended complaint, which order the Company appealed on April 11, 2013. On May 3, 2013, the Company filed its answer to the amended complaint.

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*. An amended complaint was filed on April 2, 2012 and 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 amended 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. The Company filed its answer on August 17, 2012. Trial is currently scheduled to begin in May 2015.

On November 4, 2011, the Federal Deposit Insurance Corporation ("FDIC"), as receiver for Franklin Bank S.S.B, filed two complaints against the Company in the District Court of the State of Texas. Each was 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 alleged 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 raised 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 March 20, 2012, the Company filed answers to the complaints in both cases. On June 7, 2012, the two cases were consolidated. On January 10, 2013, the Company filed a motion for summary judgment and special exceptions with respect to plaintiff's claims. On February 6, 2013, the FDIC filed an amended consolidated complaint. On February 25, 2013, the Company filed a motion for summary judgment and special exceptions, which motion was denied in substantial part on April 26, 2013. On May 3, 2013, the FDIC filed a second amended consolidated complaint. Trial is currently scheduled to begin in November 2014.

On January 20, 2012, Sealink Funding Limited filed a complaint against the Company in the Supreme Court of NY, 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. An amended complaint was filed on May 21, 2012 and 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 $507 million. The amended complaint raises common law claims of fraud, fraudulent inducement, and aiding and abetting fraud and seeks, among other things, compensatory and/or rescissionary damages as well as punitive damages associated with plaintiffs' purchases of such certificates. On March 20, 2013, plaintiff filed a second amended complaint. On May 3, 2013, the Company filed a motion to dismiss the second amended complaint.

On January 25, 2012, Dexia SA/NV and certain of its affiliated entities filed a complaint against the Company in the Supreme Court of NY, styled *Dexia SA/NV et al. v. Morgan Stanley, et al*. An amended complaint was filed on May 24, 2012 and 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 $626 million. The amended complaint raises common law claims of fraud, fraudulent inducement, and aiding and abetting fraud and seeks, among other things, compensatory and/or rescissionary damages as well as punitive damages associated with plaintiffs' purchases of such certificates. On October 16, 2013, the court granted the defendants' motion to dismiss the amended complaint. On November 18, 2013, plaintiffs filed a notice of appeal of the dismissal and a motion to renew their opposition to defendants' motion to dismiss.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey, styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company is approximately $1 billion. The complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud and tortious interference with contract and seeks, among other things, compensatory damages, punitive damages, rescission and rescissionary damages associated with plaintiffs' purchases of such certificates. On October 16, 2012, plaintiffs filed an amended complaint which, among other things, increases the total amount of the certificates at issue by approximately $80 million, adds causes of action for fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On March 15, 2013, the court denied the defendants' motion to dismiss the amended complaint. On April 26, 2013, the defendants filed an answer to the amended complaint.

On August 7, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL (together, the "Trust") against the Company. The matter is styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v. Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the Trust, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On October 8, 2012, the Company filed a motion to dismiss the complaint.

On August 8, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*. and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. On October 9, 2012, the Company filed a motion to dismiss the complaint. On August 16, 2013, the court granted in part and denied in part the Company's motion to dismiss the complaint. On September 17, 2013, the Company filed its answer to the complaint. On September 26, 2013, and October 7, 2013, the Company and the plaintiffs, respectively, filed notices of appeal with respect to the court's August 16, 2013 decision.

On August 10, 2012, the FDIC, as receiver for Colonial Bank, filed a complaint against the Company in the Circuit Court of Montgomery, Alabama styled *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Citigroup Mortgage Loan Trust Inc. et al.*. The complaint alleges that the Company made untrue statements and material omissions in connection with the sale to Colonial Bank of a mortgage pass-through certificate backed by a securitization trust containing residential loans. The complaint raises claims under federal securities law and the Alabama Securities Act and seeks, among other things, compensatory damages. The total amount of the certificate allegedly sponsored, underwritten and/or sold by the Company to Colonial Bank was approximately $65 million. On September 13, 2013, the plaintiff filed an amended complaint. Defendants filed a motion to dismiss the amended complaint on November 12, 2013.

On September 28, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.,* pending in the Supreme Court of NY. U.S. Bank filed an amended complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. On March 18, 2013, the Company filed a motion to dismiss the complaint.

On October 22, 2012, Asset Management Fund d/b/a AMF Funds and certain of its affiliated funds filed a complaint against the Company in the Supreme Court of NY, styled *Asset Management Fund d/b/a AMF Funds et al v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $122 million. The complaint asserts causes of action against the Company for, among other things, common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, monetary and punitive damages. On December 3, 2012, the Company filed a motion to dismiss the complaint. On July 18, 2013, the court dismissed claims with respect to seven certificates purchased by the plaintiff. The remaining claims relate to certificates with an original balance of $10.6 million. On September 12, 2013, plaintiffs filed a notice of appeal concerning the court's decision granting in part and denying in part the defendants' motion to dismiss. Defendants filed a notice of cross-appeal on September 26, 2013.

On December 14, 2012, Royal Park Investments SA/NV filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY, styled *Royal Park Investments SA/NV v. Merrill Lynch et al.* The complaint alleges that defendants made material misrepresentations and omissions in the sale to plaintiff of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans totaling approximately $628 million. On March 15, 2013, defendants filed a motion to dismiss the complaint. On June 17, 2013, the court signed a joint proposed order and stipulation allowing plaintiffs to replead their complaint and defendants to withdraw their motion to dismiss without prejudice. On October 24, 2013, plaintiff filed a new complaint against the Company in the Supreme Court of NY, styled *Royal Park Investments SA/NV v. Morgan Stanley et al.* The new complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $597 million. The complaint raises common law claims of fraud, fraudulent inducement, negligent misrepresentation, and aiding and abetting fraud and seeks, among other things, compensatory and punitive damages. On February 3, 2014, the Company filed a motion to dismiss the complaint.

On January 10, 2013, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-10SL and Mortgage Pass-Through Certificates, Series 2006-10SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $300 million, breached various representations and warranties. The complaint seeks, among other relief, an order requiring the Company to comply with the loan breach remedy procedures in the transaction documents, unspecified damages, and interest. On March 11, 2013, the Company filed a motion to dismiss the complaint.

On January 31, 2013, HSH Nordbank AG and certain affiliates filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY, styled *HSH Nordbank AG et al. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $524 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On April 12, 2013, defendants filed a motion to dismiss the complaint.

On February 14, 2013, Bank Hapoalim B.M. filed a complaint against the Company and certain affiliates in the Supreme Court of NY, styled *Bank Hapoalim B.M. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $141 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, compensatory and punitive damages. On April 26, 2013, defendants filed a motion to dismiss the complaint.

On March 7, 2013, the Federal Housing Finance Agency filed a summons with notice on behalf of the trustee of the Saxon Asset Securities Trust, Series 2007-1, against the Company and an affiliate. The matter is styled *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Saxon Asset Securities Trust, Series 2007-1 v. Saxon Funding Management LLC and Morgan Stanley* and is pending in the Supreme Court of NY. The notice asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $593 million, breached various representations and warranties. The notice seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, indemnity, and interest.

On May 3, 2013, plaintiffs in *Deutsche Zentral-Genossenschaftsbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $694 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On July 12, 2013, defendants filed a motion to dismiss the complaint.

On May 17, 2013, plaintiff in *IKB International S.A. in Liquidation, et al. v. Morgan Stanley, et al.* filed a complaint against the Company and certain affiliates in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $132 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, compensatory and punitive damages. On July 26, 2013, defendants filed a motion to dismiss the complaint.

On July 2, 2013, the trustee, Deutsche Bank became the named plaintiff in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 (MSAC 2007-NC1) v. Morgan Stanley ABS Capital I Inc.*, and filed a complaint in the Supreme Court of NY under the caption *Deutsche Bank National Trust Company, as Trustee for the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 v. Morgan Stanley ABS Capital I, Inc.* On

February 3, 2014, the plaintiff filed an amended complaint, which asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.25 billion, breached various representations and warranties. The amended complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, rescission and interest.

On July 8, 2013, plaintiff filed a complaint in *Morgan Stanley Mortgage Loan Trust 2007-2AX, by U.S. Bank National Association, solely in its capacity as Trustee v. Morgan Stanley Mortgage Capital Holdings LLC, as successor-by-merger to Morgan Stanley Mortgage Capital Inc*., *and Greenpoint Mortgage Funding, Inc.* The complaint, filed in the Supreme Court of NY, asserts claims for breach of contract and alleges, among other things, that the loans in the Trust, which had an original principal balance of approximately $650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On August 22, 2013, the Company a filed a motion to dismiss the complaint.

On August 5, 2013, Landesbank Baden-Württemberg and two affiliates filed a complaint against the Company and certain affiliates in the Supreme Court of NY styled *Landesbank Baden-Württemberg et al. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $50 million. The complaint alleges causes of action against the Company for, among other things, common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission based upon mutual mistake, and seeks, among other things, rescission, compensatory damages, and punitive damages. On October 4, 2013, defendants filed a motion to dismiss the complaint.

On August 16, 2013, plaintiffs in *National Credit Union Administration Board v. Morgan Stanley & Co. Incorporated, et al.* filed a complaint against the Company and certain affiliates in the United States District Court for the District of Kansas. The complaint alleges that defendants made untrue statements of material fact or omitted to state material facts in the sale to plaintiffs of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $567 million. The complaint alleges causes of action against the Company for violations of Section 11 and Section 12(a)(2) of the Securities Act of 1933, violations of the California Corporate Securities Law of 1968, and violations of the Kansas Blue Sky Law and seeks, among other things, rescissionary and compensatory damages. The defendants filed a motion to dismiss the complaint on November 4, 2013. On December 27, 2013, the court granted the motion to dismiss in substantial part. The surviving claims relate to one certificate purchased by the plaintiff for approximately $17 million.

On August 26, 2013, a complaint was filed against the Company and certain affiliates in the Supreme Court of NY, styled *Phoenix Light SF Limited et al v. Morgan Stanley et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiffs, or their assignors, 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 or their assignors by the Company was approximately $344 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud, negligent misrepresentation and rescission based on mutual mistake and seeks, among other things, compensatory damages, punitive damages or alternatively rescission or rescissionary damages associated with the purchase of such certificates. The defendants filed a motion to dismiss on December 13, 2013.

On September 23, 2013, plaintiffs in *National Credit Union Administration Board v. Morgan Stanley & Co. Inc., et al.* filed a complaint against the Company and certain affiliates in the SDNY. The complaint alleges that defendants made untrue statements of material fact or omitted to state material facts in the sale to plaintiffs of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $417 million. The complaint alleges causes of action against the Company for violations of Section 11 and Section 12(a)(2) of the Securities Act of 1933, violations of the Texas Securities Act, and violations of the Illinois Securities Law of 1953 and seeks, among other things, rescissionary and compensatory damages. The defendants filed a motion to dismiss the complaint on November 13, 2013. On January 22, 2014, the court granted defendants' motion to dismiss with respect to claims arising under the Securities Act of 1933 and denied defendants' motion to dismiss with respect to claims arising under Texas Securities Act and the Illinois Securities Law of 1953.

On November 6, 2013, Deutsche Bank, in its capacity as trustee, became the named plaintiff in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC3 (MSAC 2007-NC3) v. Morgan Stanley Mortgage Capital Holdings LLC*, and filed a complaint in the Supreme Court of NY under the caption *Deutsche Bank National Trust Company, solely in its capacity as Trustee for Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC3 v. Morgan Stanley Mortgage Capital Holdings LLC, as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc.* The complaint asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.3 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, rescission, interest and costs. On December 16, 2013, the Company filed a motion to dismiss the complaint.

On December 24, 2013, Commerzbank AG London Branch filed a summons with notice against the Company and others in the Supreme Court of NY, styled *Commerzbank AG London Branch v. UBS AG et al.* Plaintiff purports to be the assignee of claims of certain other entities. The notice alleges that defendants made material misrepresentations and omissions in the sale to plaintiff's assignors of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $207 million. The notice identifies causes of action against the Company for, among other things, common-law fraud, fraudulent inducement, aiding and abetting fraud, civil conspiracy, tortious interference and unjust enrichment. The notice identifies the relief sought to include, among other things, monetary damages of at least approximately $207 million and punitive damages.

On December 30, 2013, Wilmington Trust Company, in its capacity as trustee for Morgan Stanley Mortgage Loan Trust 2007-12, filed a complaint against the Company. The matter is styled *Wilmington Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC et al.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $516 million, breached various representations and warranties. The complaint seeks, among other relief, unspecified damages, interest and costs.

On January 15, 2014, the FDIC, as receiver for United Western Bank filed a complaint against the Company and others in the District Court of the State of Colorado, styled *Federal Deposit Insurance Corporation, as Receiver for United Western Bank v. Banc of America Funding Corp., et al.* The complaint alleges that the Company made untrue statements and material omissions in connection with the sale to United Western Bank of mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly sponsored, underwritten and/or sold to United Western Bank by the Company was approximately $75 million. The complaint raises claims under both federal securities law and the Colorado Securities Act and seeks, among other things, compensatory damages associated with plaintiff's purchase 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. On September 19, 2012, the Company received two purported Notices of Non-Performance from the Law Firm purportedly on behalf of the holders of significant voting rights in various trusts securing over $28 billion of residential mortgage backed securities sponsored or underwritten by the Company. The Notice purports to identify certain covenants in Pooling and Servicing Agreements (“PSAs”) that the holders allege that the Servicer and Master Servicer failed to perform, and alleges that each of these failures has materially affected the rights of certificateholders and constitutes an ongoing event of default under the relevant PSAs. On November 2, 2012, the Company responded to the letters, denying the allegations therein.

Commercial Mortgage Related Matter.

On January 25, 2011, the Company was named as a defendant in *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc.,* a litigation pending in the SDNY. The suit, brought by the trustee of a series of commercial mortgage pass-through certificates, alleges that the Company breached certain representations and warranties with respect to an $81 million commercial mortgage loan that was originated and transferred to the trust by the Company. The complaint seeks, among other things, to have the Company repurchase the loan and pay additional monetary damages. On June 27, 2011, the court denied the Company’s motion to dismiss, but directed the filing of an amended complaint. On July 29, 2011, the Company filed its answer to the first amended complaint. On June 20, 2013, the court granted in part and denied in part the Company’s motion for summary judgment, and denied the plaintiff’s motion for summary judgment. On October 30, 2013, the Company filed a supplemental motion for summary judgment.

Matters Related to the CDS Market.

On July 1, 2013, the European Commission (“EC”) issued a Statement of Objections (“SO”) addressed to twelve financial firms (including the Company), the International Swaps and Derivatives Association, Inc. (“ISDA”) and Markit Group Limited (“Markit”) and various affiliates alleging that, between 2006 and 2009, the recipients breached European Union competition law by taking and refusing to take certain actions in an effort to prevent the development of exchange traded credit default swap (“CDS”) products. The SO indicates that the EC plans to impose remedial measures and fines on the recipients. The Company and the other recipients filed a response to the SO on January 21, 2014. The Company and others have also responded to an investigation by the Antitrust Division of the United States Department of Justice related to the CDS market.

Beginning in May 2013, twelve financial firms (including the Company), as well as ISDA and Markit, were named as defendants in multiple purported antitrust class actions now consolidated into a single proceeding in the SDNY styled *In Re: Credit Default Swaps Antitrust Litigation*. Plaintiffs allege that defendants violated United States antitrust laws from 2008 to present in connection with their alleged efforts to prevent the development of exchange traded CDS products. The complaints seek, among other relief, certification of a class of plaintiffs who purchased CDS from defendants in the United States, treble damages and injunctive relief.

The following matters were terminated during or following the quarter ended December 31, 2013:

In re: Lehman Brothers Equity/Debt Securities Litigation, which had been pending in the SDNY, related to several offerings of debt and equity securities issued by Lehman Brothers Holdings Inc. during 2007 and 2008. A group of underwriter defendants, including the Company, settled the main litigation on December 2, 2012. The remaining opt-out claims and appeals have now been resolved.

Stichting Pensioenfonds ABP v. Morgan Stanley, et al., which had been pending in the Supreme Court of NY, involved allegations that the defendants made untrue statements and material omissions to plaintiff in connection with the sale of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. On November 15, 2013, the parties entered into an agreement to settle the litigation. On December 3, 2013, the court dismissed the action.

Bayerische Landesbank, New York Branch v. Morgan Stanley, et al., which had been pending in the Supreme Court of NY, involved allegations that the defendants made untrue statements and material omissions to plaintiff in connection with the sale of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. On December 6, 2013, the parties entered into an agreement to settle the litigation. On January 2, 2014, the court dismissed the action.

Seagull Point, LLC, individually and on behalf of Morgan Stanley ABS Capital I Inc. Trust 2007 HE-5 v. WMC Mortgage Corp., et al., which had been pending in the Supreme Court of NY, involved allegations that the loans in the trust breached various representations and warranties. On January 9, 2014, plaintiff filed a notice of discontinuance, dismissing the action against all defendants.

Federal Home Loan Bank of Chicago v. Bank of America Securities LLC, et al., which had been pending in the Superior Court of the State of California, involved allegations that the defendants made untrue statements and material omissions to plaintiff in connection with the sale of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. On December 6, 2013, plaintiff filed a request for dismissal of all of its claims against the Company. On January 27, 2014, the court dismissed the action.

Metropolitan Life Insurance Company, et al. v. Morgan Stanley, et al., which had been pending in the Supreme Court of NY, involved allegations that the defendants made untrue statements and material omissions to plaintiffs in connection with the sale of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. On January 23, 2014, the parties reached an agreement in principle to settle the litigation.

Cambridge Place Investment Management Inc. v. Morgan Stanley & Co., Inc., et al., which had been pending in the Superior Court of the Commonwealth of Massachusetts, involved allegations that the defendants made untrue statements and material omissions to plaintiff in connection with the sale of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. On February 11, 2014, the parties entered into an agreement to settle the litigation. On February 20, 2014, the court dismissed the action.

Federal Housing Finance Agency, as Conservator v. Morgan Stanley et al., which had been pending in the SDNY, involved allegations that the defendants made untrue statements and material omissions to plaintiff in connection with the sale of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. On February 7, 2014, the parties entered into an agreement to settle the litigation. On February 20, 2014, the court dismissed the action.

On December 12, 2013, the Company entered into an agreement with American International Group, Inc. ("AIG") to resolve AIG's potential claims against the Company related to AIG's purchases of certain mortgage pass-through certificates sponsored or underwritten by the Company backed by securitization trusts containing residential mortgage loans.

Item 4. Mine Safety Disclosures

Not applicable.

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 19, 2014, the Company had 79,140 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
2013:			
Fourth Quarter	$26.41	$31.85	$0.05
Third Quarter	$23.83	$29.50	$0.05
Second Quarter	$20.16	$27.17	$0.05
First Quarter	$19.32	$24.47	$0.05
2012:			
Fourth Quarter	$13.49	$19.45	$0.05
Third Quarter	$12.29	$18.50	$0.05
Second Quarter	$12.26	$20.05	$0.05
First Quarter	$13.49	$21.19	$0.05

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, 2013.

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, 2013—October 31, 2013)				
Share Repurchase Program(A)	1,495,000	$29.26	1,495,000	$1,394
Employee Transactions(B)	172,249	$27.46	—	—
Month #2 (November 1, 2013—November 30, 2013)				
Share Repurchase Program(A)	4,038,832	$29.65	4,038,832	$1,274
Employee Transactions(B)	56,206	$30.10	—	—
Month #3 (December 1, 2013—December 31, 2013)				
Share Repurchase Program(A)	2,087,000	$30.81	2,087,000	$1,210
Employee Transactions(B)	170,552	$31.19	—	—
Total				
Share Repurchase Program(A)	7,620,832	$29.89	7,620,832	$1,210
Employee Transactions(B)	399,007	$29.43	—	—

(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. In July 2013, the Company received no objection from the Federal Reserve to repurchase up to $500 million of the Company's outstanding common stock under rules permitting annual capital distributions (12 Code of Federal Regulations 225.8, *Capital Planning*), of which approximately $150 million as of December 31, 2013 may yet be purchased until March 31, 2014. For further information, see "Liquidity and Capital Resources—Capital Management" in Part I, Item 2.

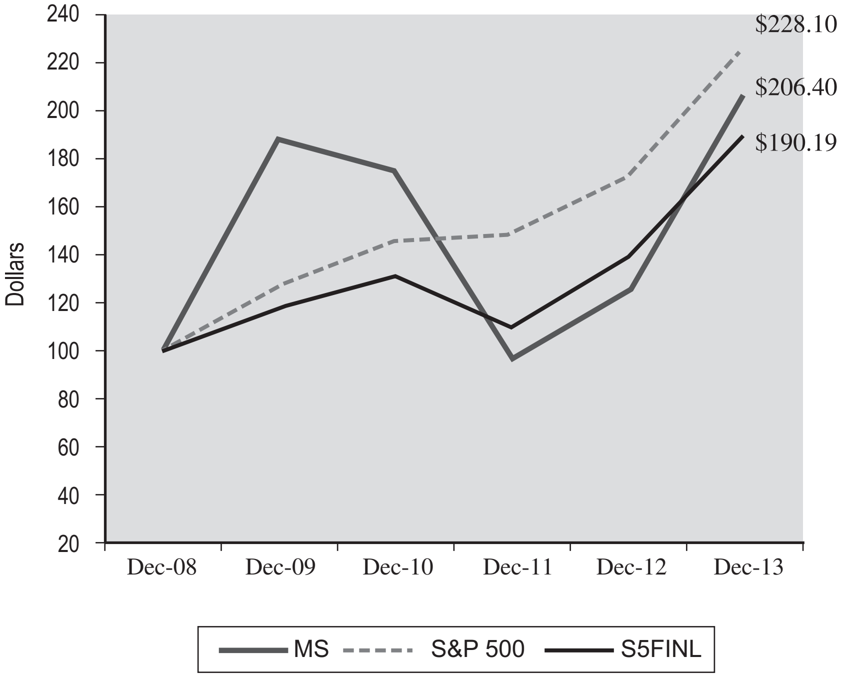
(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under 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.

***

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 31, 2008 and reinvestment of dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of the Company's common stock.

CUMULATIVE TOTAL SHAREHOLDER RETURN
December 31, 2008 - December 31, 2013



	MS	S&P 500	S5FINL
12/31/2008	$100.00	$100.00	$100.00
12/31/2009	$187.93	$126.45	$117.15
12/31/2010	$174.03	$145.49	$131.36
12/31/2011	$ 97.59	$148.55	$108.95
12/30/2012	$124.84	$172.31	$140.27
12/31/2013	$206.40	$228.10	$190.19

Item 6. Selected Financial Data.

MORGAN STANLEY

SELECTED FINANCIAL DATA
(dollars in millions, except share and per share data)

	2013	2012	2011	2010	2009
Income Statement Data:					
Revenues:					
Investment banking	$ 5,246	$ 4,758	$ 4,991	$ 5,122	$ 5,020
Trading	9,359	6,990	12,384	9,393	7,723
Investments	1,777	742	573	1,825	(1,034)
Commissions and fees	4,629	4,253	5,343	4,909	4,210
Asset management, distribution and administration fees	9,638	9,008	8,409	7,843	5,802
Other	990	556	176	1,235	672
Total non-interest revenues	31,639	26,307	31,876	30,327	22,393
Interest income	5,209	5,692	7,234	7,288	7,468
Interest expense	4,431	5,897	6,883	6,394	6,678
Net interest	778	(205)	351	894	790
Net revenues	32,417	26,102	32,227	31,221	23,183
Non-interest expenses:					
Compensation and benefits	16,277	15,615	16,325	15,860	14,287
Other	11,658	9,967	9,792	9,154	7,753
Total non-interest expenses	27,935	25,582	26,117	25,014	22,040
Income from continuing operations before income taxes	4,482	520	6,110	6,207	1,143
Provision for (benefit from) income taxes	826	(237)	1,414	743	(298)
Income from continuing operations	3,656	757	4,696	5,464	1,441
Discontinued operations(1):					
Gain (loss) from discontinued operations	(72)	(48)	(170)	600	(127)
Provision for (benefit from) income taxes	(29)	(7)	(119)	362	(92)
Net gain (loss) from discontinued operations	(43)	(41)	(51)	238	(35)
Net income	3,613	716	4,645	5,702	1,406
Net income applicable to redeemable noncontrolling interests(2)	222	124	—	—	—
Net income applicable to nonredeemable noncontrolling interests(2)	459	524	535	999	60
Net income applicable to Morgan Stanley	$ 2,932	$ 68	$ 4,110	$ 4,703	$ 1,346
Preferred stock dividends	277	98	2,043	1,109	2,253
Earnings (loss) applicable to Morgan Stanley common shareholders(3)	$ 2,655	$ (30)	$ 2,067	$ 3,594	$ (907)
Amounts applicable to Morgan Stanley:					
Income from continuing operations	$ 2,975	$ 138	$ 4,168	$ 4,478	$ 1,404
Net gain (loss) from discontinued operations	(43)	(70)	(58)	225	(58)
Net income applicable to Morgan Stanley	$ 2,932	$ 68	$ 4,110	$ 4,703	$ 1,346

	2013	2012	2011	2010	2009
Per Share Data:					
Earnings (loss) per basic common share(4):					
Income (loss) from continuing operations	$ 1.42	$ 0.02	$ 1.28	$ 2.49	$ (0.72)
Net gain (loss) from discontinued operations	(0.03)	(0.04)	(0.03)	0.15	(0.05)
Earnings (loss) per basic common share	$ 1.39	$ (0.02)	$ 1.25	$ 2.64	$ (0.77)
Earnings (loss) per diluted common share(4):					
Income (loss) from continuing operations	$ 1.38	$ 0.02	$ 1.27	$ 2.45	$ (0.72)
Net gain (loss) from discontinued operations	(0.02)	(0.04)	(0.04)	0.18	(0.05)
Earnings (loss) per diluted common share	$ 1.36	$ (0.02)	$ 1.23	$ 2.63	$ (0.77)
Book value per common share(5)	$ 32.24	$ 30.70	$ 31.42	$ 31.49	$ 27.26
Dividends declared per common share	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.17
Balance Sheet and Other Operating Data:					
Total assets	$ 832,702	$ 780,960	$ 749,898	$ 807,698	$ 771,462
Total deposits	112,379	83,266	65,662	63,812	62,215
Long-term borrowings	153,575	169,571	184,234	192,457	193,374
Morgan Stanley shareholders' equity	65,921	62,109	62,049	57,211	46,688
Return on average common equity(6)	4.3%	N/M	3.8%	9.0%	N/M
Average common shares outstanding(3):					
Basic	1,905,823,882	1,885,774,276	1,654,708,640	1,361,670,938	1,185,414,871
Diluted	1,956,519,738	1,918,811,270	1,675,271,669	1,411,268,971	1,185,414,871

N/M—Not Meaningful.

(1) Prior-period amounts have been recast for discontinued operations. See Note 1 to the consolidated financial statements in Item 8 for information on discontinued operations.

(2) Information includes 100%, 65% and 51% ownership of the retail securities joint venture between the Company and Citigroup Inc. (the "Wealth Management JV") effective June 28, 2013, September 17, 2012 and May 31, 2009, respectively (see Note 3 to the consolidated financial statements in Item 8).

(3) Amounts shown are used to calculate earnings per basic and diluted common share.

(4) For the calculation of basic and diluted earnings per common share, see Note 16 to the consolidated financial statements in Item 8.

(5) Book value per common share equals common shareholders' equity of $62,701 million at December 31, 2013, $60,601 million at December 31, 2012, $60,541 million at December 31, 2011, $47,614 million at December 31, 2010 and $37,091 million at December 31, 2009, divided by common shares outstanding of 1,945 million at December 31, 2013, 1,974 million at December 31, 2012, 1,927 million at December 31, 2011, 1,512 million at December 31, 2010 and 1,361 million at December 31, 2009.

(6) The calculation of return on average common equity uses net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity. The return on average common equity is a non-generally accepted accounting principle financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance.

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, Wealth Management and Investment 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" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries.

Effective with the quarter ended June 30, 2013, the Global Wealth Management Group and Asset Management business segments were re-titled Wealth Management and Investment Management, respectively.

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

> *Institutional Securities* provides financial advisory and capital-raising 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.
>
> *Wealth Management* 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 engages in fixed income trading, which primarily facilitates clients' trading or investments in such securities.
>
> *Investment 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 Note 1 to the consolidated financial statements in Item 8 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), policies (including fiscal and monetary) and legal and regulatory actions in the United States of America ("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 the Company's unsecured short-term and long-term debt; investor, consumer and business sentiment and confidence in the financial markets; the performance of the Company's acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements; 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; the effectiveness of the Company's risk management policies; technological changes and risks, including cybersecurity risks; 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 adverse 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.

The discussion of the Company's results of operations below may contain forward-looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect the Company's future results, see "Forward-Looking Statements" immediately preceding "Business—Competition" and "Business—Supervision and Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A and "Executive Summary—Significant Items" and "Other Matters" herein.

Executive Summary.

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

	2013	2012	2011
Net revenues:			
Institutional Securities(1)	$15,443	$11,025	$17,683
Wealth Management(1)	14,214	13,034	12,772
Investment Management	2,988	2,219	1,887
Intersegment Eliminations	(228)	(176)	(115)
Consolidated net revenues	$32,417	$26,102	$32,227
Net income	$ 3,613	$ 716	$ 4,645
Net income applicable to redeemable noncontrolling interests(2)	222	124	—
Net income applicable to nonredeemable noncontrolling interests(2)	459	524	535
Net income applicable to Morgan Stanley	$ 2,932	$ 68	$ 4,110
Income (loss) from continuing operations applicable to Morgan Stanley:			
Institutional Securities(1)	$ 984	$ (797)	$ 3,450
Wealth Management(1)	1,488	803	683
Investment Management	503	136	35
Intersegment Eliminations	—	(4)	—
Income from continuing operations applicable to Morgan Stanley	$ 2,975	$ 138	$ 4,168
Net gain (loss) from discontinued operations applicable to Morgan Stanley(3)	(43)	(70)	(58)
Net income applicable to Morgan Stanley	$ 2,932	$ 68	$ 4,110
Preferred stock dividends	277	98	2,043
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 2,655	$ (30)	$ 2,067
Earnings (loss) per basic common share:			
Income from continuing operations	$ 1.42	$ 0.02	$ 1.28
Net gain (loss) from discontinued operations(3)	(0.03)	(0.04)	(0.03)
Earnings (loss) per basic common share(4)	$ 1.39	$ (0.02)	$ 1.25
Earnings (loss) per diluted common share:			
Income from continuing operations	$ 1.38	$ 0.02	$ 1.27
Net gain (loss) from discontinued operations(3)	(0.02)	(0.04)	(0.04)
Earnings (loss) per diluted common share(4)	$ 1.36	$ (0.02)	$ 1.23
Regional net revenues(5):			
Americas	$23,282	$20,200	$22,306
Europe, Middle East and Africa	4,542	3,078	6,619
Asia	4,593	2,824	3,302
Net revenues	$32,417	$26,102	$32,227

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

	2013	2012	2011
Average common equity (dollars in billions):			
Institutional Securities	$ 37.9	$ 29.0	$ 32.7
Wealth Management	13.2	13.3	13.2
Investment Management	2.8	2.4	2.6
Parent capital	8.0	16.1	5.9
Consolidated average common equity	$ 61.9	$ 60.8	$ 54.4
Return on average common equity(6):			
Institutional Securities	2.3%	N/M	5.1%
Wealth Management	10.0%	6.0%	3.4%
Investment Management	17.6%	5.4%	N/M
Consolidated	4.4%	0.1%	4.0%
Book value per common share(7)	$ 32.24	$ 30.70	$ 31.42
Average tangible common equity (dollars in billions)(8)	$ 53.0	$ 53.9	$ 47.5
Return on average tangible common equity(9)	5.1%	0.1%	4.5%
Tangible book value per common share(10)	$ 27.16	$ 26.86	$ 27.95
Effective income tax rate from continuing operations(11)	18.4%	(45.6)%	23.1%
Worldwide employees at December 31, 2013, 2012 and 2011	55,794	57,061	61,546
Global Liquidity Reserve held by bank and non-bank legal entities at December 31, 2013, 2012 and 2011 (dollars in billions)(12)	$ 202	$ 182	$ 182
Average Global Liquidity Reserve (dollars in billions)(12):			
Bank legal entities	$ 75	$ 63	$ 64
Non-bank legal entities	117	113	113
Total average Global Liquidity Reserve	$ 192	$ 176	$ 177
Long-term borrowings at December 31, 2013, 2012 and 2011	$153,575	$169,571	$184,234
Maturities of long-term borrowings outstanding at December 31, 2013, 2012 and 2011 (next 12 months)	$ 24,193	$ 25,303	$ 35,082
Capital ratios at December 31, 2013, 2012 and 2011:			
Total capital ratio(13)	16.9%	18.5%	17.5%
Tier 1 common capital ratio(13)	12.8%	14.6%	12.6%
Tier 1 capital ratio(13)	15.7%	17.7%	16.2%
Tier 1 leverage ratio(14)	7.6%	7.1%	6.6%
Consolidated assets under management or supervision at December 31, 2013, 2012 and 2011 (dollars in billions)(15):			
Investment Management(16)	$ 373	$ 338	$ 287
Wealth Management(1)(17)	692	551	472
Total	$ 1,065	$ 889	$ 759

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

	2013	2012	2011
Institutional Securities(1):			
Pre-tax profit margin(18)	6%	N/M	26%
Wealth Management(1)(17):			
Wealth Management representatives at December 31, 2013, 2012 and 2011(19)	16,456	16,352	17,033
Annual revenues per representative (dollars in thousands)(20)	$ 867	$ 786	$ 731
Assets by client segment at December 31, 2013, 2012 and 2011 (dollars in billions):			
$10 million or more	$ 678	$ 538	$ 468
$1 million to $10 million	776	699	682
Subtotal $1 million or more	1,454	1,237	1,150
$100,000 to $1 million	414	414	375
Less than $100,000	41	45	41
Total client assets	$ 1,909	$ 1,696	$ 1,566
Fee-based client assets as a percentage of total client assets(21)	37%	33%	30%
Client assets per representative(22)	$ 116	$ 104	$ 92
Fee-based client asset flows (dollars in billions)(23)	$ 51.9	$ 26.9	$ 47.0
Bank deposits at December 31, 2013, 2012 and 2011 (dollars in billions)(24)	$ 134	$ 131	$ 111
Retail locations at December 31, 2013, 2012 and 2011	649	694	734
Pre-tax profit margin(18)	18%	12%	10%
Investment Management:			
Pre-tax profit margin(18)	33%	27%	13%
Selected management financial measures, excluding DVA:			
Net revenues, excluding DVA(25)	$33,098	$30,504	$28,546
Income from continuing operations applicable to Morgan Stanley, excluding DVA(25)	$ 3,427	$ 3,256	$ 1,893
Income per diluted common share from continuing operations, excluding DVA(25)	$ 1.61	$ 1.64	$ (0.08)
Return on average common equity, excluding DVA(6)	5.0%	5.2%	N/M
Return on average tangible common equity, excluding DVA(9)	5.8%	5.9%	N/M

N/M—Not Meaningful.

DVA—Debt Valuation Adjustment represents the change in the fair value of certain of the Company's long-term and short-term borrowings resulting from the fluctuation in the Company's credit spreads and other credit factors.

(1) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, all results and statistical data have been recast for all periods to reflect the International Wealth Management business as part of the Institutional Securities business segment.

(2) See Notes 2, 3 and 15 to the consolidated financial statements in Item 8 for information on redeemable and nonredeemable noncontrolling interests.

(3) See Note 1 to the consolidated financial statements in Item 8 for information on discontinued operations.

(4) For the calculation of basic and diluted earnings per share ("EPS"), see Note 16 to the consolidated financial statements in Item 8.

(5) Regional net revenues reflect the regional view of the Company's consolidated net revenues, on a managed basis. For further discussion regarding the geographic methodology for net revenues, see Note 21 to the consolidated financial statements in Item 8.

(6) The calculation of each business segment's return on average common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of each business segment's average common equity. The return on average common equity is a non-generally accepted accounting principle ("non-GAAP") financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance. The computation of average common equity for each business segment is determined using the Company's Required Capital framework ("Required Capital Framework"), an internal capital adequacy measure (see "Liquidity and Capital Resources—Regulatory Requirements—Required Capital" herein). The effective tax rates used in the computation of business segments' return on average common equity were determined on a separate legal entity basis. To

determine the return on consolidated average common equity, excluding the impact of DVA, also a non-GAAP financial measure, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA in 2013, 2012 and 2011 was (0.6)%, (5.1)% and 4.2%, respectively.

(7) Book value per common share equals common shareholders' equity of $62,701 million at December 31, 2013, $60,601 million at December 31, 2012 and $60,541 million at December 31, 2011 divided by common shares outstanding of 1,945 million at December 31, 2013, 1,974 million at December 31, 2012 and 1,927 million at December 31, 2011. Book value per common share in 2011 was reduced by approximately $2.61 per share as a result of the Mitsubishi UFJ Financial Group, Inc. ("MUFG") stock conversion (see "Significant Items—MUFG Stock Conversion" herein).

(8) Average tangible common equity is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. For a discussion of tangible common equity, see "Liquidity and Capital Resources—Capital Management" herein.

(9) Return on average tangible common equity is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. The calculation of return on average tangible common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity. To determine the return on average tangible common equity, excluding the impact of DVA, also a non-GAAP financial measure, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA in 2013, 2012 and 2011 was (0.7)%, (5.8)% and 4.8%, respectively.

(10) Tangible book value per common share equals tangible common equity of $52,828 million at December 31, 2013, $53,014 million at December 31, 2012 and $53,850 million at December 31, 2011 divided by common shares outstanding of 1,945 million at December 31, 2013, 1,974 million at December 31, 2012 and 1,927 million at December 31, 2011. Tangible book value per common share is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy.

(11) For a discussion of the effective income tax rate, see "Overview of 2013 Financial Results" and "Significant Items—Income Tax Items" herein.

(12) For a discussion of Global Liquidity Reserve, see "Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve" herein.

(13) As of December 31, 2013, the Company calculated its Total, Tier 1 and Tier 1 common capital ratios and risk-weighted assets ("RWAs") in accordance with the capital adequacy standards for financial holding companies adopted by the Board of Governors of the Federal Reserve System (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. On January 1, 2013, the U.S. banking regulators' rules to implement the Basel Committee on Banking Supervision's market risk capital framework amendment, commonly referred to as "Basel 2.5", became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book, as well as incorporated add-ons for stressed Value-at-Risk ("VaR") and incremental risk requirements ("market risk capital framework amendment"). The Company's Total, Tier 1 and Tier 1 common capital ratios and RWAs for 2013 were calculated under this revised framework. The Company's Total, Tier 1 and Tier 1 common capital ratios and RWAs for prior periods have not been recalculated under this revised framework. For a discussion of Total, Tier 1 and Tier 1 common capital ratios, see "Liquidity and Capital Resources—Regulatory Requirements" herein.

(14) For a discussion of Tier 1 leverage ratio, see "Liquidity and Capital Resources—Regulatory Requirements" herein.

(15) Revenues and expenses associated with these assets are included in the Company's Wealth Management and Investment Management business segments.

(16) Amounts exclude the Investment Management business segment's proportionate share of assets managed by entities in which it owns a minority stake.

(17) Prior-period amounts have been recast to exclude Quilter & Co. Ltd. ("Quilter"). See Note 1 to the consolidated financial statements in Item 8 for information on discontinued operations.

(18) Pre-tax profit margin is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess operating performance. Percentages represent income from continuing operations before income taxes as a percentage of net revenues.

(19) At December 31, 2013, 2012 and 2011, global representatives for the Company were 16,784, 16,780 and 17,512, which include approximately 328, 428 and 479 representatives associated with the International Wealth Management business, the results of which are reported in the Institutional Securities business segment, respectively.

(20) Annual revenues per representative in 2013, 2012 and 2011 equal Wealth Management business segment's annual revenues divided by the average representative headcount in 2013, 2012 and 2011, respectively.

(21) Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets. Effective in 2013, client assets also include certain additional non-custodied assets as a result of the completion of the purchase of the remaining interest in the retail securities joint venture between the Company and Citigroup Inc. ("Citi") (the "Wealth Management JV") platform conversion.

(22) Client assets per representative equal total period-end client assets divided by period-end representative headcount.

(23) Beginning January 1, 2013, the Company enhanced its definition of fee-based asset flows. Fee-based asset flows have been recast for all periods to include dividends, interest and client fees and to exclude cash management related activity.

(24) Approximately $104 billion, $72 billion and $56 billion of the bank deposit balances at December 31, 2013, 2012 and 2011, respectively, are held at Company-affiliated depositories with the remainder held at Citi affiliated depositories. The Company considers the remaining deposits held with Citi affiliated depositories a non-GAAP measure, which the Company and investors use to assess deposits in the

Wealth Management business segment. The deposit balances are held at certain of the Company's Federal Deposit Insurance Corporation (the "FDIC") insured depository institutions for the benefit of the Company's clients through their accounts. For additional information regarding deposits, see Notes 3, 10 and 25 to the consolidated financial statements in Item 8 and "Liquidity and Capital Resources—Funding Management—Deposits" herein.

(25) From time to time, the Company may disclose certain "non-GAAP financial measures" in the course of its earnings releases, earnings conference calls, financial presentations and otherwise. For these purposes, "GAAP" refers to generally accepted accounting principles in the U.S. The U.S. Securities and Exchange Commission defines a "non-GAAP financial measure" as a numerical measure of historical or future financial performance, financial positions, or cash flows that excludes or includes amounts or is subject to adjustments that effectively exclude, or include, amounts from the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP financial measures disclosed by the Company are provided as additional information to investors in order to provide them with further transparency about, or an alternative method for assessing, our financial condition and operating results. These measures are not in accordance with, or a substitute for, GAAP, and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever the Company refers to a non-GAAP financial measure, the Company will also generally present the most directly comparable financial measure calculated and presented in accordance with GAAP, along with a reconciliation of the differences between the non-GAAP financial measure and the GAAP financial measure.

	2013	2012	2011
Reconciliation of Selected Management Financial Measures from a Non-GAAP to a GAAP Basis (dollars in millions, except per share amounts):			
Net revenues			
Net revenues—non-GAAP	$33,098	$30,504	$28,546
Impact of DVA	(681)	(4,402)	3,681
Net revenues—GAAP	$32,417	$26,102	$32,227
Income (loss) from continuing operations applicable to Morgan Stanley			
Income applicable to Morgan Stanley—non-GAAP	$ 3,427	$ 3,256	$ 1,893
Impact of DVA	(452)	(3,118)	2,275
Income applicable to Morgan Stanley—GAAP	$ 2,975	$ 138	$ 4,168
Earnings (loss) per diluted common share			
Income from continuing operations per diluted common share—non-GAAP	$ 1.61	$ 1.64	$ (0.08)
Impact of DVA	(0.23)	(1.62)	1.35
Income from continuing operations per diluted common share—GAAP	$ 1.38	$ 0.02	$ 1.27
Average diluted shares—non-GAAP (in millions)	1,957	1,919	1,655
Impact of DVA (in millions)	—	—	20
Average diluted shares—GAAP (in millions)	1,957	1,919	1,675

Global Market and Economic Conditions.

During 2013, global market and economic conditions showed improvement from 2012, though significant uncertainty remained. Investor sentiment was boosted by encouraging signs of improvement in the global economy during the second half of 2013. The U.S. economy continued its moderate growth pace, but while as a whole the recession in the euro-area came to an end, significant pockets of slow or negative growth remained in Europe. During 2013, global market and economic conditions were also challenged by investor concerns about the U.S. longer-term budget outlook and the scaling back of monetary stimulus, the remaining European sovereign debt issues and slowing economic growth in emerging markets. Shorter-term concerns over the U.S. budget standoff were resolved in late 2013 as Congress came to a tentative agreement on federal government funding for the next two fiscal years. The agreement was in response to a shut-down of the U.S. federal government that lasted for 16 days during October 2013. Elsewhere, especially in parts of Europe, growth remains stymied by fiscal and longer-term structural issues in the economy.

In the U.S., major equity market indices ended the year significantly higher compared with year-end 2012. The U.S. economy continued its moderate growth pace in 2013. Labor market conditions improved as the unemployment rate declined to 6.7% at December 31, 2013 from 7.9% at December 31, 2012. Consumer spending and business investment advanced during 2013. The housing market generally strengthened in 2013, although rising mortgage rates have resulted in recent softness in housing starts and home sales. Apart from fluctuations due to changes in energy prices, inflation has been running below the Federal Reserve's longer-run objective, but longer-term inflation expectations have remained stable. The Federal Open Market Committee ("FOMC") of the Federal Reserve kept key interest rates at historically low levels. At December 31, 2013, the federal funds target rate remained between 0.0% and 0.25%, and the discount rate remained at 0.75%. Earlier in 2013 concerns about the Federal Reserve's plan to scale back its monetary stimulus plan caused investors to sell off holdings. Subsequently, the FOMC announced in December that it would be decreasing its purchases of Treasury and mortgage-backed securities in January 2014. The continuing U.S. recovery, though tepid, is also relieving some of the pressure on the federal budget experienced during the past several years.

In Europe, major equity market indices finished 2013 higher compared with year-end 2012. Euro-area gross domestic product started to grow in the second quarter of 2013, and the European Central Bank ("ECB") views this as a gradual recovery in economic conditions, albeit with significant downside risks. The euro-area unemployment rate increased to 12.0% at December 31, 2013 from 11.9% at 2012 year-end. At December 31, 2013, Bank of England's benchmark interest rate was 0.5%, which was unchanged from December 31, 2012. To stimulate economic activity in Europe, during 2013 the ECB lowered the benchmark interest rate from 0.75% to 0.25% and indicated it will keep open its special liquidity facilities until at least the middle of 2014.

Major equity market indices in Asia ended the year higher, with the notable exception of the Shanghai Stock Exchange Composite Index in China. Japan's economic activity grew moderately during 2013, primarily resulting from a series of economic stimulus packages announced by the Japanese government and the Bank of Japan ("BOJ") in early 2013. The BOJ maintained its monetary stimulus plan during the remainder of 2013. The pace of China's economic growth slowed during 2013, though China's overall growth was still strong compared with the U.S., Europe and Japan. During 2013, the Chinese government began to implement reforms to restructure its economy away from reliance on exports and investments and toward more sustainable growth driven by domestic consumption.

Overview of 2013 Financial Results.

Consolidated Results. The Company recorded net income applicable to Morgan Stanley of $2,932 million on net revenues of $32,417 million in 2013 compared with net income applicable to Morgan Stanley of $68 million on net revenues of $26,102 million in 2012.

Net revenues in 2013 included negative revenues due to the impact of DVA of $681 million compared with negative revenues of $4,402 million in 2012. Non-interest expenses increased 9% to $27,935 million in 2013 compared with $25,582 million in 2012. Compensation expenses increased 4% to $16,277 million in 2013 compared with $15,615 million in 2012. Non-compensation expenses increased 17% to $11,658 million in 2013 compared with $9,967 million in 2012. The increase in non-compensation expenses primarily reflected higher legal expenses.

Earnings (loss) per diluted common share ("diluted EPS") and diluted EPS from continuing operations were $1.36 and $1.38, respectively, in 2013 compared with $(0.02) and $0.02, respectively, in 2012. The diluted EPS calculation for 2013 included a negative adjustment of approximately $151 million related to the purchase of the remaining interest in the Wealth Management JV, which was completed in June 2013.

Excluding the impact of DVA, net revenues were $33,098 million, and diluted EPS from continuing operations was $1.61 per share in 2013 compared with $30,504 million and $1.64 per share, respectively, in 2012.

The Company's effective tax rate from continuing operations was 18.4% for 2013. The effective tax rate included an aggregate discrete net tax benefit of $407 million. Excluding this aggregate discrete net tax benefit, the effective tax rate from continuing operations in 2013 would have been 27.5%.

Institutional Securities. Income from continuing operations before taxes was $869 million in 2013 compared with a loss from continuing operations before taxes of $1,688 million in 2012. Net revenues for 2013 were $15,443 million compared with $11,025 million in 2012. The results in 2013 included negative revenues due to the impact of DVA of $681 million compared with negative revenues of $4,402 million in 2012. Investment banking revenues for 2013 increased 11% from 2012 to $4,377 million, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower advisory revenues. The following sales and trading net revenues results exclude the impact of DVA. Sales and trading net revenues are composed of: trading revenues; commissions and fees; asset management, distribution and administration fees; and net interest revenues (expenses). The presentation of net revenues excluding the impact of DVA is a non-GAAP financial measure that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance. Equity sales and trading net revenues, excluding the impact of DVA, of $6,607 million increased 11% from 2012, reflecting strong performance across most products and regions from higher client activity, with particular strength in prime brokerage. Excluding the impact of DVA, fixed income and commodities sales and trading net revenues were $4,197 million in 2013, a decrease of 25% from 2012, reflecting lower levels of client activity across most products. Net investment gains of $707 million were recognized in 2013, compared with net investment gains of $219 million in 2012, primarily reflecting a gain on the disposition of an investment in an insurance broker. Other revenues of $608 million were recognized in 2013 compared with other revenues of $203 million in 2012. Other revenues included income arising from the Company's 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS") (see "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein). Non-interest expenses increased 15% in 2013 to $14,574 million, primarily due to higher non-compensation expenses. Compensation and benefits expenses in 2013 decreased 2% from 2012 to $6,823 million, primarily due to lower headcount. Non-compensation expenses were $7,751 million in 2013 compared with $5,735 million in 2012, reflecting the increased level of legal expenses.

Wealth Management. Income from continuing operations before taxes was $2,629 million in 2013 compared with $1,622 million in 2012. Net revenues were $14,214 million in 2013 compared with $13,034 million in 2012. Transactional revenues, consisting of Trading, Commissions and fees and Investment banking increased 8% from 2012 to $4,293 million. Trading revenues increased 11% from 2012 to $1,161 million in 2013, primarily due to gains related to investments associated with certain employee deferred compensation plans and higher revenues from fixed income products. Commissions and fees revenues increased 6% from 2012 to $2,209 million in 2013, primarily due to higher equity, mutual fund and alternatives activity. Investment banking revenues increased 11% from 2012 to $923 million in 2013, primarily due to higher levels of underwriting activity in closed-end funds and unit trusts. Asset management, distribution and administration fees increased 6% from 2012 to $7,638 million in 2013, primarily due to higher fee-based revenues, partially offset by lower revenues from referral fees from the bank deposit program. Net interest increased 20% from 2012 to $1,880 million in 2013, primarily due to higher balances in the bank deposit program and growth in loans and lending commitments in Portfolio Loan Account ("PLA") securities-based lending products. In addition, interest expense declined in 2013 due to the Company's redemption of all Class A Preferred Interests owned by Citi and its affiliates, in connection with the Company's acquisition of 100% ownership of the Wealth Management JV effective at the end of the second quarter of 2013. Total client asset balances were $1,909 billion at December 31, 2013 and client assets in fee-based accounts were $697 billion, or 37% of total client assets. Fee-based client asset flows for 2013 were $51.9 billion compared with $26.9 billion in 2012. Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment and for the Company's enhanced definition of fee-based asset flows (see "Business Segments" herein). Compensation and benefits expenses increased 6% from 2012 to $8,271 million in 2013, primarily due to higher compensable revenues. Non-compensation expenses decreased 8% from 2012 to $3,314 million in 2013, primarily driven by the absence of platform integration costs and non-recurring technology write-offs, partially offset by an impairment expense of $36 million related to certain intangible assets (management contracts) associated with alternative investment funds in 2013.

Investment Management. Income from continuing operations before taxes was $984 million in 2013 compared with $590 million in 2012. Net revenues were $2,988 million in 2013 compared with $2,219 million in 2012. The increase in net revenues reflected higher net investment gains predominantly within the Company's Merchant Banking and Real Estate Investing businesses and higher gains on certain investments associated with the Company's employee deferred compensation and co-investment plans. Results in 2013 also included an additional allocation of fund income to the Company as general partner, upon exceeding cumulative fund performance thresholds ("carried interest"). Non-interest expenses were $2,004 million in 2013 compared with $1,629 million in 2012. Compensation and benefits expenses increased 41% to $1,183 million in 2013, primarily due to higher net revenues. Non-compensation expenses increased 4% to $821 million in 2013, primarily due to higher brokerage and clearing and professional services expenses, partially offset by lower information processing expenses.

Significant Items.

Litigation. The Company incurred litigation expenses of approximately $1,952 million in 2013, $513 million in 2012 and $151 million in 2011. The litigation expenses incurred in 2013 were primarily due to settlements and reserve additions related to residential mortgage-backed securities and credit crisis-related matters (see "Contingencies—Legal" in Note 13 to the consolidated financial statements in Item 8). Litigation expenses are included in Other expenses in the consolidated statements of income. The Company expects future litigation expenses in general to continue to be elevated, and the changes in expenses from period to period may fluctuate significantly, given the current environment regarding financial crisis-related government investigations and private litigation affecting global financial services firms, including the Company.

Investment Gains. The Company's Investments revenues increased to $1,777 million in 2013 compared with $742 million in 2012. Of this increase, $543 million related to higher net investment gains and to a lesser extent the benefit of carried interest within the Company's Merchant Banking and Real Estate Investing businesses in the Investment Management business segment. In addition, the increase includes a gain on the disposition of an investment in an insurance broker in 2013 in the Institutional Securities business segment.

Japanese Securities Joint Venture. During 2013, 2012 and 2011, the Company recorded income (loss) of $570 million, $152 million and $(783) million, respectively, within Other revenues in the consolidated statements of income, arising from the Company's 40% stake in MUMSS. Net income applicable to nonredeemable noncontrolling interests associated with MUFG's interest in Morgan Stanley MUFG Securities Co., Ltd. ("MSMS") was $259 million, $163 million and $1 million for 2013, 2012 and 2011, respectively (see Note 22 to the consolidated financial statements in Item 8).

In June 2013, MUMSS paid a dividend of approximately $287 million, of which the Company received approximately $115 million for its proportionate share of MUMSS.

Income Tax Items. In 2013, the Company recognized an aggregate discrete net tax benefit of $407 million. This included discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of certain tax authority examinations; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act"). The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside the U.S. until such income is repatriated to the U.S. as a dividend.

In 2012, the Company recognized an aggregate net tax benefit of $142 million. This included a discrete tax benefit of $299 million related to the remeasurement of reserves and related interest associated with either the expiration of the applicable statute of limitations or new information regarding the status of certain Internal Revenue Service examinations and an aggregate out-of-period net tax provision of $157 million, to adjust the overstatement of deferred tax assets associated with partnership investments, principally in the Company's Investment Management business segment and repatriated earnings of foreign subsidiaries recorded in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Corporate Lending. The Company recorded the following amounts primarily associated with loans and lending commitments within the Institutional Securities business segment (see "Business Segments—Institutional Securities" herein):

	2013	2012	2011
	(dollars in millions)		
Other sales and trading:			
Gains (losses) on loans and lending commitments and Net interest(1)	$ 596	$1,650	$(699)
Gains (losses) on hedges	(156)	(910)	68
Total Other sales and trading revenues	$ 440	$ 740	$(631)
Other revenues:			
Provision for loan losses	$ (46)	$ (85)	$ (6)
Losses on loans held for sale	(68)	(54)	—
Total Other revenues	$(114)	$ (139)	$ (6)
Other expenses: Provision for unfunded commitments	(45)	(71)	(18)
Total	$ 281	$ 530	$(655)

(1) Effective April 2012, the Company began accounting for all new originated loans and lending commitments as either held for investment or held for sale.

Wealth Management JV. The Company completed the purchase of the remaining 35% interest in the Wealth Management JV from Citi on June 28, 2013 for the previously established price of $4.725 billion. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) in 2013 to reflect the difference between the purchase price for the 35% interest in the joint venture and its carrying value. In 2012, the Company purchased an additional 14% stake in the Wealth Management JV from Citi for $1.89 billion, increasing the Company's interest from 51% to 65%. The Company recorded a negative adjustment to Paid-in-capital of approximately $107 million (net of tax) to reflect the difference between the purchase price for the 14% interest in the Wealth Management JV and its carrying value. Also in 2012, the Wealth Management business segment's non-interest expenses included approximately $173 million of non-recurring costs related to the Wealth Management JV integration. For more information, see Note 3 to the consolidated statements in Item 8.

Available for Sale Securities. During 2013, 2012 and 2011, the available for sale portfolio held within the Wealth Management business segment reported unrealized gains (losses) of $(433) million, $28 million and $87 million, net of tax, respectively, that were included in Accumulated other comprehensive income. The unrealized losses were primarily due to changes in interest rates. The securities in the Company's available for sale portfolio with an unrealized loss were not other-than-temporarily impaired at December 31, 2013, 2012 and 2011. For more information, see Notes 2 and 5 to the consolidated financial statements in Item 8.

Monoline Insurers. The results for 2011 included losses of $1,838 million related to the Company's counterparty credit exposures to Monoline Insurers ("Monolines"), principally MBIA Insurance Corporation ("MBIA").

During 2011, the Company announced a comprehensive settlement with MBIA. The settlement terminated outstanding credit default swap ("CDS") protection purchased from MBIA on commercial mortgage-backed securities and resolved pending litigation between the two parties for consideration of a net cash payment to the Company.

MUFG Stock Conversion. On June 30, 2011, the Company's outstanding Series B Preferred Stock owned by MUFG with a face value of $7.8 billion (carrying value $8.1 billion) and a 10% dividend was converted into 385,464,097 shares of the Company's common stock, including approximately 75 million shares resulting from the adjustment to the conversion ratio pursuant to the transaction agreement. As a result of the adjustment to the conversion ratio, the Company incurred a one-time, non-cash negative adjustment of approximately $1.7 billion in its calculation of basic and diluted earnings per share during 2011.

European Peripheral Countries. On December 22, 2011, the Company entered into agreements to restructure certain derivative transactions that decreased its exposure to obligors in Greece, Ireland, Italy, Portugal and Spain (the "European Peripherals"). As a result, the Company's results in 2011 included interest rate product revenues of approximately $600 million related primarily to the release of credit valuation adjustments associated with the transactions, reported within Trading revenues in the consolidated statement of income.

Huaxin Securities Joint Venture. In June 2011, the Company and Huaxin Securities Co., Ltd. (also known as China Fortune Securities Co., Ltd.) jointly announced the operational commencement of their securities joint venture in China. During 2011, the Company recorded initial costs of $130 million related to the formation of this joint venture in Other expenses in the consolidated statement of income.

Business Segments.

Substantially all of the Company's operating revenues and operating expenses are allocated to its business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company's consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Wealth Management business segment related to the bank deposit program.

On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, all results and statistical data have been recast for all periods to reflect the International Wealth Management business as part of the Institutional Securities business segment.

Net Revenues.

Trading. Trading revenues include revenues from customers' purchases and sales of financial instruments in which the Company acts as a market maker as well as gains and losses on the Company's related positions. Trading revenues include the realized gains and losses from sales of cash instruments and derivative settlements, unrealized gains and losses from ongoing fair value changes of the Company's positions related to market-making activities, and gains and losses related to investments associated with certain employee deferred compensation plans. In many markets, the realized and unrealized gains and losses from the purchase and sale transactions will include any spreads between bids and offers. Certain fees received on loans carried at fair value and dividends from equity securities are also recorded in this line item since they relate to market-making positions. Commissions received for purchasing and selling listed equity securities and options are recorded separately in the Commissions and fees line item. Other cash and derivative instruments typically do not have fees associated with them, and fees for related services would be recorded in Commissions and fees.

The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues. Expenses associated with the related deferred compensation plans are recorded in Compensation and benefits. Compensation expense is calculated based on the notional value of the award granted, adjusted for upward and downward changes in fair value of the referenced investment and is recognized ratably over the prescribed vesting period for the award. Generally, changes in compensation expense resulting from changes in fair value of the referenced investment will be offset by changes in fair value of investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period.

As a market maker, the Company stands ready to buy, sell or otherwise transact with customers under a variety of market conditions and provide firm or indicative prices in response to customer requests. The Company's liquidity obligations can be explicit and obligatory in some cases, and in others, customers expect the Company to be willing to transact with them. In order to most effectively fulfill its market-making function, the Company engages in activities, across all of its trading businesses, that include, but are not limited to: (i) taking positions in anticipation of, and in response to, customer demand to buy or sell and—depending on the liquidity of the relevant market and the size of the position—to hold those positions for a period of time; (ii) managing and assuming basis risk (risk associated with imperfect hedging) between customized customer risks and the standardized products available in the market to hedge those risks; (iii) building, maintaining and rebalancing inventory, through trades with other market participants, and engaging in accumulation activities to accommodate anticipated customer demand; (iv) trading in the market to remain current on pricing and trends; and (v) engaging in other activities to provide efficiency and liquidity for markets. Although not included in Trading revenues, interest income and expense are also impacted by market-making activities as debt securities held by the Company earn interest and securities are loaned, borrowed, sold with agreement to repurchase and purchased with agreement to resell.

Investments. The Company's investments generally are held for long-term appreciation and generally are subject to significant sales restrictions. Estimates of the fair value of the investments may involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions. In some cases, such investments are required or are a necessary part of offering other products. The revenues recorded are the result of realized gains and losses from sales and unrealized gains and losses from ongoing fair value changes of the Company's holdings as well as from investments associated with certain employee deferred compensation plans (as mentioned above). Typically, there are no fee revenues from these investments. The sales restrictions on the investments relate primarily to redemption and withdrawal restrictions on investments in real estate funds, hedge funds and private equity funds, which include investments made in connection with certain employee deferred compensation plans (see Note 4 to the consolidated financial statements in Item 8). Restrictions on interests in exchanges and clearinghouses generally include a requirement to hold those interests for the period of time that the Company is clearing trades on that exchange or clearinghouse. Additionally, there are certain investments related to assets held by consolidated real estate funds, which are primarily related to holders of noncontrolling interests.

Commissions and Fees. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities, services related to sales and trading activities, and sales of mutual funds, futures, insurance products and options.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include fees associated with the management and supervision of assets, account services and administration, performance-based fees relating to certain funds, separately managed accounts, shareholder servicing and the distribution of certain open-ended mutual funds.

Asset management, distribution and administration fees in the Wealth Management business segment also include revenues from individual investors electing a fee-based pricing arrangement and fees for investment management. Mutual fund distribution fees in the Wealth Management business segment are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management fees in the Investment Management business segment arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. The Company receives fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity for other vehicles. Performance-based fees in the Investment Management business segment are earned on certain funds as a percentage of appreciation earned by those funds and, in certain cases, are based upon the achievement of performance criteria. These fees are normally earned annually and are recognized on a monthly or quarterly basis.

Net Interest. Interest income and Interest expense are a function of the level and mix of total assets and liabilities, including trading assets and trading liabilities; securities available for sale; securities borrowed or purchased under agreements to resell; securities loaned or sold under agreements to repurchase; loans; deposits; commercial paper and other short-term borrowings; long-term borrowings; trading strategies; customer activity in the Company's prime brokerage business; and the prevailing level, term structure and volatility of interest rates. Certain Securities purchased under agreements to resell ("reverse repurchase agreements") and Securities sold under agreements to repurchase ("repurchase agreements") and Securities borrowed and Securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest revenues on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions.

Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, primarily through its U.S. bank subsidiaries, Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA"). The Company's lending activities in the Institutional Securities business segment primarily include corporate lending activities, in which the Company provides loans or lending commitments to selected corporate clients. In addition to corporate lending activity, the Institutional Securities business segment engages to a lesser extent in other lending activity, including corporate loans purchased and sold in the secondary market. The Company's lending activities in the Wealth Management business segment principally include margin loans collateralized by securities, securities-based lending that allows clients to borrow money against the value of qualifying securities in PLAs and residential mortgage lending. The Company's lending activities have grown during 2013 and 2012 and the Company expects this trend to continue. For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Item 7A. See also Notes 8 and 13 to the consolidated financial statements in Item 8 for additional information about the Company's financing receivables and lending commitments, respectively.

INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

	2013	2012(1)	2011(1)
	(dollars in millions)		
Revenues:			
Investment banking	$ 4,377	$ 3,930	$ 4,240
Trading	8,147	6,002	11,425
Investments	707	219	239
Commissions and fees	2,425	2,176	2,849
Asset management, distribution and administration fees	280	242	206
Other	608	203	(236)
Total non-interest revenues	16,544	12,772	18,723
Interest income	3,572	4,224	5,860
Interest expense	4,673	5,971	6,900
Net interest	(1,101)	(1,747)	(1,040)
Net revenues	15,443	11,025	17,683
Compensation and benefits	6,823	6,978	7,567
Non-compensation expenses	7,751	5,735	5,566
Total non-interest expenses	14,574	12,713	13,133
Income (loss) from continuing operations before income taxes	869	(1,688)	4,550
Provision for (benefit from) income taxes	(393)	(1,061)	880
Income (loss) from continuing operations	1,262	(627)	3,670
Discontinued operations:			
Gain (loss) from discontinued operations	(81)	(158)	(216)
Provision for (benefit from) income taxes	(29)	(36)	(110)
Net gains (losses) on discontinued operations	(52)	(122)	(106)
Net income (loss)	1,210	(749)	3,564
Net income applicable to redeemable noncontrolling interests	1	4	—
Net income applicable to nonredeemable noncontrolling interests	277	170	220
Net income (loss) applicable to Morgan Stanley	$ 932	$ (923)	$ 3,344
Amounts applicable to Morgan Stanley:			
Income (loss) from continuing operations	$ 984	$ (797)	$ 3,450
Net gains (losses) from discontinued operations	(52)	(126)	(106)
Net income (loss) applicable to Morgan Stanley	$ 932	$ (923)	$ 3,344

[1] Prior-period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Supplemental Financial Information.

Investment Banking. Investment banking revenues are composed of fees from advisory services and revenues from the underwriting of securities offerings and syndication of loans, net of syndication expenses.

Investment banking revenues were as follows:

	2013	2012	2011
	(dollars in millions)		
Advisory revenues	$1,310	$1,369	$1,737
Underwriting revenues:			
Equity underwriting revenues	1,262	892	1,144
Fixed income underwriting revenues	1,805	1,669	1,359
Total underwriting revenues	3,067	2,561	2,503
Total investment banking revenues	$4,377	$3,930	$4,240

The following table presents the Company's volumes of announced and completed mergers and acquisitions, equity and equity-related offerings, and fixed income offerings:

	2013(1)	2012(1)	2011(1)
	(dollars in billions)		
Announced mergers and acquisitions(2)	$520	$464	$510
Completed mergers and acquisitions(2)	508	391	657
Equity and equity-related offerings(3)	61	52	47
Fixed income offerings(4)	287	284	231

(1) Source: Thomson Reuters, data at January 14, 2014. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.

(2) Amounts include transactions of $100 million or more. Announced mergers and acquisitions exclude terminated transactions.

(3) Amounts include Rule 144A and public common stock, convertible and rights offerings.

(4) Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities and taxable municipal debt. Amounts also include publicly registered and Rule 144A issues. Amounts exclude leveraged loans and self-led issuances.

Sales and Trading Net Revenues.

Sales and trading net revenues are composed of Trading revenues; Commissions and fees; Asset management, distribution and administration fees; and Net interest revenues (expenses). See "Business Segments—Net Revenues" herein for information about the composition of the above-referenced components of sales and trading revenues. In assessing the profitability of its sales and trading activities, the Company views these net revenues in the aggregate. In addition, decisions relating to trading are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions and fees, dividends, the interest income or expense associated with financing or hedging the Company's positions, and other related expenses. See Note 12 to the consolidated financial statements in Item 8 for further information related to gains (losses) on derivative instruments.

Sales and trading net revenues were as follows:

	2013	2012(1)	2011(1)
	(dollars in millions)		
Trading	$ 8,147	$ 6,002	$11,425
Commissions and fees	2,425	2,176	2,849
Asset management, distribution and administration fees	280	242	206
Net interest	(1,101)	(1,747)	(1,040)
Total sales and trading net revenues	$ 9,751	$ 6,673	$13,440

(1) All prior-year amounts have been recast to conform to the current year's presentation. For further information, see "Business Segments" herein and Note 1 to the consolidated financial statements in Item 8.

Sales and trading net revenues by business were as follows:

	2013	2012(1)	2011(1)
	(dollars in millions)		
Equity	$6,529	$4,811	$ 7,263
Fixed income and commodities	3,594	2,358	7,506
Other(2)	(372)	(496)	(1,329)
Total sales and trading net revenues	$9,751	$6,673	$13,440

(1) All prior-year amounts have been recast to conform to the current year's presentation. For further information, see "Business Segments" herein and Note 1 to the consolidated financial statements in Item 8.

(2) Other sales and trading net revenues include net losses associated with costs related to the amount of liquidity held ("negative carry"), net gains (losses) on economic hedges related to the Company's long-term debt and net gains (losses) from certain loans and lending commitments and related hedges associated with the Company's lending activities.

The following sales and trading net revenues results exclude the impact of DVA (see footnote 2 in the following table). The reconciliation of sales and trading, including equity sales and trading and fixed income and commodities sales and trading net revenues, from a non-GAAP to a GAAP basis is as follows:

	2013	2012(1)	2011(1)
	(dollars in millions)		
Total sales and trading net revenues—non-GAAP(2)	$10,432	$11,075	$ 9,759
Impact of DVA	(681)	(4,402)	3,681
Total sales and trading net revenues	$ 9,751	$ 6,673	$13,440
Equity sales and trading net revenues—non-GAAP(2)	$ 6,607	$ 5,941	$ 6,644
Impact of DVA	(78)	(1,130)	619
Equity sales and trading net revenues	$ 6,529	$ 4,811	$ 7,263
Fixed income and commodities sales and trading net revenues —non-GAAP(2)	$ 4,197	$ 5,630	$ 4,444
Impact of DVA	(603)	(3,272)	3,062
Fixed income and commodities sales and trading net revenues	$ 3,594	$ 2,358	$ 7,506

(1) All prior-year amounts have been recast to conform to the current year's presentation. For further information, see "Business Segments" herein and Note 1 to the consolidated financial statements in Item 8.

(2) Sales and trading net revenues, including fixed income and commodities and equity sales and trading net revenues that exclude the impact of DVA, are non-GAAP financial measures that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance.

2013 Compared with 2012.

Investment Banking. Investment banking revenues in 2013 increased 11% from 2012, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower advisory revenues. Overall, underwriting revenues of $3,067 million increased 20% from 2012. Equity underwriting revenues increased 41% to $1,262 million in 2013, largely driven by increased client activity across Europe, Asia and the Americas. Fixed income underwriting revenues were $1,805 million in 2013, an increase of 8% from 2012, reflecting a continued favorable debt underwriting environment. Advisory revenues from merger, acquisition and restructuring transactions (“M&A”) were $1,310 million in 2013, a decrease of 4% from 2012, reflective of the lower level of deal activity in 2013. Industry-wide announced M&A activity for 2013 was relatively flat compared with 2012, with increases in the Americas offset by decreases in Europe, Middle East and Africa.

Sales and Trading Net Revenues. Total sales and trading net revenues increased to $9,751 million in 2013 from $6,673 million in 2012, reflecting higher revenues in equity and fixed income sales and trading net revenues and lower losses in other sales and trading net revenues.

Equity. Equity sales and trading net revenues increased to $6,529 million in 2013 from $4,811 million in 2012. The results in equity sales and trading net revenues included negative revenue due to the impact of DVA of $78 million in 2013 compared with negative revenue of $1,130 million in 2012. Equity sales and trading net revenues, excluding the impact of DVA, increased 11% to $6,607 million in 2013 from 2012, reflecting strong performance across most products and regions, from higher client activity with particular strength in prime brokerage.

In 2013, equity sales and trading net revenues also reflected gains of $37 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties’ CDS spreads and other factors compared with gains of $68 million in 2012. The Company also recorded losses of $15 million in 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company’s CDS spreads and other factors compared with losses of $243 million in 2012. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Fixed Income and Commodities. Fixed income and commodities sales and trading net revenues were $3,594 million in 2013 compared with net revenues of $2,358 million in 2012. Results in 2013 included negative revenue of $603 million due to the impact of DVA compared with negative revenue of $3,272 million in 2012. Fixed income product net revenues, excluding the impact of DVA, in 2013 decreased 26% over 2012, primarily reflecting lower levels of client activity across most products and significant revenue declines in interest rate products. Commodity net revenues, excluding the impact of DVA, in 2013 decreased 38% over 2012, primarily reflecting lower levels of client activity across energy markets.

In 2013, fixed income and commodities sales and trading net revenues reflected gains of $127 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties’ CDS spreads and other factors compared with losses of $128 million in 2012 due to the widening of such spreads and other factors. The Company also recorded losses of $114 million in 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company’s CDS spreads and other factors compared with losses of $482 million in 2012. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Other. In addition to the equity and fixed income and commodities sales and trading net revenues discussed above, sales and trading net revenues included other trading revenues, consisting of costs related to negative carry, gains (losses) on economic hedges related to the Company’s long-term debt and certain activities associated with the Company’s corporate lending activities. Effective April 1, 2012, the Company began accounting for all new corporate loans and lending commitments as either held for investment or held for sale.

Other sales and trading net losses were $372 million in 2013 compared with net losses of $496 million in 2012. The results in both periods included net losses related to negative carry and losses on economic hedges and other costs related to the Company's long-term debt. The results in 2013 and 2012 were partially offset by net gains of $440 million and $740 million, respectively, associated with corporate loans and lending commitments.

Net Interest. Net interest expense decreased to $1,101 million in 2013 from $1,747 million in 2012, primarily due to lower costs associated with the Company's long-term borrowings.

Investments. See "Business Segments—Net Revenues" herein for further information on what is included in Investments.

Net investment gains of $707 million were recognized in 2013 compared with net investment gains of $219 million in 2012. The increase primarily reflected a gain on the disposition of an investment in an insurance broker. The results in 2013 and 2012 included mark-to-market gains on principal investments in real estate funds and net gains from investments associated with the Company's deferred compensation and co-investment plans.

Other. Other revenues of $608 million were recognized in 2013 compared with other revenues of $203 million in 2012. The results in 2013 primarily included income of $570 million, arising from the Company's 40% stake in MUMSS, compared with income of $152 million in 2012 (see "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein). The gains in both periods were partially offset by the provision for loan losses and losses associated with investments in low-income housing and alternative energy.

Non-interest Expenses. Non-interest expenses increased 15% in 2013 compared with 2012. The increase was primarily due to higher non-compensation expenses. Compensation and benefits expenses decreased 2% in 2013, primarily due to lower headcount. Results included severance expenses of $141 million related to reductions in force in 2013 compared with $120 million in 2012. Non-compensation expenses increased 35% in 2013 compared with 2012. The increase primarily reflected additions to legal expenses for litigation and investigations related to residential mortgage-backed securities and the credit crisis (see "Contingencies—Legal" in Note 13 to the consolidated financial statements in Item 8). Brokerage, clearing and exchange expenses increased 16% in 2013 compared with 2012 primarily due to higher volumes of activity. Information processing and communications expenses decreased 9% in 2013 compared with 2012 primarily due to lower technology costs. Professional services expenses increased 5% in 2013 compared with 2012 primarily due to higher consulting expenses related to the Company's technology platform.

2012 Compared with 2011.

Investment Banking. Investment banking revenues in 2012 decreased 7% from 2011, reflecting lower revenues from advisory and equity underwriting transactions, partially offset by higher revenues from fixed income underwriting transactions. Advisory revenues from merger, acquisition and restructuring transactions were $1,369 million in 2012, a decrease of 21% from 2011, reflecting lower completed market volumes. Overall, underwriting revenues of $2,561 million increased 2% from 2011. Fixed income underwriting revenues were $1,669 million in 2012, an increase of 23% from 2011, reflecting increased bond issuance volumes. Equity underwriting revenues decreased 22% to $892 million in 2012, reflecting lower levels of market activity.

Sales and Trading Net Revenues. Total sales and trading net revenues decreased to $6,673 million in 2012 from $13,440 million in 2011, reflecting lower revenues in fixed income and commodities sales and trading net revenues and equity sales and trading net revenues, partially offset by lower losses in other sales and trading net revenues.

Equity. Equity sales and trading net revenues decreased 34% to $4,811 million in 2012 from 2011. The results in equity sales and trading net revenues included negative revenue in 2012 of $1,130 million due to the impact of DVA compared with positive revenue of $619 million in 2011 due to the impact of DVA. Equity sales and trading net revenues, excluding the impact of DVA, in 2012 decreased 11% from 2011, reflecting lower revenues in the cash business, as a result of lower volumes.

In 2012, equity sales and trading net revenues reflected gains of $68 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' CDS spreads and other credit factors compared with losses of $38 million in 2011 due to the widening of such spreads and other credit factors. The

Company also recorded losses of $243 million in 2012 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company's CDS spreads and other credit factors compared with gains of $182 million in 2011 due to the widening of such spreads and other credit factors. The gains and losses on CDS spreads and other credit factors include gains and losses on related hedging instruments.

Fixed Income and Commodities. Fixed income and commodities sales and trading net revenues were $2,358 million in 2012 compared with net revenues of $7,506 million in 2011. Results in 2012 included negative revenue of $3,272 million due to the impact of DVA, compared with positive revenue of $3,062 million in 2011 due to the impact of DVA. Fixed income product net revenues, excluding the impact of DVA, in 2012 increased 45% over 2011, reflecting higher results in interest rate, foreign exchange and credit products, including higher levels of client activity in securitized products, with results in 2011 being negatively impacted by losses of $1,838 million from Monolines, including a loss approximating $1.7 billion in the fourth quarter of 2011 from the Company's comprehensive settlement with MBIA (see "Executive Summary—Significant Items—Monoline Insurers" herein for further information). The results in 2011 also included interest rate product revenues of approximately $600 million, primarily related to the release of credit valuation adjustments upon the restructuring of certain derivative transactions that decreased the Company's exposure to the European Peripherals (see "Executive Summary—Significant Items—European Peripheral Countries" herein for further information). Commodity net revenues, excluding the impact of DVA, decreased 20% in 2012 due to a difficult market environment. Results in the fourth quarter of 2011 included a loss of approximately $108 million upon application of the overnight indexed swap ("OIS") curve to certain fixed income products (see Note 4 to the consolidated financial statements in Item 8).

In 2012, fixed income and commodities sales and trading net revenues reflected losses of $128 million related to changes in the fair value of net derivative contracts attributable to the widening of counterparties' CDS spreads and other credit factors compared with losses of $1,249 million, including Monolines, in 2011. The Company also recorded losses of $482 million in 2012 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company's CDS spreads and other credit factors compared with gains of $746 million in 2011 due to the widening of such spreads and other credit factors. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Other. Other sales and trading net losses were $496 million in 2012 compared with net losses of $1,329 million in 2011. The results in both years included losses related to negative carry. The 2012 results included losses on economic hedges related to the Company's long-term debt compared with gains in 2011. Results in 2012 were partially offset by net gains of $740 million associated with loans and lending commitments. Results in 2011 included net losses of approximately $631 million associated with loans and lending commitments. The results in 2012 also included net investment gains in the Company's deferred compensation and co-investment plans compared with net losses in 2011.

Net Interest. Net interest expense increased to $1,747 million in 2012 from $1,040 million in 2011, primarily due to lower revenues from securities purchased under agreements to resell and securities borrowed transactions.

Investments. Net investment gains of $219 million were recognized in 2012 compared with net investment gains of $239 million in 2011. The gains in 2012 and 2011 primarily included mark-to-market gains on principal investments in real estate funds and net gains from investments associated with the Company's deferred compensation and co-investment plans.

Other. Other revenues of $203 million were recognized in 2012 compared with other losses of $236 million in 2011. The results in 2012 included income of $152 million, arising from the Company's 40% stake in MUMSS. The results in 2011 included pre-tax losses of $783 million arising from the Company's 40% stake in MUMSS (see "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein). The gains in 2012 were partially offset by increases in the provision for loan losses. The results in both periods also included gains from the Company's retirement of certain of its debt.

Non-interest Expenses. Non-interest expenses decreased 3% in 2012. The decrease was due to lower compensation expenses, partially offset by higher non-compensation expenses. Compensation and benefits expenses decreased 8% in 2012, in part due to lower net revenues, excluding DVA and the comprehensive settlement with MBIA, and were partially offset by severance expenses related to reductions in force during the year. Non-compensation expenses increased 3% in 2012, compared with 2011. Brokerage, clearing and exchange expenses decreased 9% in 2012, primarily due to lower volumes of activity. Information processing and communications expense increased 6% in 2012, primarily due to ongoing investments in technology. Professional services expenses increased 21% in 2012, primarily due to higher legal and regulatory costs and consulting expenses. Other expenses increased 4% in 2012. The results in 2012 included increased litigation expense and a higher provision for unfunded loan commitments. The results in 2011 included the initial costs of $130 million associated with Morgan Stanley Huaxin Securities Company Limited (see "Executive Summary—Significant Items—Huaxin Securities Joint Venture" herein for further information). The results in 2011 also included a charge of $59 million due to the bank levy on relevant liabilities and equities on the consolidated balance sheets of "U.K. Banking Groups" at December 31, 2011 as defined under the bank levy legislation enacted by the U.K. government in July 2011.

Income Tax Items.

In 2013, the Company recognized in income from continuing operations an aggregate discrete net tax benefit of $407 million attributable to the Institutional Securities business segment. This included discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of certain tax authority examinations; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the retroactive effective date of the Relief Act.

In 2012, the Company recognized in income from continuing operations a net tax benefit of $249 million attributable to the Institutional Securities business segment. This included a discrete tax benefit of $299 million related to the remeasurement of reserves and related interest associated with either the expiration of the applicable statute of limitations or new information regarding the status of certain Internal Revenue Service examinations and an out-of-period net tax provision of $50 million, primarily related to the overstatement of deferred tax assets associated with repatriated earnings of foreign subsidiaries recorded in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Discontinued Operations.

For a discussion about discontinued operations, see Note 1 to the consolidated financial statements in Item 8.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests primarily relate to MUFG's interest in MSMS (see "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein).

Sale of Global Oil Merchanting Business.

On December 20, 2013, the Company and a subsidiary of Rosneft Oil Company ("Rosneft") entered into a Purchase Agreement pursuant to which the Company will sell the global oil merchanting unit of its commodities division to Rosneft. The transaction is subject to regulatory approvals and other customary conditions and is expected to close in the second half of 2014. At December 31, 2013, the transaction does not meet the criteria for discontinued operations and is not expected to have a material impact on the Company's consolidated financial statements.

WEALTH MANAGEMENT

INCOME STATEMENT INFORMATION

	2013	2012(1)	2011(1)
	(dollars in millions)		
Revenues:			
Investment banking	$ 923	$ 835	$ 738
Trading	1,161	1,043	988
Investments	14	10	4
Commissions and fees	2,209	2,080	2,495
Asset management, distribution and administration fees	7,638	7,190	6,709
Other	389	309	406
Total non-interest revenues	12,334	11,467	11,340
Interest income	2,100	1,886	1,719
Interest expense	220	319	287
Net interest	1,880	1,567	1,432
Net revenues	14,214	13,034	12,772
Compensation and benefits	8,271	7,796	7,910
Non-compensation expenses	3,314	3,616	3,555
Total non-interest expenses	11,585	11,412	11,465
Income from continuing operations before income taxes	2,629	1,622	1,307
Provision for income taxes	920	557	461
Income from continuing operations	1,709	1,065	846
Discontinued operations:			
Income (loss) from discontinued operations	(1)	94	21
Provision for income taxes	—	26	7
Net gain (loss) from discontinued operations	(1)	68	14
Net income	1,708	1,133	860
Net income applicable to redeemable noncontrolling interests	221	120	—
Net income applicable to nonredeemable noncontrolling interests	—	167	170
Net income applicable to Morgan Stanley	$ 1,487	$ 846	$ 690
Amounts applicable to Morgan Stanley:			
Income from continuing operations	$ 1,488	$ 803	$ 683
Net gain (loss) from discontinued operations	(1)	43	7
Net income applicable to Morgan Stanley	$ 1,487	$ 846	$ 690

[1] Prior-period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Net Revenues. The Wealth Management business segment's net revenues are composed of Transactional, Asset management, Net interest and Other revenues. Transactional revenues include Investment banking, Trading, and Commissions and fees. Asset management revenues include Asset management, distribution and administration fees, and referral fees related to the bank deposit program. Net interest revenues include net interest revenues related to the bank deposit program, interest on securities available for sale and all other net interest revenues. Other revenues include revenues from available for sale securities, customer account services fees, other miscellaneous revenues and revenues from Investments.

	2013	2012(1)	2011(1)
	(dollars in millions)		
Net revenues:			
Transactional	$ 4,293	$ 3,958	$ 4,221
Asset management	7,638	7,190	6,709
Net interest	1,880	1,567	1,432
Other	403	319	410
Net revenues	$14,214	$13,034	$12,772

(1) Prior-period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Wealth Management JV. On June 28, 2013, the Company completed the purchase of the remaining 35% stake in the Wealth Management JV for $4.725 billion. As the 100% owner of the Wealth Management JV, the Company retains all of the related net income previously applicable to the noncontrolling interests in the Wealth Management JV, and benefit from the termination of certain related debt and operating agreements with the Wealth Management JV partner.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. In 2013, $26 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions. At December 31, 2013, approximately $30 billion of additional deposits are scheduled to be transferred to the Company's depository institutions on an agreed-upon basis through June 2015.

For further information, see Note 3 to the consolidated financial statements in Item 8.

2013 compared with 2012.

Transactional.

Investment Banking. Wealth Management business segment's investment banking revenues include revenues from the distribution of equity and fixed income securities, including initial public offerings, secondary offerings, closed-end funds and unit trusts. Investment banking revenues increased 11% from 2012 to $923 million in 2013, primarily due to higher levels of underwriting activity in closed-end funds and unit trusts.

Trading. Trading revenues include revenues from customers' purchases and sales of financial instruments in which the Company acts as principal and gains and losses on the Company's inventory positions, which are held primarily to facilitate customer transactions and gains and losses associated with certain employee deferred compensation plans. Trading revenues increased 11% from 2012 to $1,161 million in 2013, primarily due to gains related to investments associated with certain employee deferred compensation plans and higher revenues from fixed income products.

Commissions and Fees. Commissions and fees revenues primarily arise from agency transactions in listed and OTC equity securities and sales of mutual funds, futures, insurance products and options. Commissions and fees revenues increased 6% from 2012 to $2,209 million in 2013, primarily due to higher equity, mutual fund and alternatives activity.

Asset Management.

Asset Management, Distribution and Administration Fees. See "Business Segments—Net Revenues" herein for information about the composition of Asset management, distribution and administration fees.

Asset management, distribution and administration fees increased 6% from 2012 to $7,638 million in 2013, primarily due to higher fee-based revenues, partially offset by lower revenues from referral fees from the bank deposit program. The referral fees for deposits placed with Citi-affiliated depository institutions declined to $240 million in 2013 from $383 million in 2012. Lower revenues from the bank deposit program and the decrease in referral fees are both due to the ongoing transfer of deposits to the Company from Citi.

Balances in the bank deposit program increased to $134 billion at December 31, 2013 from $131 billion at December 31, 2012, which includes deposits held by Company-affiliated FDIC-insured depository institutions of $104 billion at December 31, 2013 and $72 billion at December 31, 2012. As a result of the Company's 100% ownership of the Wealth Management JV, the deposits held in non-affiliated depositories will transfer to the Company-affiliated depositories on an agreed-upon basis through June 2015.

Client assets in fee-based accounts increased to $697 billion and represented 37% of total client assets at December 31, 2013 compared with $554 billion and 33% at December 31, 2012, respectively. Total client asset balances increased to $1,909 billion at December 31, 2013 from $1,696 billion at December 31, 2012, primarily due to the impact of market conditions and higher fee-based client asset flows. Client asset balances in households with assets greater than $1 million increased to $1,454 billion at December 31, 2013 from $1,237 billion at December 31, 2012. Effective from the quarter ended March 31, 2013, client assets also include certain additional non-custodied assets as a result of the completion of the Wealth Management JV platform conversion. Fee-based client asset flows for 2013 were $51.9 billion compared with $26.9 billion in 2012.

Beginning January 1, 2013, the Company enhanced its definition of fee-based asset flows. Fee-based asset flows have been recast for all periods to include dividends, interest and client fees and to exclude cash management related activity.

Net Interest.

Interest income and Interest expense are a function of the level and mix of total assets and liabilities. Net interest is driven by securities-based lending, mortgage lending, margin loans, securities borrowed and securities loaned transactions and bank deposit program activity.

Net interest increased 20% to $1,880 million in 2013 from 2012, primarily due to higher balances in the bank deposit program and growth in loans and lending commitments in PLA securities-based lending products. In addition, interest expense declined in 2013 due to the Company's redemption of all the Class A Preferred Interests owned by Citi and its affiliates, in connection with the Company's acquisition of 100% ownership of the Wealth Management JV effective at the end of the second quarter of 2013. The loans and lending commitments in the Company's Wealth Management business segment have grown in 2013, and the Company expects this trend to continue. See "Business Segments—Lending Activities" herein and "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Item 7A.

Other.

Other revenues were $389 million in 2013, an increase of 26% from 2012, primarily due to a gain on sale of the global stock plan business and realized gains on securities available for sale.

Non-interest Expenses.

Non-interest expenses increased 2% in 2013 from 2012. Compensation and benefits expenses increased 6% in 2013 from 2012, primarily due to higher compensable revenues. Non-compensation expenses decreased 8% in 2013 from 2012, primarily driven by the absence of platform integration costs and non-recurring technology write-offs, partially offset by an impairment expense of $36 million related to certain intangible assets (management contracts) associated with alternative investment funds in 2013 (see Note 9 to the consolidated financial statements in Item 8).

2012 Compared with 2011.

Transactional.

Investment Banking. Investment banking revenues increased 13% to $835 million in 2012 from 2011, primarily due to higher revenues from closed-end funds and higher fixed income underwriting.

Trading. Trading revenues increased 6% to $1,043 million in 2012 from 2011, primarily due to gains related to investments associated with certain employee deferred compensation plans and higher revenues from structured notes and corporate bonds transactions, partially offset by lower revenues from municipal securities, corporate equity securities, government securities and foreign exchange transactions.

Commissions and Fees. Commissions and fees revenues decreased 17% to $2,080 million in 2012 from 2011, primarily due to lower client activity.

Asset Management.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 7% to $7,190 million in 2012 from 2011, primarily due to higher fee-based revenues, and higher revenues from annuities and the bank deposit program held at Citi depositories. The referral fees for deposits placed with Citi-affiliated depository institutions were $383 million and $255 million in 2012 and 2011, respectively.

Balances in the bank deposit program increased to $131 billion at December 31, 2012 from $111 billion at December 31, 2011. Deposits held by Company-affiliated FDIC-insured depository institutions were $72 billion at December 31, 2012 and $56 billion at December 31, 2011.

Client assets in fee-based accounts increased to $554 billion and represented 33% of total client assets at December 31, 2012 compared with $468 billion and 30% at December 31, 2011, respectively. Total client asset balances increased to $1,696 billion at December 31, 2012 from $1,566 billion at December 31, 2011, primarily due to the impact of market conditions and net new asset inflows. Client asset balances in households with assets greater than $1 million increased to $1,237 billion at December 31, 2012 from $1,150 billion at December 31, 2011. Global fee-based client asset flows for 2012 were $26.9 billion compared with $47.0 billion in 2011.

Net Interest.

Net interest increased 9% to $1,567 million in 2012 from 2011, primarily resulting from higher revenues from the bank deposit program, interest on the available for sale portfolio and secured financing activities.

Other. Other revenues were $309 million in 2012, a decrease of 24% from 2011, primarily due to lower gains on sales of securities available for sale.

Non-interest Expenses. Non-interest expenses were flat in 2012 from 2011. Compensation and benefits expenses decreased 1% from 2011, primarily due to lower compensable revenues, partially offset by higher expenses associated with certain employee deferred compensation plans. Non-compensation expenses increased 2% in 2012 from 2011. Information processing and communications expenses increased 7% in 2012, primarily due to higher telecommunications and data storage costs. Marketing and business development expenses increased 10% from 2011, primarily due to higher costs associated with advertising and infrastructure, partially offset by lower costs associated with conferences and seminars. Other expenses increased 5% in 2012, primarily due to non-recurring costs related to Wealth Management JV integration (see “Executive Summary—Significant Items—Wealth Management JV” herein). Professional services expenses decreased 7% in 2012 from 2011, primarily due to lower technology consulting costs.

Discontinued Operations.

On April 2, 2012, the Company completed the sale of Quilter, its retail wealth management business in the U.K., resulting in a pre-tax gain of $108 million for the year ended December 31, 2012 in the Wealth Management business segment. The results of Quilter are reported as discontinued operations for all periods presented. See Note 1 to the consolidated financial statements in Item 8.

INVESTMENT MANAGEMENT

INCOME STATEMENT INFORMATION

	2013	2012	2011
	(dollars in millions)		
Revenues:			
Investment banking	$ 11	$ 17	$ 13
Trading	41	(45)	(22)
Investments	1,056	513	330
Asset management, distribution and administration fees	1,853	1,703	1,582
Other	33	55	25
Total non-interest revenues	2,994	2,243	1,928
Interest income	9	10	10
Interest expense	15	34	51
Net interest	(6)	(24)	(41)
Net revenues	2,988	2,219	1,887
Compensation and benefits	1,183	841	848
Non-compensation expenses	821	788	786
Total non-interest expenses	2,004	1,629	1,634
Income from continuing operations before income taxes	984	590	253
Provision for income taxes	299	267	73
Income from continuing operations	685	323	180
Discontinued operations:			
Gain from discontinued operations	9	13	24
Provision for (benefit from) income taxes	—	4	(17)
Net gain from discontinued operations	9	9	41
Net income	694	332	221
Net income applicable to nonredeemable noncontrolling interests	182	187	145
Net income applicable to Morgan Stanley	$ 512	$ 145	$ 76
Amounts applicable to Morgan Stanley:			
Income from continuing operations	$ 503	$ 136	$ 35
Net gain from discontinued operations	9	9	41
Net income applicable to Morgan Stanley	$ 512	$ 145	$ 76

Statistical Data.

The Investment Management business segment's period-end and average assets under management or supervision were as follows:

	At December 31,		Average for		
	2013	2012	2013	2012	2011
	(dollars in billions)				
Assets under management or supervision by asset class:					
Traditional Asset Management:					
Equity	$140	$120	$130	$114	$112
Fixed income	60	62	61	59	60
Liquidity	112	100	104	87	66
Alternatives(1)	31	27	29	26	18
Total Traditional Asset Management	343	309	324	286	256
Real Estate Investing	21	20	20	19	17
Merchant Banking:					
Private Equity	9	9	9	9	9
FrontPoint(2)	—	—	—	—	1
Total Merchant Banking	9	9	9	9	10
Total assets under management or supervision	$373	$338	$353	$314	$283
Share of minority stake assets(2)(3)	$ 6	$ 5	$ 6	$ 5	$ 7

(1) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.

(2) On March 1, 2011, the Company and the principals of FrontPoint Partners LLC ("FrontPoint") completed a transaction whereby FrontPoint senior management and portfolio managers own a majority equity stake in FrontPoint, and the Company retains a minority stake. At December 31, 2011, the assets under management attributed to FrontPoint are represented within the share of minority stake assets.

(3) Amounts represent the Investment Management business segment's proportional share of assets managed by entities in which it owns a minority stake.

Activity in the Investment Management business segment's assets under management or supervision during 2013, 2012 and 2011 was as follows:

	2013	2012	2011
	(dollars in billions)		
Balance at beginning of period	$338	$287	$272
Net flows by asset class:			
Traditional Asset Management:			
Equity	(1)	(2)	4
Fixed income(1)	—	(1)	(6)
Liquidity	12	26	20
Alternatives(2)	2	1	8
Total Traditional Asset Management	13	24	26
Real Estate Investing	(1)	1	1
Merchant Banking:			
Private Equity	1	—	—
FrontPoint(3)	—	—	(1)
Total Merchant Banking	1	—	(1)
Total net flows	13	25	26
Net market appreciation (depreciation)	22	26	(7)
Decrease due to FrontPoint transaction	—	—	(4)
Total net increase	35	51	15
Balance at end of period	$373	$338	$287

(1) Fixed income outflows for 2011 include $1.3 billion due to the revised treatment of assets under management previously reported as a net flow.

(2) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.

(3) The amount in 2011 includes two months of net flows related to FrontPoint.

2013 Compared with 2012.

Investment Banking. The Investment Management business segment generates investment banking revenues primarily from the placement of investments in real estate and merchant banking funds.

Trading. See "Business Segments—Net Revenues" herein for information about the composition of Trading revenues.

The Company recognized gains of $41 million in 2013 compared with losses of $45 million in 2012. Trading results in 2013 primarily reflected gains related to certain consolidated real estate funds sponsored by the Company. Trading results in 2012 primarily reflected losses related to certain consolidated real estate funds sponsored by the Company, as well as losses on hedges on certain investments.

Investments. Real estate and private equity investments generally are held for long-term appreciation and generally are subject to significant sales restrictions. Estimates of the fair value of the investments involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions.

The Company recorded net investment gains of $1,056 million in 2013 compared with gains of $513 million in 2012. The increase in 2013 was primarily related to higher net investment gains predominantly within the

Company's Merchant Banking and Real Estate Investing businesses and higher gains on certain investments associated with the Company's employee deferred compensation and co-investment plans. Results in 2013 also included the benefit of carried interest.

Asset Management, Distribution and Administration Fees. "See Business Segments—Net Revenues" herein for information about the composition of Asset management, distribution and administration fees.

Asset management, distribution and administration fees increased 9% to $1,853 million in 2013. The increase primarily reflected higher management and administration revenues, primarily due to higher average assets under management, as well as higher performance fees.

The Company's assets under management increased $35 billion from $338 billion at December 31, 2012 to $373 billion at December 31, 2013, reflecting market appreciation and positive net flows. The Company recorded $22 billion in market appreciation and net inflows of $13 billion in 2013, primarily reflecting net customer inflows in liquidity funds. In 2012, the Company recorded $26 billion in market appreciation and $25 billion in net customer inflows primarily in liquidity funds.

Other. Other revenues were $33 million in 2013 as compared with $55 million in 2012. The results in 2013 included higher revenues associated with the Company's minority investment in Avenue Capital Group, a New York-based investment manager, partially offset by lower revenues associated with the Company's minority investment in Lansdowne Partners, a London-based investment manager. The results in 2012 included gains associated with the expiration of a lending facility to a real estate fund sponsored by the Company.

Non-interest Expenses. Non-interest expenses were $2,004 million in 2013 as compared with $1,629 million in 2012. Compensation and benefits expenses increased 41% in 2013, primarily due to higher net revenues. Non-compensation expenses increased 4% in 2013, primarily due to higher brokerage and clearing and professional services expenses, partially offset by lower information processing expenses.

2012 Compared with 2011.

Trading. In 2012, the Company recognized losses of $45 million compared with losses of $22 million in 2011. Trading results in 2012 primarily reflected losses related to certain consolidated real estate funds sponsored by the Company, as well as losses on hedges on certain investments. Trading results in 2011 primarily reflected losses related to certain investments associated with the Company's employee deferred compensation and co-investment plans and certain consolidated real estate funds sponsored by the Company.

Investments. The Company recorded net investment gains of $513 million in 2012 compared with gains of $330 million in 2011. The increase in 2012 was primarily related to higher net gains in the Company's Merchant Banking business, as well as higher net investment gains associated with certain consolidated real estate funds sponsored by the Company.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 8% to $1,703 million in 2012. The increase in 2012 primarily reflected higher management and administration revenues and higher performance fees.

The Company's assets under management increased $51 billion from $287 billion at December 31, 2011 to $338 billion at December 31, 2012, reflecting $26 billion in market appreciation and net customer inflows of $25 billion primarily in liquidity funds. In 2011, net inflows of $26 billion primarily reflected the sweep of the Wealth Management JV client cash balances of approximately $19 billion into Morgan Stanley managed liquidity funds and inflows of $8 billion into alternatives funds, partially offset by outflows of $6 billion in fixed income products.

Other. Other revenues were $55 million in 2012 as compared with $25 million in 2011. The results in 2012 included gains associated with the expiration of a lending facility to a real estate fund sponsored by the Company. The results in 2012 also included lower revenues associated with the Company's minority investments in Avenue Capital Group and Lansdowne Partners. The results in 2011 were partially offset by a $27 million writedown in the Company's minority investment in FrontPoint.

Non-interest Expenses. Non-interest expenses were $1,629 million in 2012 as compared with $1,634 million in 2011. Compensation and benefits expenses decreased 1% in 2012. Non-compensation expenses were relatively unchanged in 2012 compared with 2011.

Income Tax Items.

In 2012, the Company recognized in income from continuing operations an out-of-period net tax provision of $107 million, attributable to the Investment Management business segment, primarily related to the overstatement of deferred tax assets associated with partnership investments in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Discontinued Operations.

In the fourth quarter of 2011, the Company classified a real estate property management company as held for sale within the Investment Management business segment. The transaction closed during the first quarter of 2012. The results of this company are reported as discontinued operations for all periods presented.

For further information on discontinued operations, see Note 1 to the consolidated financial statements in Item 8.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests are primarily related to the consolidation of certain real estate funds sponsored by the Company. Investment gains associated with these consolidated funds were $151 million, $225 million and $180 million in 2013, 2012 and 2011, respectively.

Accounting Developments.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.

In January 2014, the Financial Accounting Standards Board (the "FASB") issued an accounting update clarifying when an in-substance repossession or foreclosure occurs; that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. This guidance is effective for the Company beginning January 1, 2015. This guidance can be applied using either a modified retrospective transition method or a prospective transition method. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

Accounting for Investments in Qualified Affordable Housing Projects.

In January 2014, the FASB issued an accounting update providing guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). This guidance is effective for the Company retrospectively beginning January 1, 2015. Early adoption is permitted. The Company is currently evaluating the potential impact of adopting this accounting update.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.

In July 2013, the FASB issued an accounting update providing guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. This guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance is effective for the Company beginning January 1, 2014. This guidance is expected to be applied prospectively to all unrecognized tax benefits that exist at the effective date. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statements.

Amendments to the Scope, Measurement, and Disclosure Requirements of an Investment Company.

In June 2013, the FASB issued an accounting update that modifies the criteria used in defining an investment company under GAAP and sets forth certain measurement and disclosure requirements. This update requires an investment company to measure noncontrolling interests in another investment company at fair value and requires an entity to disclose the fact that it is an investment company, and provide information about changes, if any, in its status as an investment company. An entity will also need to include disclosures around financial support that has been provided or is contractually required to be provided to any of its investees. This guidance is effective for the Company prospectively beginning January 1, 2014. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.

In March 2013, the FASB issued an accounting update requiring the parent entity to release any related cumulative translation adjustment into net income when the parent ceases to have a controlling financial interest in a subsidiary that is a foreign entity. When the parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the related cumulative translation adjustment would be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for the Company prospectively beginning on January 1, 2014. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.

In February 2013, the FASB issued an accounting update that requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This update also requires additional disclosures about those obligations. This guidance is effective for the Company retrospectively beginning on January 1, 2014. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statements.

Other Matters.

Legal Matters.

On February 4, 2014, and subsequent to the release of the Company's 2013 earnings on January 17, 2014, legal reserves were increased, which increased Other expenses within the Institutional Securities business segment in the fourth quarter and year ended December 31, 2013 by $150 million related to the settlement with the Federal Housing Finance Agency (see "Contingencies—Legal" in Note 13 to the consolidated financial statements in Item 8). This decreased diluted EPS and diluted EPS from continuing operations by $0.05 in the fourth quarter and year ended December 31, 2013.

Real Estate.

The Company acts as the general partner for various real estate funds and also invests in certain of these funds as a limited partner. The Company's real estate investments at December 31, 2013 and December 31, 2012 are described below. Such amounts exclude investments associated with certain employee deferred compensation and co-investment plans.

At December 31, 2013 and December 31, 2012, the consolidated statements of financial condition included amounts representing real estate investment assets of consolidated subsidiaries of approximately $2.2 billion, including noncontrolling interests of approximately $1.8 billion in both periods, for a net amount of $0.5 billion and $0.4 billion, respectively. This net presentation is a non-GAAP financial measure that the Company considers to be a useful measure for the Company and investors to use in assessing the Company's net exposure. In addition, the Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to real estate investments of $0.3 billion at December 31, 2013.

In addition to the Company's real estate investments, the Company engages in various real estate-related activities, including origination of loans secured by commercial and residential properties. The Company also securitizes and trades in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate. In connection with these activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. The Company continues to monitor its real estate-related activities in order to manage its exposures and potential liability from these markets and businesses. See "Legal Proceedings—Residential Mortgage and Credit Crisis Related Matters" in Part I, Item 3 and Note 13 to the consolidated financial statements in Item 8 for further information.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest and MUFG holds a 60% voting interest in MUMSS, while the Company holds a 51% voting interest and MUFG holds a 49% voting interest in MSMS. The Company consolidates MSMS in its consolidated financial statements and accounts for its interest in MUMSS as an equity method investment within the Institutional Securities business segment (see Note 22 to the consolidated financial statements in Item 8). During 2013, 2012 and 2011, the Company recorded income (loss) of $570 million, $152 million and $(783) million, respectively, within Other revenues in the consolidated statements of income, arising from the Company's 40% stake in MUMSS.

In order to enhance the risk management at MUMSS, during 2011, the Company entered into a transaction with MUMSS whereby the risk associated with the fixed income trading positions that previously caused the majority of the aforementioned MUMSS losses in 2011 was transferred to MSMS. In return for entering into the transaction, the Company received total consideration of $659 million, which represented the estimated fair value of the fixed income trading positions transferred.

To the extent that losses incurred by MUMSS result in a requirement to restore its capital, MUFG is solely responsible for providing this additional capital to a minimum level, whereas the Company is not obligated to contribute additional capital to MUMSS. To the extent that MUMSS is required to increase its capital level due to factors other than losses, such as changes in regulatory requirements, both MUFG and the Company are required to contribute the necessary capital based upon their economic interest as set forth above.

In June 2013, MUMSS paid a dividend of approximately $287 million, of which the Company received approximately $115 million for its proportionate share of MUMSS.

See Note 22 to the consolidated financial statements in Item 8 and "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein for further information.

Defined Benefit Pension and Other Postretirement Plans.

Expense. The Company recognizes the compensation cost of an employee's pension benefits (including prior-service cost) over the employee's estimated service period. This process involves making certain estimates and assumptions, including the discount rate and the expected long-term rate of return on plan assets. The defined benefit pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the "U.S. Qualified Plan") ceased future benefit accruals after December 31, 2010. Any benefits earned by participants under the U.S. Qualified Plan at December 31, 2010 were preserved and will be payable based on the U.S. Qualified Plan's provisions. Net periodic pension expense for U.S. and non-U.S. plans was $97 million, $99 million and $72 million for 2013, 2012 and 2011, respectively.

Contributions. The Company made contributions of $42 million, $42 million and $57 million to its U.S. and non-U.S. defined benefit pension plans in 2013, 2012 and 2011, respectively. These contributions were funded with cash from operations.

The Company determines the amount of its pension contributions to its funded plans by considering several factors, including the level of plan assets relative to plan liabilities, the types of assets in which the plans are invested, expected plan liquidity needs and expected future contribution requirements. The Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax laws (for example, in the U.S., the minimum required contribution under the Employee Retirement Income Security Act of 1974, or "ERISA"). At December 31, 2013, December 31, 2012 and December 31, 2011, there were no minimum required ERISA contributions for the U.S. Qualified Plan. No contributions were made to the U.S. Qualified Plan for 2013, 2012 and 2011.

See Note 19 to the consolidated financial statements in Item 8 for more information on the Company's defined benefit pension and postretirement plans.

Income Tax Matters.

The income of certain foreign subsidiaries earned outside the United States has been excluded from taxation in the U.S. as a result of a provision of U.S. tax law that defers the imposition of tax on certain active financial services income until such income is repatriated to the United States as a dividend. This provision, which expired for taxable years beginning on or after January 1, 2014, had previously been extended by Congress on several occasions, including the most recent extension that occurred on January 2, 2013, as part of the Relief Act. If this provision is not extended, the overall financial impact to the Company would depend upon the level, composition and geographic mix of future earnings but could increase the Company's 2014 annual effective tax rate and have an adverse impact on the Company's net income, but not its cash flows due to utilization of tax attributes carryforwards.

Regulatory Outlook.

The Dodd-Frank Act was enacted on July 21, 2010. While certain portions of the Dodd-Frank Act became effective immediately, most other portions are effective following transition periods or through numerous rulemakings by multiple governmental agencies, and although a large number of rules have been proposed, many are still subject to final rulemaking or transition periods. U.S. regulators also plan to propose additional regulations to implement the Dodd-Frank Act. Accordingly, 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 or further revisions to risk-based capital, leverage and liquidity standards by the Basel Committee, including Basel III, and the implementation of those standards in jurisdictions in which the Company operates, will continue to impact the Company in the coming years.

At the end of 2013, the U.S. regulators adopted the final Volcker Rule regulations. Banking entities, including the Company, generally have until July 21, 2015 to bring all of their activities and investments into conformance with the Volcker Rule, subject to possible extensions. The Company is continuing its review of activities that may be affected by the Volcker Rule, including its trading operations and asset management activities, and is taking steps to establish the necessary compliance programs to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain, and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

It is likely that 2014 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 the exact impact these changes will have on the Company's business, financial condition, results of operations and cash flows for a particular future period. See also "Business—Supervision and Regulation" in Part I, Item 1.

Critical Accounting Policies.

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions (see Note 1 to the consolidated financial statements in Item 8). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements in Item 8), the following policies involve a higher degree of judgment and complexity.

Fair Value.

Financial Instruments Measured at Fair Value. A significant number of the Company's financial instruments are carried at fair value. The Company makes estimates regarding valuation of assets and liabilities measured at fair value in preparing the consolidated financial statements. These assets and liabilities include, but are not limited to:

- Trading assets and Trading liabilities;
- Securities available for sale;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Securities purchased under agreements to resell;
- Certain Deposits;
- Certain Commercial paper and other short-term borrowings, primarily structured notes;
- Certain Securities sold under agreements to repurchase;
- Certain Other secured financings; and
- Certain Long-term borrowings, primarily structured notes.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the relevant observable inputs be used when available. The hierarchy is broken down into three levels, wherein Level 1 uses observable prices in active markets, and Level 3 consists of valuation techniques that incorporate significant unobservable inputs and, therefore, require the greatest use of judgment. In periods of market disruption, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be recategorized from Level 1 to Level 2 or Level 2 to Level 3. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments. For further information on the valuation process, fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, and quantitative information about and sensitivity of significant unobservable inputs used in Level 3 fair value measurements, see Notes 2 and 4 to the consolidated financial statements in Item 8.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. At December 31, 2013, certain of the Company's assets were measured at fair value on a non-recurring basis, primarily relating to loans, other investments, premises, equipment and software costs, and intangible assets. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

See Note 4 to the consolidated financial statements in Item 8 for further information on assets and liabilities that are measured at fair value on a non-recurring basis.

Fair Value Control Processes. The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

See Note 2 to the consolidated financial statements in Item 8 for additional information regarding the Company's valuation policies, processes and procedures.

Goodwill and Intangible Assets.

Goodwill. The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. Goodwill no longer retains its association with a particular acquisition once it has been assigned to a reporting unit. As such, all the activities of a reporting unit, whether acquired or organically developed, are available to support the value of the goodwill. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair value of the reporting units is derived based on valuation techniques the Company believes market participants would use for each of the reporting units. The estimated fair value is generally determined by utilizing a discounted cash flow methodology or methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies. At each annual goodwill impairment testing date, each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

Intangible Assets. Amortizable intangible assets are amortized over their estimated useful lives and are reviewed for impairment on an interim basis when certain events or circumstances exist. An impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the expected undiscounted cash flows.

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

See Notes 4 and 9 to the consolidated financial statements in Item 8 for additional information about goodwill and intangible assets.

Legal and Regulatory Contingencies.

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, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Company, and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Accruals for litigation and regulatory proceedings are generally determined on a case-by-case basis. 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. For certain legal proceedings and investigations, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation.

Significant judgment is required in deciding when and if to make these accruals and the actual cost of a legal claim or regulatory fine/penalty may ultimately be materially different from the recorded accruals.

See Note 13 to the consolidated financial statements in Item 8 for additional information on legal proceedings.

Income Taxes.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

The Company's provision for income taxes is composed of current and deferred taxes. Current income taxes approximate taxes to be paid or refunded for the current period. The Company's deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company's deferred tax balances also include deferred assets related to tax attributes carryforwards, such as net operating losses and tax credits that will be realized through reduction of future tax liabilities and, in some cases, are subject to expiration if not utilized within certain periods. The Company performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management's estimates and assumptions regarding future taxable income and incorporate various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. Once the deferred tax asset balances have been determined, the Company may record a valuation allowance against the deferred tax asset balances to reflect the amount of these balances (net of valuation allowance) that the Company estimates it is more likely than not to realize at a future date. Both current and deferred income taxes could reflect adjustments related to the Company's unrecognized tax benefits.

Significant judgment is required in estimating the consolidated provision for (benefit from) income taxes, current and deferred tax balances (including valuation allowance, if any), accrued interest or penalties and uncertain tax positions. Revisions in our estimates and/or the actual costs of a tax assessment may ultimately be materially different from the recorded accruals and unrecognized tax benefits, if any.

See Note 2 to the consolidated financial statements in Item 8 for additional information on the Company's significant assumptions, judgments and interpretations associated with the accounting for income taxes and Note 20 to the consolidated financial statements in Item 8 for additional information on the Company's tax examinations.

Liquidity and Capital Resources.

The Company's senior management establishes liquidity and capital policies. Through various risk and control committees, the Company's senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate and currency sensitivity of the Company's asset and liability position. The Company's Treasury Department, Firm Risk Committee, Asset and Liability Management Committee and other control groups assist in evaluating, monitoring and controlling the impact that the Company's business activities have on its consolidated statements of financial condition, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board's Risk Committee.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet on a regular basis. The Company's balance sheet management process includes quarterly planning, business specific limits, monitoring of business specific usage versus limits, key metrics and new business impact assessments.

The Company establishes balance sheet limits at the consolidated, business segment and business unit levels. The Company monitors balance sheet usage versus limits, and variances resulting from business activity or market fluctuations are reviewed. On a regular basis, the Company reviews current performance versus limits and assesses the need to re-allocate limits based on business unit needs. The Company also monitors key metrics, including asset and liability size, composition of the balance sheet, limit utilization and capital usage.

The tables below summarize total assets for the Company's business segments at December 31, 2013 and December 31, 2012:

	At December 31, 2013			
	Institutional Securities	Wealth Management	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 30,169	$ 28,967	$ 747	$ 59,883
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	36,422	2,781	—	39,203
Trading assets	273,959	2,104	4,681	280,744
Securities available for sale	—	53,430	—	53,430
Securities received as collateral(2)	20,508	—	—	20,508
Federal funds sold and securities purchased under agreements to resell(2)	106,812	11,318	—	118,130
Securities borrowed(2)	129,366	341	—	129,707
Customer and other receivables(2)	33,927	22,493	684	57,104
Loans, net of allowance	17,890	24,984	—	42,874
Other assets(3)	19,543	10,293	1,283	31,119
Total assets(4)	$668,596	$156,711	$7,395	$832,702

	At December 31, 2012			
	Institutional Securities(5)	Wealth Management(5)	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 33,370	$ 12,714	$ 820	$ 46,904
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	26,116	4,854	—	30,970
Trading assets	260,885	2,285	4,433	267,603
Securities available for sale	—	39,869	—	39,869
Securities received as collateral(2)	14,278	—	—	14,278
Federal funds sold and securities purchased under agreements to resell(2)	120,957	13,455	—	134,412
Securities borrowed(2)	121,302	399	—	121,701
Customer and other receivables(2)	39,362	24,161	765	64,288
Loans, net of allowance	12,078	16,968	—	29,046
Other assets(3)	19,701	10,860	1,328	31,889
Total assets(4)	$648,049	$125,565	$7,346	$780,960

[1] Cash and cash equivalents include Cash and due from banks and Interest bearing deposits with banks.

[2] Certain of these assets are included in secured financing assets (see "Secured Financing" herein).

[3] Other assets include Other investments; Premises, equipment and software costs; Goodwill; Intangible assets; and Other assets.

[4] Total assets include Global Liquidity Reserves of $202 billion and $182 billion at December 31, 2013 and December 31, 2012, respectively. The Global Liquidity Reserve at December 31, 2013 was higher than the preceding year, primarily due to approximately $26 billion of deposits relating to customer accounts that were transferred to the Company's depository institutions from Citi during 2013 (see Note 3 to the consolidated financial statements in Item 8).

[5] On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior-period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.

A substantial portion of the Company's total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. The liquid nature of these assets provides the Company with flexibility in managing the size of its balance sheet. The Company's total assets increased to $832,702 million at December 31, 2013 from $780,960 million at December 31, 2012. The increase in total assets was primarily due to an increase in Cash and cash equivalents, Securities available for sale and loans, net of allowances (see Notes 3 and 25 to the consolidated financial statements in Item 8).

The Company's assets and liabilities are primarily related to transactions attributable to sales and trading and securities financing activities. At December 31, 2013, securities financing assets and liabilities were $352 billion and $353 billion, respectively. At December 31, 2012, securities financing assets and liabilities were $348 billion and $300 billion, respectively. Securities financing transactions include cash deposited with clearing organizations or segregated under federal and other regulations or requirements, repurchase and resale agreements, securities borrowed and loaned transactions, securities received as collateral and obligation to return securities received, and customer and other receivables and payables. Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Notes 2 and 6 to the consolidated financial statements in Item 8). Securities sold under agreements to repurchase and Securities loaned were $178 billion at December 31, 2013 and averaged $176 billion during 2013. Securities purchased under agreements to resell and Securities borrowed were $248 billion at December 31, 2013 and averaged $281 billion during 2013. The Securities purchased under agreements to resell and Securities borrowed period-end balance was lower than the average balances during the year ended December 31, 2013 due to a reduction in the Company's requirements for collateral over the period.

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer-owned securities, and customer cash, which is segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company's prime brokerage customers. The Company's risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company's credit exposure to customers. Included within securities financing assets were $21 billion and $14 billion at December 31, 2013 and December 31, 2012, respectively, recorded in accordance with accounting guidance for the transfer of financial assets that represented offsetting assets and liabilities for fully collateralized non-cash loan transactions.

Liquidity Risk Management Framework.

The primary goal of the Company's liquidity risk management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfill its financial obligations and support the execution of the Company's business strategies.

The following principles guide the Company's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Limited access to funding should be anticipated through the Contingency Funding Plan ("CFP").

The core components of the Company's liquidity risk management framework are the CFP, Liquidity Stress Tests and the Global Liquidity Reserve (as defined below), which support the Company's target liquidity profile.

Contingency Funding Plan.

The Company's CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the Company's liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests.

The Company uses liquidity stress tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- No government support;
- No access to equity and unsecured debt markets;
- Repayment of all unsecured debt maturing within the stress horizon;
- Higher haircuts and significantly lower availability of secured funding;
- Additional collateral that would be required by trading counterparties, certain exchanges and clearing organizations related to credit rating downgrades;

- Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;
- Discretionary unsecured debt buybacks;
- Drawdowns on unfunded commitments provided to third parties;
- Client cash withdrawals and reduction in customer short positions that fund long positions;
- Limited access to the foreign exchange swap markets;
- Return of securities borrowed on an uncollateralized basis; and
- Maturity roll-off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for the Parent and major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability across the Company. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from the Parent. The Parent will support its subsidiaries and will not have access to subsidiaries' liquidity reserves that are subject to any regulatory, legal or tax constraints.

At December 31, 2013, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its Liquidity Stress Tests.

Global Liquidity Reserve.

The Company maintains sufficient liquidity reserves ("Global Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. In addition, the Global Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Company's risk tolerance and is subject to change dependent on market and firm-specific events.

The Global Liquidity Reserve is held within the Parent and major operating subsidiaries. The Global Liquidity Reserve is composed of diversified cash and cash equivalents and highly liquid unencumbered securities. Eligible unencumbered securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage-backed securities, non-U.S. government securities and other highly liquid investment grade securities.

Global Liquidity Reserve by Type of Investment.

The table below summarizes the Company's Global Liquidity Reserve by type of investment:

	At December 31, 2013
	(dollars in billions)
Cash deposits with banks	$ 18
Cash deposits with central banks	36
Unencumbered highly liquid securities:	
U.S. government obligations	84
U.S. agency and agency mortgage-backed securities	23
Non-U.S. sovereign obligations(1)	23
Investments in money market funds	1
Other investment grade securities	17
Global Liquidity Reserve	$202

[1] Non-U.S. sovereign obligations are composed of unencumbered German, French, Dutch, U.K., Brazilian and Japanese government obligations.

The ability to monetize assets during a liquidity crisis is critical. The Company believes that the assets held in the Global Liquidity Reserve can be monetized within five business days in a stressed environment given the highly liquid and diversified nature of the reserves. The currency profile of the Global Liquidity Reserve is consistent with the CFP and Liquidity Stress Tests. In addition to the Global Liquidity Reserve, the Company has other cash and cash equivalents and other unencumbered assets that are available for monetization that are not included in the balances in the table above.

Global Liquidity Reserve Held by Bank and Non-Bank Legal Entities.

The table below summarizes the Global Liquidity Reserve held by bank and non-bank legal entities:

	At December 31, 2013	Average Balance(1) 2013
	(dollars in billions)	
Bank legal entities:		
Domestic	$ 85	$ 70
Foreign	4	5
Total Bank legal entities	89	75
Non-Bank legal entities:		
Domestic(2)	80	83
Foreign	33	34
Total Non-Bank legal entities	113	117
Total	$202	$192

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.

(2) The Parent held $58 billion at December 31, 2013, which averaged $63 billion during 2013.

The Company is exposed to intra-day settlement risk in connection with liquidity provided to its major broker-dealer subsidiaries for intra-day clearing and settlement of its securities and financing activity.

Basel Liquidity Framework.

The Basel Committee has developed two standards intended for use in liquidity risk supervision: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard's objective is to promote the short-term resilience of the liquidity risk profile of banks and bank holding companies. The Company is compliant with the Basel Committee's version of the LCR, which stipulates that the ratio of the Company's portfolio of unencumbered high-quality liquid assets to total net cash outflows over a 30-day standardized supervisory liquidity stress scenario must be at least 100%.

The NSFR has a time horizon of one year and is defined as the ratio of the amount of available stable funding to the amount of required stable funding. This standard's objective is to promote resilience over a longer time horizon. In January 2014, the Basel Committee proposed revisions to the original December 2010 version of the NSFR and continues to contemplate the introduction of the NSFR, including any final revisions, as a minimum standard by January 1, 2018.

In late October 2013, the U.S. banking regulators proposed a rule to implement the LCR in the United States ("U.S. LCR proposal"). The U.S. LCR proposal would apply to the Company and MSBNA and MSPBNA (the "Subsidiary Banks"). The U.S. LCR proposal is more stringent in certain respects compared with the Basel Committee's version of the LCR, and includes a generally narrower definition of high-quality liquid assets, a different methodology for calculating net cash outflows during the 30-day stress period as well as a shorter, two-year phase-in period that ends on December 31, 2016. The Company continues to evaluate the U.S. LCR proposal and its potential impact on the Company's current liquidity and funding requirements.

Funding Management.

The Company manages its funding in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing. A substantial portion of the Company's total assets consists of liquid marketable securities and arises principally from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Company with flexibility in funding these assets with secured financing. The Company's goal is to achieve an optimal mix of durable secured and unsecured financing. Secured financing investors principally focus on the quality of the eligible collateral posted. Accordingly, the Company actively manages its secured financing book based on the quality of the assets being funded.

The Company utilizes shorter-term secured financing only for highly liquid assets and has established longer tenor limits for less liquid asset classes, for which funding may be at risk in the event of a market disruption. The Company defines highly liquid assets as those that are consistent with the standards of the Global Liquidity Reserve, and less liquid assets as those that do not meet these standards. At December 31, 2013, the weighted average maturity of the Company's secured financing against less liquid assets was greater than 120 days. To further minimize the refinancing risk of secured financing for less liquid assets, the Company has established concentration limits to diversify its investor base and reduce the amount of monthly maturities for secured financing of less liquid assets. Furthermore, the Company obtains spare capacity, or term secured funding liabilities in excess of less liquid inventory, as an additional risk mitigant to replace maturing trades in the event that secured financing markets or our ability to access them become limited. Finally, in addition to the above risk management framework, the Company holds a portion of its Global Liquidity Reserve against the potential disruption to its secured financing capabilities.

Unsecured Financing. The Company views long-term debt and deposits as stable sources of funding. Unencumbered securities and non-security assets are financed with a combination of long- and short-term debt and deposits. The Company's unsecured financings include structured borrowings, whose payments and redemption values are based on the performance of certain underlying assets, including equity, credit, foreign exchange, interest rates and commodities. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to the Company's interest rate and structured borrowings risk profile (see Note 12 to the consolidated financial statements in Item 8).

Short-Term Borrowings. The Company's unsecured short-term borrowings consist of commercial paper, bank loans, bank notes and structured notes with maturities of 12 months or less at issuance.

The table below summarizes the Company's short-term unsecured borrowings:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Commercial paper	$ 8	$ 306
Other short-term borrowings	2,134	1,832
Total	$2,142	$2,138

Deposits. The Company's bank subsidiaries' funding sources include time deposits, money market deposit accounts, demand deposit accounts, repurchase agreements, federal funds purchased, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in the Subsidiary Banks are sourced from the Company's retail brokerage accounts and are considered to have stable, low-cost funding characteristics. Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. In 2013, $26 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions. At December 31, 2013, approximately $30 billion of additional deposits are scheduled to be transferred to the Company's depository institutions on an agreed-upon basis through June 2015 (see Note 3 to the consolidated financial statements in Item 8).

Deposits were as follows:

	At December 31, 2013(1)	At December 31, 2012(1)
	(dollars in millions)	
Savings and demand deposits(2)	$109,908	$80,058
Time deposits(3)	2,471	3,208
Total	$112,379	$83,266

(1) Total deposits subject to FDIC insurance at December 31, 2013 and December 31, 2012 were $84 billion and $62 billion, respectively.

(2) There were no non-interest bearing deposits at December 31, 2013. Amounts include non-interest bearing deposits of $1,037 million at December 31, 2012.

(3) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4 to the consolidated financial statements in Item 8).

***Senior Indebtedness*.** At December 31, 2013, the aggregate outstanding carrying amount of the Company's senior indebtedness was approximately $143 billion (including guaranteed obligations of the indebtedness of subsidiaries) compared with $158 billion at December 31, 2012. The decrease in the amount of senior indebtedness was primarily due to repayments of notes, offset by new issuances of long-term borrowings.

Long-Term Borrowings. The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments (*e.g.*, commercial paper and other unsecured short-term borrowings). Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company's credit ratings and the overall availability of credit.

The Company may engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Long-term borrowings at December 31, 2013 consisted of the following:

	Parent	Subsidiaries	Total
		(dollars in millions)	
Due in 2014	$ 22,495	$ 1,698	$ 24,193
Due in 2015	19,722	1,368	21,090
Due in 2016	21,142	2,002	23,144
Due in 2017	24,458	1,837	26,295
Due in 2018	13,575	1,733	15,308
Thereafter	41,913	1,632	43,545
Total	$143,305	$10,270	$153,575

Long-Term Borrowing Activity in 2013. During 2013, the Company issued and reissued notes with a principal amount of approximately $28 billion. This amount included the Company's issuance of $2.0 billion in subordinated debt on November 22, 2013, $2.0 billion in subordinated debt on May 21, 2013, $3.7 billion in senior unsecured debt on April 25, 2013 and $4.5 billion in senior unsecured debt on February 25, 2013. In connection with the note issuances, the Company generally enters into certain transactions to obtain floating interest rates. The weighted average maturity of the Company's long-term borrowings, based upon stated maturity dates, was approximately 5.4 years at December 31, 2013. During 2013, approximately $39 billion in aggregate long-term borrowings matured or were retired. Subsequent to December 31, 2013 and through February 10, 2014, the Company's long-term borrowings (net of issuances) decreased by approximately $2.2 billion. This amount includes the Company's issuance of $2.8 billion in senior debt on January 24, 2014.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally is impacted by the Company's credit ratings. In addition, the Company's credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies will look at company specific factors; other industry factors such as regulatory or legislative changes; the macro-economic environment and perceived levels of government support, among other things.

Some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from external sources of potential support, as well as perceived government support of systemically important banks, including the credit ratings of the Company. Rating agencies continue to monitor the progress of U.S. financial reform legislation to assess whether the possibility of extraordinary government support for the financial system in any future financial crises is negatively impacted. Legislative and rulemaking outcomes may lead to reduced uplift assumptions for U.S. banks and thereby place downward pressure on credit ratings. For example, in November 2013, Moody's Investor Services, Inc. ("Moody's") took certain ratings actions with respect to eight large U.S. banking groups, including downgrading the Company, to remove certain uplift from the U.S. government support in their ratings. At the same time, proposed and final U.S. financial reform legislation and attendant rulemaking also have positive implications for credit ratings such as higher standards for capital and liquidity levels. The net result on credit ratings and the timing of any change in rating agency views on changes in government support and other financial reform is currently uncertain.

At January 31, 2014, the Parent's and MSBNA's senior unsecured ratings were as set forth below:

	Parent			Morgan Stanley Bank, N.A.		
	Short-Term Debt	Long-Term Debt	Rating Outlook	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.	R-1 (middle)	A (high)	Negative	—	—	—
Fitch Ratings, Inc.	F1	A	Stable	F1	A	Stable
Moody's Investor Services, Inc.(1)	P-2	Baa2	Stable	P-2	A3	Stable
Rating and Investment Information, Inc.	a-1	A	Negative	—	—	—
Standard & Poor's Financial Services LLC(2)	A-2	A-	Negative	A-1	A	Negative

(1) On August 22, 2013, Moody's placed the senior and subordinated debt ratings of the holding companies for the six largest U.S. banks on review as it continued to consider reducing its government (or systemic) support assumptions to reflect the impact of U.S. bank resolution policies. As part of this review, Moody's placed the Company's "Baa1" long-term senior, "Baa2" long-term subordinated and "P-2" short-term on review for downgrade. On November 14, 2013, Moody's downgraded the Company's long-term debt rating one-notch from "Baa1" to "Baa2" and left the short-term rating unchanged at "P-2". A stable outlook was assigned to the Parent's rating outlook.

(2) On June 11, 2013, Standard & Poor's Financial Services LLC ("S&P") announced that it continues to assess the degree to which it factors extraordinary government support into its ratings on non-operating bank holding companies and was factoring that assessment into the negative outlooks on the non-operating bank holding companies of the eight U.S. bank groups that S&P classifies as having high systematic importance. S&P's negative outlook for the Company's issuer credit ratings reflects not only S&P's continued assessment of extraordinary government support, but also the impact that recently finalized regulations, particularly the Volcker Rule, could have on the Company's business.

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the Company is in a net asset or liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and S&P. At December 31, 2013, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers were $1,522 million and an incremental $3,321 million, respectively.

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Company's business and results of operation in future periods is inherently uncertain and will depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, individual client behavior and future mitigating actions the Company may take. The liquidity impact of additional collateral requirements is included in the Company's Liquidity Stress Tests.

Capital Management.

The Company's senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries' equity.

At December 31, 2013, the Company had approximately $1.2 billion remaining under its current share repurchase program out of the $6 billion authorized by the Board of Directors in December 2006. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases by the Company are subject to regulatory approval.

In July 2013, the Company received no objection from the Federal Reserve to repurchase through March 31, 2014, up to $500 million of the Company's outstanding common stock under rules relating to annual capital distributions (Title 12 of the Code of Federal Regulations, Section 225.8, *Capital Planning*). Share repurchases are made pursuant to the share repurchase program previously authorized by the Company's Board of Directors and are exercised from time to time at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time (see also "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Item 5). During 2013, the Company repurchased approximately $350 million of the Company's outstanding common stock as part of its share repurchase program.

Series E Preferred Stock. On September 30, 2013, the Company issued 34,500,000 Depositary Shares, for an aggregate price of $862 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series E Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value ("Series E Preferred Stock"). The Series E Preferred Stock is redeemable at the Company's option, (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2023 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series E Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series E Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $854 million (see Note 15 to the consolidated financial statements in Item 8).

Series F Preferred Stock. On December 10, 2013, the Company issued 34,000,000 Depositary Shares, for an aggregate price of $850 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series F Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value ("Series F Preferred Stock"). The Series F Preferred Stock is redeemable at the Company's option, (i) in whole or in part, from time to time, on any dividend payment date on or after January 15, 2024 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series F Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series F Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $842 million (see Note 15 to the consolidated financial statements in Item 8).

The Board of Directors determines the declaration and payment of dividends on a quarterly basis. In January 2014, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. In December 2013, the Company also announced that the Board of Directors declared a quarterly dividend of $255.56 per share of Series A Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.25556), a quarterly dividend of $25.00 per share of Series C Non-Cumulative Non-Voting Perpetual Preferred Stock, a quarterly dividend of $519.53 per share of Series E Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock and the initial quarterly dividend of $167.10 per share of Series F Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock.

The following table sets forth the Company's tangible Morgan Stanley shareholders' equity and tangible common equity at December 31, 2013 and December 31, 2012 and average balances during 2013:

	Balance at		Average Balance(1)
	December 31, 2013	December 31, 2012	2013
		(dollars in millions)	
Common equity	$62,701	$60,601	$61,895
Preferred equity	3,220	1,508	1,839
Morgan Stanley shareholders' equity	65,921	62,109	63,734
Junior subordinated debentures issued to capital trusts	4,849	4,827	4,826
Less: Goodwill and net intangible assets(2)	(9,873)	(7,587)	(8,900)
Tangible Morgan Stanley shareholders' equity	$60,897	$59,349	$59,660
Common equity	$62,701	$60,601	$61,895
Less: Goodwill and net intangible assets(2)	(9,873)	(7,587)	(8,900)
Tangible common equity(3)	$52,828	$53,014	$52,995

(1) The Company calculates its average balances based upon month-end balances.

(2) The goodwill and net intangible assets deduction exclude mortgage servicing rights (net of disallowable mortgage servicing rights) of $7 million and $6 million at December 31, 2013 and December 31, 2012, respectively, and include only the Company's share of the Wealth Management JV's goodwill and intangible assets at each respective period (100% at December 31, 2013 and 65% at December 31, 2012) (see Note 3 to the consolidated financial statements in Item 8). The increase in goodwill and net intangible assets at December 31, 2013 from December 31, 2012 is primarily due to the purchase of the remaining 35% interest in the Wealth Management JV.

(3) Tangible common equity, a non-GAAP financial measure, equals common equity less goodwill and net intangible assets as defined above. The Company views tangible common equity as a useful measure to investors because it is a commonly utilized metric and reflects the common equity deployed in the Company's businesses.

Capital Covenants.

In October 2006 and April 2007, the Company executed replacement capital covenants in connection with offerings by Morgan Stanley Capital Trust VII and Morgan Stanley Capital Trust VIII (the "Capital Securities"), which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenants, see the Company's Current Reports on Form 8-K dated October 12, 2006 and April 26, 2007.

Regulatory Requirements.

Capital.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Subsidiary Banks.

As of December 31, 2013, the Company calculated its capital ratios and RWAs in accordance with the existing capital adequacy standards for financial holding companies adopted by the Federal Reserve. These existing capital 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 U.S. banking organizations, as well as certain of their U.S. bank subsidiaries, to implement

Basel II standards over the next several years. On January 1, 2013, the U.S. banking regulators' rules to implement the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book, as well as incorporated add-ons for stressed VaR and incremental risk requirements ("market risk capital framework amendment"). The Company's Total, Tier 1 and Tier 1 common capital ratios and RWAs subsequent to the Basel 2.5 effective date were calculated under this revised framework. The Company's Total, Tier 1 and Tier 1 common capital ratios and RWAs prior to the Basel 2.5 effective date have not been recalculated under the revised framework. RWAs reflect both on- and off-balance sheet risk of the Company. The risk capital calculations will evolve over time as the Company enhances its risk management methodology and incorporates improvements in modeling techniques while maintaining compliance with the regulatory requirements and interpretations.

Market RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company's market risks and models such as the VaR model, see "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A.

Credit RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Item 7A.

Existing Regulatory Capital Framework.

Under the Federal Reserve's existing regulatory capital framework, total allowable capital is composed of Tier 1 capital, which includes Tier 1 common capital, and Tier 2 capital. Tier 1 common capital is defined as Tier 1 capital less qualifying perpetual preferred stock and qualifying restricted core capital elements (qualifying trust preferred securities and noncontrolling interests). Tier 1 capital consists predominantly of common shareholders' equity as well as qualifying preferred stock and qualifying restricted core capital elements less goodwill, non-servicing intangible assets (excluding allowable mortgage servicing rights), net deferred tax assets (recoverable in excess of one year), an after-tax debt valuation adjustment and certain other deductions, including equity investments. The debt valuation adjustment in the table below represents the cumulative change in fair value of certain long-term and short-term borrowings that was attributable to the Company's own instrument-specific credit spreads and is included in retained earnings. For a further discussion of fair value, see Note 4 to the consolidated financial statements in Item 8.

At December 31, 2013, the Company's capital levels calculated under Basel I, inclusive of the market risk capital framework amendment, were in excess of well-capitalized levels with ratios of Tier 1 capital to RWAs of 15.7% and total capital to RWAs of 16.9% (6% and 10% being well-capitalized for regulatory purposes, respectively). The Company's ratio of Tier 1 common capital to RWAs was 12.8% (5% under stressed conditions is the current minimum Tier 1 common ratio under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") framework). Financial holding companies, including the Company, are subject to a Tier 1 leverage ratio defined by the Federal Reserve. Consistent with the Federal Reserve's definition, the Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets, and financial and non-financial equity investments). The adjusted average total assets are derived using weekly balances for the period. At December 31, 2013, the Company was in compliance with the Federal Reserve's Tier 1 leverage requirement with a Tier 1 leverage ratio of 7.6% (5% is the current well-capitalized standard for regulatory purposes).

The following table reconciles the Company's total shareholders' equity to Tier 1 common, Tier 1, Tier 2 and Total allowable capital as defined by the regulations issued by the Federal Reserve and presents the Company's consolidated capital ratios at December 31, 2013 and December 31, 2012:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Allowable capital		
Common shareholders' equity	$ 62,701	$ 60,601
Less: Goodwill	(6,595)	(6,650)
Less: Non-servicing intangible assets	(3,279)	(3,777)
Less: Net deferred tax assets	(2,879)	(4,785)
After-tax debt valuation adjustment	1,275	823
Other deductions	(1,306)	(1,418)
Tier 1 common capital	49,917	44,794
Qualifying preferred stock	3,220	1,508
Qualifying restricted core capital elements	7,870	8,058
Tier 1 capital	61,007	54,360
Qualifying subordinated debt and restricted core capital elements	5,559	2,783
Other qualifying amounts	284	197
Other deductions	(850)	(714)
Tier 2 capital	4,993	2,266
Total allowable capital	$ 66,000	$ 56,626
Risk-weighted assets(1)		
Market risk	$133,760	$ 54,042
Credit risk	255,915	252,704
Total	$389,675	$306,746
Capital ratios		
Total capital ratio(1)	16.9%	18.5%
Tier 1 common capital ratio(1)	12.8%	14.6%
Tier 1 capital ratio(1)	15.7%	17.7%
Tier 1 leverage ratio	7.6%	7.1%

(1) Effective January 1, 2013, in accordance with the U.S. banking regulators' rules the Company implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", which increased the capital requirement for securitizations and correlation trading within the Company's trading book as well as incorporated add-ons for stressed VaR and incremental risk requirements. Under the market risk capital framework amendment, total RWAs would have been approximately $424 billion at December 31, 2012. At December 31, 2012, the capital ratios would have been approximately as follows: Total capital ratio 13.4%, Tier 1 common capital ratio 10.6% and Tier 1 capital ratio 12.8%.

Capital Plans and Stress Tests. In November 2011, the Federal Reserve issued a final rule regarding capital plans. The final rule requires large bank holding companies such as the Company to submit annual capital plans in order for the Federal Reserve to assess their systems and processes that incorporate forward-looking projections of revenues and losses to monitor and maintain their internal capital adequacy. The rule also requires that such companies receive no objection from the Federal Reserve before undertaking a capital action.

In addition, the Dodd-Frank Act imposes stress test requirements on large bank holding companies, including the Company. In October 2012, the Federal Reserve issued its stress test final rule under the Dodd-Frank Act, which requires the Company to conduct semi-annual company-run stress tests. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve. The capital planning and stress testing requirements for large bank holding companies form part of the Federal Reserve's annual CCAR process.

The Company submitted its 2013 annual capital plan to the Federal Reserve in January 2013. In March 2013, the Federal Reserve published a summary of the supervisory stress test results of each company subject to the final rule, including the Company. The Company received no objection to its 2013 capital plan, including the acquisition of the remaining 35% interest in the Wealth Management JV, which was completed on June 28, 2013.

In September 2013, the Federal Reserve issued an interim final rule specifying how large bank holding companies, including the Company, should incorporate the U.S. Basel III capital standards into their 2014 capital plans and 2014 Dodd-Frank Act stress test results. Among other things, the interim final rule requires large bank holding companies to project both Tier 1 Common capital ratio using the methodology currently in effect under existing capital guidelines and Common Equity Tier 1 ratio under the U.S. Basel III capital standards after giving effect to phase-in provisions.

As part of the 2014 CCAR process, eight bank holding companies, including the Company, are required to factor in its stress test scenarios the default of its largest counterparty across its derivatives and securities financing transactions. The Company expects that by March 31, 2014, the Federal Reserve will either object or provide notice of non-objection to the Company's 2014 capital plan that was submitted to the Federal Reserve on January 6, 2014.

The Dodd-Frank Act also requires a national bank with total consolidated assets of more than $10 billion to conduct an annual company-run stress test. Beginning in 2012, the OCC's implementing regulation requires national banks with $50 billion or more in average total consolidated assets, including MSBNA, to conduct its Dodd-Frank Act stress test. MSBNA submitted its company-run stress test results to the OCC and the Federal Reserve on January 6, 2014. The OCC's regulation also requires a national bank with more than $10 billion but less than $50 billion in average total consolidated assets, including MSPBNA, to submit the results of its Dodd-Frank Act stress test by March 31, 2014. However, MSPBNA was given an exemption by the OCC for the 2014 Dodd-Frank Act stress test.

Basel Capital Framework.

In December 2010, the Basel Committee reached an agreement on Basel III. In July 2013, the U.S. banking regulators promulgated final rules to implement many aspects of Basel III (the "U.S. Basel III final rule"). The Company became subject to the U.S. Basel III final rule beginning on January 1, 2014. Certain requirements in the U.S. Basel III final rule, including the minimum risk-based capital ratios and new capital buffers, will commence or be phased in over several years.

The U.S. Basel III final rule contains new capital standards that raise capital requirements, strengthen counterparty credit risk capital requirements, introduce a leverage ratio as a supplemental measure to the risk-based ratio and replace the use of externally developed credit ratings with alternatives such as the Organisation for Economic Co-operation and Development's country risk classifications. Under the U.S. Basel III final rule, the Company is subject, on a fully phased in basis, to a minimum Common Equity Tier 1 risk-based capital ratio of 4.5%, a minimum Tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 8%. The Company is also subject to a 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed, up to a 2.5% Common Equity Tier 1 countercyclical buffer on a fully phased-in basis by 2019. Failure to maintain such buffers will result in restrictions on the Company's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. In addition, certain new items will be deducted from Common Equity Tier 1 capital and certain existing deductions will be modified. The majority of these capital deductions is subject to a phase-in schedule and will be fully phased in by 2018. Under the U.S. Basel III final rule, unrealized gains and losses on available-for-sale securities will be reflected in Common Equity Tier 1 capital, subject to a phase-in schedule.

Pursuant to the U.S. Basel III final rule, existing trust preferred securities will be fully phased out of the Company's Tier 1 capital by January 1, 2016. Thereafter, existing trust preferred securities that do not satisfy the

U.S. Basel III final rule's eligibility criteria for Tier 2 capital will be phased out of the Company's regulatory capital by January 1, 2022.

U.S. banking regulators have 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 minimum capital requirements that are not less than the generally applicable risk-based capital requirements. Currently, this minimum "capital floor" is based on Basel I. Beginning on January 1, 2015, the U.S. Basel III final rule will replace the current Basel I-based "capital floor" with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes. The "capital floor" applies to the calculation of minimum risk-based capital requirements as well as the capital conservation buffer and, if deployed, the countercyclical capital buffer. Accordingly, the methods for calculating the Company's capital ratios will change as the U.S. Basel III final rule's revisions to the numerator and denominator are phased in and following the Company's completion of the U.S. Basel III advanced approach parallel run period. These ongoing methodological changes may result in differences in the Company's reported capital ratios from one reporting period to the next that are independent of changes to the Company's capital base, asset composition, off-balance sheet exposures or risk profile.

In addition to the U.S. Basel III final rule, the Dodd-Frank Act requires the Federal Reserve to establish more stringent capital requirements for certain bank holding companies, including the Company. The Federal Reserve has indicated that it intends to address this requirement by implementing the Basel Committee's capital surcharge for global systemically important banks ("G-SIB"). The Financial Stability Board ("FSB") has provisionally identified the G-SIBs and assigned each G-SIB a Common Equity Tier 1 capital surcharge ranging from 1.0% to 2.5% of RWAs. The Company is provisionally assigned a G-SIB capital surcharge of 1.5%. The FSB has stated that it intends to update the list of G-SIBs annually.

The Company estimates its pro forma risk-based Common Equity Tier 1 capital ratio under the U.S. Basel III final rule's advanced approaches method to be approximately 10.5% as of December 31, 2013. This estimate is based on the Company's current understanding of the U.S. Basel III final rule and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from regulators relating to the U.S. Basel III final rule, and as the interpretation of the final rule evolves over time. On February 21, 2014, the Federal Reserve and the OCC approved the Company's and the Subsidiary Banks' respective use of the U.S. Basel III advanced approaches method to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014. One of the stipulations for this approval is that the Company will be required to satisfy certain conditions, as agreed to with the regulators, regarding the modeling used to determine its estimated RWAs associated with operational risk. Pursuant to these conditions, the Company's estimated operational risk RWAs could increase and thus reduce the pro forma Common Equity Tier 1 capital ratio as of December 31, 2013 by an amount up to approximately 50 basis points. The pro forma risk-based Common Equity Tier 1 capital ratio estimate is a non-GAAP financial measure that the Company considers to be a useful measure for evaluating compliance with new regulatory capital requirements that have not yet become effective. The pro forma risk-based Common Equity Tier 1 capital ratio estimate is based on shareholders' equity, Common Equity Tier 1 capital, RWAs and certain other data inputs at December 31, 2013. This preliminary estimate is subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what the Company's capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, see "Risk Factors" in Part I, Item 1A.

The U.S. Basel III final rule also subjects certain banking organizations, including the Company, to a minimum supplementary leverage ratio of 3% starting on January 1, 2018. In January 2014, the Basel Committee finalized revisions to the denominator of the Basel III leverage ratio. The revised denominator differs from the supplementary leverage ratio in the U.S. Basel III final rule in the treatment of, among other things, derivatives, securities financing transactions and other off-balance sheet items. U.S. banking regulators may issue regulations to implement the revised Basel III leverage ratio.

The U.S. banking regulators have also proposed a rule to implement enhanced supplementary leverage standards for certain large bank holding companies and their insured depository institution subsidiaries, including the Company and the Subsidiary Banks. Under this proposal, a covered bank holding company would need to maintain a leverage buffer of Tier 1 capital of greater than 2% in addition to the 3% minimum (for a total of greater than 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. This proposal would further establish a "well-capitalized" threshold based on a supplementary leverage ratio of 6% for insured depository institution subsidiaries, including the Subsidiary Banks. If this proposal is adopted, its requirements would become effective on January 1, 2018 with public disclosure beginning in 2015. Based on a preliminary analysis of the proposed standards, the Company expects to meet the supplementary leverage ratio of greater than 5% in 2015. As the enhanced supplementary leverage standards are currently proposals, and may change based on final rules issued by the U.S. banking regulators, the Company's expectations are subject to risks and uncertainties that may affect future results of the Company. Further, the expectations should not be taken as a projection of what the Company's supplemental leverage ratios or earnings or assets will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, see "Risk Factors" in Part I, Item 1A.

Required Capital.

The Company's required capital ("Required Capital") estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk-based use-of-capital measure, which is compared with the Company's regulatory capital to ensure the Company maintains an amount of going concern capital after absorbing potential losses from extreme stress events where applicable, at a point in time. The Company defines the difference between its regulatory capital and aggregate Required Capital as Parent capital. Average Tier 1 common capital, aggregate Required Capital and Parent capital for 2013 were approximately $47.7 billion, $38.7 billion and $9.0 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

Tier 1 common capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital Framework. In principle, each business segment is capitalized as if it were an independent operating entity with limited diversification benefit between the business segments. Required Capital is assessed at each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis. The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

The following table presents the business segments' and Parent's average Tier 1 common capital and average common equity for 2013 and 2012:

	2013		2012	
	Average Tier 1 Common Capital	Average Common Equity	Average Tier 1 Common Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities	$32.7	$37.9	$22.3	$29.0
Wealth Management	4.3	13.2	3.7	13.3
Investment Management	1.7	2.8	1.3	2.4
Parent capital(1)	9.0	8.0	15.5	16.1
Total	$47.7	$61.9	$42.8	$60.8

[1] Effective January 2013, the Company updated its Required Capital Framework methodology to coincide with the regulatory changes that became effective in 2013. As a result of this update to the methodology, the majority of which was driven by the implementation of the market risk capital framework amendment, average Institutional Securities capital increased and average Parent capital decreased, partially offset by accretion of net income at December 31, 2013.

Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entities, primarily in connection with its Institutional Securities and Investment Management business segments.

Institutional Securities Activities. The Company utilizes special purpose entities ("SPE") primarily in connection with securitization activities. The Company engages in securitization activities related to commercial and residential mortgage loans, U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bonds and other types of financial assets. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income. Retained interests in securitized financial assets were approximately $2.2 billion and $3.2 billion at December 31, 2013 and December 31, 2012, respectively, substantially all of which were related to U.S. agency collateralized mortgage obligations, commercial mortgage loan and residential mortgage loan securitization transactions. For further information about the Company's securitization activities, see Note 7 to the consolidated financial statements in Item 8.

The Company has entered into liquidity facilities with SPEs and other counterparties, whereby the Company is required to make certain payments if losses or defaults occur. The Company often may have recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity facilities (see Note 13 to the consolidated financial statements in Item 8).

Investment Management Activities. As a general partner in certain private equity and real estate partnerships, the Company receives distributions from the partnerships according to the provisions of the partnership agreements. The Company may, from time to time, be required to return all or a portion of such distributions to the limited partners in the event the limited partners do not achieve a certain return as specified in various partnership agreements, subject to certain limitations. These amounts are noted in the table below under "General partner guarantees".

Guarantees. The Company discloses information about its obligations under certain guarantee arrangements. Guarantees are defined as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, a security or commodity price, an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Guarantees are also defined as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The table below summarizes certain information regarding the Company's obligations under guarantee arrangements at December 31, 2013:

	Maximum Potential Payout/Notional					Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	Years to Maturity						
Type of Guarantee	Less than 1	1-3	3-5	Over 5	Total		
	(dollars in millions)						
Credit derivative contracts(1)	$ 313,836	$520,119	$500,241	$ 66,594	$1,400,790	$(16,994)	$ —
Other credit contracts	75	441	529	816	1,861	(457)	—
Non-credit derivative contracts(1)	1,249,932	794,776	353,559	474,921	2,873,188	54,098	—
Standby letters of credit and other financial guarantees issued(2)(3)	1,024	812	1,205	5,652	8,693	(208)	7,016
Market value guarantees	—	112	83	515	710	7	106
Liquidity facilities	2,328	—	—	—	2,328	(4)	3,042
Whole loan sales representations and warranties	—	—	—	23,755	23,755	56	—
Securitization representations and warranties	—	—	—	67,249	67,249	82	—
General partner guarantees	42	41	62	301	446	73	—

[1] Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 12 to the consolidated financial statements in Item 8.

[2] Approximately $2.0 billion of standby letters of credit are also reflected in the "Commitments" table below in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Trading assets or Trading liabilities in the consolidated statements of financial condition.

[3] Amounts include guarantees issued by consolidated real estate funds sponsored by the Company of approximately $13.8 million. These guarantees relate to obligations of the fund's investee entities, including guarantees related to capital expenditures and principal and interest debt payments.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the Company's consolidated financial statements.

See Note 13 to the consolidated financial statements in Item 8 for information on other guarantees and indemnities.

Commitments and Contractual Obligations.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, and mortgage lending at December 31, 2013 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				Total at December 31, 2013
	Less than 1	1-3	3-5	Over 5	
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 389	$ 1	$ —	$ 1	$ 391
Investment activities	518	70	30	447	1,065
Primary lending commitments—investment grade(1)	7,695	14,674	36,224	798	59,391
Primary lending commitments—non-investment grade(1)	1,657	5,402	10,066	2,119	19,244
Secondary lending commitments(2)	44	38	10	72	164
Commitments for secured lending transactions	1,094	166	—	—	1,260
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	44,890	—	—	—	44,890
Commercial and residential mortgage-related commitments	1,199	48	301	313	1,861
Underwriting commitments	588	—	—	—	588
Other lending commitments	2,660	340	193	128	3,321
Total	$60,734	$20,739	$46,824	$3,878	$132,175

[1] This amount includes $49.4 billion of investment grade and $12 billion of non-investment grade unfunded commitments accounted for as held for investment and $3.5 billion of investment grade and $4.6 billion of non-investment grade unfunded commitments accounted for as held for sale at December 31, 2013. The remainder of these lending commitments is carried at fair value.

[2] These commitments are recorded at fair value within Trading assets and Trading liabilities in the consolidated statements of financial condition (see Note 4 to the consolidated financial statements in Item 8).

[3] The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to December 31, 2013 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency

securities and other sovereign government obligations. These agreements primarily settle within three business days, and of the total amount at December 31, 2013, $42.9 billion settled within three business days.

(4) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $1.1 billion.

For further description of these commitments, see Note 13 to the consolidated financial statements in Item 8 and "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Item 7A.

In the normal course of business, the Company enters into various contractual obligations that may require future cash payments. Contractual obligations include long-term borrowings, other secured financings, contractual interest payments, contractual payments on time deposits, operating leases and purchase obligations. The Company's future cash payments associated with certain of its obligations at December 31, 2013 are summarized below:

	Payments Due in:				
At December 31, 2013	**2014**	**2015-2016**	**2017-2018**	**Thereafter**	**Total**
	(dollars in millions)				
Long-term borrowings(1)	$24,193	$44,234	$41,603	$43,545	$153,575
Other secured financings(1)	3,500	4,848	835	567	9,750
Contractual interest payments(2)	5,458	8,994	5,819	19,673	39,944
Time deposits(3)	2,432	51	—	—	2,483
Operating leases—office facilities(4)	672	1,277	1,035	2,712	5,696
Operating leases—equipment(4)	239	241	163	98	741
Purchase obligations(5)	634	597	301	125	1,657
Total(6)	$37,128	$60,242	$49,756	$66,720	$213,846

(1) See Note 11 to the consolidated financial statements in Item 8. Amounts presented for Other secured financings are financings with original maturities greater than one year.

(2) Amounts represent estimated future contractual interest payments related to unsecured long-term borrowings based on applicable interest rates at December 31, 2013. Amounts include stated coupon rates, if any, on structured or index-linked notes.

(3) Amounts represent contractual principal and interest payments related to time deposits primarily held at the Subsidiary Banks.

(4) See Note 13 to the consolidated financial statements in Item 8.

(5) Purchase obligations for goods and services include payments for, among other things, consulting, outsourcing, computer and telecommunications maintenance agreements and certain transmission, transportation and storage contracts related to the commodities business. Purchase obligations at December 31, 2013 reflect the minimum contractual obligation under legally enforceable contracts with contract terms that are both fixed and determinable. These amounts exclude obligations for goods and services that already have been incurred and are reflected on the Company's consolidated statement of financial condition.

(6) Amounts exclude unrecognized tax benefits, as the timing and amount of future cash payments are not determinable at this time (see Note 20 to the consolidated financial statements in Item 8 for further information).

Effects of Inflation and Changes in Foreign Exchange Rates.

To the extent that a worsening inflation outlook results in rising interest rates or has negative impacts on the valuation of financial instruments that exceed the impact on the value of the Company's liabilities, it may adversely affect the Company's financial position and profitability. Rising inflation may also result in increases in the Company's non-interest expenses that may not be readily recoverable in higher prices of services offered.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar, therefore, can affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on the Company's financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Risk Management.

Overview.

Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company employs an enterprise risk management ("ERM") framework to integrate the diverse roles of risk management into a holistic enterprise structure and to facilitate the incorporation of risk evaluation into decision-making processes across the Company. The Company has policies and procedures in place to identify, assess, monitor and manage the significant risks involved in the activities of its Institutional Securities, Wealth Management and Investment Management business segments as well as at the holding company level. Principal risks involved in the Company's business activities include market, credit, capital and liquidity, operational, legal and regulatory risk.

The cornerstone of the Company's risk management philosophy is the execution of risk-adjusted returns through prudent risk-taking that protects the Company's capital base and franchise. Five key principles underlie this philosophy: comprehensiveness, independence, accountability, defined risk tolerance and transparency. The fast-paced, complex, and constantly evolving nature of global financial markets requires that the Company maintain a risk management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement. To help ensure the efficacy of risk management, which is an essential component of the Company's reputation, senior management requires thorough and frequent communication and the appropriate escalation of risk matters.

Risk Governance Structure.

Risk management at the Company requires independent company-level oversight, accountability of the Company's business segments, and effective communication of risk matters to senior management and across the Company. The nature of the Company's risks, coupled with its risk management philosophy, informs the Company's risk governance structure. The Company's risk governance structure is comprised of the Board of Directors; the Risk Committee of the Board ("BRC"), the Audit Committee of the Board ("BAC"), and the Operations and Technology Committee of the Board ("BOTC"); the Firm Risk Committee ("FRC"); functional risk and control committees; senior management oversight (including the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Legal Officer and Chief Compliance Officer); the Internal Audit Department and risk managers, committees, and groups within and across the Company's business segments. A risk governance structure composed of independent but complementary entities facilitates efficient and comprehensive supervision of the Company's risk exposures and processes.

Morgan Stanley Board of Directors. The Board of Directors has oversight for the Company's ERM framework and is responsible for helping to ensure that the Company's risks are managed in a sound manner. The Board has authorized the committees within the ERM framework to help facilitate its risk oversight responsibilities.

Risk Committee of the Board. The BRC is composed of non-management directors. The BRC is responsible for assisting the Board in the oversight of the Company's risk governance structure; the Company's risk management and risk assessment guidelines and policies regarding major market, credit, liquidity and funding and reputational risk; the Company's risk tolerance; and the performance of the Chief Risk Officer. The BRC reports to the full Board on a regular basis.

Audit Committee of the Board. The BAC is composed of independent directors. The BAC is responsible for oversight of the integrity of the Company's consolidated financial statements, the Company's compliance with legal and regulatory requirements, the Company's system of internal controls, the qualifications and independence of the Company's independent auditor, and the performance of the Company's internal and independent auditors. In addition, the BAC assists the Board in its oversight of certain aspects of risk management, including review of the major franchise, legal and compliance risk exposures of the Company and the steps management has taken to monitor and control such exposures, as well as guidelines and policies that govern the process for risk assessment and risk management. The BAC reports to the full Board on a regular basis.

Operations and Technology Committee of the Board. The BOTC is composed of non-management directors. The BOTC is responsible for reviewing the major operations and technology risk exposures of the Company and the steps management has taken to monitor and control such exposures. Additionally, the BOTC is responsible for assisting the Board in its oversight of the Company's operations and technology strategy, including significant investments in support of such strategy. The BOTC is also responsible for the review and approval of operations and technology policies, as well as the review of the Company's risk management and risk assessment guidelines and policies regarding operations and technology risk. The BOTC reports to the full Board on a regular basis.

Firm Risk Committee. The Board has also authorized the FRC, a management committee appointed and chaired by the Chief Executive Officer, which includes the most senior officers of the Company, including the Chief Risk Officer, Chief Legal Officer and Chief Financial Officer, to oversee the Company's global risk management structure. The FRC's responsibilities include oversight of the Company's risk management principles, procedures and limits and the monitoring of capital levels and material market, credit, liquidity and funding, legal, operational, franchise and regulatory risk matters, and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. The FRC reports to the full Board, the BAC, the BOTC and the BRC through the Company's Chief Risk Officer and Chief Financial Officer.

Functional Risk and Control Committees. Functional risk and control committees comprising the ERM framework, including the Firm Credit Risk Committee, the Operational Risk Oversight Committee, the Asset Liability Management Committee, the Global Compliance Committee and the Franchise Committee facilitate efficient and comprehensive supervision of the Company's risk exposures and processes and the Strategic Transactions Committee, comprised of members of management appointed by the Chief Executive Officer, reviews large strategic transactions and principal investments for the Company. In addition, each business segment has a risk committee that is responsible for helping to ensure that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies, procedures, controls and systems that are consistent with the risk framework established by the FRC; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management policies and procedures, and related controls.

Chief Risk Officer. The Chief Risk Officer, who is independent of business units, reports to the Chief Executive Officer and the BRC. The Chief Risk Officer oversees compliance with the Company's risk limits; approves exceptions to the Company's risk limits; independently reviews material market, credit and operational risks; and reviews results of risk management processes with the Board, the BRC, and the BAC, as appropriate. The Chief Risk Officer also coordinates with the Chief Financial Officer regarding capital management and works with the Compensation, Management Development and Succession Committee of the Board to help ensure that the structure and design of incentive compensation arrangements do not encourage unnecessary and excessive risk-taking.

Internal Audit Department. The Internal Audit Department provides independent risk and control assessment and reports to the BAC. The Internal Audit Department provides an independent assessment of the Company's control environment and risk management processes using a risk-based methodology developed from professional auditing standards. The Internal Audit Department also assists in assessing the Company's compliance with internal guidelines set for risk management and risk monitoring as well as external rules and regulations governing the industry. It affects these responsibilities through risk-based reviews of the Company's processes, activities, products or information systems; targeted reviews of specific controls and activities; pre-implementation audits of new or significantly changed processes, activities, products or information systems; and special investigations required as a result of internal factors or regulatory requests.

Independent Risk Management Functions. The independent risk management functions (Market Risk, Credit Risk Management, Operational Risk, Corporate Treasury and Bank Resource Management departments) are independent of the Company's business units. These groups assist senior management and the FRC in monitoring and controlling the Company's risk through a number of control processes. Each function maintains its own risk governance structure with specified individuals and committees responsible for aspects of managing risk. Further discussion about the responsibilities of the risk management functions may be found below under "Market Risk", "Credit Risk", and "Operational Risk" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in Part II, Item 7.

Control Groups. The Company control groups include the Legal and Compliance Division, Finance, the Tax Department, the Operations Division, the Technology and Data Division, and the Human Resources Department. The Company control groups coordinate with the business segment control groups to review the risk monitoring and risk management policies and procedures relating to, among other things, controls over financial reporting and disclosure; the business segment's market, credit and operational risk profile; liquidity risks; sales practices; reputational, legal enforceability, compliance and regulatory risk; and operational and technological risks. Participation by the senior officers of the Company and business segment control groups helps ensure that risk policies and procedures, exceptions to risk limits, new products and business ventures, and transactions with risk elements undergo thorough review.

Divisional Risk Committees. Each business segment has a risk committee that is responsible for helping to ensure that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies and procedures that are consistent with the risk framework established by the FRC; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management policies and procedures, and related controls.

Employees. All employees have accountability for risk management. The Company strives to establish a culture of effective risk management through training and development programs, policies, procedures, and defined roles and responsibilities within the Company. The actions and conduct of each employee are essential to risk management. The Company's Code of Conduct (the "Code") has been established to provide a framework and standards for employee conduct that further reinforces the Company's commitment to integrity and high ethical standards. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether the employee effectively managed and supervised the risk control practices of his/her employee reports during the performance year. The Company has several mutually reinforcing processes to identify incidents of employee conduct that may have an impact on employment status, current year compensation or prior year compensation. The Company's clawback and cancellation provisions permit recovery of deferred incentive compensation where, for example, there is a failure to appropriately manage or monitor an employee who engaged in conduct detrimental to the Company or conduct constituting 'cause' for termination.

Stress Value-at-Risk.

The Company frequently enhances its market and credit risk management framework to address severe stresses that are observed in global markets during economic downturns. During 2013, the Company expanded and improved its risk measurement processes, including stress tests and scenario analysis, and further refined its market and credit risk limit framework. Stress Value-at-Risk ("S-VaR"), a proprietary methodology that comprehensively measures the Company's market and credit risks, was further refined and continues to be an important metric used in establishing the Company's risk appetite and its capital allocation framework. S-VaR simulates many stress scenarios based on more than 25 years of historical data and attempts to capture the different liquidities of various types of general and specific risks. Additionally, S-VaR captures event and default risks that are particularly relevant for credit portfolios.

Risk Management Process.

The following is a discussion of the Company's risk management policies and procedures for its principal risks (capital and liquidity risk is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in Item 7). The discussion focuses on the Company's securities activities (primarily its institutional trading activities) and corporate lending and related activities. The Company believes that these activities generate a substantial portion of its principal risks. This discussion and the estimated amounts of the Company's risk exposure generated by the Company's statistical analyses are forward-looking statements. However, the analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in which the Company operates and certain other factors described below.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of the Company's Value-at-Risk ("VaR") for market risk exposures is generated. In addition, the Company incurs trading-related market risk within the Wealth Management business segment. The Investment Management business segment incurs principally Non-trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles.

Sound market risk management is an integral part of the Company's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The control groups help ensure that these risks are measured and closely monitored and are made transparent to senior management. The Market Risk Department is responsible for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management. To execute these responsibilities, the Market Risk Department monitors the Company's risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains the Company's VaR and scenario analysis systems. These limits are designed to control price and market liquidity risk. Market risk is also monitored through various measures: using statistics (including VaR, S-VaR and related analytical measures); by measures of position sensitivity; and through routine stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, and scenario analyses conducted by the Market Risk Department in collaboration with the business units. The material risks identified by these processes are summarized in reports produced by the Market Risk Department that are circulated to and discussed with senior management, the FRC, the BRC, and the Board of Directors.

The Chief Risk Officer, who reports to the Chief Executive Officer and the BRC, among other things, monitors market risk through the Market Risk Department, which reports to the Chief Risk Officer and is independent of the business units, and has close interactions with senior management and the risk management control groups in the business units. The Chief Risk Officer is a member of the FRC, chaired by the Chief Executive Officer, which includes the most senior officers of the Company, and regularly reports on market risk matters to this committee, as well as to the BRC and the Board of Directors.

Sales and Trading and Related Activities.

Primary Market Risk Exposures and Market Risk Management. During 2013, the Company had exposures to a wide range of interest rates, equity prices, foreign exchange rates and commodity prices—and the associated implied volatilities and spreads—related to the global markets in which it conducts its trading activities.

The Company is exposed to interest rate and credit spread risk as a result of its market-making activities and other trading in interest rate-sensitive financial instruments (*e.g.*, risk arising from changes in the level or implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads). The activities from which those exposures arise and the markets in which the Company is active include, but are not limited to, the following: corporate and government debt across both developed and emerging markets and asset-backed debt (including mortgage-related securities).

The Company is exposed to equity price and implied volatility risk as a result of making markets in equity securities and derivatives and maintaining other positions (including positions in non-public entities). Positions in non-public entities may include, but are not limited to, exposures to private equity, venture capital, private partnerships, real estate funds and other funds. Such positions are less liquid, have longer investment horizons and are more difficult to hedge than listed equities.

The Company is exposed to foreign exchange rate and implied volatility risk as a result of making markets in foreign currencies and foreign currency derivatives, from maintaining foreign exchange positions and from holding non-U.S. dollar-denominated financial instruments.

The Company is exposed to commodity price and implied volatility risk as a result of market-making activities and maintaining commodity positions in physical commodities (such as crude and refined oil products, natural gas, electricity, and precious and base metals) and related derivatives. Commodity exposures are subject to periods of high price volatility as a result of changes in supply and demand. These changes can be caused by weather conditions; physical production, transportation and storage issues; or geopolitical and other events that affect the available supply and level of demand for these commodities.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). Hedging activities may not always provide effective mitigation against trading losses due to differences in the terms, specific characteristics or other basis risks that may exist between the hedge instrument and the risk exposure that is being hedged. The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis. The Company manages and monitors its market risk exposures in such a way as to maintain a portfolio that the Company believes is well-diversified in the aggregate with respect to market risk factors and that reflects the Company's aggregate risk tolerance as established by the Company's senior management.

Aggregate market risk limits have been approved for the Company across all divisions worldwide. Additional market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers, traders and the Market Risk Department monitor market risk measures against limits in accordance with policies set by senior management.

VaR. The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. The Company estimates VaR using a model based on volatility adjusted historical simulation for general market risk factors and Monte Carlo simulation for name-specific risk in corporate shares, bonds, loans and related derivatives. The model constructs a distribution of hypothetical daily changes in the value of trading portfolios based on the following: historical observation of daily changes in key market indices or other market risk factors; and information on the sensitivity of the portfolio values to these market risk factor changes. The Company's VaR model uses four years of historical data with a volatility adjustment to reflect current market conditions. The Company's VaR for risk management purposes ("Management VaR") is computed at a 95% level of confidence over a one-day time horizon, which is a useful indicator of possible trading losses resulting from adverse daily market moves. The Company's 95%/one-day VaR corresponds to the unrealized loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held constant for one day.

The Company's VaR model generally takes into account linear and non-linear exposures to equity and commodity price risk, interest rate risk, credit spread risk and foreign exchange rates. The model also takes into account linear exposures to implied volatility risks for all asset classes and non-linear exposures to implied volatility risks for equity, commodity and foreign exchange referenced products. The VaR model also captures certain implied correlation risks associated with portfolio credit derivatives as well as certain basis risks (*e.g.,* corporate debt and related credit derivatives).

The Company uses VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as periods of extreme illiquidity. The Company is aware of these and other limitations and, therefore, uses VaR as only one component in its risk management oversight process. This process also incorporates stress testing and scenario analyses and extensive risk monitoring, analysis, and control at the trading desk, division and Company levels.

The Company's VaR model evolves over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name-specific risk factors may be added to improve the VaR model's ability to more accurately estimate risks to specific asset classes or industry sectors.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the Company's future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days for a 95%/one-day VaR. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

VaR statistics are not readily comparable across firms because of differences in the firms' portfolios, modeling assumptions and methodologies. These differences can result in materially different VaR estimates across firms for similar portfolios. The impact of such differences varies depending on the factor history assumptions, the frequency with which the factor history is updated, and the confidence level. As a result, VaR statistics are more useful when interpreted as indicators of trends in a firm's risk profile, rather than as an absolute measure of risk to be compared across firms.

The Company utilizes the same VaR model for risk management purposes as well as regulatory capital calculations. The Company's VaR model has been approved by the Company's regulators for use in regulatory capital calculations.

The portfolio of positions used for the Company's Management VaR differs from that used for regulatory capital requirements ("Regulatory VaR"), as Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include counterparty credit valuation adjustments, and loans that are carried at fair value and associated hedges. Additionally, the Company's Management VaR excludes certain risks contained in its Regulatory VaR, such as hedges to counterparty exposures related to the Company's own credit spread.

Table 1 below presents the Management VaR for the Company's Trading portfolio, on a period-end, annual average and annual high and low basis. The Credit Portfolio is disclosed as a separate category from the Primary Risk Categories, and includes loans that are carried at fair value and associated hedges, as well as counterparty credit valuation adjustments and related hedges.

Trading Risks.

The table below presents the Company's 95%/one-day Management VaR:

Table 1: 95% Management VaR

	95%/One-Day VaR for 2013				95%/One-Day VaR for 2012			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
				(dollars in millions)				
Interest rate and credit spread	$ 41	$ 45	$ 76	$ 31	$ 56	$ 56	$ 87	$33
Equity price	22	19	43	15	21	26	39	18
Foreign exchange rate	15	14	22	7	10	13	23	7
Commodity price	15	21	31	15	20	24	32	18
Less: Diversification benefit(1)(2)	(44)	(46)	N/A	N/A	(40)	(55)	N/A	N/A
Primary Risk Categories	$ 49	$ 53	$ 78	$ 42	$ 67	$ 64	$ 98	$52
Credit Portfolio	12	14	18	12	19	26	50	18
Less: Diversification benefit(1)(2)	(8)	(8)	N/A	N/A	(11)	(17)	N/A	N/A
Total Management VaR	$ 53	$ 59	$ 85	$ 47	$ 75	$ 73	$107	$57

(1) Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

(2) N/A–Not Applicable. The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the year, and therefore the diversification benefit is not an applicable measure.

The Company's average Management VaR for the Primary Risk Categories for 2013 was $53 million compared with $64 million for 2012. This decrease was primarily driven by reduced exposure to interest rate and credit spread products and reduced exposure to equity products.

The average Credit Portfolio VaR for 2013 was $14 million compared with $26 million for 2012. This decrease was primarily driven by decreased counterparty credit exposure.

The average Total Management VaR for 2013 was $59 million compared with $73 million for 2012. This decrease was driven by the aforementioned movements.

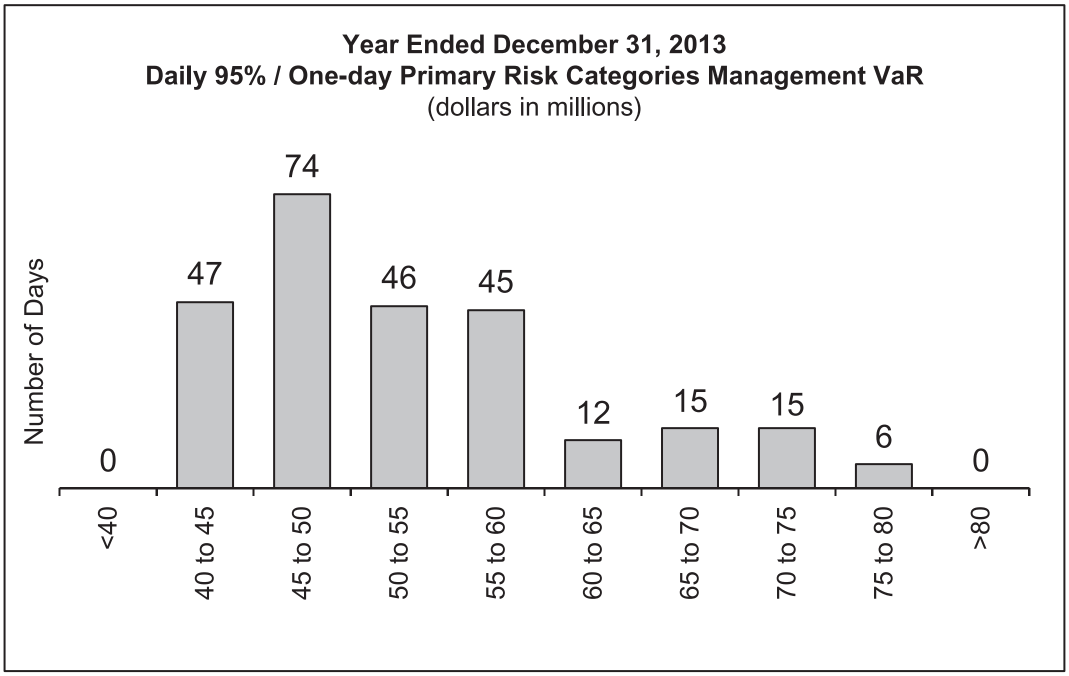
Distribution of VaR Statistics and Net Revenues for 2013.

One method of evaluating the reasonableness of the Company's VaR model as a measure of the Company's potential volatility of net revenues is to compare the VaR with actual trading revenues. Assuming no intra-day trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model could be questioned. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Company, as well as individual business units. For days where losses exceed the VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results.

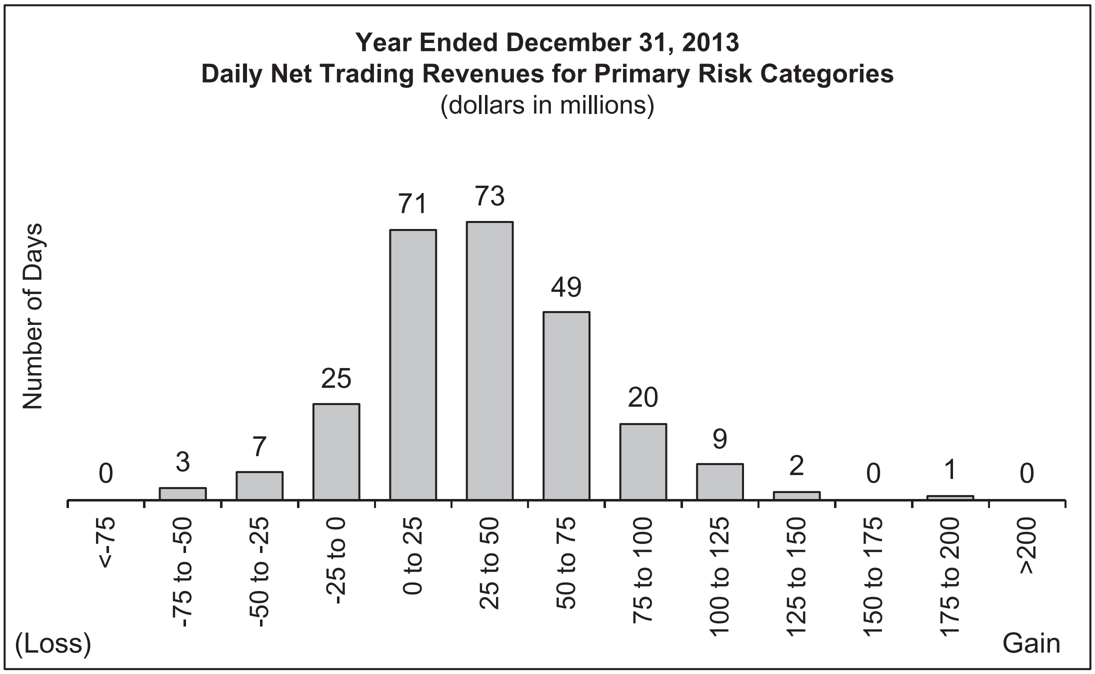
The distribution of VaR Statistics and Net Revenues is presented in the histograms below for both the Primary Risk Categories and the Total Trading populations.

Primary Risk Categories.

As shown in Table 1, the Company's average 95%/one-day Primary Risk Categories VaR for 2013 was $53 million. The histogram below presents the distribution of the Company's daily 95%/one-day Primary Risk Categories VaR for 2013, which was in a range between $40 million and $60 million for approximately 82% of the trading days during the year.

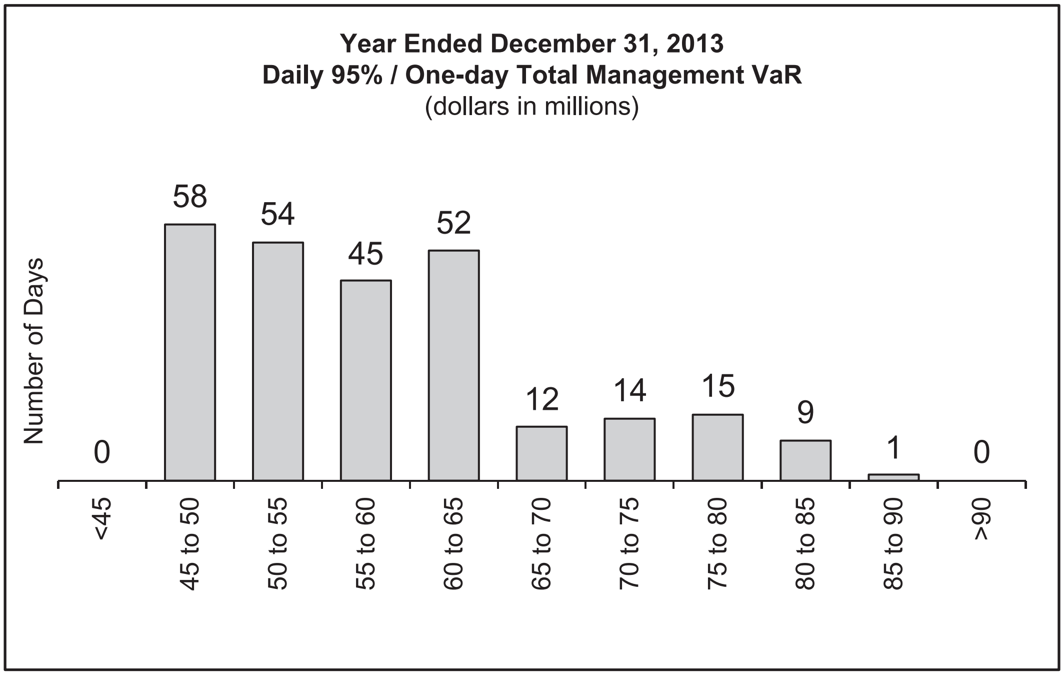


The histogram below shows the distribution of daily net trading revenues for the Company's businesses that comprise the Primary Risk Categories for 2013. This excludes non-trading revenues of these businesses and revenues associated with the Company's own credit risk. During 2013, the Company's businesses that comprise the Primary Risk Categories experienced net trading losses on 35 days, of which 1 day was in excess of the 95%/ one-day Primary Risk Categories VaR.

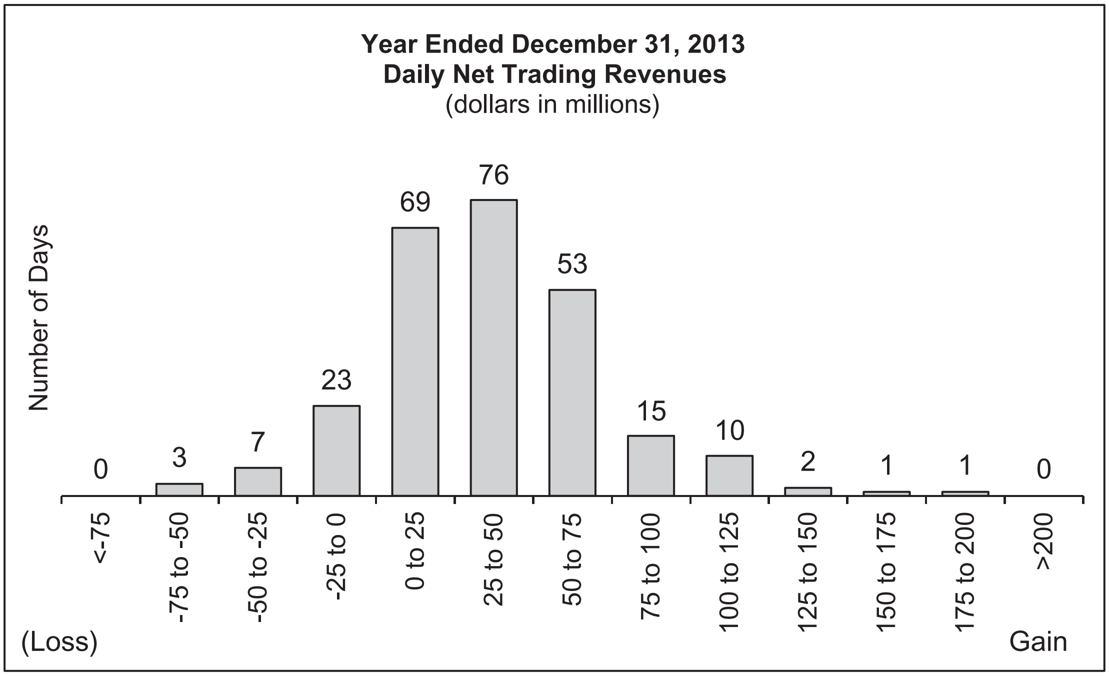


Total Trading—including the Primary Risk Categories and the Credit Portfolio.

As shown in Table 1, the Company's average 95%/one-day Total Management VaR, which includes the Primary Risk Categories and the Credit Portfolio, for 2013 was $59 million. The histogram below presents the distribution of the Company's daily 95%/one-day Total Management VaR for 2013, which was in a range between $45 million and $65 million for approximately 80% of trading days during the year.



The histogram below shows the distribution of daily net trading revenues for the Company's Trading businesses for 2013. This excludes non-trading revenues of these businesses and revenues associated with the Company's own credit risk. During 2013, the Company experienced net trading losses on 33 days, of which 1 day was in excess of the 95%/one-day Management VaR.



Non-Trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company's non-trading risks. Reflected below is this analysis, which covers substantially all of the non-trading risk in the Company's portfolio.

Counterparty Exposure Related to the Company's Own Spread.

The credit spread risk relating to the Company's own mark-to-market derivative counterparty exposure is managed separately from VaR. The credit spread risk sensitivity of this exposure corresponds to an increase in value of approximately $5 million and $6 million for each 1 basis point widening in the Company's credit spread level for December 31, 2013 and December 31, 2012, respectively.

Funding Liabilities.

The credit spread risk sensitivity of the Company's mark-to-market funding liabilities corresponded to an increase in value of approximately $11 million and $13 million for each 1 basis point widening in the Company's credit spread level for December 31, 2013 and December 31, 2012, respectively.

Interest Rate Risk Sensitivity on Income from Continuing Operations.

The Company measures the interest rate risk of certain assets and liabilities by calculating the hypothetical sensitivity of net interest income to potential changes in the level of interest rates over the next 12 months. This sensitivity analysis includes positions that are mark-to-market, as well as positions that are accounted for on an accrual basis. For interest rate derivatives that are perfect economic hedges to non-mark-to-market assets or liabilities, the disclosed sensitivities include only the impact of the coupon accrual mismatch.

Given the currently low interest rate environment, the Company uses the following two interest rate scenarios to quantify the Company's sensitivity: instantaneous parallel shocks of 100 and 200 basis point increases to all points on all yield curves simultaneously.

The hypothetical model does not assume any growth, change in business focus, asset pricing philosophy or asset/ liability funding mix and does not capture how the Company would respond to significant changes in market conditions. Furthermore, the model does not reflect the Company's expectations regarding the movement of interest rates in the near term, nor the actual effect on income from continuing operations before income taxes if such changes were to occur.

	December 31, 2013		December 31, 2012	
	+100 Basis Points	+200 Basis Points	+100 Basis Points	+200 Basis Points
	(dollars in millions)			
Impact on income from continuing operations before income taxes . . .	$642	$1,102	$749	$1,140

Investments.

The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values.

	10% Sensitivity	
Investments	December 31, 2013	December 31, 2012
	(dollars in millions)	
Investments related to Investment Management activities:		
Hedge fund investments . . .	$104	$120
Private equity and infrastructure funds . . .	148	125
Real estate funds . . .	158	138
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. . . .	161	143
Other Company investments . . .	198	292

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. The Company primarily incurs credit risk exposure to institutions and individuals mainly through the Institutional Securities and Wealth Management business segments.

The Company may incur credit risk in the Institutional Securities business segment through a variety of activities, including, but not limited to, the following:

- entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Company;
- 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;
- posting margin and/or collateral to clearinghouses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and
- investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

The Company incurs credit risk in the Wealth Management business segment primarily through lending to individuals and entities, including, but not limited to, the following:

- margin loans collateralized by securities;
- securities-based and other loans predominantly collateralized by securities; and
- single-family residential prime mortgage loans in conforming, non-conforming or home equity lines of credit ("HELOC") form.

Monitoring and Control.

In order to help protect the Company from losses, the Credit Risk Management Department establishes company-wide practices to evaluate, monitor and control credit risk exposure at the transaction, obligor and portfolio levels. The Credit Risk Management Department approves extensions of credit, evaluates the creditworthiness of the Company's counterparties and borrowers on a regular basis, and ensures that credit exposure is actively monitored and managed. The evaluation of counterparties and borrowers includes an assessment of the probability that an obligor will default on its financial obligations and any losses that may occur when an obligor defaults. In addition, credit risk exposure is actively managed by credit professionals and committees within the Credit Risk Management Department and through various risk committees, whose membership includes individuals from the Credit Risk Management Department. A comprehensive and global Credit Limits Framework is also utilized to evaluate and manage credit risk levels across the Company. The Credit Limits Framework is calibrated within the Company's risk tolerance and includes single-name limits and portfolio concentration limits by country, industry and product type. The Credit Risk Management Department ensures transparency of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. The Credit Risk Management Department also works closely with the Market Risk Department and applicable business units to monitor risk exposures and to perform stress tests to identify, analyze and control credit risk concentrations arising in the Company's lending and trading activities. The stress tests shock market factors (*e.g.*, interest rates, commodity prices, equity prices) and risk parameters such as default probabilities and expected losses in order to identify potential credit exposure concentrations to individual counterparties, countries and industries. Stress and scenario tests are conducted in accordance with established Company policies and procedures and comply with methodologies outlined in the Basel regulatory framework.

***Credit Evaluation*.** The evaluation of corporate and commercial counterparties as well as certain high net worth borrowers includes assigning obligor credit ratings, which reflect an assessment of an obligor's probability of default. Credit evaluations typically involve the assessment of financial statements, leverage, liquidity, capital strength, asset composition and quality, market capitalization and access to capital markets, cash flow projections and debt service requirements, and the adequacy of collateral, if applicable. The Credit Risk Management Department also evaluates strategy, market position, industry dynamics, obligor's management and other factors that could affect the obligor's risk profile. Additionally, the Credit Risk Management Department evaluates the relative position of the Company's particular obligation in the borrower's capital structure and relative recovery prospects, as well as collateral (if applicable) and other structural elements of the particular transaction.

The evaluation of consumer borrowers is tailored to the specific type of lending. Margin and securities-based loans are evaluated based on factors that include, but are not limited to, the amount of the loan, the degree of leverage and the quality, diversification, price volatility and liquidity of the collateral. The underwriting of residential real estate loans includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan-to-value ratio and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level and for consumer loans, collateral values are monitored on an ongoing basis.

Credit risk metrics assigned to corporate, commercial and consumer borrowers during the evaluation process are incorporated into the Credit Risk Management Department's maintenance of the allowance for loan losses for the loans held for investment portfolio. Such allowance serves as a safeguard against probable inherent losses as well as probable losses related to loans identified for impairment. For more information on the Company's allowance for loan losses, see Notes 2 and 8 to the consolidated financial statements in Item 8.

Risk Mitigation. The Company may seek to mitigate credit risk from its lending and trading activities in multiple ways, including collateral provisions, guarantees and hedges. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The Company actively hedges its lending and derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. Additionally, the Company may sell, assign or syndicate funded loans and lending commitments to other financial institutions in the primary and secondary loan market. In connection with its derivatives trading activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of counterparty default.

Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, the Company purchases loans in the secondary market. The table below summarizes the Company's loan activity at December 31, 2013. Loans held for investment and loans held for sale are classified in Loans and loans held at fair value are classified in Trading assets in the consolidated statements of financial condition at December 31, 2013. See Notes 4 and 8 to the consolidated financial statements in Item 8 for further information.

	Institutional Securities Corporate Lending(1)	Institutional Securities Other Lending(2)	Wealth Management Lending(3)	Total(4)
	(dollars in millions)			
Corporate loans	$ 7,837	$ 1,988	$ 3,301	$13,126
Consumer loans	—	—	11,576	11,576
Residential real estate loans	—	1	10,001	10,002
Wholesale real estate loans	—	1,835	6	1,841
Loans held for investment, net of allowance	7,837	3,824	24,884	36,545
Corporate loans	6,168	—	—	6,168
Consumer loans	—	—	—	—
Residential real estate loans	—	12	100	112
Wholesale real estate loans	—	49	—	49
Loans held for sale	6,168	61	100	6,329
Corporate loans	2,892	6,882	—	9,774
Consumer loans	—	—	—	—
Residential real estate loans	—	1,434	—	1,434
Wholesale real estate loans	—	1,404	—	1,404
Loans held at fair value	2,892	9,720	—	12,612
Total loans	$16,897	$13,605	$24,984	$55,486

(1) In addition to loans, at December 31, 2013, $61.4 billion of unfunded lending commitments were accounted for as held for investment, $8.1 billion of unfunded lending commitments were accounted for as held for sale and $9.1 billion of unfunded lending commitments were accounted for at fair value.

(2) In addition to loans, at December 31, 2013, $1.3 billion of unfunded lending commitments were accounted for as held for investment and $0.8 billion of unfunded lending commitments were accounted for at fair value.

(3) In addition to loans, at December 31, 2013, $4.5 billion of unfunded lending commitments were accounted for as held for investment.

(4) The above table excludes customer margin loans outstanding of $29.2 billion and employee loans outstanding of $5.6 billion at December 31, 2013. See Notes 6 and 8 to the consolidated financial statements in Item 8 for further information.

Institutional Securities Corporate Lending Activities. In connection with certain of its Institutional Securities business segment activities, the Company provides loans or lending commitments to select corporate clients. These loans and lending commitments have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by the Company.

The Company's corporate lending credit exposure is primarily from loan and lending commitments used for general corporate purposes, working capital and liquidity purposes and typically consist of revolving lines of credit, letter of credit facilities and term loans. In addition, the Company provides "event-driven" loans and lending commitments associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization activities. The Company's "event-driven" loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans.

Corporate lending commitments may not be indicative of the Company's actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment or the Company's portion of the commitment may be reduced through the syndication or sales process. Such syndications or sales may involve third-party institutional investors where the Company may have a custodial relationship, such as prime brokerage clients.

The Company may hedge and/or sell its exposures in connection with loans and lending commitments. Additionally, the Company may mitigate credit risk by requiring borrowers to pledge collateral and include financial covenants in lending commitments. In the consolidated statements of financial condition these loans are carried at either fair value with changes in fair value recorded in earnings; held for investment, which are recorded at amortized cost; or held for sale, which are recorded at lower of cost or fair value.

The table below presents the Company's credit exposure from its corporate lending positions and lending commitments, which are measured in accordance with the Company's internal risk management standards at December 31, 2013. The "total corporate lending exposure" column includes funded and unfunded lending commitments. Lending commitments represent legally binding obligations to provide funding to clients for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.

Corporate Lending Commitments and Funded Loans at December 31, 2013

	Years to Maturity				Total Corporate Lending
Credit Rating(1)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Exposure(2)**
	(dollars in millions)				
AAA	$ 859	$ 114	$ 121	$ —	$ 1,094
AA	2,719	1,870	5,556	—	10,145
A	2,935	4,230	11,642	570	19,377
BBB	2,391	10,535	21,330	1,004	35,260
Investment grade	8,904	16,749	38,649	1,574	65,876
Non-investment grade	2,712	8,024	12,794	3,627	27,157
Total	$11,616	$24,773	$51,443	$5,201	$93,033

(1) Obligor credit ratings are determined by the Credit Risk Management Department.

(2) Total corporate lending exposure represents the Company's potential loss assuming the market price of funded loans and lending commitments was zero.

At December 31, 2013, the aggregate amount of investment grade funded loans was $6.5 billion and the aggregate amount of non-investment grade funded loans was $7.9 billion. In connection with these corporate lending activities (which include corporate funded and unfunded lending commitments), the Company had hedges (which include "single name," "sector" and "index" hedges) with a notional amount of $9.0 billion related to the total corporate lending exposure of $93.0 billion at December 31, 2013.

"Event-Driven" Loans and Lending Commitments at December 31, 2013.

Included in the total corporate lending exposure amounts in the table above at December 31, 2013 were "event-driven" exposures of $9.5 billion composed of funded loans of $2.0 billion and lending commitments of $7.5 billion. Included in the "event-driven" exposure at December 31, 2013 were $7.3 billion of loans and lending commitments to non-investment grade borrowers. The maturity profile of the "event-driven" loans and lending commitments at December 31, 2013 was as follows: 33% will mature in less than 1 year, 17% will mature within 1 to 3 years, 32% will mature within 3 to 5 years and 18% will mature in over 5 years.

Industry Exposure—Corporate Lending. The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed above.

The following table shows the Company's credit exposure from its primary corporate loans and lending commitments by industry at December 31, 2013:

Industry	Corporate Lending Exposure
	(dollars in millions)
Energy	$12,240
Utilities	10,410
Healthcare	10,095
Consumer discretionary	9,981
Industrials	9,514
Funds, exchanges and other financial services(1)	7,190
Consumer staples	6,788
Information technology	6,526
Telecommunications services	5,658
Materials	4,867
Real Estate	4,171
Other	5,593
Total	$93,033

(1) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.

Institutional Securities Other Lending Activities. In addition to the primary corporate lending activity described above, the Institutional Securities business segment engages in other lending activity. These loans primarily include corporate loans purchased in the secondary market, commercial and residential mortgage loans, asset-backed loans and financing extended to institutional clients. At December 31, 2013, approximately 99.6% of Institutional Securities Other lending activities held for investment were current; less than 0.4% were on non-accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

At December 31, 2013, Institutional Securities Other lending activities by remaining contract maturity were as follows:

	Years to Maturity				Total Institutional Securities Other Lending Activities
	Less than 1	1-3	3-5	Over 5	
	(dollars in millions)				
Corporate loans	$3,957	$1,236	$2,455	$1,222	$ 8,870
Consumer loans	—	—	—	—	—
Residential real estate loans	8	16	91	1,332	1,447
Wholesale real estate loans	174	909	885	1,320	3,288
Total	$4,139	$2,161	$3,431	$3,874	$13,605

In addition, Institutional Securities Other lending activities include "margin lending," which allows the client to borrow against the value of qualifying securities. At December 31, 2013, Institutional Securities margin lending of $15.2 billion is classified within Customer and other receivables in the consolidated statements of financial condition.

Wealth Management Lending Activities. The principal Wealth Management lending activities includes securities-based lending and residential real estate loans. At December 31, 2013, Wealth Management's lending activities by remaining contract maturity were as follows:

	Years to Maturity				Total Wealth Management Lending Activities
	Less than 1	1-3	3-5	Over 5	
	(dollars in millions)				
Securities-based lending and other loans	$13,241	$509	$539	$ 594	$14,883
Residential real estate loans	—	—	—	10,101	10,101
Total	$13,241	$509	$539	$10,695	$24,984

Securities-based lending provided to the Company's retail clients is primarily conducted through the Company's PLA platform and had an outstanding balance of $13.2 billion within the $14.9 billion in the above table as of December 31, 2013. These loans allow the client to borrow money against the value of qualifying securities for any suitable purpose other than purchasing securities. The Company establishes approved credit lines against qualifying securities and monitors limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce debt positions, when necessary. Factors considered in the review of these loans are the amount, the proposed pledged collateral and its diversification profile and, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies. Underlying collateral is also reviewed with respect to the valuation of the securities, historical trading range, volatility analysis and an evaluation of industry concentrations.

Residential real estate loans consist of first and second lien mortgages, including HELOC loans. For these loans, a loan evaluation process is adopted within a framework of credit underwriting policies and collateral valuation. The Company's underwriting policy is designed to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysis of applicable industry standard credit scoring models (e.g., Fair Isaac Corporation ("FICO") scores), debt ratios and reserves of the borrower. Loan-to-value ratios are determined based on independent third-party property appraisal/valuations, and security lien position is established through title/ownership reports. Eligible conforming loans are currently held for sale, while most non-conforming and HELOC loans are held for investment in the Company's portfolio.

Wealth Management also provides margin lending to retail clients and had an outstanding balance of $14.0 billion as of December 31, 2013, which is classified within Customer and other receivables in the consolidated statements of financial condition.

In addition, the Company's Wealth Management business segment has employee loans that are granted primarily in conjunction with a program established by the Company to retain and recruit certain employees. These loans, recorded in Customer and other receivables in the consolidated statements of financial condition, are full recourse, require periodic payments and have repayment terms ranging from four to 12 years. The Company establishes an allowance for loan amounts it does not consider recoverable from terminated employees, which is recorded in Compensation and benefits expense.

Credit Exposure—Derivatives.

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. In connection with its OTC derivative activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to demand collateral as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of counterparty default. The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). For credit exposure information on the Company's OTC derivative products, see Note 12 to the consolidated financial statements in Item 8.

Credit Derivatives. A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on one or more debt obligations issued by a specified reference entity. The beneficiary typically pays a periodic premium over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events, as defined in the contract, may be one or more of the following defined events: bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation, payment moratorium and restructurings.

The Company trades in a variety of credit derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. In transactions referencing a portfolio of entities or securities, protection may be limited to a tranche of exposure or a single name within the portfolio. The Company is an active market maker in the credit derivatives markets. As a market maker, the Company works to earn a bid-offer spread on client flow business and manages any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented. The effectiveness of the Company's CDS protection as a hedge of the Company's exposures may vary depending upon a number of factors, including the contractual terms of the CDS.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company's counterparties is composed of banks, broker-dealers, insurance and other financial institutions. Contracts with these counterparties may include provisions related to counterparty rating downgrades, which may result in additional collateral being required by the Company. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate within Trading revenues in the consolidated statements of income.

The following table summarizes the key characteristics of the Company's credit derivative portfolio by counterparty at December 31, 2013 and December 31, 2012. The fair values shown are before the application of any counterparty or cash collateral netting. For additional credit exposure information on the Company's credit derivative portfolio, see Note 12 to the consolidated financial statements in Item 8.

	At December 31, 2013				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$36,316	$35,005	$1,311	$1,126,688	$1,093,906
Insurance and other financial institutions	7,877	7,515	362	265,958	302,835
Non-financial entities	153	106	47	4,732	4,049
Total	$44,346	$42,626	$1,720	$1,397,378	$1,400,790

(1) The Company's CDS are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 5% of receivable fair values and 5% of payable fair values represent Level 3 amounts (see Note 4 to the consolidated financial statements in Item 8).

	At December 31, 2012				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$60,728	$57,399	$3,329	$1,620,774	$1,573,217
Insurance and other financial institutions	7,313	6,908	405	278,705	313,897
Non-financial entities	226	187	39	7,922	6,078
Total	$68,267	$64,494	$3,773	$1,907,401	$1,893,192

(1) The Company's CDS are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 7% of receivable fair values and 5% of payable fair values represent Level 3 amounts (see Note 4 to the consolidated financial statements in Item 8).

Other

In addition to the activities noted above, there are other credit risks managed by the Credit Risk Management Department and various business areas within the Institutional Securities business segment. The Company participates in securitization activities whereby it extends short- or long-term funding to clients through loans and lending commitments that are secured by assets of the borrower and generally provide for over-collateralization, including commercial real estate, loans secured by loan pools, commercial company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value. See Note 7 to the consolidated financial statements in Item 8 for information about the Company's securitization activities. Certain risk management activities as they pertain to establishing appropriate collateral amounts for the Company's prime brokerage and securitized product businesses are primarily monitored within those respective areas in that they determine the appropriate collateral level for each strategy or position. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 6 to the consolidated financial statements in Item 8 for additional information about the Company's collateralized transactions.

Country Risk Exposure.

Country risk exposure is the risk that uncertainties arising from the economic, social, security and political conditions within a foreign country (any other country other than the U.S.) will adversely affect the ability of the sovereign government and/or obligors within the country to honor their obligations to the Company. Country risk exposure is measured in accordance with the Company's internal risk management standards and includes obligations from sovereign governments, corporations, clearinghouses and financial institutions. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Company to effectively identify, monitor and limit country risk. Country risk exposure before and after hedges is monitored and managed.

The Company's obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country risk.

The Company conducts periodic stress testing that seeks to measure the impact on the Company's credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by the Company's risk managers, the stress test scenarios include possible contagion effects. Second order risks such as the impact for core European banks of their peripheral exposures may also be considered. The Company also conducts legal and documentation analysis of its exposures to obligors in peripheral jurisdictions, which are defined as exposures in Greece, Ireland, Italy, Portugal and Spain (the "European Peripherals"), to identify the risk that such exposures could be redenominated into new currencies or subject to capital controls in the case of country exit from the Euro-zone. This analysis, and results of the stress tests, may result in the amendment of limits or exposure mitigation.

In addition to the Company's country risk exposure, the Company discloses its cross-border risk exposure in "Financial Statements and Supplementary Data—Financial Data Supplement (Unaudited)" in Item 8. It is based on the Federal Financial Institutions Examination Council's ("FFIEC") regulatory guidelines for reporting cross-border information and represents the amounts that the Company may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

There can be substantial differences between the Company's country risk exposure and cross-border risk exposure. For instance, unlike the cross-border risk exposure, the Company's country risk exposure includes the effect of certain risk mitigants. In addition, the basis for determining the domicile of the country risk exposure is different from the basis for determining the cross-border risk exposure. Cross-border risk exposure is reported based on the country of jurisdiction for the obligor or guarantor. Besides country of jurisdiction, the Company considers factors such as physical location of operations or assets, location and source of cash flows/revenues and location of collateral (if applicable) in order to determine the basis for country risk exposure. Furthermore, cross-border risk exposure incorporates CDS only where protection is purchased while country risk exposure incorporates CDS where protection is both purchased and sold.

The Company's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The following table shows the Company's five largest non-U.S. country risk net exposures except for select European countries (see the table in "Country Risk Exposure—Select European Countries" herein) at December 31, 2013. Index credit derivatives are included in the Company's country risk exposure tables. Each reference entity within an index is allocated to that reference entity's country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)
			(dollars in millions)				
United Kingdom:							
Sovereigns	$ 404	$ 1	$ —	$ —	$ 405	$ (74)	$ 331
Non-sovereigns	2,030	11,828	1,260	5,382	20,500	(2,848)	17,652
Subtotal	$2,434	$11,829	$1,260	$5,382	$20,905	$(2,922)	$17,983
Japan:							
Sovereigns	$9,000	$ 88	$ —	$ —	$ 9,088	$ (10)	$ 9,078
Non-sovereigns	784	2,350	26	—	3,160	(50)	3,110
Subtotal	$9,784	$ 2,438	$ 26	$ —	$12,248	$ (60)	$12,188
Germany:							
Sovereigns	$ (607)	$ 748	$ —	$ —	$ 141	$(1,497)	$ (1,356)
Non-sovereigns	83	4,194	263	4,152	8,692	(1,917)	6,775
Subtotal	$ (524)	$ 4,942	$ 263	$4,152	$ 8,833	$(3,414)	$ 5,419
Brazil:							
Sovereigns	$3,460	$ —	$ —	$ —	$ 3,460	$ —	$ 3,460
Non-sovereigns	60	159	1,073	213	1,505	(309)	1,196
Subtotal	$3,520	$ 159	$1,073	$ 213	$ 4,965	$ (309)	$ 4,656
Canada:							
Sovereigns	$ 723	$ 287	$ —	$ —	$ 1,010	$ —	$ 1,010
Non-sovereigns	866	1,236	102	1,391	3,595	(242)	3,353
Subtotal	$1,589	$ 1,523	$ 102	$1,391	$ 4,605	$ (242)	$ 4,363

(1) Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At December 31, 2013, gross purchased protection, gross written protection and net exposures related to single-name and index credit derivatives for those countries were $(189.9) billion, $189.0 billion and $(0.9) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company's hedges, see "Credit Exposure—Derivatives" herein.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.

(3) At December 31, 2013, the benefit of collateral received against counterparty credit exposure was $7.8 billion in the U.K., with 98% of collateral consisting of cash, U.S. and U.K. government obligations, and $11.1 billion in Germany with 96% of collateral consisting of cash and government obligations of France, Belgium and Netherlands. The benefit of collateral received against counterparty credit exposure in the three other countries totaled approximately $3.9 billion, with collateral primarily consisting of cash, U.S. and Japanese government obligations. These amounts do not include collateral received on secured financing transactions.

(4) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(5) In addition, at December 31, 2013, the Company had exposure to these countries for overnight deposits with banks of approximately $10.4 billion.

Country Risk Exposure—Select European Countries. In connection with certain of its Institutional Securities business segment activities, the Company has exposure to many foreign countries. The following table shows the Company's exposure to the European Peripherals at December 31, 2013. Country exposure is measured in accordance with the Company's internal risk management standards and includes obligations from sovereigns and non-sovereigns, which include governments, corporations, clearinghouses and financial institutions.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	CDS Adjustment(4)	Exposure Before Hedges	Hedges(5)	Net Exposure
				(dollars in millions)				
Greece:								
Sovereigns	$ 8	$ 7	$—	$ —	$—	$ 15	$ —	$ 15
Non-sovereigns	118	3	—	—	—	121	(4)	117
Subtotal	$ 126	$ 10	$—	$ —	$—	$ 136	$ (4)	$ 132
Ireland:								
Sovereigns	$ 5	$ 1	$—	$ —	$ 5	$ 11	$ —	$ 11
Non-sovereigns	239	51	—	—	13	303	(8)	295
Subtotal	$ 244	$ 52	$—	$ —	$ 18	$ 314	$ (8)	$ 306
Italy:								
Sovereigns	$ 752	$ 221	$—	$ —	$713	$1,686	$(225)	$1,461
Non-sovereigns	182	849	—	706	115	1,852	(243)	1,609
Subtotal	$ 934	$1,070	$—	$ 706	$828	$3,538	$(468)	$3,070
Spain:								
Sovereigns	$ 938	$ —	$—	$ —	$ 16	$ 954	$ —	$ 954
Non-sovereigns	235	128	120	976	14	1,473	(234)	1,239
Subtotal	$1,173	$ 128	$120	$ 976	$ 30	$2,427	$(234)	$2,193
Portugal:								
Sovereigns	$ (222)	$ —	$—	$ —	$ 47	$ (175)	$ —	$ (175)
Non-sovereigns	(77)	27	103	—	32	85	(9)	76
Subtotal	$ (299)	$ 27	$103	$ —	$ 79	$ (90)	$ (9)	$ (99)
Sovereigns	$1,481	$ 229	$—	$ —	$781	$2,491	$(225)	$2,266
Non-sovereigns	697	1,058	223	1,682	174	3,834	(498)	3,336
Total European Peripherals(6)	$2,178	$1,287	$223	$1,682	$955	$6,325	$(723)	$5,602

(1) Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At December 31, 2013, gross purchased protection, gross written protection and net exposures related to single-name and index credit derivatives for the European Peripherals were $(114.6) billion, $114.0 billion and $(0.5) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company's hedges, see "Credit Exposure—Derivatives" herein.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.

(3) At December 31, 2013, the benefit of collateral received against counterparty credit exposure was $3.7 billion in the European Peripherals with 93% of collateral consisting of cash and German government obligations. These amounts do not include collateral received on secured financing transactions.

(4) CDS adjustment represents credit protection purchased from European Peripherals' banks on European Peripherals' sovereign and financial institution risk. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(5) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(6) In addition, at December 31, 2013, the Company had European Peripherals exposure for overnight deposits with banks of approximately $111 million.

Industry Exposure—OTC Derivative Products. The Company also monitors its credit exposure to individual industries for current exposure arising from the Company's OTC derivative contracts.

The following table shows the Company's OTC derivative products by industry at December 31, 2013:

Industry	OTC Derivative Products(1)
	(dollars in millions)
Utilities	$ 3,142
Banks and securities firms	2,358
Funds, exchanges and other financial services(2)	2,433
Special purpose vehicles	1,908
Regional governments	1,597
Healthcare	1,089
Industrials	914
Sovereign governments	816
Not-for-profit organizations	672
Insurance	538
Real Estate	503
Consumer staples	487
Other	1,157
Total	$17,614

(1) For further information on derivative instruments and hedging activities, see Note 12 to the consolidated financial statements in Item 8.

(2) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.

Operational Risk.

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, legal and compliance risks or damage to physical assets). The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and control groups (*e.g.*, information technology and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under "Legal, Regulatory and Compliance Risk."

The Company has established an operational risk framework to identify, measure, monitor and control risk across the Company. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Company and respond to the changing regulatory and business environment. The Company has implemented operational risk data and assessment systems to monitor and analyze internal and external operational risk events, business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment internal control factors and metrics are indirect inputs to the model.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers generally maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each business segment has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with senior management. Oversight of operational risk is provided by regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganization; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Operational Risk Department ("ORD") is independent of the divisions and reports to the CRO. ORD provides oversight of operational risk management and independently assesses, measures and monitors operational risk. ORD works with the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company. ORD's scope includes the information and technology risk oversight program and supplier management (vendor risk oversight and assessment) program. Furthermore, ORD supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for operational risk capital.

Business Continuity Management is responsible for identifying key risks and threats to the Company's resiliency and planning to ensure that a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a company-wide basis, and redundancies are built into the systems as deemed appropriate. The key components of the Company's disaster recovery plans include: crisis management; business recovery plans; applications/data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Company maintains an information security program that coordinates the management of information security risks and satisfies regulatory requirements. Information security policies are designed to protect the Company's information assets against unauthorized disclosure, modification or misuse. These policies cover a broad range of areas, including: application entitlements, data protection, incident response, Internet and electronic communications, remote access and portable devices. The Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorized access.

The Company utilizes the services of external vendors in connection with the Company's ongoing operations. These may include, for example, outsourced processing and support functions and consulting and other professional services. The Company manages its exposures to the quality of these services through a variety of means, including service level and other contractual agreements, and ongoing monitoring of the vendors' performance. It is anticipated that the use of these services will continue and possibly increase in the future. The Supplier Risk Management program is responsible for the policies, procedures, organizations, governance and supporting technology to ensure adequate risk management controls between the Company and its third-party suppliers as it relates to information security, disaster recoverability and other key areas. The program ensures Company compliance with regulatory requirements.

Legal, Regulatory and Compliance Risk.

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation the Company may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its business activities. Legal, regulatory and compliance risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business (see also “Business—Supervision and Regulation” in Part I, Item 1 and “Risk Factors” in Part I, Item 1A). The Company has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Company, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Company’s policies relating to business conduct, ethics and practices are followed globally. In connection with its businesses, the Company has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, privacy and recordkeeping. In addition, the Company has established procedures to mitigate the risk that a counterparty’s performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley and subsidiaries (the "Company") as of December 31, 2013 and 2012 and the consolidated statements of income, comprehensive income, cash flows, and changes in total equity for the years ended December 31, 2013, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years ended December 31, 2013, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
February 25, 2014

MORGAN STANLEY

Consolidated Statements of Financial Condition (dollars in millions, except share data)

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks ($544 and $526 at December 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities generally not available to the Company)	$ 16,602	$ 20,878
Interest bearing deposits with banks	43,281	26,026
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	39,203	30,970
Trading assets, at fair value (approximately $151,078 and $147,348 were pledged to various parties at December 31, 2013 and December 31, 2012, respectively; $2,825 and $3,505 related to consolidated variable interest entities, generally not available to the Company at December 31, 2013 and December 31, 2012, respectively)	280,744	267,603
Securities available for sale, at fair value	53,430	39,869
Securities received as collateral, at fair value	20,508	14,278
Federal funds sold and securities purchased under agreements to resell (includes $866 and $621 at fair value at December 31, 2013 and December 31, 2012, respectively)	118,130	134,412
Securities borrowed	129,707	121,701
Customer and other receivables	57,104	64,288
Loans:		
Held for investment (net of allowances of $156 and $106 at December 31, 2013 and December 31, 2012, respectively)	36,545	23,917
Held for sale	6,329	5,129
Other investments	5,086	4,999
Premises, equipment and software costs (net of accumulated depreciation of $6,420 and $5,525 at December 31, 2013 and December 31, 2012, respectively) ($201 and $224 at December 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,019	5,946
Goodwill	6,595	6,650
Intangible assets (net of accumulated amortization of $1,703 and $1,250 at December 31, 2013 and December 31, 2012, respectively) (includes $8 and $7 at fair value at December 31, 2013 and December 31, 2012, respectively)	3,286	3,783
Other assets ($11 and $593 at December 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	10,133	10,511
Total assets	$832,702	$780,960
Liabilities		
Deposits (includes $185 and $1,485 at fair value at December 31, 2013 and December 31, 2012, respectively)	$112,379	$ 83,266
Commercial paper and other short-term borrowings (includes $1,347 and $725 at fair value at December 31, 2013 and December 31, 2012, respectively)	2,142	2,138
Trading liabilities, at fair value	104,521	120,122
Obligation to return securities received as collateral, at fair value	24,568	18,226
Securities sold under agreements to repurchase (includes $561 and $363 at fair value at December 31, 2013 and December 31, 2012, respectively)	145,676	122,674
Securities loaned	32,799	36,849
Other secured financings (includes $5,206 and $9,466 at fair value at December 31, 2013 and December 31, 2012, respectively) ($543 and $976 at December 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	14,215	15,727
Customer and other payables	157,125	127,722
Other liabilities and accrued expenses ($76 and $117 at December 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	16,672	14,928
Long-term borrowings (includes $35,637 and $44,044 at fair value at December 31, 2013 and December 31, 2012, respectively)	153,575	169,571
Total liabilities	763,672	711,223
Commitments and contingent liabilities (see Note 13)		
Redeemable noncontrolling interests (see Notes 3 and 15)	—	4,309
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock (see Note 15)	3,220	1,508
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at December 31, 2013 and December 31, 2012;		
Shares issued: 2,038,893,979 at December 31, 2013 and December 31, 2012;		
Shares outstanding: 1,944,868,751 at December 31, 2013 and 1,974,042,123 at December 31, 2012	20	20
Additional Paid-in capital	24,570	23,426
Retained earnings	42,172	39,912
Employee stock trusts	1,718	2,932
Accumulated other comprehensive loss	(1,093)	(516)
Common stock held in treasury, at cost, $0.01 par value; 94,025,228 shares at December 31, 2013 and 64,851,856 shares at December 31, 2012	(2,968)	(2,241)
Common stock issued to employee stock trusts	(1,718)	(2,932)
Total Morgan Stanley shareholders' equity	65,921	62,109
Nonredeemable noncontrolling interests	3,109	3,319
Total equity	69,030	65,428
Total liabilities, redeemable noncontrolling interests and equity	$832,702	$780,960

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Income
(dollars in millions, except share and per share data)

	2013	2012	2011
Revenues:			
Investment banking	$ 5,246	$ 4,758	$ 4,991
Trading	9,359	6,990	12,384
Investments	1,777	742	573
Commissions and fees	4,629	4,253	5,343
Asset management, distribution and administration fees	9,638	9,008	8,409
Other	990	556	176
Total non-interest revenues	31,639	26,307	31,876
Interest income	5,209	5,692	7,234
Interest expense	4,431	5,897	6,883
Net interest	778	(205)	351
Net revenues	32,417	26,102	32,227
Non-interest expenses:			
Compensation and benefits	16,277	15,615	16,325
Occupancy and equipment	1,499	1,543	1,544
Brokerage, clearing and exchange fees	1,711	1,535	1,633
Information processing and communications	1,768	1,912	1,808
Marketing and business development	638	601	594
Professional services	1,894	1,922	1,793
Other	4,148	2,454	2,420
Total non-interest expenses	27,935	25,582	26,117
Income from continuing operations before income taxes	4,482	520	6,110
Provision for (benefit from) income taxes	826	(237)	1,414
Income from continuing operations	3,656	757	4,696
Discontinued operations:			
Gain (loss) from discontinued operations	(72)	(48)	(170)
Provision for (benefit from) income taxes	(29)	(7)	(119)
Net gain (loss) from discontinued operations	(43)	(41)	(51)
Net income	$ 3,613	$ 716	$ 4,645
Net income applicable to redeemable noncontrolling interests	222	124	—
Net income applicable to nonredeemable noncontrolling interests	459	524	535
Net income applicable to Morgan Stanley	$ 2,932	$ 68	$ 4,110
Preferred stock dividends	277	98	2,043
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 2,655	$ (30)	$ 2,067
Amounts applicable to Morgan Stanley:			
Income from continuing operations	$ 2,975	$ 138	$ 4,168
Net loss from discontinued operations	(43)	(70)	(58)
Net income applicable to Morgan Stanley	$ 2,932	$ 68	$ 4,110
Earnings (loss) per basic common share:			
Income from continuing operations	$ 1.42	$ 0.02	$ 1.28
Net loss from discontinued operations	(0.03)	(0.04)	(0.03)
Earnings (loss) per basic common share	$ 1.39	$ (0.02)	$ 1.25
Earnings (loss) per diluted common share:			
Income from continuing operations	$ 1.38	$ 0.02	$ 1.27
Net loss from discontinued operations	(0.02)	(0.04)	(0.04)
Earnings (loss) per diluted common share	$ 1.36	$ (0.02)	$ 1.23
Dividends declared per common share	$ 0.20	$ 0.20	$ 0.20
Average common shares outstanding:			
Basic	1,905,823,882	1,885,774,276	1,654,708,640
Diluted	1,956,519,738	1,918,811,270	1,675,271,669

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Comprehensive Income
(dollars in millions)

	2013	2012	2011
Net income	$3,613	$ 716	$4,645
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments(1)	$ (348)	$(255)	$ 35
Amortization of cash flow hedges(2)	4	6	7
Change in net unrealized gains (losses) on securities available for sale(3)	(433)	28	87
Pension, postretirement and other related adjustments(4)	(5)	(260)	251
Total other comprehensive income (loss)	$ (782)	$(481)	$ 380
Comprehensive income	$2,831	$ 235	$5,025
Net income applicable to redeemable noncontrolling interests	222	124	—
Net income applicable to nonredeemable noncontrolling interests	459	524	535
Other comprehensive income (loss) applicable to redeemable noncontrolling interests	—	(2)	—
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	(205)	(120)	70
Comprehensive income (loss) applicable to Morgan Stanley	$2,355	$(291)	$4,420

(1) Amounts are net of provision for income taxes of $351 million, $120 million and $86 million for 2013, 2012 and 2011, respectively.

(2) Amounts are net of provision for income taxes of $3 million, $3 million and $6 million for 2013, 2012 and 2011, respectively.

(3) Amounts are net of provision for (benefit from) income taxes of $(296) million, $16 million and $63 million for 2013, 2012 and 2011, respectively.

(4) Amounts are net of provision for (benefit from) income taxes of $8 million, $(156) million and $153 million for 2013, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Cash Flows
(dollars in millions)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,613	$ 716	$ 4,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(117)	(639)	413
(Income) loss on equity method investees	(375)	23	995
Compensation payable in common stock and options	1,180	891	1,300
Depreciation and amortization	1,511	1,581	1,404
Net gain on business dispositions	(34)	(156)	(24)
Net gain on sale of securities available for sale	(45)	(78)	(143)
Impairment charges	198	271	159
Provision for credit losses on lending activities	110	155	(113)
Other non-cash adjustments to net income	100	12	(131)
Changes in assets and liabilities:			
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(8,233)	(1,516)	(10,274)
Trading assets, net of Trading liabilities	(23,054)	6,389	29,913
Securities borrowed	(8,006)	5,373	11,656
Securities loaned	(4,050)	6,387	1,368
Customer and other receivables and other assets	6,774	(10,030)	5,899
Customer and other payables and other liabilities	26,697	(1,283)	(6,985)
Federal funds sold and securities purchased under agreements to resell	16,282	(4,257)	18,098
Securities sold under agreements to repurchase	23,002	20,920	(42,798)
Net cash provided by operating activities	35,553	24,759	15,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payments for):			
Premises, equipment and software	(1,316)	(1,312)	(1,304)
Business dispositions, net of cash disposed	1,147	1,725	—
Japanese securities joint venture with MUFG	—	—	(129)
Loans	(10,057)	(3,486)	(9,208)
Purchases of securities available for sale	(30,557)	(24,477)	(20,601)
Sales of securities available for sale	11,425	10,398	17,064
Maturities and redemptions of securities available for sale	4,757	4,738	2,934
Other investing activities	140	(211)	510
Net cash used for investing activities	(24,461)	(12,625)	(10,734)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for):			
Commercial paper and other short-term borrowings	4	(705)	(413)
Noncontrolling interests	(557)	(296)	(791)
Other secured financings	(10,726)	(6,628)	1,867
Deposits	29,113	17,604	1,850
Proceeds from:			
Excess tax benefits associated with stock-based awards	10	42	—
Derivatives financing activities	1,003	243	129
Issuance of preferred stock, net of issuance costs	1,696	—	—
Issuance of long-term borrowings	27,939	23,646	32,725
Payments for:			
Long-term borrowings	(38,742)	(43,092)	(39,232)
Derivatives financing activities	(1,216)	(125)	(132)
Repurchases of common stock	(691)	(227)	(317)
Purchase of additional stake in Wealth Management JV	(4,725)	(1,890)	—
Cash dividends	(475)	(469)	(834)
Net cash provided by (used for) financing activities	2,633	(11,897)	(5,148)
Effect of exchange rate changes on cash and cash equivalents	(202)	(119)	(314)
Effect of cash and cash equivalents related to variable interest entities	(544)	(526)	511
Net increase (decrease) in cash and cash equivalents	12,979	(408)	(303)
Cash and cash equivalents, at beginning of period	46,904	47,312	47,615
Cash and cash equivalents, at end of period	$ 59,883	$ 46,904	$ 47,312
Cash and cash equivalents include:			
Cash and due from banks	$ 16,602	$ 20,878	$ 13,165
Interest bearing deposits with banks	43,281	26,026	34,147
Cash and cash equivalents, at end of period	$ 59,883	$ 46,904	$ 47,312

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $4,793 million, $5,213 million and $6,835 million for 2013, 2012 and 2011, respectively.
Cash payments for income taxes were $930 million, $388 million and $892 million for 2013, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Changes in Total Equity
(dollars in millions)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non-redeemable Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2010	$ 9,597	$ 16	$13,521	$38,603	$ 3,465	$ (467)	$(4,059)	$(3,465)	$8,196	$65,407
Net income applicable to Morgan Stanley	—	—	—	4,110	—	—	—	—	—	4,110
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	535	535
Dividends	—	—	—	(646)	—	—	—	—	—	(646)
Shares issued under employee plans and related tax effects	—	—	(642)	—	(299)	—	1,877	299	—	1,235
Repurchases of common stock	—	—	—	—	—	—	(317)	—	—	(317)
Net change in Accumulated other comprehensive income	—	—	—	—	—	310	—	—	70	380
Other increase in equity method investments	—	—	146	—	—	—	—	—	—	146
MUFG stock conversion	(8,089)	4	9,811	(1,726)	—	—	—	—	—	—
Other net decreases	—	—	—	—	—	—	—	—	(772)	(772)
BALANCE AT DECEMBER 31, 2011	1,508	20	22,836	40,341	3,166	(157)	(2,499)	(3,166)	8,029	70,078
Net income applicable to Morgan Stanley	—	—	—	68	—	—	—	—	—	68
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	524	524
Dividends	—	—	—	(497)	—	—	—	—	—	(497)
Shares issued under employee plans and related tax effects	—	—	662	—	(234)	—	485	234	—	1,147
Repurchases of common stock	—	—	—	—	—	—	(227)	—	—	(227)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(359)	—	—	(120)	(479)
Purchase of additional stake in Wealth Management JV	—	—	(107)	—	—	—	—	—	(1,718)	(1,825)
Reclassification to redeemable noncontrolling interests	—	—	—	—	—	—	—	—	(4,288)	(4,288)
Other net increases	—	—	35	—	—	—	—	—	892	927
BALANCE AT DECEMBER 31, 2012	1,508	20	23,426	39,912	2,932	(516)	(2,241)	(2,932)	3,319	65,428
Net income applicable to Morgan Stanley	—	—	—	2,932	—	—	—	—	—	2,932
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	459	459
Dividends	—	—	—	(521)	—	—	—	—	—	(521)
Shares issued under employee plans and related tax effects	—	—	1,160	—	(1,214)	—	(36)	1,214	—	1,124
Repurchases of common stock	—	—	—	—	—	—	(691)	—	—	(691)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(577)	—	—	(205)	(782)
Issuance of preferred stock	1,712	—	(16)	—	—	—	—	—	—	1,696
Wealth Management JV redemption value adjustment	—	—	—	(151)	—	—	—	—	—	(151)
Other net decreases	—	—	—	—	—	—	—	—	(464)	(464)
BALANCE AT DECEMBER 31, 2013	$ 3,220	$ 20	$24,570	$42,172	$ 1,718	$(1,093)	$(2,968)	$(1,718)	$3,109	$69,030

See Notes to Consolidated Financial Statements.

1. Introduction and Basis of Presentation.

The Company. 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, Wealth Management and Investment 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" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries.

Effective with the quarter ended June 30, 2013, the Global Wealth Management Group and Asset Management business segments were re-titled Wealth Management and Investment Management, respectively.

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

Institutional Securities provides financial advisory and capital raising 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.

Wealth Management 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 engages in fixed income trading, which primarily facilitates clients' trading or investments in such securities.

Investment 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.

Discontinued Operations.

Quilter. On April 2, 2012, the Company completed the sale of Quilter & Co. Ltd. ("Quilter"), its retail wealth management business in the United Kingdom ("U.K."). Net revenues for Quilter were $148 million and $134 million for 2012 and 2011, respectively. Net pre-tax gains (losses) were $(1) million, $97 million and $21 million for 2013, 2012 and 2011, respectively, and included a gain of approximately $108 million in 2012 in connection with the sale of Quilter. The results of Quilter are reported as discontinued operations within the Wealth Management business segment for all periods presented.

Saxon. On October 24, 2011, the Company announced that it had reached an agreement to sell Saxon, a provider of servicing and subservicing of residential mortgage loans, to Ocwen Financial Corporation. The transaction, which was restructured as a sale of Saxon's assets during the first quarter of 2012, was substantially completed in the second quarter of 2012. Net revenues for Saxon were $79 million and $28 million for 2012 and 2011, respectively, and pre-tax losses were $64 million, $187 million and $194 million for 2013, 2012 and 2011, respectively. Revenues included a pre-tax gain of approximately $51 million in 2012, primarily resulting from the subsequent increase in fair value of Saxon, which had incurred impairment losses of $98 million in the quarter ended December 31, 2011. Pre-tax loss in 2012 included a provision of approximately $115 million related to a settlement with the Board of Governors of the Federal Reserve System (the "Federal Reserve") concerning the independent foreclosure review related to Saxon. The results of Saxon are reported as discontinued operations within the Institutional Securities business segment for all periods presented.

Other. In the fourth quarter of 2011, the Company classified a real estate property management company as held for sale within the Investment Management business segment. The transaction closed during the first quarter of 2012. The results of this company are reported as discontinued operations within the Investment Management business segment for all periods presented.

Remaining pre-tax gain (loss) amounts of $(7) million, $42 million and $3 million for 2013, 2012 and 2011, respectively, that are included in discontinued operations primarily related to the sale of the Company's retail asset management business, Revel Entertainment Group, LLC ("Revel") and a principal investment.

Prior-period amounts have been recast for discontinued operations.

Sale of Global Oil Merchanting Business.

On December 20, 2013, the Company and a subsidiary of Rosneft Oil Company ("Rosneft") entered into a Purchase Agreement pursuant to which the Company will sell the global oil merchanting unit of its commodities division to Rosneft. The transaction is subject to regulatory approvals and other customary conditions and is expected to close in the second half of 2014. At December 31, 2013, the transaction does not meet the criteria for discontinued operations and is not expected to have a material impact on the Company's consolidated financial statements.

Basis of Financial Information. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S."), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of litigation and tax matters, and other matters that affect the consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates. Intercompany balances and transactions have been eliminated.

In 2013, the Company renamed "Principal transactions—Trading" revenues as "Trading" revenues and "Principal transactions—Investments" revenues as "Investments" revenues in the consolidated statements of income, and "Financial instruments owned" as "Trading assets," "Financial instruments sold, not yet purchased" as "Trading liabilities," "Receivables" as "Customer and other receivables" and "Payables" as "Customer and other payables" in the consolidated statements of financial condition.

Consolidation. The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest, including certain variable interest entities ("VIE") (see Note 7). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The portion of net income attributable to noncontrolling interests for such subsidiaries is presented as either Net income (loss) applicable to redeemable noncontrolling interests or Net income (loss) applicable to nonredeemable noncontrolling interests in the consolidated statements of income. The portion of the shareholders' equity of such subsidiaries that is redeemable is presented as Redeemable noncontrolling interests outside of the equity section in the consolidated statements of financial condition at December 31, 2012. The portion of the shareholders' equity of such subsidiaries that is nonredeemable is presented as Nonredeemable noncontrolling interests, a component of total equity, in the consolidated statements of financial condition at December 31, 2013 and 2012.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional subordinated financial support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Company consolidates those entities it controls either through a majority voting interest or otherwise. For VIEs (*i.e.*, entities that do not meet these criteria), the Company consolidates those entities where the Company has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that are money market funds, are investment companies or are entities qualifying for accounting purposes as investment companies. Generally, the Company consolidates those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For investments in entities in which the Company does not have a controlling financial interest but has significant influence over operating and financial decisions, the Company generally applies the equity method of accounting with net gains and losses recorded within Other revenues. Where the Company has elected to measure certain eligible investments at fair value in accordance with the fair value option, net gains and losses are recorded within Investments revenues (see Note 4).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies are carried at fair value.

The Company's significant regulated U.S. and international subsidiaries include Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Smith Barney LLC ("MSSB LLC"), Morgan Stanley & Co. International plc ("MSIP"), Morgan Stanley MUFG Securities Co., Ltd. ("MSMS"), Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA").

Income Statement Presentation. 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. In connection with the delivery of the various products and services to clients, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in its Institutional Securities business segment, the Company considers its trading, investment banking, commissions and fees, and interest income, along with the associated interest expense, as one integrated activity.

2. Significant Accounting Policies.

Revenue Recognition.

Investment Banking. Underwriting revenues and advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are determined to be substantially completed, generally as set forth under the terms of the engagement. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenues. Underwriting revenues are presented net of related expenses. Non-reimbursed expenses associated with advisory transactions are recorded within Non-interest expenses.

Commissions and fees. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities; services related to sales and trading activities; and sales of mutual funds, futures, insurance products and options. Commission and fee revenues are recognized in the accounts on trade date.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees are recognized over the relevant contract period. Sales commissions paid by the Company in connection with the sale of certain classes of shares of its open-end mutual fund products are accounted for as deferred commission assets. The Company periodically tests the deferred commission assets for recoverability based on cash flows expected to be received in future periods. In certain management fee arrangements, the Company is entitled to receive performance-based fees (also referred to as incentive fees) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenues are accrued (or reversed) quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement. Performance-based fees are recorded within Investments or Asset management, distribution and administration fees depending on the nature of the arrangement. The amount of performance-based fee revenue at risk of reversing if fund performance falls below stated investment management agreement benchmarks was approximately $489 million at December 31, 2013 and approximately $205 million at December 31, 2012.

Trading and Investments. See “Financial Instruments and Fair Value” below for Trading and Investments revenue recognition discussions.

Financial Instruments and Fair Value.

A significant portion of the Company’s financial instruments is carried at fair value with changes in fair value recognized in earnings each period. A description of the Company’s policies regarding fair value measurement and its application to these financial instruments follows.

Financial Instruments Measured at Fair Value. All of the instruments within Trading assets and Trading liabilities are measured at fair value, either through the fair value option election (discussed below) or as required by other accounting guidance. These financial instruments primarily represent the Company’s trading and investment positions and include both cash and derivative products. In addition, debt securities classified as Securities available for sale are measured at fair value in accordance with accounting guidance for certain investments in debt securities. Furthermore, Securities received as collateral and Obligation to return securities received as collateral are measured at fair value as required by other accounting guidance. Additionally, certain Deposits, certain Commercial paper and other short-term borrowings (structured notes), certain Other secured financings, certain Securities sold under agreements to repurchase and certain Long-term borrowings (primarily structured notes) are measured at fair value through the fair value option election.

Gains and losses on all of these instruments carried at fair value are reflected in Trading revenues, Investments revenues or Investment banking revenues in the consolidated statements of income, except for Securities available for sale (see “Securities Available for Sale” section herein and Note 5) and derivatives accounted for as hedges (see “Hedge Accounting” section herein and Note 12). Interest income and interest expense are recorded within the consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instruments’ fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense. Dividend income is recorded in Trading revenues or Investments revenues depending on the business activity. The fair value of OTC financial instruments, including derivative contracts related to financial instruments and commodities, is presented in the accompanying consolidated statements of financial condition on a net-by-counterparty basis, when appropriate. Additionally, the Company nets the fair value of cash collateral paid or received against the fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting agreement.

Fair Value Option. The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company applies the fair value option for eligible instruments, including certain securities purchased under agreements to resell, certain loans and lending commitments, certain equity method investments, certain securities sold under agreements to repurchase, certain structured notes, certain time deposits and certain other secured financings.

Fair Value Measurement—Definition and Hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions other market participants would use in pricing the asset or liability that were developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy (see Note 4). In addition, a downturn in market conditions could lead to declines in the valuation of many instruments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Valuation Techniques. Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company does not require that the fair value estimate always be a predetermined point in the bid-ask range. The Company's policy is to allow for mid-market pricing and to adjust to the point within the bid-ask range that meets the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions. The Company applies credit-related valuation adjustments to its short-term and long-term borrowings (primarily structured notes) for which the fair value option was elected and to OTC derivatives. The Company considers the impact of changes in its own credit spreads based upon observations of the Company's secondary bond market spreads when measuring the fair value for short-term and long-term borrowings. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit standing is considered when measuring fair value. In determining the expected exposure, the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilized. The Company also considers collateral held and legally enforceable master netting agreements that mitigate the Company's exposure to each counterparty. Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter. The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information, but in many instances, significant judgment is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

See Note 4 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis. Certain of the Company's assets are measured at fair value on a non-recurring basis. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy for inputs as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

Valuation Process. The Valuation Review Group ("VRG") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value, including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

The Company's control processes apply to financial instruments categorized in Level 1, Level 2 or Level 3 of the fair value hierarchy, unless otherwise noted. These control processes include:

Model Review. VRG, in conjunction with the Market Risk Department ("MRD") and, where appropriate, the Credit Risk Management Department, both of which report to the Chief Risk Officer, independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. Before trades are executed using new valuation models, those models are required to be independently reviewed. All of the Company's valuation models are subject to an independent annual VRG review.

Independent Price Verification. The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

VRG uses recently executed transactions, other observable market data such as exchange data, broker-dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analyzing the methodology and assumptions used by the external source to generate a price and/or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments categorized within Level 3 of the fair value hierarchy, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Company's three business segments (*i.e.*, Institutional Securities, Wealth Management and Investment Management), the CFO and the Chief Risk Officer on a regular basis.

Review of New Level 3 Transactions. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions, and both FCG and MRD management must approve the fair value of the trade that is initially recognized.

For further information on financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis, see Note 4.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments to hedge interest rate and foreign exchange risk arising from assets and liabilities not held at fair value as part of asset/liability and currency management. These financial instruments are included within Trading assets—Derivative and other contracts or Trading liabilities—Derivative and other contracts in the consolidated statements of financial condition.

The Company's hedges are designated and qualify for accounting purposes as one of the following types of hedges: hedges of changes in fair value of assets and liabilities due to the risk being hedged (fair value hedges); and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges).

For further information on derivative instruments and hedging activities, see Note 12.

Consolidated Statements of Cash Flows.

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks, which are highly liquid investments with original maturities of three months or less, held for investment purposes, and readily convertible to known amounts of cash.

The Company's significant non-cash activities in 2013 included assets and liabilities of approximately $3.6 billion and $3.1 billion, respectively, disposed of in connection with business dispositions. The Company's significant non-cash activities in 2012 included assets and liabilities of approximately $2.6 billion and $1.0 billion, respectively, disposed of in connection with business dispositions, and approximately $1.1 billion of net assets received from Citigroup Inc. ("Citi") related to Citi's required equity contribution in connection with the retail securities joint venture between the Company and Citi (the "Wealth Management JV") platform integration (see Notes 3 and 15). At June 30, 2011, Mitsubishi UFJ Financial Group, Inc. ("MUFG") and the Company converted MUFG's outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock ("Series B Preferred Stock") in the Company with a face value of $7.8 billion (carrying value $8.1 billion) and a 10% dividend into Company common stock. As a result of the adjustment to the conversion ratio, pursuant to the transaction agreement, the Company incurred a one-time, non-cash negative adjustment of approximately $1.7 billion in its calculation of basic and diluted earnings per share ("EPS") for 2011 (see Note 16).

Transfers of Financial Assets.

Transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. Any related gain or loss on sale is recorded in Net revenues. Transfers that are not accounted for as sales are treated as a collateralized financing, in certain cases referred to as "failed sales."

Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Note 6). Securities purchased under agreements to resell ("reverse repurchase agreements") and Securities sold under agreements to repurchase ("repurchase agreements") are carried on the consolidated statements of financial condition at the amounts of cash paid or received, plus accrued interest, except for certain repurchase agreements for which the Company has elected the fair value option (see Note 4). Where appropriate, repurchase agreements and reverse repurchase agreements with the same counterparty are reported on a net basis. Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received.

Premises, Equipment and Software Costs.

Premises and equipment consist of buildings, leasehold improvements, furniture, fixtures, computer and communications equipment, power plants, tugs, barges, terminals, pipelines and software (externally purchased and developed for internal use). Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided by the straight-line method over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings—39 years; furniture and fixtures—7 years; computer and communications equipment—3 to 9 years; power plants—15 years; tugs and barges—15 years; and terminals, pipelines and equipment—3 to 25 years. Estimated useful lives for software costs are generally 3 to 5 years.

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or, where applicable, the remaining term of the lease, but generally not exceeding: 25 years for building structural improvements and 15 years for other improvements.

Premises, equipment and software costs are tested for impairment whenever events or changes in circumstances suggest that an asset's carrying value may not be fully recoverable in accordance with current accounting guidance.

Income Taxes.

The Company accounts for income tax expense (benefit) using the asset and liability method, under which recognition of deferred tax assets and related valuation allowance (recorded in Other assets) and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income tax expense (benefit) in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority. Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes.

Earnings per Common Share.

Basic EPS is computed by dividing income available to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Income available to Morgan Stanley common shareholders represents net income applicable to Morgan Stanley reduced by preferred stock dividends and allocations of earnings to participating securities. Common shares outstanding include common stock and vested restricted stock units ("RSUs") where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities.

Under current accounting guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. Share-based payment awards that pay dividend equivalents subject to vesting are not deemed participating securities and are included in diluted shares outstanding (if dilutive) under the treasury stock method.

The Company has granted performance-based stock units ("PSUs") that vest and convert to shares of common stock only if the Company satisfies predetermined performance and market goals. Since the issuance of the shares is contingent upon the satisfaction of certain conditions, the PSUs are included in diluted EPS based on the number of shares (if any) that would be issuable if the end of the reporting period was the end of the contingency period.

Deferred Compensation.

Stock-Based Compensation. The Company accounts for stock-based compensation in accordance with the accounting guidance for stock-based awards. This accounting guidance requires measurement of compensation cost for stock-based awards at fair value and recognition of compensation cost over the service period, net of estimated forfeitures. The Company determines the fair value of RSUs (including RSUs with non-market performance conditions) based on the grant-date fair value of the Company's common stock, measured as the volume-weighted average price on the date of grant. RSUs with market-based conditions are valued using a Monte Carlo valuation model. The fair value of stock options is determined using the Black-Scholes valuation model and the single grant life method. Under the single grant life method, option awards with graded vesting are valued using a single weighted average expected option life.

Compensation expense for stock-based compensation awards is recognized using the graded vesting attribution method. Compensation expense for awards with performance conditions is recognized based on the probable outcome of the performance condition at each reporting date. At the end of the contingency period, the total compensation cost recognized will be the grant-date fair value of all units that actually vest based on the outcome of the performance conditions. Compensation expense for awards with market-based conditions is recognized irrespective of the probability of the market condition being achieved and is not reversed if the market condition is not met.

The Company recognizes the expense for stock-based awards over the requisite service period. For anticipated year-end stock-based awards granted to employees expected to be retirement-eligible under award terms that do not contain a future service requirement, the Company accrues the estimated cost of these awards over the course of the calendar year preceding the grant date. The Company believes that this method of recognition for retirement-eligible employees is preferable because it better reflects the period over which the compensation is earned. Certain award terms after 2012 performance year introduced a new vesting requirement for employees who satisfy existing retirement-eligible requirements to provide a one-year advance notice of their intention to retire from the Company. As such, expense recognition for these awards begins after the grant date.

Employee Stock Trusts. The Company maintains and utilizes at its discretion, trusts, referred to as the "Employee Stock Trusts", in connection with certain stock-based compensation plans. The assets of the Employee Stock Trusts are consolidated, and as such, are accounted for in a manner similar to treasury stock, where the shares of common stock outstanding are offset by an equal amount in Common stock issued to Employee Stock Trusts. The Company uses the grant-date fair value of stock-based compensation as the basis for recognition of the assets in the Employee Stock Trusts. Subsequent changes in the fair value are not recognized as the Company's stock-based compensation plans do not permit diversification and must be settled by the delivery of a fixed number of shares of the Company's common stock.

Deferred Cash-Based Compensation. The Company also maintains various deferred cash-based compensation plans for the benefit of certain current and former employees that provide a return to the participating employees based upon the performance of various referenced investments. The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred cash-based compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investment revenues.

Compensation expense for deferred cash-based compensation plans is calculated based on the notional value of the award granted, adjusted for upward and downward changes in the fair value of the referenced investments. For unvested awards, the expense is recognized over the service period using the graded vesting attribution method. Changes in compensation expense resulting from changes in the fair value of the referenced investments will generally be offset by changes in the fair value of investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period. For vested awards with only notional earnings on the referenced investments, the expense is fully recognized in the current period.

Translation of Foreign Currencies.

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end rates of exchange, and amounts recognized in the income statement are translated at the rate of exchange on the respective date of recognition for each amount. Gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in Accumulated other comprehensive income (loss), a separate component of Morgan Stanley Shareholders' equity on the consolidated statements of financial condition. Gains or losses resulting from remeasurement of foreign currency transactions are included in net income.

Goodwill and Intangible Assets.

Goodwill and indefinite-lived intangible assets are not amortized and are reviewed annually (or more frequently when certain events or circumstances exist) for impairment. Other intangible assets are amortized over their estimated useful lives and reviewed for impairment. Impairment losses are recorded within Other expenses in the consolidated statements of income.

During the quarter ended September 30, 2012, the Company changed the brand name of the U.S. Wealth Management business from Morgan Stanley Smith Barney to Morgan Stanley Wealth Management. The Smith Barney tradename continues to be legally protected by the Company and continues to be used as stipulated by our regulators as the legal entity name for the Company's retail broker-dealer, Morgan Stanley Smith Barney LLC. As a result of the change in intended use of this tradename, the Company determined that the tradename should be reclassified from an indefinite-lived to a finite-lived intangible asset. This change required the Company to test the intangible asset for impairment. Based on a comparison of the fair value to the carrying value of the tradename as of the date of the brand name change, no impairment was identified. The carrying value of the tradename is amortized over its remaining estimated useful life. See Note 9 for further information about goodwill and intangible assets.

Securities Available for Sale.

Available for sale ("AFS") securities are reported at fair value in the consolidated statements of financial condition with unrealized gains and losses reported in Accumulated other comprehensive income (loss), net of tax ("AOCI"). Interest and dividend income, including amortization of premiums and accretion of discounts, is included in Interest income in the consolidated statements of income. Realized gains and losses on AFS securities are reported in the consolidated statements of income (see Note 5). The Company utilizes the "first-in, first-out" method as the basis for determining the cost of AFS securities.

Other-than-temporary impairment. AFS securities with a current fair value less than their amortized cost are analyzed as part of the Company's periodic assessment of temporary versus other-than-temporary impairment ("OTTI") at the individual security level. A temporary impairment is recognized in AOCI. OTTI is recognized in the consolidated statements of income with the exception of the non-credit portion related to a debt security that the Company does not intend to sell and is not likely to be required to sell, which is recognized in AOCI.

For AFS debt securities that the Company either has the intent to sell or that the Company is likely to be required to sell before recovery of its amortized cost basis, the impairment is considered other-than-temporary.

For those AFS debt securities that the Company does not have the intent to sell or is not likely to be required to sell, the Company evaluates whether it expects to recover the entire amortized cost basis of the debt security. If the Company does not expect to recover the entire amortized cost of the debt security, the impairment is considered other-than-temporary and the Company determines what portion of the impairment relates to a credit loss and what portion relates to non-credit factors. A credit loss exists if the present value of cash flows expected to be collected (discounted at the implicit interest rate at acquisition of the security or discounted at the effective yield for securities that incorporate changes in prepayment assumptions) is less than the amortized cost basis of the security. Changes in prepayment assumptions alone are not considered to result in a credit loss. When determining if a credit loss exists, the Company considers relevant information including the length of time and the extent to which the fair value has been less than the amortized cost basis; adverse conditions specifically related to the security, an industry, or geographic area; changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors; the historical and implied volatility of the fair value of the security; the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; failure of the issuer of the security to make scheduled interest or principal payments; any changes to the rating of the security by a rating agency and recoveries or additional declines in fair value after the balance sheet date. When estimating the present value of expected cash flows, information includes the remaining payment terms of the security, prepayment speeds, financial condition of the issuer(s), expected defaults and the value of any underlying collateral.

For AFS equity securities, the Company considers various factors including the intent and ability to hold the equity security for a period of time sufficient to allow for any anticipated recovery in market value in evaluating whether an OTTI exists. If the equity security is considered other-than-temporarily impaired, the entire OTTI (*i.e.*, the difference between the fair value recorded on the balance sheet and the cost basis) will be recognized in the consolidated statement of income.

Loans.

The Company accounts for loans based on the following categories: loans held for investment; loans held for sale; and loans at fair value.

Loans Held for Investment

Loans held for investment are reported as outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs for originated loans, and any unamortized premiums or discounts for purchased loans.

Interest Income. Interest income on performing loans held for investment is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the life of the loan to produce a level rate of return.

Allowance for Loan Losses. The allowance for loan losses estimates probable losses related to loans specifically identified for impairment in addition to the probable losses inherent in the held for investment loan portfolio.

The Company utilizes the banking regulators' definition of criticized exposures, which consist of the special mention substandard and doubtful categories as credit quality indicators. Substandard loans are regularly reviewed for impairment. Factors considered by management when determining impairment include payment status, fair value of collateral, and probability of collecting scheduled principal and interest payments when due. The impairment analysis required depends on the nature and type of loans. Loans classified as Doubtful or Loss are considered impaired. When a loan is impaired, the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient, the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. If the present value of the expected future cash flows (or alternatively, the observable market price of the loan or the fair value of the collateral) is less than the recorded investment in the loan, then the Company recognizes an allowance and a charge to the provision for loan losses within Other revenues.

Generally, inherent losses in the portfolio for non-impaired loans are estimated using statistical analysis and judgment around the exposure at default, the probability of default and the loss given default. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered in the calculations.

Troubled Debt Restructurings. The Company may modify the terms of certain loans for economic or legal reasons related to a borrower's financial difficulties by granting one or more concessions that the Company would not otherwise consider. Such modifications are accounted for and reported as troubled debt restructurings ("TDRs"). A loan that has been modified in a TDR is generally considered to be impaired and is evaluated for the extent of impairment using the Company's specific allowance methodology.

Nonaccrual Loans. The Company places loans on nonaccrual status if principal or interest is past due for a period of 90 days or more or payment of principal or interest is in doubt unless the obligation is well-secured and in the process of collection. A loan is considered past due when a payment due according to the contractual terms of the loan agreement has not been remitted by the borrower. Substandard loans, if identified as impaired, are categorized as nonaccrual. Loans classified as Doubtful or Loss are categorized as nonaccrual.

Payments received on nonaccrual loans held for investment are applied to principal if there is doubt regarding the ultimate collectability of principal (*i.e*., cost recovery method). If collection of the principal of nonaccrual loans held for investment is not in doubt, interest income is recognized on a cash basis. If neither principal nor interest collection is in doubt, loans are on accrual status and interest income is recognized using the effective interest method. Loans that are nonaccrual status may not be restored to accrual status until all delinquent principal and/or interest has been brought current, after a reasonable period of performance, typically a minimum of six months.

Charge-offs. The Company charges off a loan in the period that it is deemed uncollectible and records a reduction in the allowance for loan losses and the balance of the loan. In general, any portion of the recorded investment in a collateral dependent loan (including any capitalized accrued interest, net deferred loan fees or costs and unamortized premium or discount) in excess of the fair value of the collateral that can be identified as uncollectible, and is therefore deemed a confirmed loss, is charged off against the allowance for loan losses. A loan is collateral-dependent if the repayment of the loan is expected to be provided solely by the sale or operation of the underlying collateral. A loan that is charged off is recorded as a reduction in the allowance for loan losses and the balance of the loan. In addition, for loan transfers from loans held for investment to loans held for sale, at the time of transfer, any reduction in the loan value is reflected as a charge-off of the recorded investment, resulting in a new cost basis.

Loan Commitments. The Company records the liability and related expense for the credit exposure related to commitments to fund loans that will be held for investment in a manner similar to outstanding loans disclosed above. The analysis also incorporates a credit conversion factor, which is the expected utilization of the undrawn commitment. The liability is recorded in Other liabilities and accrued expenses on the consolidated statements of financial condition, and the expense is recorded in Other non-interest expenses in the consolidated statements of income. For more information regarding loan commitments, standby letters of credit and financial guarantees, see Note 13.

Loans Held for Sale

Loans held for sale are measured at the lower of cost or fair value, with valuation changes recorded in Other revenues. The Company determines the valuation allowance on an individual loan basis, except for residential mortgage loans for which the valuation allowance is determined at the loan product level. Any decreases in fair value below the initial carrying amount and any recoveries in fair value up to the initial carrying amount are recorded in Other revenues. However, increases in fair value above initial carrying value are not recognized.

Interest income on loans held for sale is accrued and recognized based on the contractual rate of interest. Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees and discounts or premiums are an adjustment to the basis of the loan and, therefore, are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale.

Loans held for sale are subject to the nonaccrual policies described above. Because loans held for sale are recognized at the lower of cost or fair value, the allowance for loan losses and charge-off policies do not apply to these loans.

Loans at Fair Value

Loans for which the fair value option is elected are carried at fair value, with changes in fair value recognized in earnings. Loans carried at fair value are not evaluated for purposes of recording an allowance for loan losses. For further information on loans carried at fair value and classified as Trading assets and Trading liabilities, see Note 4.

For further information on loans, see Note 8.

Noncontrolling Interests.

For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests.

As a result of the modifications to the purchase agreement regarding the Wealth Management JV, the Company had classified Citi's interest in the Wealth Management JV as a redeemable noncontrolling interest, as the interest was redeemable at both the option of the Company and upon the occurrence of an event that was not solely within the Company's control. This interest was classified outside of the equity section in Redeemable noncontrolling interests in the consolidated statements of financial condition at December 31, 2012. This interest was redeemed in June 2013 (see Note 3). Noncontrolling interests that do not contain such redemption features are presented as Nonredeemable noncontrolling interests, a component of total equity, in the consolidated statements of financial condition.

Accounting Developments.

Disclosures about Offsetting Assets and Liabilities. In January 2013, the Financial Accounting Standards Board (the "FASB") issued an accounting update that clarified the intended scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. These disclosure requirements became effective for the Company beginning on January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption has not affected the Company's consolidated financial statements (see Notes 6 and 12).

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. In February 2013, the FASB issued an accounting update that added new disclosure requirements requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles to be reclassified in its entirety to net income. The disclosure requirements became effective for the Company beginning on January 1, 2013. Since these amended principles require only additional disclosures concerning amounts reclassified out of accumulated other comprehensive income, adoption has not affected the Company's consolidated financial statements (see Note 15).

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap ("OIS") Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. In July 2013, the FASB issued an accounting update that included amendments permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). The amendments also removed the restriction on using different benchmark rates for similar hedges. The amendments became effective for the Company for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

3. Wealth Management JV.

On May 31, 2009, the Company and Citi consummated the combination of each institution's respective wealth management business. The combined businesses operated as the Wealth Management JV through June 2013.

Prior to September 2012, the Company owned 51% and Citi owned 49% of the Wealth Management JV. On September 17, 2012, the Company purchased an additional 14% stake in the Wealth Management JV from Citi for $1.89 billion, increasing the Company's interest from 51% to 65%. The Company recorded a negative adjustment to Paid-in-capital of approximately $107 million (net of tax) to reflect the difference between the purchase price for the 14% interest in the Wealth Management JV and its carrying value. In addition, in September 2012, the terms of the Wealth Management JV agreement regarding the purchase of the remaining 35% interest were amended, which resulted in a reclassification of approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests during the third quarter of 2012. Prior to September 17, 2012, Citi's results related to its 49% interest were reported in net income (loss) applicable to nonredeemable noncontrolling interests in the consolidated statements of income. Subsequent to the purchase of the additional 14% stake, Citi's results related to its 35% interest were reported in net income (loss) applicable to redeemable noncontrolling interests in the consolidated statements of income. In connection with the Company's acquisition of the additional 14% stake in the Wealth Management JV and pursuant to an amended deposit sweep agreement between Citi and the Company, in October 2012, $5.4 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions at no premium based on a valuation agreement reached between Citi and the Company, and as such were no longer swept to Citi.

In June 2013, the Company received final regulatory approval to acquire the remaining 35% stake in the Wealth Management JV. On June 28, 2013, the Company purchased the remaining 35% interest for $4.725 billion, increasing the Company's interest from 65% to 100%. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) to reflect the difference between the purchase price for the 35% interest in the Wealth Management JV and its carrying value. This adjustment negatively impacted the calculation of basic and diluted EPS in 2013 (see Note 16).

Additionally, in conjunction with the purchase of the remaining 35% interest, in June 2013, the Company redeemed all of the Class A Preferred Interests in the Wealth Management JV owned by Citi and its affiliates for approximately $2.028 billion and repaid to Citi $880 million in senior debt.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. In 2013, $26 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions. At December 31, 2013, approximately $30 billion of additional deposits are scheduled to be transferred to the Company's depository institutions on an agreed-upon basis through June 2015 (see Note 25).

4. Fair Value Disclosures.

Fair Value Measurements.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Trading Assets and Trading Liabilities.

U.S. Government and Agency Securities.

- U.S. Treasury Securities. U.S. Treasury securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy.
- U.S. Agency Securities. U.S. agency securities are composed of three main categories consisting of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations. Non-callable agency-issued debt securities are generally valued using quoted market prices. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage

pass-through pool securities is model-driven based on spreads of the comparable To-be-announced security. Collateralized mortgage obligations are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities. Actively traded non-callable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through pool securities and collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy.

Other Sovereign Government Obligations.

- Foreign sovereign government obligations are valued using quoted prices in active markets when available. These bonds are generally categorized in Level 1 of the fair value hierarchy. If the market is less active or prices are dispersed, these bonds are categorized in Level 2 of the fair value hierarchy. In instances where the inputs are unobservable, these bonds are categorized in Level 3 of the fair value hierarchy.

Corporate and Other Debt.

- State and Municipal Securities. The fair value of state and municipal securities is determined using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.
- Residential Mortgage-Backed Securities ("RMBS"), Commercial Mortgage-Backed Securities ("CMBS") and other Asset-Backed Securities ("ABS"). RMBS, CMBS and other ABS may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers. When position-specific external price data are not observable, the fair value determination may require benchmarking to similar instruments and/or analyzing expected credit losses, default and recovery rates, and/or applying discounted cash flow techniques. In evaluating the fair value of each security, the Company considers security collateral-specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity. In addition, for RMBS borrowers, Fair Isaac Corporation ("FICO") scores and the level of documentation for the loan are also considered. Market standard models, such as Intex, Trepp or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, and default and prepayment rates for each asset category. Valuation levels of RMBS and CMBS indices are also used as an additional data point for benchmarking purposes or to price outright index positions.

  RMBS, CMBS and other ABS are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs, then RMBS, CMBS and other ABS are categorized in Level 3 of the fair value hierarchy.
- Corporate Bonds. The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates as significant inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where prices, spreads or any of the other aforementioned key inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

- Collateralized Debt and Loan Obligations. The Company holds cash collateralized debt obligations ("CDOs")/collateralized loan obligations ("CLOs") that typically reference a tranche of an underlying synthetic portfolio of single name credit default swaps collateralized by corporate bonds ("credit-linked notes") or cash portfolio of asset-backed securities/loans ("asset-backed CDOs/CLOs"). Credit correlation, a primary input used to determine the fair value of credit-linked notes, is usually unobservable and derived using a benchmarking technique. The other credit-linked note model inputs such as credit spreads, including collateral spreads, and interest rates are typically observable. Asset-backed CDOs/CLOs are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each asset-backed CDO/CLO position is evaluated independently taking into consideration available comparable market levels, underlying collateral performance and pricing, and deal structures, as well as liquidity. Cash CDOs/CLOs are categorized in Level 2 of the fair value hierarchy when either the credit correlation input is insignificant or comparable market transactions are observable. In instances where the credit correlation input is deemed to be significant or comparable market transactions are unobservable, cash CDOs/CLOs are categorized in Level 3 of the fair value hierarchy.

- Corporate Loans and Lending Commitments. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Corporate loans and lending commitments are categorized in Level 2 of the fair value hierarchy except in instances where prices or significant spread inputs are unobservable, in which case they are categorized in Level 3 of the fair value hierarchy.

- Mortgage Loans. Mortgage loans are valued using observable prices based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, the Company estimates fair value based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions. Mortgage loans valued based on observable market data for identical or comparable instruments are categorized in Level 2 of the fair value hierarchy. Where observable prices are not available, due to the subjectivity involved in the comparability assessment related to mortgage loan vintage, geographical concentration, prepayment speed and projected loss assumptions, mortgage loans are categorized in Level 3 of the fair value hierarchy. Mortgage loans are presented within Loans and lending commitments in the fair value hierarchy table.

- Auction Rate Securities ("ARS"). The Company primarily holds investments in Student Loan Auction Rate Securities ("SLARS") and Municipal Auction Rate Securities ("MARS"), which are floating rate instruments for which the rates reset through periodic auctions. SLARS are ABS backed by pools of student loans. MARS are municipal bonds often wrapped by municipal bond insurance. The fair value of ARS is primarily determined using recently executed transactions and market price quotations, obtained from independent external parties such as vendors and brokers, where available. The Company uses an internally developed methodology to discount for the lack of liquidity and non-performance risk where independent external market data are not available.

Inputs that impact the valuation of SLARS are independent external market data, recently executed transactions of comparable ARS, the underlying collateral types, level of seniority in the capital structure, amount of leverage in each structure, credit rating and liquidity considerations. Inputs that impact the valuation of MARS are recently executed transactions, the maximum rate, quality of underlying issuers/insurers and evidence of issuer calls/prepayment. ARS are generally categorized in Level 2 of the fair value hierarchy as the valuation technique relies on observable external data. SLARS and MARS are presented within Asset-backed securities and State and municipal securities, respectively, in the fair value hierarchy table.

Corporate Equities.

- Exchange-Traded Equity Securities. Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy; otherwise, they are categorized in Level 2 or Level 3 of the fair value hierarchy.
- Unlisted Equity Securities. Unlisted equity securities are valued based on an assessment of each underlying security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. These securities are generally categorized in Level 3 of the fair value hierarchy.
- Fund Units. Listed fund units are generally marked to the exchange-traded price or net asset value (“NAV”) and are categorized in Level 1 of the fair value hierarchy if actively traded on an exchange or in Level 2 of the fair value hierarchy if trading is not active. Unlisted fund units are generally marked to NAV and categorized as Level 2; however, positions that are not redeemable at the measurement date or in the near future are categorized in Level 3 of the fair value hierarchy.

Derivative and Other Contracts.

- Listed Derivative Contracts. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives; they are generally categorized in Level 2 of the fair value hierarchy.
- OTC Derivative Contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

  Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy.

  Other derivative products, including complex products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. This includes certain types of interest rate derivatives with both volatility and correlation exposure and credit derivatives, including credit default swaps on certain mortgage-backed or asset-backed securities, basket credit default swaps and CDO-squared positions (a CDO-squared position is a special purpose vehicle that issues interests, or tranches, that are backed by tranches issued by other CDOs) where direct trading activity or quotes are unobservable. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy.

Derivative interests in credit default swaps on certain mortgage-backed or asset-backed securities, for which observability of external price data is limited, are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each position is evaluated independently taking into consideration available comparable market levels as well as cash-synthetic basis, or the underlying collateral performance and pricing, behavior of the tranche under various cumulative loss and prepayment scenarios, deal structures (*e.g.*, non-amortizing reference obligations, call features, etc.) and liquidity. While these factors may be supported by historical and actual external observations, the determination of their value as it relates to specific positions nevertheless requires significant judgment.

For basket credit default swaps and CDO-squared positions, the correlation input between reference credits is unobservable for each specific swap or position and is benchmarked to standardized proxy baskets for which correlation data are available. The other model inputs such as credit spread, interest rates and recovery rates are observable. In instances where the correlation input is deemed to be significant, these instruments are categorized in Level 3 of the fair value hierarchy; otherwise, these instruments are categorized in Level 2 of the fair value hierarchy.

The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier price curves, implied volatility of the underlying commodities and, in some cases, the implied correlation between these inputs. The fair value of these products is determined using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and data points, based on historic and/or implied observations, are employed as a technique to estimate the model input values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

For further information on derivative instruments and hedging activities, see Note 12.

Investments.

- The Company's investments include direct investments in equity securities as well as investments in private equity funds, real estate funds and hedge funds, which include investments made in connection with certain employee deferred compensation plans. Direct investments are presented in the fair value hierarchy table as Principal investments and Other. Initially, the transaction price is generally considered by the Company as the exit price and is the Company's best estimate of fair value.

  After initial recognition, in determining the fair value of non-exchange-traded internally and externally managed funds, the Company generally considers the NAV of the fund provided by the fund manager to be the best estimate of fair value. For non-exchange-traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Exchange-traded direct equity investments are generally valued based on quoted prices from the exchange.

Exchange-traded direct equity investments that are actively traded are categorized in Level 1 of the fair value hierarchy. Non-exchange-traded direct equity investments and investments in private equity and real estate funds are generally categorized in Level 3 of the fair value hierarchy. Investments in hedge funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

Physical Commodities.

- The Company trades various physical commodities, including crude oil and refined products, natural gas, base and precious metals, and agricultural products. Fair value for physical commodities is determined using observable inputs, including broker quotations and published indices. Physical commodities are categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Securities Available for Sale.

- Securities available for sale are composed of U.S. government and agency securities (*e.g*., U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and collateralized mortgage obligations), CMBS, Federal Family Education Loan Program ("FFELP") student loan asset-backed securities, auto loan asset-backed securities, corporate bonds, collateralized loan obligations, and equity securities. Actively traded U.S. Treasury securities, non-callable agency-issued debt securities and equity securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through securities, collateralized mortgage obligations, CMBS, FFELP student loan asset-backed securities, auto loan asset-backed securities, corporate bonds and collateralized loan obligations are generally categorized in Level 2 of the fair value hierarchy. For further information on securities available for sale, see Note 5.

Deposits.

- Time Deposits. The fair value of certificates of deposit is determined using third-party quotations. These deposits are generally categorized in Level 2 of the fair value hierarchy.

Commercial Paper and Other Short-Term Borrowings/Long-Term Borrowings.

- Structured Notes. The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency, and commodity or equity prices. Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit spreads is also included based on the Company's observed secondary bond market spreads. Most structured notes are categorized in Level 2 of the fair value hierarchy.

Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase.

- The fair value of a reverse repurchase agreement or repurchase agreement is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities. In instances where the unobservable inputs are deemed significant, reverse repurchase agreements and repurchase agreements are categorized in Level 3 of the fair value hierarchy; otherwise, they are categorized in Level 2 of the fair value hierarchy.

The following fair value hierarchy tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2013 and December 31, 2012.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2013.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2013
	(dollars in millions)				
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 32,083	$ —	$ —	$ —	$ 32,083
U.S. agency securities	1,216	17,720	—	—	18,936
Total U.S. government and agency securities	33,299	17,720	—	—	51,019
Other sovereign government obligations	25,363	6,610	27	—	32,000
Corporate and other debt:					
State and municipal securities	—	1,615	—	—	1,615
Residential mortgage-backed securities	—	2,029	47	—	2,076
Commercial mortgage-backed securities	—	1,534	108	—	1,642
Asset-backed securities	—	878	103	—	981
Corporate bonds	—	16,592	522	—	17,114
Collateralized debt and loan obligations	—	802	1,468	—	2,270
Loans and lending commitments	—	7,483	5,129	—	12,612
Other debt	—	6,365	27	—	6,392
Total corporate and other debt	—	37,298	7,404	—	44,702
Corporate equities(1)	107,818	1,206	190	—	109,214
Derivative and other contracts:					
Interest rate contracts	750	526,127	2,475	—	529,352
Credit contracts	—	42,258	2,088	—	44,346
Foreign exchange contracts	52	61,570	179	—	61,801
Equity contracts	1,215	51,656	1,234	—	54,105
Commodity contracts	2,396	8,595	2,380	—	13,371
Other	—	43	—	—	43
Netting(2)	(3,836)	(606,878)	(4,931)	(54,906)	(670,551)
Total derivative and other contracts	577	83,371	3,425	(54,906)	32,467
Investments:					
Private equity funds	—	—	2,531	—	2,531
Real estate funds	—	6	1,637	—	1,643
Hedge funds	—	377	432	—	809
Principal investments	43	42	2,160	—	2,245
Other	202	45	538	—	785
Total investments	245	470	7,298	—	8,013
Physical commodities	—	3,329	—	—	3,329
Total trading assets	167,302	150,004	18,344	(54,906)	280,744
Securities available for sale	24,412	29,018	—	—	53,430
Securities received as collateral	20,497	11	—	—	20,508
Federal funds sold and securities purchased under agreements to resell	—	866	—	—	866
Intangible assets(3)	—	—	8	—	8
Total assets measured at fair value	$212,211	$ 179,899	$18,352	$(54,906)	$ 355,556

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2013
	(dollars in millions)				
Liabilities at Fair Value					
Deposits	$ —	$ 185	$ —	$ —	$ 185
Commercial paper and other short-term borrowings	—	1,346	1	—	1,347
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	15,963	—	—	—	15,963
U.S. agency securities	2,593	116	—	—	2,709
Total U.S. government and agency securities	18,556	116	—	—	18,672
Other sovereign government obligations	14,717	2,473	—	—	17,190
Corporate and other debt:					
State and municipal securities	—	15	—	—	15
Corporate bonds	—	5,033	22	—	5,055
Collateralized debt and loan obligations	—	3	—	—	3
Unfunded lending commitments	—	127	2	—	129
Other debt	—	1,144	48	—	1,192
Total corporate and other debt	—	6,322	72	—	6,394
Corporate equities(1)	27,983	513	8	—	28,504
Derivative and other contracts:					
Interest rate contracts	675	504,292	2,362	—	507,329
Credit contracts	—	40,391	2,235	—	42,626
Foreign exchange contracts	23	61,925	111	—	62,059
Equity contracts	1,033	57,797	2,065	—	60,895
Commodity contracts	2,637	8,749	1,500	—	12,886
Other	—	72	4	—	76
Netting(2)	(3,836)	(606,878)	(4,931)	(36,465)	(652,110)
Total derivative and other contracts	532	66,348	3,346	(36,465)	33,761
Total trading liabilities	61,788	75,772	3,426	(36,465)	104,521
Obligation to return securities received as collateral	24,549	19	—	—	24,568
Securities sold under agreements to repurchase	—	407	154	—	561
Other secured financings	—	4,928	278	—	5,206
Long-term borrowings	—	33,750	1,887	—	35,637
Total liabilities measured at fair value	$86,337	$ 116,407	$ 5,746	$(36,465)	$ 172,025

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.

(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Counterparty and Cash Collateral Netting." For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 12.

(3) Amount represents mortgage servicing rights ("MSR") accounted for at fair value. See Note 7 for further information on MSRs.

Transfers Between Level 1 and Level 2 During 2013.

For assets and liabilities that were transferred between Level 1 and Level 2 during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

In 2013, there were no material transfers between Level 1 and Level 2.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2012.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2012
		(dollars in millions)			
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 24,662	$ 14	$ —	$ —	$ 24,676
U.S. agency securities	1,451	27,888	—	—	29,339
Total U.S. government and agency securities	26,113	27,902	—	—	54,015
Other sovereign government obligations	37,669	5,487	6	—	43,162
Corporate and other debt:					
State and municipal securities	—	1,558	—	—	1,558
Residential mortgage-backed securities	—	1,439	45	—	1,484
Commercial mortgage-backed securities	—	1,347	232	—	1,579
Asset-backed securities	—	915	109	—	1,024
Corporate bonds	—	18,403	660	—	19,063
Collateralized debt and loan obligations	—	685	1,951	—	2,636
Loans and lending commitments	—	12,617	4,694	—	17,311
Other debt	—	4,457	45	—	4,502
Total corporate and other debt	—	41,421	7,736	—	49,157
Corporate equities(1)	68,072	1,067	288	—	69,427
Derivative and other contracts:					
Interest rate contracts	446	819,581	3,774	—	823,801
Credit contracts	—	63,234	5,033	—	68,267
Foreign exchange contracts	34	52,729	31	—	52,794
Equity contracts	760	37,074	766	—	38,600
Commodity contracts	4,082	14,256	2,308	—	20,646
Other	—	143	—	—	143
Netting(2)	(4,740)	(883,733)	(6,947)	(72,634)	(968,054)
Total derivative and other contracts	582	103,284	4,965	(72,634)	36,197
Investments:					
Private equity funds	—	—	2,179	—	2,179
Real estate funds	—	6	1,370	—	1,376
Hedge funds	—	382	552	—	934
Principal investments	185	83	2,833	—	3,101
Other	199	71	486	—	756
Total investments	384	542	7,420	—	8,346
Physical commodities	—	7,299	—	—	7,299
Total trading assets	132,820	187,002	20,415	(72,634)	267,603
Securities available for sale	14,466	25,403	—	—	39,869
Securities received as collateral	14,232	46	—	—	14,278
Federal funds sold and securities purchased under agreements to resell	—	621	—	—	621
Intangible assets(3)	—	—	7	—	7
Total assets measured at fair value	$161,518	$ 213,072	$20,422	$(72,634)	$ 322,378

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2012
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$ —	$ 1,485	$ —	$ —	$ 1,485
Commercial paper and other short-term borrowings	—	706	19	—	725
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	20,098	21	—	—	20,119
U.S. agency securities	1,394	107	—	—	1,501
Total U.S. government and agency securities	21,492	128	—	—	21,620
Other sovereign government obligations	27,583	2,031	—	—	29,614
Corporate and other debt:					
State and municipal securities	—	47	—	—	47
Residential mortgage-backed securities	—	—	4	—	4
Corporate bonds	—	3,942	177	—	4,119
Collateralized debt and loan obligations	—	328	—	—	328
Unfunded lending commitments	—	305	46	—	351
Other debt	—	156	49	—	205
Total corporate and other debt	—	4,778	276	—	5,054
Corporate equities(1)	25,216	1,655	5	—	26,876
Derivative and other contracts:					
Interest rate contracts	533	789,715	3,856	—	794,104
Credit contracts	—	61,283	3,211	—	64,494
Foreign exchange contracts	2	56,021	390	—	56,413
Equity contracts	748	39,212	1,910	—	41,870
Commodity contracts	4,530	15,702	1,599	—	21,831
Other	—	54	7	—	61
Netting(2)	(4,740)	(883,733)	(6,947)	(46,395)	(941,815)
Total derivative and other contracts	1,073	78,254	4,026	(46,395)	36,958
Total trading liabilities	75,364	86,846	4,307	(46,395)	120,122
Obligation to return securities received as collateral	18,179	47	—	—	18,226
Securities sold under agreements to repurchase	—	212	151	—	363
Other secured financings	—	9,060	406	—	9,466
Long-term borrowings	—	41,255	2,789	—	44,044
Total liabilities measured at fair value	$93,543	$ 139,611	$ 7,672	$(46,395)	$ 194,431

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.

(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled “Counterparty and Cash Collateral Netting.” For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 12.

(3) Amount represents MSRs accounted for at fair value. See Note 7 for further information on MSRs.

Transfers Between Level 1 and Level 2 During 2012.

For assets and liabilities that were transferred between Level 1 and Level 2 during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Trading assets—Derivative and other contracts and Trading liabilities—Derivative and other contracts. During 2012, the Company reclassified approximately $3.2 billion of derivative assets and approximately $2.5 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange. Also during 2012, the Company reclassified approximately $0.4 billion of derivative assets and approximately $0.3 billion of derivative liabilities from Level 1 to Level 2 as transactions in these contracts did not occur with sufficient frequency and volume to constitute an active market.

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis.

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for 2013, 2012 and 2011, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (*e.g.*, changes in market interest rates) and unobservable (*e.g.*, changes in unobservable long-dated volatilities) inputs.

For assets and liabilities that were transferred into Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the period; similarly, for assets and liabilities that were transferred out of Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred out at the beginning of the period.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2013.

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 6	$ (18)	$ 41	$ (7)	$ —	$—	$ 5	$27	$ (18)
Corporate and other debt:									
Residential mortgage-backed securities	45	25	54	(51)	—	—	(26)	47	(6)
Commercial mortgage-backed securities	232	13	57	(187)	—	(7)	—	108	4
Asset-backed securities	109	—	6	(12)	—	—	—	103	—
Corporate bonds	660	(20)	324	(371)	—	(19)	(52)	522	(55)
Collateralized debt and loan obligations	1,951	363	742	(960)	—	(626)	(2)	1,468	131
Loans and lending commitments	4,694	(130)	3,744	(448)	—	(3,096)	365	5,129	(199)
Other debt	45	(1)	20	(36)	—	—	(1)	27	(2)
Total corporate and other debt	7,736	250	4,947	(2,065)	—	(3,748)	284	7,404	(127)
Corporate equities	288	(63)	113	(127)	—	—	(21)	190	(72)
Net derivative and other contracts(3):									
Interest rate contracts	(82)	28	6	—	(34)	135	60	113	36
Credit contracts	1,822	(1,674)	266	—	(703)	(295)	437	(147)	(1,723)
Foreign exchange contracts	(359)	130	—	—	—	281	16	68	124
Equity contracts	(1,144)	463	170	(74)	(318)	(11)	83	(831)	61
Commodity contracts	709	200	41	—	(36)	(29)	(5)	880	174
Other	(7)	(6)	—	—	—	9	—	(4)	(7)
Total net derivative and other contracts	939	(859)	483	(74)	(1,091)	90	591	79	(1,335)
Investments:									
Private equity funds	2,179	704	212	(564)	—	—	—	2,531	657
Real estate funds	1,370	413	103	(249)	—	—	—	1,637	625
Hedge funds	552	10	62	(163)	—	—	(29)	432	10
Principal investments	2,833	110	111	(445)	—	—	(449)	2,160	3
Other	486	76	13	(36)	—	—	(1)	538	77
Total investments	7,420	1,313	501	(1,457)	—	—	(479)	7,298	1,372
Intangible assets	7	9	—	—	—	(8)	—	8	3
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 19	$ —	$ —	$ —	$ —	$ (1)	$(17)	$ 1	$—
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4	4	—	—	—	—	—	—	4
Corporate bonds	177	28	(64)	43	—	—	(106)	22	28
Unfunded lending commitments	46	44	—	—	—	—	—	2	44
Other debt	49	2	—	5	—	(6)	2	48	2
Total corporate and other debt	276	78	(64)	48	—	(6)	(104)	72	78
Corporate equities	5	1	(26)	29	—	—	1	8	3
Securities sold under agreements to repurchase	151	(3)	—	—	—	—	—	154	(3)
Other secured financings	406	11	—	—	19	(136)	—	278	4
Long-term borrowings	2,789	(162)	—	—	877	(606)	(1,335)	1,887	(138)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the consolidated statements of income except for $1,313 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for 2013 related to assets and liabilities still outstanding at December 31, 2013.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 12.

Long-term borrowings. During 2013, the Company reclassified approximately $1.3 billion of certain long-term borrowings, primarily structured notes, from Level 3 to Level 2. The Company reclassified the structured notes as the unobservable embedded derivative component became insignificant to the overall valuation.

In 2013, there were no material transfers from Level 2 to Level 3.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2012.

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2012	Unrealized Gains (Losses) for Level 3 Assets/Liabilities Outstanding at December 31, 2012(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 8	$ —	$ —	$ (7)	$ —	$—	$ (1)	$—	$—
Other sovereign government obligations	119	—	12	(125)	—	—	—	6	(9)
Corporate and other debt:									
Residential mortgage-backed securities	494	(9)	32	(285)	—	—	(187)	45	(26)
Commercial mortgage-backed securities	134	32	218	(49)	—	(100)	(3)	232	28
Asset-backed securities	31	1	109	(32)	—	—	—	109	(1)
Corporate bonds	675	22	447	(450)	—	—	(34)	660	(7)
Collateralized debt and loan obligations	980	216	1,178	(384)	—	—	(39)	1,951	142
Loans and lending commitments	9,590	37	2,648	(2,095)	—	(4,316)	(1,170)	4,694	(91)
Other debt	128	2	—	(95)	—	—	10	45	(6)
Total corporate and other debt	12,032	301	4,632	(3,390)	—	(4,416)	(1,423)	7,736	39
Corporate equities	417	(59)	134	(172)	—	—	(32)	288	(83)
Net derivative and other contracts(3):									
Interest rate contracts	420	(275)	28	—	(7)	(217)	(31)	(82)	297
Credit contracts	5,814	(2,799)	112	—	(502)	(961)	158	1,822	(3,216)
Foreign exchange contracts	43	(279)	—	—	—	19	(142)	(359)	(225)
Equity contracts	(1,234)	390	202	(9)	(112)	(210)	(171)	(1,144)	241
Commodity contracts	570	114	16	—	(41)	(20)	70	709	222
Other	(1,090)	57	—	—	—	236	790	(7)	53
Total net derivative and other contracts	4,523	(2,792)	358	(9)	(662)	(1,153)	674	939	(2,628)
Investments:									
Private equity funds	1,936	228	308	(294)	—	—	1	2,179	147
Real estate funds	1,213	149	143	(136)	—	—	1	1,370	229
Hedge funds	696	61	81	(151)	—	—	(135)	552	51
Principal investments	2,937	130	160	(419)	—	—	25	2,833	93
Other	501	(45)	158	(70)	—	—	(58)	486	(48)
Total investments	7,283	523	850	(1,070)	—	—	(166)	7,420	472
Physical commodities	46	—	—	—	—	(46)	—	—	—
Intangible assets	133	(39)	—	(83)	—	(4)	—	7	(7)
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 2	$ (5)	$ —	$ —	$ 3	$ (3)	$12	$ 19	$ (4)
Trading liabilities:									
Other sovereign government obligations	8	—	(8)	—	—	—	—	—	—
Corporate and other debt:									
Residential mortgage-backed securities	355	(4)	(355)	—	—	—	—	4	(4)
Corporate bonds	219	(15)	(129)	110	—	—	(38)	177	(23)
Unfunded lending commitments	85	39	—	—	—	—	—	46	39
Other debt	73	9	(1)	36	—	(55)	5	49	11
Total corporate and other debt	732	29	(485)	146	—	(55)	(33)	276	23
Corporate equities	1	(1)	(21)	22	—	—	2	5	(3)
Securities sold under agreements to repurchase	340	(14)	—	—	—	—	(203)	151	(14)
Other secured financings	570	(69)	—	—	21	(232)	(22)	406	(67)
Long-term borrowings	1,603	(651)	—	—	1,050	(279)	(236)	2,789	(652)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the consolidated statements of income except for $523 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for 2012 related to assets and liabilities still outstanding at December 31, 2012.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts, net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 12.

Trading assets—Corporate and other debt. During 2012, the Company reclassified approximately $1.9 billion of certain Corporate and other debt, primarily loans, from Level 3 to Level 2. The Company reclassified the loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $0.5 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Trading assets—Net derivative and other contracts. During 2012, the Company reclassified approximately $1.4 billion of certain credit derivative assets and approximately $1.2 billion of certain credit derivative liabilities from Level 3 to Level 2. These reclassifications were primarily related to single name credit default swaps and basket credit default swaps for which certain unobservable inputs became insignificant to the overall measurement.

The Company also reclassified approximately $0.6 billion of certain credit derivative assets and approximately $0.3 billion of certain credit derivative liabilities from Level 2 to Level 3. The reclassifications were primarily related to basket credit default swaps for which certain unobservable inputs became significant to the overall measurement.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2011.

	Beginning Balance at December 31, 2010	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2011	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2011(2)
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 13	$ —	$ 66	$ (68)	$ —	$ —	$ (3)	$ 8	$ —
Other sovereign government obligations	73	(4)	56	(2)	—	—	(4)	119	(2)
Corporate and other debt:									
State and municipal securities	110	(1)	—	(96)	—	—	(13)	—	—
Residential mortgage-backed securities	319	(61)	382	(221)	—	(1)	76	494	(59)
Commercial mortgage-backed securities	188	12	75	(90)	—	—	(51)	134	(18)
Asset-backed securities	13	4	13	(19)	—	—	20	31	2
Corporate bonds	1,368	(136)	467	(661)	—	—	(363)	675	(20)
Collateralized debt and loan obligations	1,659	109	613	(1,296)	—	(55)	(50)	980	(84)
Loans and lending commitments	11,666	(251)	2,932	(1,241)	—	(2,900)	(616)	9,590	(431)
Other debt	193	42	14	(76)	—	(11)	(34)	128	—
Total corporate and other debt	15,516	(282)	4,496	(3,700)	—	(2,967)	(1,031)	12,032	(610)
Corporate equities	484	(46)	416	(360)	—	—	(77)	417	16
Net derivative and other contracts(3):									
Interest rate contracts	424	628	45	—	(714)	(150)	187	420	522
Credit contracts	6,594	319	1,199	—	(277)	(2,165)	144	5,814	1,818
Foreign exchange contracts	46	(35)	2	—	—	28	2	43	(13)
Equity contracts	(762)	592	214	(133)	(1,329)	136	48	(1,234)	564
Commodity contracts	188	708	52	—	—	(433)	55	570	689
Other	(913)	(552)	1	—	(118)	405	87	(1,090)	(536)
Total net derivative and other contracts	5,577	1,660	1,513	(133)	(2,438)	(2,179)	523	4,523	3,044
Investments:									
Private equity funds	1,986	159	245	(513)	—	—	59	1,936	85
Real estate funds	1,176	21	196	(171)	—	—	(9)	1,213	251
Hedge funds	901	(20)	169	(380)	—	—	26	696	(31)
Principal investments	3,131	288	368	(819)	—	—	(31)	2,937	87
Other	560	38	8	(34)	—	—	(71)	501	23
Total investments	7,754	486	986	(1,917)	—	—	(26)	7,283	415
Physical commodities	—	(47)	771	—	—	(673)	(5)	46	1
Securities received as collateral	1	—	—	(1)	—	—	—	—	—
Intangible assets	157	(25)	6	(1)	—	(4)	—	133	(27)
Liabilities at Fair Value									
Deposits	$ 16	$ 2	$ —	$ —	$ —	$ (14)	$ —	$ —	$ —
Commercial paper and other short-term borrowings	2	—	—	—	—	—	—	2	—
Trading liabilities:									
Other sovereign government obligations	—	1	—	9	—	—	—	8	—
Corporate and other debt:									
Residential mortgage-backed securities	—	(8)	—	347	—	—	—	355	(8)
Corporate bonds	44	37	(407)	694	—	—	(75)	219	51
Unfunded lending commitments	263	178	—	—	—	—	—	85	178
Other debt	194	123	(12)	22	—	(2)	(6)	73	12
Total corporate and other debt	501	330	(419)	1,063	—	(2)	(81)	732	233
Corporate equities	15	(1)	(15)	5	—	—	(5)	1	—
Obligation to return securities received as collateral	1	—	(1)	—	—	—	—	—	—
Securities sold under agreements to repurchase	351	11	—	—	—	—	—	340	11
Other secured financings	1,016	27	—	—	154	(267)	(306)	570	13
Long-term borrowings	1,316	39	—	—	769	(377)	(66)	1,603	32

[1] Total realized and unrealized gains (losses) are primarily included in Trading revenues in the consolidated statements of income except for $486 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for 2011 related to assets and liabilities still outstanding at December 31, 2011.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts, net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 12.

Trading assets—Corporate and other debt. During 2011, the Company reclassified approximately $1.8 billion of certain Corporate and other debt, primarily corporate loans, from Level 3 to Level 2. The Company reclassified these corporate loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $0.8 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Quantitative Information about and Sensitivity of Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements at December 31, 2013 and December 31, 2012.

The disclosures below provide information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

At December 31, 2013.

	Balance at December 31, 2013 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets					
Trading assets:					
Corporate and other debt:					
Commercial mortgage-backed securities	$ 108	Comparable pricing	Comparable bond price / (A)	40 to 93 points	78 points
Asset-backed securities	103	Discounted cash flow	Discount rate / (C)	18 %	18 %
Corporate bonds	522	Comparable pricing	Comparable bond price / (A)	1 to 159 points	85 points
Collateralized debt and loan obligations	1,468	Comparable pricing(6)	Comparable bond price / (A)	18 to 99 points	73 points
		Correlation model	Credit correlation / (B)	29 to 59 %	43 %
Loans and lending commitments	5,129	Corporate loan model	Credit spread / (C)	28 to 487 basis points	249 basis points
		Margin loan model	Credit spread / (C)(D)	10 to 265 basis points	135 basis points
			Volatility skew / (C)(D)	3 to 40 %	14 %
			Comparable bond price / (A)(D)	80 to 120 points	100 points
		Option model	Volatility skew / (C)	-1 to 0 %	0 %
		Comparable pricing(6)	Comparable loan price / (A)	10 to 100 points	76 points
Corporate equities(3)	190	Net asset value(6)	Discount to net asset value / (C)	0 to 85 %	43 %
		Comparable pricing	Comparable equity price / (A)	0 to 100 %	47 %
		Comparable pricing	Comparable price / (A)	0 to 100 points	50 points
		Market approach	EBITDA multiple / (A)(D)	5 to 9 times	6 times
			Price/Book ratio / (A)(D)	0 to 1 times	1 times
Net derivative and other contracts:					
Interest rate contracts	113	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 6 times	2 times
			Comparable bond price / (A)(D)	5 to 100 points	58 points / 65 points (4)
			Interest rate—Foreign exchange correlation / (A)(D)	3 to 63 %	43 % / 48%(4)
			Interest rate volatility skew / (A)(D)	24 to 50 %	33 % / 28%(4)
			Interest rate quanto correlation / (A)(D)	-11 to 34 %	8 % / 5%(4)
			Interest rate curve correlation / (A)(D)	46 to 92 %	74 % / 80%(4)
			Inflation volatility / (A)(D)	77 to 86 %	81 % / 80%(4)
Credit contracts	(147)	Comparable pricing	Cash synthetic basis / (C)(D)	2 to 5 points	4 points
			Comparable bond price / (C)(D)	0 to 75 points	27 points
		Correlation model(6)	Credit correlation / (B)	19 to 96 %	56 %
Foreign exchange contracts(5)	68	Option model	Comparable bond price / (A)(D)	5 to 100 points	58 points / 65 points (4)
			Interest rate quanto correlation / (A)(D)	-11 to 34 %	8 % / 5%(4)
			Interest rate curve correlation / (A)(D)	46 to 92 %	74 % / 80%(4)
			Interest rate—Foreign exchange correlation / (A)(D)	3 to 63 %	43 % / 48%(4)
			Interest rate volatility skew / (A)(D)	24 to 50 %	33 % / 28%(4)
			Interest rate curve / (A)(D)	0 to 1 %	1 % / 0%(4)
Equity contracts(5)	(831)	Option model	At the money volatility / (A)(D)	20 to 53 %	31 %
			Volatility skew / (A)(D)	-3 to 0 %	-1 %
			Equity—Equity correlation / (C)(D)	40 to 99 %	69 %
			Equity—Foreign exchange correlation / (C)(D)	-50 to 9 %	-20 %
			Equity—Interest rate correlation / (C)(D)	-4 to 70 %	39 % / 40%(4)

	Balance at December 31, 2013 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Commodity contracts	880	Option model	Forward power price / (C)(D)	$14 to $91 per Megawatt hour	$40 per Megawatt hour
			Commodity volatility / (A)(D)	11 to 30 %	14 %
			Cross commodity correlation / (C)(D)	34 to 99 %	93 %
Investments(3):					
Principal investments	2,160	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	12 %	12 %
			Exit multiple / (A)(D)	9 times	9 times
		Discounted cash flow(6)	Capitalization rate / (C)(D)	5 to 13 %	7 %
			Equity discount rate / (C)(D)	10 to 30 %	21 %
		Market approach	EBITDA multiple / (A)	5 to 6 times	5 times
Other	538	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	7 to 10 %	8 %
			Exit multiple / (A)(D)	7 to 9 times	9 times
		Market approach(6)	EBITDA multiple / (A)	8 to 14 times	10 times
Liabilities					
Securities sold under agreements to repurchase	$ 154	Discounted cash flow	Funding spread / (A)	92 to 97 basis points	95 basis points
Other secured financings	278	Comparable pricing(6)	Comparable bond price / (A)	99 to 102 points	101 points
		Discounted cash flow	Funding spread / (A)	97 basis points	97 basis points
Long-term borrowings	1,887	Option model	At the money volatility / (C)(D)	20 to 33 %	26 %
			Volatility skew / (A)(D)	-2 to 0 %	0 %
			Equity—Equity correlation /(A)(D)	50 to 70 %	69 %
			Equity—Foreign exchange correlation / (C)(D)	-60 to 0 %	-23 %

EBITDA—Earnings before interest, taxes, depreciation and amortization

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 93 points would be 93% of par. A basis point equals 1/100th of 1%; for example, 487 basis points would equal 4.87%.

(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 4 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for long-term borrowings and derivative instruments where inputs are weighted by risk.

(3) Investments in funds measured using an unadjusted NAV are excluded.

(4) The data structure of the significant unobservable inputs used in valuing Interest rate contracts, Foreign exchange contracts and certain Equity contracts may be in a multi-dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.

(5) Includes derivative contracts with multiple risks (*i.e.,* hybrid products).

(6) This is the predominant valuation technique for this major asset or liability class.

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

At December 31, 2012.

	Balance at December 31, 2012 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Weighted Average
Assets					
Trading assets:					
Corporate and other debt:					
Commercial mortgage-backed securities	$ 232	Comparable pricing	Comparable bond price / (A)	46 to 100 points	76 points
Asset-backed securities	109	Discounted cash flow	Discount rate / (C)	21 %	21 %
Corporate bonds	660	Comparable pricing	Comparable bond price / (A)	0 to 143 points	24 points
Collateralized debt and loan obligations	1,951	Comparable pricing	Comparable bond price / (A)	15 to 88 points	59 points
		Correlation model	Credit correlation / (B)	15 to 45 %	40 %
Loans and lending commitments	4,694	Corporate loan model	Credit spread / (C)	17 to 1,004 basis points	281 basis points
		Comparable pricing	Comparable bond price / (A)	80 to 120 points	104 points
		Comparable pricing	Comparable loan price / (A)	55 to 100 points	88 points
Corporate equities(2)	288	Net asset value	Discount to net asset value / (C)	0 to 37 %	8 %
		Comparable pricing	Discount to comparable equity price / (C)	0 to 27 points	14 points
		Market approach	EBITDA multiple / (A)	6 times	6 times
Net derivative and other contracts:					
Interest rate contracts	(82)	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 8 times	See (3)
			Comparable bond price / (A)(D)	5 to 98 points	
			Interest rate—Foreign exchange correlation / (A)(D)	2 to 63 %	
			Interest rate volatility skew / (A)(D)	9 to 95 %	
			Interest rate quanto correlation / (A)(D)	-53 to 33 %	
			Interest rate curve correlation / (A)(D)	48 to 99 %	
			Inflation volatility / (A)(D)	49 to 100 %	
		Discounted cash flow	Forward commercial paper rate-LIBOR basis / (A)	-18 to 95 basis points	
Credit contracts	1,822	Comparable pricing	Cash synthetic basis / (C)	2 to 14 points	See (4)
			Comparable bond price / (C)	0 to 80 points	
		Correlation model	Credit correlation / (B)	14 to 94 %	
Foreign exchange contracts(5)	(359)	Option model	Comparable bond price / (A)(D)	5 to 98 points	See (6)
			Interest rate quanto correlation / (A)(D)	-53 to 33 %	
			Interest rate—Credit spread correlation / (A)(D)	-59 to 65 %	
			Interest rate—Foreign exchange correlation / (A)(D)	2 to 63 %	
			Interest rate volatility skew / (A)(D)	9 to 95 %	
Equity contracts(5)	(1,144)	Option model	At the money volatility / (C)(D)	7 to 24 %	See (7)
			Volatility skew / (C)(D)	-2 to 0 %	
			Equity—Equity correlation / (C)(D)	40 to 96 %	
			Equity—Foreign exchange correlation / (C)(D)	-70 to 38 %	
			Equity—Interest rate correlation / (C)(D)	18 to 65 %	

	Balance at December 31, 2012 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Weighted Average
Commodity contracts	709	Option model	Forward power price / (C)(D)	$28 to $84 per Megawatt hour	
			Commodity volatility / (A)(D)	17 to 29 %	
			Cross commodity correlation / (C)(D)	43 to 97 %	
Investments(2):					
Principal investments	2,833	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	8 to 15 %	9 %
			Exit multiple / (A)(D)	5 to 10 times	9 times
		Discounted cash flow	Capitalization rate / (C)(D)	6 to 10 %	7 %
			Equity discount rate / (C)(D)	15 to 35 %	23 %
		Market approach	EBITDA multiple / (A)	3 to 17 times	10 times
Other	486	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	11 %	11 %
			Exit multiple / (A)(D)	6 times	6 times
		Market approach	EBITDA multiple / (A)	6 to 8 times	7 times
Liabilities					
Trading liabilities:					
Corporate and other debt:					
Corporate bonds	$ 177	Comparable pricing	Comparable bond price / (A)	0 to 150 points	50 points
Securities sold under agreements to repurchase	151	Discounted cash flow	Funding spread / (A)	110 to 184 basis points	166 basis points
Other secured financings	406	Comparable pricing	Comparable bond price / (A)	55 to 139 points	102 points
		Discounted cash flow	Funding spread / (A)	183 to 186 basis points	184 basis points
Long-term borrowings	2,789	Option model	At the money volatility / (A)(D)	20 to 24 %	24 %
			Volatility skew / (A)(D)	-1 to 0 %	0 %
			Equity—Equity correlation / (A)(D)	50 to 90 %	77 %
			Equity—Foreign exchange correlation / (A)(D)	-70 to 36 %	-15 %

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 100 points would be 100% of par. A basis point equals 1/100th of 1%; for example, 1,004 basis points would equal 10.04%.

(2) Investments in funds measured using an unadjusted NAV are excluded.

(3) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices, interest rate volatility skew, interest rate quanto correlation and forward commercial paper rate–LIBOR basis.

(4) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices and credit correlation.

(5) Includes derivative contracts with multiple risks (*i.e.*, hybrid products).

(6) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices, interest rate quanto correlation, interest rate-credit spread correlation and interest rate volatility skew.

(7) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input range for equity-foreign exchange correlation.

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

The following provides a description of significant unobservable inputs included in the December 31, 2013 and December 31, 2012 tables above for all major categories of assets and liabilities:

- *Comparable bond price*—a pricing input used when prices for the identical instrument are not available. Significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable bond, then adjusting that yield (or spread) to derive a value for the bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond. Additionally, as the probability of default increases for a given bond (*i.e.*, as the bond becomes more distressed), the valuation of that bond will increasingly reflect its expected recovery level assuming default. The decision to use price-to-price or yield/spread comparisons largely reflects trading market convention for the financial instruments in question. Price-to-price comparisons are primarily employed for CMBS, CDOs, CLOs, mortgage loans and distressed corporate bonds. Implied yield (or spread over a liquid benchmark) is utilized predominately for non-distressed corporate bonds, loans and credit contracts.

- *Correlation*—a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (*i.e*., how the change in one variable influences a change in the other variable). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.

- *Credit spread*—the difference in yield between different securities due to differences in credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate, typically either U.S. Treasury or LIBOR.

- *Volatility skew*—the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.

- *EBITDA multiple / Exit multiple*—is the Enterprise Value to EBITDA ratio, where the Enterprise Value is the aggregate value of equity and debt minus cash and cash equivalents. The EBITDA multiple reflects the value of the company in terms of its full-year EBITDA, whereas the exit multiple reflects the value of the company in terms of its full-year expected EBITDA at exit. Either multiple allows comparison between companies from an operational perspective as the effect of capital structure, taxation and depreciation/amortization is excluded.

- *Price / Book ratio*—the ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest book value per share. This multiple allows comparison between companies from an operational perspective.

- *Volatility*—the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (*e.g.*, the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.

- *Forward commercial paper rate–LIBOR basis*—the basis added to the LIBOR rate when the commercial paper yield is expressed as a spread over the LIBOR rate. The basis to LIBOR is dependent on a number of factors, including, but not limited to, collateralization of the commercial paper, credit rating of the issuer, and the supply of commercial paper. The basis may become negative, *i.e*., the return for highly rated commercial paper, such as asset-backed commercial paper, may be less than LIBOR.
- *Cash synthetic basis*—the measure of the price differential between cash financial instruments ("cash instruments") and their synthetic derivative-based equivalents ("synthetic instruments"). The range disclosed in the table above signifies the number of points by which the synthetic bond equivalent price is higher than the quoted price of the underlying cash bonds.
- *Interest rate curve*—the term structure of interest rates (relationship between interest rates and the time to maturity) and a market's measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.
- *Implied weighted average cost of capital ("WACC")*—the WACC implied by the current value of equity in a discounted cash flow model. The model assumes that the cash flow assumptions, including projections, are fully reflected in the current equity value while the debt to equity ratio is held constant. The WACC theoretically represents the required rate of return to debt and equity investors, respectively.
- *Capitalization rate*—the ratio between net operating income produced by an asset and its market value at the projected disposition date.
- *Funding spread*—the difference between the general collateral rate (which refers to the rate applicable to a broad class of U.S. Treasury issuances) and the specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral, such as a municipal bond). Repurchase agreements are discounted based on collateral curves. The curves are constructed as spreads over the corresponding OIS/LIBOR curves, with the short end of the curve representing spreads over the corresponding OIS curves and the long end of the curve representing spreads over LIBOR.

Fair Value of Investments That Calculate Net Asset Value.

The Company's Investments measured at fair value were $8,013 million and $8,346 million at December 31, 2013 and December 31, 2012, respectively. The following table presents information solely about the Company's investments in private equity funds, real estate funds and hedge funds measured at fair value based on NAV at December 31, 2013 and December 31, 2012, respectively:

	At December 31, 2013		At December 31, 2012	
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
	(dollars in millions)			
Private equity funds	$2,531	$559	$2,179	$644
Real estate funds	1,643	124	1,376	221
Hedge funds(1):				
Long-short equity hedge funds	469	—	475	—
Fixed income/credit-related hedge funds	82	—	86	—
Event-driven hedge funds	38	—	52	—
Multi-strategy hedge funds	220	3	321	3
Total	$4,983	$686	$4,489	$868

(1) Fixed income/credit-related hedge funds, event-driven hedge funds, and multi-strategy hedge funds are redeemable at least on a three-month period basis primarily with a notice period of 90 days or less. At December 31, 2013, approximately 42% of the fair value amount of long-short equity hedge funds is redeemable at least quarterly, 42% is redeemable every six months and 16% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at December 31, 2013 is primarily greater than six months. At December 31, 2012, approximately 36% of the fair value amount of long-short equity hedge funds is redeemable at least quarterly, 38% is redeemable every six months and 26% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at December 31, 2012 is primarily greater than six months.

Private Equity Funds. Amount includes several private equity funds that pursue multiple strategies including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments, and mezzanine capital. In addition, the funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are generally not redeemable with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. At December 31, 2013, it was estimated that 9% of the fair value of the funds will be liquidated in the next five years, another 55% of the fair value of the funds will be liquidated between five to 10 years and the remaining 36% of the fair value of the funds have a remaining life of greater than 10 years.

Real Estate Funds. Amount includes several real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. At December 31, 2013, it was estimated that 4% of the fair value of the funds will be liquidated within the next five years, another 52% of the fair value of the funds will be liquidated between five to 10 years and the remaining 44% of the fair value of the funds have a remaining life of greater than 10 years.

Hedge Funds. Investments in hedge funds may be subject to initial period lock-up restrictions or gates. A hedge fund lock-up provision is a provision that provides that, during a certain initial period, an investor may not make a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

- *Long-Short Equity Hedge Funds.* Amount includes investments in hedge funds that invest, long or short, in equities. Equity value and growth hedge funds purchase stocks perceived to be undervalued and sell stocks perceived to be overvalued. Investments representing approximately 12% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily two years or less at December 31, 2013. Investments representing approximately 19% of the fair value of the investments in long-short equity hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was primarily indefinite at December 31, 2013.
- *Fixed Income/Credit-Related Hedge Funds.* Amount includes investments in hedge funds that employ long-short, distressed or relative value strategies in order to benefit from investments in undervalued or overvalued securities that are primarily debt or credit related. Investments representing approximately 7% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily over three years at December 31, 2013.
- *Event-Driven Hedge Funds.* Amount includes investments in hedge funds that invest in event-driven situations such as mergers, hostile takeovers, reorganizations, or leveraged buyouts. This may involve the simultaneous purchase of stock in companies being acquired and the sale of stock in its acquirer, with the expectation to profit from the spread between the current market price and the ultimate purchase price of the target company. At December 31, 2013, there were no restrictions on redemptions.
- *Multi-strategy Hedge Funds.* Amount includes investments in hedge funds that pursue multiple strategies to realize short- and long-term gains. Management of the hedge funds has the ability to overweight or underweight different strategies to best capitalize on current investment opportunities. At December 31, 2013, investments representing approximately 50% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily two years or less at December 31, 2013. Investments representing approximately 8% of the fair value of the investments in multi-strategy hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at December 31, 2013.

Fair Value Option.

The Company elected the fair value option for certain eligible instruments that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models. The following table presents net gains (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for 2013, 2012 and 2011, respectively:

	Trading	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
Year Ended December 31, 2013			
Federal funds sold and securities purchased under agreements to resell	$ (1)	$ 6	$ 5
Deposits	52	(60)	(8)
Commercial paper and other short-term borrowings(1)	181	(8)	173
Securities sold under agreements to repurchase	(3)	(6)	(9)
Long-term borrowings(1)	664	(971)	(307)
Year Ended December 31, 2012			
Federal funds sold and securities purchased under agreements to resell	$ 8	$ 5	$ 13
Deposits	57	(86)	(29)
Commercial paper and other short-term borrowings(1)	(31)	—	(31)
Securities sold under agreements to repurchase	(15)	(4)	(19)
Long-term borrowings(1)	(5,687)	(1,321)	(7,008)
Year Ended December 31, 2011			
Federal funds sold and securities purchased under agreements to resell	$ 12	$ —	$ 12
Deposits	66	(117)	(51)
Commercial paper and other short-term borrowings(1)	567	—	567
Securities sold under agreements to repurchase	3	(7)	(4)
Long-term borrowings(1)	4,204	(1,075)	3,129

(1) Of the total gains (losses) recorded in Trading revenues for short-term and long-term borrowings for 2013, 2012 and 2011, $(681) million, $(4,402) million and $3,681 million, respectively, are attributable to changes in the credit quality of the Company, and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for structured notes before the impact of related hedges.

In addition to the amounts in the above table, as discussed in Note 2, all of the instruments within Trading assets or Trading liabilities are measured at fair value, either through the election of the fair value option or as required by other accounting guidance. The amounts in the above table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any.

The Company hedges the economics of market risk for short-term and long-term borrowings (*i.e.*, risks other than that related to the credit quality of the Company) as part of its overall trading strategy and manages the market risks embedded within the issuance by the related business unit as part of the business unit's portfolio. The gains and losses on related economic hedges are recorded in Trading revenues and largely offset the gains and losses on short-term and long-term borrowings attributable to market risk.

At December 31, 2013 and December 31, 2012, a breakdown of the short-term and long-term borrowings measured at fair value on a recurring basis by business unit responsible for risk-managing each borrowing is shown in the table below:

	Short-Term and Long-Term Borrowings	
Business Unit	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Interest rates	$15,933	$23,330
Equity	17,945	17,326
Credit and foreign exchange	2,561	3,337
Commodities	545	776
Total	$36,984	$44,769

The following tables present information on the Company's short-term and long-term borrowings (primarily structured notes), loans and unfunded lending commitments for which the fair value option was elected:

Gains (Losses) due to Changes in Instrument-Specific Credit Risk.

	2013	2012	2011
	(dollars in millions)		
Short-term and long-term borrowings(1)	$(681)	$(4,402)	$3,681
Loans(2)	137	340	(585)
Unfunded lending commitments(3)	255	1,026	(787)

[1] The change in the fair value of short-term and long-term borrowings (primarily structured notes) includes an adjustment to reflect the change in credit quality of the Company based upon observations of the Company's secondary bond market spreads.

[2] Instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.

[3] Gains (losses) were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period-end.

Net Difference between Contractual Principal Amount and Fair Value.

	Contractual Principal Amount Exceeds Fair Value	
	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Short-term and long-term borrowings(1)	$ (2,409)	$ (436)
Loans(2)	17,248	25,249
Loans 90 or more days past due and/or on nonaccrual status(2)(3)	15,113	20,456

[1] These amounts do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.

[2] The majority of this difference between principal and fair value amounts emanates from the Company's distressed debt trading business, which purchases distressed debt at amounts well below par.

[3] The aggregate fair value of loans that were in nonaccrual status, which includes all loans 90 or more days past due, was $1,205 million and $1,360 million at December 31, 2013 and December 31, 2012, respectively. The aggregate fair value of loans that were 90 or more days past due was $655 million and $840 million at December 31, 2013 and December 31, 2012, respectively.

The tables above exclude non-recourse debt from consolidated VIEs, liabilities related to failed sales of financial assets, pledged commodities and other liabilities that have specified assets attributable to them.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis.

Certain assets were measured at fair value on a non-recurring basis and are not included in the tables above. These assets may include loans, other investments, premises, equipment and software costs, and intangible assets.

The following tables present, by caption on the consolidated statements of financial condition, the fair value hierarchy for those assets measured at fair value on a non-recurring basis for which the Company recognized a non-recurring fair value adjustment for 2013, 2012 and 2011, respectively.

2013.

		Fair Value Measurements Using:			
	Carrying Value at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2013(1)
			(dollars in millions)		
Loans(2)	$1,822	$—	$1,616	$206	$ (71)
Other investments(3)	46	—	—	46	(38)
Premises, equipment and software costs(3)	8	—	—	8	(133)
Intangible assets(3)	92	—	—	92	(44)
Total	$1,968	$—	$1,616	$352	$(286)

(1) Fair value adjustments related to Loans and losses related to Other investments are recorded within Other revenues whereas losses related to Premises, equipment and software costs and Intangible assets are recorded within Other expenses in the consolidated statements of income.

(2) Non-recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.

(3) Losses recorded were determined primarily using discounted cash flow models.

There were no significant liabilities measured at fair value on a non-recurring basis during 2013.

2012.

		Fair Value Measurements Using:			
	Carrying Value at December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2012(1)
			(dollars in millions)		
Loans(2)	$1,821	$—	$277	$1,544	$ (60)
Other investments(3)	90	—	—	90	(37)
Premises, equipment and software costs(4)	33	—	—	33	(170)
Intangible assets(3)	—	—	—	—	(4)
Total	$1,944	$—	$277	$1,667	$(271)

(1) Losses are recorded within Other expenses in the consolidated statements of income except for fair value adjustments related to Loans and losses related to Other investments, which are included in Other revenues.
(2) Non-recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.
(3) Losses recorded were determined primarily using discounted cash flow models.
(4) Losses were determined using discounted cash flow models and primarily represented the write-off of the carrying value of certain premises and software that were abandoned during 2012 in association with the Wealth Management JV integration.

In addition to the losses included in the table above, there was a pre-tax gain of approximately $51 million (related to Other assets) included in discontinued operations in the year ended December 31, 2012 in connection with the disposition of Saxon (see Note 1). This pre-tax gain was primarily due to the subsequent increase in the fair value of Saxon, which had incurred impairment losses of $98 million in the quarter ended December 31, 2011. The fair value of Saxon was determined based on the revised purchase price agreed upon with the buyer.

There were no liabilities measured at fair value on a non-recurring basis during 2012.

2011.

		Fair Value Measurements Using:			
	Carrying Value at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2011(1)
		(dollars in millions)			
Loans(2)	$ 70	$—	$—	$ 70	$ 5
Other investments(3)	71	—	—	71	(52)
Premises, equipment and software costs(4)	4	—	—	4	(7)
Intangible assets(3)	—	—	—	—	(7)
Total	$145	$—	$—	$145	$(61)

(1) Losses are recorded within Other expenses in the consolidated statements of income except for fair value adjustments related to Loans and losses related to Other investments, which are included in Other revenues.
(2) Non-recurring changes in the fair value of loans held for investment were calculated using valuation models that incorporate market observable inputs or default recovery analyses or collateral appraisal values where such inputs were unobservable; or discounted cash flow techniques.
(3) Losses recorded were determined primarily using discounted cash flow models.
(4) Losses were determined primarily using discounted cash flow models or a valuation technique incorporating an observable market index.

In addition to the losses included in the table above, impairment losses of approximately $98 million (of which $83 million related to Other assets and $15 million related to Premises, equipment and software costs) were included in discontinued operations related to Saxon (see Note 1). These losses were determined using the purchase price agreed upon with the buyer.

There were no liabilities measured at fair value on a non-recurring basis during 2011.

Financial Instruments Not Measured at Fair Value.

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the consolidated statements of financial condition. The tables below exclude certain financial instruments such as equity method investments and all non-financial assets and liabilities such as the value of the long-term relationships with our deposit customers.

The carrying value of cash and cash equivalents, including Interest bearing deposits with banks, and other short-term financial instruments such as Federal funds sold and securities purchased under agreements to resell; Securities borrowed; Securities sold under agreements to repurchase; Securities loaned; certain Customer and other receivables and Customer and other payables arising in the ordinary course of business; certain Deposits; Commercial paper and other short-term borrowings; and Other secured financings approximate fair value because of the relatively short period of time between their origination and expected maturity.

For longer-dated Federal funds sold and securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned and Other secured financings, fair value is determined using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks and interest rate yield curves.

For consumer and residential real estate loans and lending commitments where position-specific external price data are not observable, the fair value is based on the credit risks of the borrower using a probability of default and loss given default method, discounted at the estimated external cost of funding level. The fair value of corporate loans and lending commitments is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.

The fair value of long-term borrowings is generally determined based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, fair value is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturity.

Financial Instruments Not Measured at Fair Value at December 31, 2013 and December 31, 2012.

At December 31, 2013.

	At December 31, 2013		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 16,602	$ 16,602	$16,602	$ —	$ —
Interest bearing deposits with banks	43,281	43,281	43,281	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	39,203	39,203	39,203	—	—
Federal funds sold and securities purchased under agreements to resell	117,264	117,263	—	116,584	679
Securities borrowed	129,707	129,705	—	129,374	331
Customer and other receivables(1)	53,112	53,031	—	47,525	5,506
Loans(2)	42,874	42,765	—	11,288	31,477
Financial Liabilities:					
Deposits	$112,194	$112,273	$ —	$112,273	$ —
Commercial paper and other short-term borrowings	795	795	—	787	8
Securities sold under agreements to repurchase	145,115	145,157	—	138,161	6,996
Securities loaned	32,799	32,826	—	31,731	1,095
Other secured financings	9,009	9,034	—	5,845	3,189
Customer and other payables(1)	154,654	154,654	—	154,654	—
Long-term borrowings	117,938	123,133	—	122,099	1,034

(1) Accrued interest, fees and dividend receivables and payables where carrying value approximates fair value have been excluded.

(2) Includes all loans measured at fair value on a non-recurring basis.

The fair value of the Company's unfunded lending commitments, primarily related to corporate lending in the Institutional Securities business segment, that are not carried at fair value at December 31, 2013 was $853 million, of which $669 million and $184 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $75.4 billion.

At December 31, 2012.

	At December 31, 2012		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 20,878	$ 20,878	$20,878	$ —	$ —
Interest bearing deposits with banks	26,026	26,026	26,026	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	30,970	30,970	30,970	—	—
Federal funds sold and securities purchased under agreements to resell	133,791	133,792	—	133,035	757
Securities borrowed	121,701	121,705	—	121,691	14
Customer and other receivables(1)	59,702	59,634	—	53,532	6,102
Loans(2)	29,046	27,263	—	5,307	21,956
Financial Liabilities:					
Deposits	$ 81,781	$ 81,781	$ —	$ 81,781	$ —
Commercial paper and other short-term borrowings	1,413	1,413	—	1,107	306
Securities sold under agreements to repurchase	122,311	122,389	—	111,722	10,667
Securities loaned	36,849	37,163	—	35,978	1,185
Other secured financings	6,261	6,276	—	3,649	2,627
Customer and other payables(1)	125,037	125,037	—	125,037	—
Long-term borrowings	125,527	126,683	—	116,511	10,172

(1) Accrued interest, fees and dividend receivables and payables where carrying value approximates fair value have been excluded.

(2) Includes all loans measured at fair value on a non-recurring basis.

The fair value of the Company’s unfunded lending commitments, primarily related to corporate lending in the Institutional Securities business segment, that are not carried at fair value at December 31, 2012 was $755 million, of which $543 million and $212 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $50.0 billion.

5. Securities Available for Sale.

The following tables present information about the Company's available for sale securities:

	At December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$24,486	$ 51	$139	$—	$24,398
U.S. agency securities	15,813	26	234	—	15,605
Total U.S. government and agency securities	40,299	77	373	—	40,003
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,482	—	84	—	2,398
Non-Agency	1,333	1	18	—	1,316
Auto loan asset-backed securities	2,041	2	1	—	2,042
Corporate bonds	3,415	3	61	—	3,357
Collateralized loan obligations	1,087	—	20	—	1,067
FFELP student loan asset-backed securities(1)	3,230	12	8	—	3,234
Total Corporate and other debt	13,588	18	192	—	13,414
Total debt securities available for sale	53,887	95	565	—	53,417
Equity securities available for sale	15	—	2	—	13
Total	$53,902	$ 95	$567	$—	$53,430

	At December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$14,351	$109	$ 2	$—	$14,458
U.S. agency securities	15,330	122	3	—	15,449
Total U.S. government and agency securities	29,681	231	5	—	29,907
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,197	6	4	—	2,199
Non-Agency	160	—	—	—	160
Auto loan asset-backed securities	1,993	4	1	—	1,996
Corporate bonds	2,891	13	3	—	2,901
FFELP student loan asset-backed securities(1)	2,675	23	—	—	2,698
Total Corporate and other debt	9,916	46	8	—	9,954
Total debt securities available for sale	39,597	277	13	—	39,861
Equity securities available for sale	15	—	7	—	8
Total	$39,612	$277	$ 20	$—	$39,869

[1] Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

The tables below present the fair value of investments in securities available for sale that are in an unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
At December 31, 2013	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(dollars in millions)			
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$13,266	$139	$ —	$—	$13,266	$139
U.S. agency securities	8,438	211	651	23	9,089	234
Total U.S. government and agency securities	21,704	350	651	23	22,355	373
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	958	15	1,270	69	2,228	84
Non-Agency	841	16	86	2	927	18
Auto loan asset-backed securities	557	1	85	—	642	1
Corporate bonds	2,350	52	383	9	2,733	61
Collateralized loan obligations	1,067	20	—	—	1,067	20
FFELP student loan asset-backed securities	1,388	7	76	1	1,464	8
Total Corporate and other debt	7,161	111	1,900	81	9,061	192
Total debt securities available for sale	28,865	461	2,551	104	31,416	565
Equity securities available for sale	13	2	—	—	13	2
Total	$28,878	$463	$2,551	$104	$31,429	$567

At December 31, 2012	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(dollars in millions)			
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$1,012	$ 2	$—	$—	$1,012	$ 2
U.S. agency securities	1,534	3	27	—	1,561	3
Total U.S. government and agency securities	2,546	5	27	—	2,573	5
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	1,057	4	—	—	1,057	4
Auto loan asset-backed securities	710	1	—	—	710	1
Corporate bonds	934	3	—	—	934	3
Total Corporate and other debt	2,701	8	—	—	2,701	8
Total debt securities available for sale	5,247	13	27	—	5,274	13
Equity securities available for sale	8	7	—	—	8	7
Total	$5,255	$20	$ 27	$—	$5,282	$20

Gross unrealized gains and losses are recorded in Accumulated other comprehensive income.

As discussed in Note 2, AFS securities with a current fair value less than their amortized cost are analyzed as part of the Company's ongoing assessment of temporary versus OTTI at the individual security level. The unrealized losses reported above on debt securities available for sale are primarily due to rising interest rates during 2013. While the securities in an unrealized loss position greater than twelve months have increased, the risk of credit loss is considered minimal because all of the Company's agency securities as well as the Company's ABS, CMBS and CLOs are highly rated and the Company's corporate bonds are all investment grade. The Company does not intend to sell these securities and is not likely to be required to sell these securities prior to recovery of the amortized cost basis. The Company does not expect to experience a credit loss on these securities based on consideration of the relevant information (as discussed in Note 2), including for U.S. government and agency securities, the existence of the explicit and implicit guarantee provided by the U.S. government. The Company believes that the debt securities with an unrealized loss position were not other-than-temporarily impaired at December 31, 2013 and 2012. For more information, see the Other-than-temporary impairment discussion in Note 2.

For equity securities available for sale in an unrealized loss position, the Company does not intend to sell these securities or expect to be required to sell these securities prior to the recovery of the amortized cost basis. The Company believes that the equity securities with an unrealized loss in Accumulated other comprehensive income were not other-than-temporarily impaired at December 31, 2013 and 2012.

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates at December 31, 2013:

At December 31, 2013	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 1,759	$ 1,767	0.7%
After 1 year through 5 years	21,594	21,514	0.7%
After 5 years through 10 years	1,133	1,117	2.2%
Total	24,486	24,398	
U.S. agency securities:			
After 1 year through 5 years	111	111	1.2%
After 5 years through 10 years	2,202	2,199	1.2%
After 10 years	13,500	13,295	1.3%
Total	15,813	15,605	
Total U.S. government and agency securities	40,299	40,003	0.9%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
After 1 year through 5 years	533	528	0.9%
After 5 years through 10 years	645	634	0.9%
After 10 years	1,304	1,236	1.5%
Total	2,482	2,398	
Non-Agency:			
After 10 years	1,333	1,316	1.6%
Total	1,333	1,316	
Auto loan asset-backed securities:			
Due within 1 year	9	9	0.5%
After 1 year through 5 years	1,985	1,985	0.7%
After 5 years through 10 years	47	48	1.3%
Total	2,041	2,042	
Corporate bonds:			
Due within 1 year	60	60	0.6%
After 1 year through 5 years	2,613	2,582	1.2%
After 5 years through 10 years	742	715	2.3%
Total	3,415	3,357	
Collateralized loan obligations:			
After 10 years	1,087	1,067	1.4%
Total	1,087	1,067	
FFELP student loan asset-backed securities:			
After 1 year through 5 years	87	87	0.7%
After 5 years through 10 years	576	576	0.9%
After 10 years	2,567	2,571	1.0%
Total	3,230	3,234	
Total Corporate and other debt	13,588	13,414	1.2%
Total debt securities available for sale	$53,887	$53,417	1.0%

See Note 7 for additional information on securities issued by VIEs, including U.S. agency mortgage-backed securities, non-agency CMBS, auto loan asset-backed securities, CLO and FFELP student loan asset-backed securities.

The following table presents information pertaining to sales of securities available for sale during 2013, 2012 and 2011:

	2013	2012	2011
	(dollars in millions)		
Gross realized gains	$49	$88	$145
Gross realized losses	$ 4	$10	$ 2

Gross realized gains and losses are recognized in Other revenues in the consolidated statements of income.

6. Collateralized Transactions.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), with the right to net a counterparty's rights and obligations under such agreement and liquidate and set off collateral held by the Company against the net amount owed by the counterparty. The Company's policy is generally to take possession of securities purchased under agreements to resell and securities borrowed, and to receive securities and cash posted as collateral (with rights of rehypothecation), although in certain cases, the Company may agree for such collateral to be posted to a third-party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized. The following tables present information about the offsetting of these instruments and related collateral amounts. For information related to offsetting of derivatives, see Note 12.

	At December 31, 2013				
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$183,015	$(64,885)	$118,130	$(106,828)	$11,302
Securities borrowed	137,082	(7,375)	129,707	(113,339)	16,368
Liabilities					
Securities sold under agreements to repurchase	$210,561	$(64,885)	$145,676	$(111,599)	$34,077
Securities loaned	40,174	(7,375)	32,799	(32,543)	256

(1) Amounts include $11.1 billion of Federal funds sold and securities purchased under agreements to resell, $13.2 billion of Securities borrowed and $33.3 billion of Securities sold under agreements to repurchase, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

	At December 31, 2012				
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$203,448	$(69,036)	$134,412	$(126,303)	$ 8,109
Securities borrowed	127,002	(5,301)	121,701	(105,849)	15,852
Liabilities					
Securities sold under agreements to repurchase	$191,710	$(69,036)	$122,674	$(103,521)	$19,153
Securities loaned	42,150	(5,301)	36,849	(30,395)	6,454

(1) Amounts include $7.4 billion of Federal funds sold and securities purchased under agreements to resell, $8.6 billion of Securities borrowed, $17.5 billion of Securities sold under agreements to repurchase and $0.6 billion of Securities loaned, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

The Company also engages in margin lending to clients that allows the client to borrow against the value of qualifying securities and is included within Customer and other receivables in the consolidated statement of financial condition. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company's collateral policies significantly limits the Company's credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At December 31, 2013 and December 31, 2012, there were approximately $29.2 billion and $24.0 billion, respectively, of customer margin loans outstanding.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, and certain equity-linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets (see Notes 7 and 11).

The Company pledges its trading assets to collateralize repurchase agreements and other secured financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the consolidated statements of financial condition. The carrying value and classification of Trading assets by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Trading assets:		
U.S. government and agency securities	$21,589	$15,273
Other sovereign government obligations	5,748	3,278
Corporate and other debt	7,388	11,980
Corporate equities	8,713	26,377
Total	$43,438	$56,908

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed and derivative transactions, customer margin loans and securities-based lending. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and the related obligation to return the collateral in the consolidated statements of financial condition. At December 31, 2013 and December 31, 2012, the fair value of financial instruments received as collateral where the Company is permitted to sell or repledge the securities was $533 billion and $560 billion, respectively, and the fair value of the portion that had been sold or repledged was $381 billion and $397 billion, respectively.

The Company is subject to concentration risk by holding large positions in certain types of securities, loans or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Trading assets owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments (principally Japan, the U.K., Brazil, Canada and Hong Kong), which, in the aggregate, represented approximately 10% of the Company's total assets at December 31, 2013. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 20% of the Company's total assets at December 31, 2013, consists of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity, principal investment and lending activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. In addition, the Company may originate or purchase certain residential and commercial mortgage loans that could contain certain terms and features that may result in additional credit risk as compared with more traditional types of mortgages. Such terms and features may include loans made to borrowers subject to payment increases or loans with high loan-to-value ratios.

At December 31, 2013 and December 31, 2012, cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements were as follows:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	$39,203	$30,970
Securities(1)	15,586	13,424
Total	$54,789	$44,394

[1] Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Federal funds sold and securities purchased under agreements to resell and Trading assets in the consolidated statements of financial condition.

7. Variable Interest Entities and Securitization Activities.

The Company is involved with various special purpose entities ("SPE") in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Company applies accounting guidance for consolidation of VIEs to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Except for certain asset management entities, the primary beneficiary of a VIE is the party that both (1) has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (2) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates entities of which it is the primary beneficiary.

The Company's variable interests in VIEs include debt and equity interests, commitments, guarantees, derivative instruments and certain fees. The Company's involvement with VIEs arises primarily from:

- Interests purchased in connection with market-making activities, securities held in its available for sale portfolio and retained interests held as a result of securitization activities, including re-securitization transactions.
- Guarantees issued and residual interests retained in connection with municipal bond securitizations.
- Servicing of residential and commercial mortgage loans held by VIEs.
- Loans made to and investments in VIEs that hold debt, equity, real estate or other assets.
- Derivatives entered into with VIEs.
- Structuring of credit-linked notes ("CLN") or other asset-repackaged notes designed to meet the investment objectives of clients.
- Other structured transactions designed to provide tax-efficient yields to the Company or its clients.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE. This determination is based upon an analysis of the design of the VIE, including the VIE's structure and activities, the power to make significant economic decisions held by the Company and by other parties, and the variable interests owned by the Company and other parties.

The power to make the most significant economic decisions may take a number of different forms in different types of VIEs. The Company considers servicing or collateral management decisions as representing the power to make the most significant economic decisions in transactions such as securitizations or CDOs. As a result, the Company does not consolidate securitizations or CDOs for which it does not act as the servicer or collateral manager unless it holds certain other rights to replace the servicer or collateral manager or to require the liquidation of the entity. If the Company serves as servicer or collateral manager, or has certain other rights described in the previous sentence, the Company analyzes the interests in the VIE that it holds and consolidates only those VIEs for which it holds a potentially significant interest of the VIE.

The structure of securitization vehicles and CDOs is driven by several parties, including loan seller(s) in securitization transactions, the collateral manager in a CDO, one or more rating agencies, a financial guarantor in some transactions and the underwriter(s) of the transactions, who serve to reflect specific investor demand. In addition, subordinate investors, such as the "B-piece" buyer (*i.e.,* investors in most subordinated bond classes) in commercial mortgage-backed securitizations or equity investors in CDOs, can influence whether specific loans are excluded from a CMBS transaction or investment criteria in a CDO.

For many transactions, such as re-securitization transactions, CLNs and other asset-repackaged notes, there are no significant economic decisions made on an ongoing basis. In these cases, the Company focuses its analysis on decisions made prior to the initial closing of the transaction and at the termination of the transaction. Based upon factors, which include an analysis of the nature of the assets, including whether the assets were issued in a transaction sponsored by the Company and the extent of the information available to the Company and to investors, the number, nature and involvement of investors, other rights held by the Company and investors, the standardization of the legal documentation and the level of the continuing involvement by the Company, including the amount and type of interests owned by the Company and by other investors, the Company concluded in most of these transactions that decisions made prior to the initial closing were shared between the Company and the initial investors. The Company focused its control decision on any right held by the Company or investors related to the termination of the VIE. Most re-securitization transactions, CLNs and other asset-repackaged notes have no such termination rights.

Except for consolidated VIEs included in other structured financings and managed real estate partnerships in the tables below, the Company accounts for the assets held by the entities primarily in Trading assets and the liabilities of the entities as Other secured financings in the consolidated statements of financial condition. For consolidated VIEs included in other structured financings, the Company accounts for the assets held by the entities primarily in Premises, equipment and software costs, and Other assets in the consolidated statements of financial condition. For consolidated VIEs included in managed real estate partnerships, the Company accounts for the assets held by the entities primarily in Trading assets in the consolidated statements of financial condition. Except for consolidated VIEs included in other structured financings, the assets and liabilities are measured at fair value, with changes in fair value reflected in earnings.

The assets owned by many consolidated VIEs cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many consolidated VIEs are non-recourse to the Company. In certain other consolidated VIEs, the Company has the unilateral right to remove assets or provides additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Company's Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 13).

The following tables present information at December 31, 2013 and December 31, 2012 about VIEs that the Company consolidates. Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a non-recourse basis:

	At December 31, 2013				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
	(dollars in millions)				
VIE assets	$643	$—	$2,313	$1,202	$1,294
VIE liabilities	$368	$—	$ 42	$ 67	$ 175

	At December 31, 2012				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
	(dollars in millions)				
VIE assets	$978	$52	$2,394	$983	$1,676
VIE liabilities	$646	$16	$ 83	$ 65	$ 313

In general, the Company's exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE's assets recognized in its financial statements, net of losses absorbed by third-party holders of the VIE's liabilities. At December 31, 2013 and December 31, 2012, managed real estate partnerships reflected nonredeemable noncontrolling interests in the Company's consolidated financial statements of $1,771 million and $1,804 million, respectively. The Company also had additional maximum exposure to losses of approximately $101 million and $58 million at December 31, 2013 and December 31, 2012, respectively. This additional exposure related primarily to certain derivatives (*e.g.*, instead of purchasing senior securities, the Company has sold credit protection to synthetic CDOs through credit derivatives that are typically related to the most senior tranche of the CDO) and commitments, guarantees and other forms of involvement.

The following tables present information about certain non-consolidated VIEs in which the Company had variable interests at December 31, 2013 and December 31, 2012. The tables include all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria. Most of the VIEs included in the tables below are sponsored by unrelated parties; the Company's involvement generally is the result of the Company's secondary market-making activities and securities held in its available for sale portfolio (see Note 5):

	At December 31, 2013				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$177,153	$29,513	$3,079	$1,874	$10,119
Maximum exposure to loss:					
Debt and equity interests(2)	$ 13,514	$ 2,498	$ 31	$1,142	$ 3,693
Derivative and other contracts	15	23	1,935	—	146
Commitments, guarantees and other	—	272	—	649	527
Total maximum exposure to loss	$ 13,529	$ 2,793	$1,966	$1,791	$ 4,366
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 13,514	$ 2,498	$ 31	$ 731	$ 3,693
Derivative and other contracts	15	3	4	—	53
Total carrying value of exposure to loss—Assets	$ 13,529	$ 2,501	$ 35	$ 731	$ 3,746
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ —	$ 2	$ —	$ —	$ 57
Commitments, guarantees and other	—	—	—	7	—
Total carrying value of exposure to loss—Liabilities	$ —	$ 2	$ —	$ 7	$ 57

(1) Mortgage and asset-backed securitizations include VIE assets as follows: $16.9 billion of residential mortgages; $78.4 billion of commercial mortgages; $31.5 billion of U.S. agency collateralized mortgage obligations; and $50.4 billion of other consumer or commercial loans.

(2) Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $1.3 billion of residential mortgages; $2.0 billion of commercial mortgages; $5.3 billion of U.S. agency collateralized mortgage obligations; and $4.9 billion of other consumer or commercial loans.

	At December 31, 2012				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$251,689	$13,178	$3,390	$1,811	$14,029
Maximum exposure to loss:					
Debt and equity interests(2)	$ 22,280	$ 1,173	$ —	$1,053	$ 3,387
Derivative and other contracts	154	51	2,158	—	562
Commitments, guarantees and other	66	—	—	679	384
Total maximum exposure to loss	$ 22,500	$ 1,224	$2,158	$1,732	$ 4,333
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 22,280	$ 1,173	$ —	$ 663	$ 3,387
Derivative and other contracts	156	8	4	—	174
Total carrying value of exposure to loss—Assets	$ 22,436	$ 1,181	$ 4	$ 663	$ 3,561
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ 11	$ 2	$ —	$ —	$ 172
Commitments, guarantees and other	—	—	—	12	—
Total carrying value of exposure to loss—Liabilities	$ 11	$ 2	$ —	$ 12	$ 172

[1] Mortgage and asset-backed securitizations include VIE assets as follows: $18.3 billion of residential mortgages; $53.8 billion of commercial mortgages; $126.3 billion of U.S. agency collateralized mortgage obligations; and $53.3 billion of other consumer or commercial loans.

[2] Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $1.0 billion of residential mortgages; $1.5 billion of commercial mortgages; $14.8 billion of U.S. agency collateralized mortgage obligations; and $5.0 billion of other consumer or commercial loans.

The Company's maximum exposure to loss often differs from the carrying value of the variable interests held by the Company. The maximum exposure to loss is dependent on the nature of the Company's variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Company has made in the VIEs. Liabilities issued by VIEs generally are non-recourse to the Company. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value writedowns already recorded by the Company.

The Company's maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Company may utilize to hedge these risks associated with the Company's variable interests. In addition, the Company's maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Company owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities totaled $12.5 billion at December 31, 2013. These securities were either retained in connection with transfers of assets by the Company, acquired in connection with secondary market-making activities or held in the Company's available for sale portfolio (see

Note 5). Securities issued by securitization SPEs consist of $1.1 billion of securities backed primarily by residential mortgage loans, $8.4 billion of securities backed by U.S. agency collateralized mortgage obligations, $1.3 billion of securities backed by commercial mortgage loans, $0.7 billion of securities backed by CDOs or CLOs and $1.0 billion backed by other consumer loans, such as credit card receivables, automobile loans and student loans. The Company's primary risk exposure is to the securities issued by the SPE owned by the Company, with the risk highest on the most subordinate class of beneficial interests. These securities generally are included in Trading assets—Corporate and other debt or Securities available for sale and are measured at fair value (see Note 4). The Company does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Company's maximum exposure to loss generally equals the fair value of the securities owned.

The Company's transactions with VIEs primarily include securitizations, municipal tender option bond trusts, credit protection purchased through CLNs, other structured financings, collateralized loan and debt obligations, equity-linked notes, managed real estate partnerships and asset management investment funds. The Company's continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Company-sponsored transactions, interests purchased in the secondary market (both for Company-sponsored transactions and transactions sponsored by third parties), derivatives with securitization SPEs (primarily interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Company has purchased protection in synthetic CDOs), and as servicer in residential mortgage securitizations in the U.S. and Europe and commercial mortgage securitizations in Europe. Such activities are further described below.

Securitization Activities. In a securitization transaction, the Company transfers assets (generally commercial or residential mortgage loans or U.S. agency securities) to an SPE, sells to investors most of the beneficial interests, such as notes or certificates, issued by the SPE, and in many cases, retains other beneficial interests. In many securitization transactions involving commercial mortgage loans, the Company transfers a portion of the assets to the SPE with unrelated parties transferring the remaining assets.

The purchase of the transferred assets by the SPE is financed through the sale of these interests. In some of these transactions, primarily involving residential mortgage loans in the U.S. and Europe and commercial mortgage loans in Europe, the Company serves as servicer for some or all of the transferred loans. In many securitizations, particularly involving residential mortgage loans, the Company also enters into derivative transactions, primarily interest rate swaps or interest rate caps, with the SPE.

Although not obligated, the Company generally makes a market in the securities issued by SPEs in these transactions. As a market maker, the Company offers to buy these securities from, and sell these securities to, investors. Securities purchased through these market-making activities are not considered to be retained interests, although these beneficial interests generally are included in Trading assets—Corporate and other debt and are measured at fair value.

The Company enters into derivatives, generally interest rate swaps and interest rate caps with a senior payment priority in many securitization transactions. The risks associated with these and similar derivatives with SPEs are essentially the same as similar derivatives with non-SPE counterparties and are managed as part of the Company's overall exposure.

See Note 12 for further information on derivative instruments and hedging activities.

Available for Sale Securities. In its available for sale portfolio, the Company holds securities issued by VIEs not sponsored by the Company. These securities include government guaranteed securities issued in transactions sponsored by the federal mortgage agencies and the most senior securities issued by VIEs in which the securities are backed by student loans, automobile loans, commercial mortgage loans or CLOs. See Note 5.

Municipal Tender Option Bond Trusts. In a municipal tender option bond transaction, the Company, generally on behalf of a client, transfers a municipal bond to a trust. The trust issues short-term securities that the Company, as the remarketing agent, sells to investors. The client retains a residual interest. The short-term securities are supported by a liquidity facility pursuant to which the investors may put their short-term interests. In some programs, the Company provides this liquidity facility; in most programs, a third-party provider will provide such liquidity facility. The Company may purchase short-term securities in its role either as remarketing agent or liquidity provider. The client can generally terminate the transaction at any time. The liquidity provider can generally terminate the transaction upon the occurrence of certain events. When the transaction is terminated, the municipal bond is generally sold or returned to the client. Any losses suffered by the liquidity provider upon the sale of the bond are the responsibility of the client. This obligation generally is collateralized. Liquidity facilities provided to municipal tender option bond trusts are classified as derivatives. The Company consolidates any municipal tender option bond trusts in which it holds the residual interest. No such trusts were consolidated at either December 31, 2013 or December 31, 2012.

Credit Protection Purchased through CLNs. In a CLN transaction, the Company transfers assets (generally high-quality securities or money market investments) to an SPE, enters into a derivative transaction in which the SPE writes protection on an unrelated reference asset or group of assets, through a credit default swap, a total return swap or similar instrument, and sells to investors the securities issued by the SPE. In some transactions, the Company may also enter into interest rate or currency swaps with the SPE. Upon the occurrence of a credit event related to the reference asset, the SPE will deliver collateral securities as the payment to the Company. The Company is generally exposed to price changes on the collateral securities in the event of a credit event and subsequent sale. These transactions are designed to provide investors with exposure to certain credit risk on the reference asset. In some transactions, the assets and liabilities of the SPE are recognized in the Company's consolidated financial statements. In other transactions, the transfer of the collateral securities is accounted for as a sale of assets, and the SPE is not consolidated. The structure of the transaction determines the accounting treatment. CLNs are included in Other in the above VIE tables.

The derivatives in CLN transactions consist of total return swaps, credit default swaps or similar contracts in which the Company has purchased protection on a reference asset or group of assets. Payments by the SPE are collateralized. The risks associated with these and similar derivatives with SPEs are essentially the same as similar derivatives with non-SPE counterparties and are managed as part of the Company's overall exposure.

Other Structured Financings. The Company primarily invests in equity interests issued by entities that develop and own low-income communities (including low-income housing projects) and entities that construct and own facilities that will generate energy from renewable resources. The equity interests entitle the Company to its share of tax credits and tax losses generated by these projects. In addition, the Company has issued guarantees to investors in certain low-income housing funds. The guarantees are designed to return an investor's contribution to a fund and the investor's share of tax losses and tax credits expected to be generated by the fund. The Company is also involved with entities designed to provide tax-efficient yields to the Company or its clients.

Collateralized Loan and Debt Obligations. A CLO or a CDO is an SPE that purchases a pool of assets, consisting of corporate loans, corporate bonds, asset-backed securities or synthetic exposures on similar assets through derivatives, and issues multiple tranches of debt and equity securities to investors. The Company underwrites the securities issued in CLO transactions on behalf of unaffiliated sponsors and provides advisory services to these unaffiliated sponsors. The Company sells corporate loans to many of these SPEs, in some cases representing a significant portion of the total assets purchased. If necessary, the Company may retain unsold securities issued in these transactions. Although not obligated, the Company generally makes a market in the securities issued by SPEs in these transactions. These beneficial interests are included in Trading assets and are measured at fair value.

Equity-Linked Notes. In an equity-linked note transaction included in the tables above, the Company typically transfers to an SPE either (1) a note issued by the Company, the payments on which are linked to the performance of a specific equity security, equity index or other index or (2) debt securities issued by other companies and a derivative contract, the terms of which will relate to the performance of a specific equity security, equity index or other index. These transactions are designed to provide investors with exposure to certain risks related to the specific equity security, equity index or other index. Equity-linked notes are included in Other in the above VIE tables.

Managed Real Estate Partnerships. The Company sponsors funds that invest in real estate assets. Certain of these funds are classified as VIEs primarily because the Company has provided financial support through lending facilities and other means. The Company also serves as the general partner for these funds and owns limited partnership interests in them. These funds were consolidated at December 31, 2013 and December 31, 2012.

Investment Management Investment Funds. The tables above do not include certain investments made by the Company held by entities qualifying for accounting purposes as investment companies.

Transfers of Assets with Continuing Involvement.

The following tables present information at December 31, 2013 regarding transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment:

	At December 31, 2013			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$29,723	$60,698	$19,155	$11,736
Retained interests (fair value):				
Investment grade	$ 1	$ 102	$ 524	$ —
Non-investment grade	136	95	—	1,319
Total retained interests (fair value)	$ 137	$ 197	$ 524	$ 1,319
Interests purchased in the secondary market (fair value):				
Investment grade	$ 14	$ 170	$ 21	$ 350
Non-investment grade	41	97	—	68
Total interests purchased in the secondary market (fair value)	$ 55	$ 267	$ 21	$ 418
Derivative assets (fair value)	$ 1	$ 672	$ —	$ 121
Derivative liabilities (fair value)	$ —	$ 1	$ —	$ 120

(1) Amounts include assets transferred by unrelated transferors.

	At December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$—	$626	$ 1	$ 627
Non-investment grade	—	164	1,386	1,550
Total retained interests (fair value)	$—	$790	$1,387	$2,177
Interests purchased in the secondary market (fair value):				
Investment grade	$—	$547	$ 8	$ 555
Non-investment grade	—	182	24	206
Total interests purchased in the secondary market (fair value)	$—	$729	$ 32	$ 761
Derivative assets (fair value)	$—	$615	$ 179	$ 794
Derivative liabilities (fair value)	$—	$110	$ 11	$ 121

The following tables present information at December 31, 2012 regarding transactions with SPEs in which the Company, acting as principal, transferred assets with continuing involvement and received sales treatment:

	At December 31, 2012			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$36,750	$70,824	$17,787	$14,701
Retained interests (fair value):				
Investment grade	$ 1	$ 77	$ 1,468	$ —
Non-investment grade	54	109	—	1,503
Total retained interests (fair value)	$ 55	$ 186	$ 1,468	$ 1,503
Interests purchased in the secondary market (fair value):				
Investment grade	$ 11	$ 124	$ 99	$ 389
Non-investment grade	113	34	—	31
Total interests purchased in the secondary market (fair value)	$ 124	$ 158	$ 99	$ 420
Derivative assets (fair value)	$ 2	$ 948	$ —	$ 177
Derivative liabilities (fair value)	$ 22	$ —	$ —	$ 303

(1) Amounts include assets transferred by unrelated transferors.

	At December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$—	$1,476	$ 70	$1,546
Non-investment grade	—	84	1,582	1,666
Total retained interests (fair value)	$—	$1,560	$1,652	$3,212
Interests purchased in the secondary market (fair value):				
Investment grade	$—	$ 617	$ 6	$ 623
Non-investment grade	—	139	39	178
Total interests purchased in the secondary market (fair value)	$—	$ 756	$ 45	$ 801
Derivative assets (fair value)	$—	$ 774	$ 353	$1,127
Derivative liabilities (fair value)	$—	$ 295	$ 30	$ 325

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the consolidated statements of income. The Company may act as underwriter of the beneficial interests issued by securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these transactions. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income.

In addition, in connection with its underwriting of CLO transactions for unaffiliated sponsors, in 2013 the Company sold corporate loans with an unpaid principal balance of $2.4 billion to those SPEs.

Net gains on sales of assets in securitization transactions at the time of the sale were not material in 2013, 2012 and 2011.

During 2013, 2012 and 2011, the Company received proceeds from new securitization transactions of $24.9 billion, $17.0 billion and $22.6 billion, respectively. During 2013, 2012 and 2011, the Company received proceeds from cash flows from retained interests in securitization transactions of $4.6 billion, $4.3 billion and $6.5 billion, respectively.

The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 13).

Failed Sales.

In order to be treated as a sale of assets for accounting purposes, a transaction must meet all of the criteria stipulated in the accounting guidance for the transfer of financial assets. If the transfer fails to meet these criteria, that transfer of financial assets is treated as a failed sale. In such case for transfers to VIEs and securitizations, the Company continues to recognize the assets in Trading assets, and the Company recognizes the associated liabilities in Other secured financings in the consolidated statements of financial condition (see Note 11).

The assets transferred to many unconsolidated VIEs in transactions accounted for as failed sales cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many unconsolidated VIEs are non-recourse to the Company. In certain other failed sale transactions, the Company has the unilateral right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

The following table presents information about the carrying value (equal to fair value) of assets and liabilities resulting from transfers of financial assets treated by the Company as secured financings:

	At December 31, 2013		At December 31, 2012	
	Carrying Value of		Carrying Value of	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Credit-linked notes	$ 48	$ 41	$283	$222
Equity-linked transactions	40	35	422	405
Other	157	156	29	28

Mortgage Servicing Activities.

Mortgage Servicing Rights. The Company may retain servicing rights to certain mortgage loans that are sold. These transactions create an asset referred to as MSRs, which totaled approximately $8 million and $7 million at December 31, 2013 and December 31, 2012, respectively, and are included within Intangible assets and carried at fair value in the consolidated statements of financial condition.

SPE Mortgage Servicing Activities. The Company services residential mortgage loans in the U.S. and in Europe and commercial mortgage loans in Europe owned by SPEs, including SPEs sponsored by the Company and SPEs not sponsored by the Company. The Company generally holds retained interests in Company-sponsored SPEs. In some cases, as part of its market-making activities, the Company may own some beneficial interests issued by both Company-sponsored and non-Company sponsored SPEs.

The Company provides no credit support as part of its servicing activities. The Company is required to make servicing advances to the extent that it believes that such advances will be reimbursed. Reimbursement of servicing advances is a senior obligation of the SPE, senior to the most senior beneficial interests outstanding. Outstanding advances are included in Other assets and are recorded at cost, net of allowances. Advances at December 31, 2013 and December 31, 2012 totaled approximately $110 million and $49 million, respectively. There were no allowances at December 31, 2013 and December 31, 2012.

The following tables present information about the Company's mortgage servicing activities for SPEs to which the Company transferred loans at December 31, 2013 and December 31, 2012:

	At December 31, 2013		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
	(dollars in millions)		
Assets serviced (unpaid principal balance)	$785	$775	$4,114
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 66	$ 44	$ —
Percentage of amounts past due 90 days or greater(1)	8.5%	5.6%	—
Credit losses	$ 1	$ 17	$ —

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

	At December 31, 2012		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
	(dollars in millions)		
Assets serviced (unpaid principal balance)	$ 821	$1,141	$4,760
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 86	$ 43	$ —
Percentage of amounts past due 90 days or greater(1)	10.4%	3.8%	—
Credit losses	$ 3	$ 2	$ —

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

8. Financing Receivables and Allowance for Credit Losses.

Loans.

The Company's loans held for investment are recorded at amortized cost, and its loans held for sale are recorded at lower of cost or fair value in the consolidated statements of financial condition. A description of the Company's loan portfolio is described below.

- Corporate. Corporate loans primarily include commercial and industrial lending used for general corporate purposes, working capital and liquidity, "event-driven" loans and lending commitments and asset-backed lending products. "Event-driven" loans support client merger, acquisition or recapitalization activities. Corporate lending is structured as revolving lines of credit, letter of credit facilities, term loans and bridge loans. Risk factors considered in determining the allowance for corporate loans include the borrower's financial strength, seniority of the loan, collateral type, volatility of collateral value, debt cushion, covenants, counterparty type and, for lending commitments, the probability of drawdown.
- Consumer. Consumer loans include unsecured loans and securities-based lending that allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of consumer loans are structured as revolving lines of credit and letter of credit facilities and are primarily offered through the Company's Portfolio Loan Account program. The allowance methodology for unsecured loans considers the specific attributes of the loan as well as the borrower's source of repayment. The allowance methodology for securities-based lending considers the collateral type underlying the loan (*e.g.*, diversified securities, concentrated securities or restricted stock).
- Residential Real Estate. Residential real estate loans mainly include non-conforming loans and home equity lines of credit. The allowance methodology for non-conforming residential mortgage loans considers several factors, including, but not limited to, loan-to-value ratio, FICO score, home price index, and delinquency status. The methodology for home equity lines of credit considers credit limits and utilization rates in addition to the factors considered for non-conforming residential mortgages.
- Wholesale Real Estate. Wholesale real estate loans include owner-occupied loans and income-producing loans. The principal risk factors for determining the allowance for wholesale real estate loans are the underlying collateral type, loan-to-value ratio and debt service ratio.

The Company's outstanding loans at December 31, 2013 and December 31, 2012 included the following:

	December 31, 2013			December 31, 2012		
Loans by Product Type	**Loans Held For Investment**	**Loans Held For Sale**	**Total Loans**	**Loans Held For Investment**	**Loans Held For Sale**	**Total Loans**
			(dollars in millions)			
Corporate loans	$13,263	$6,168	$19,431	$ 9,449	$4,987	$14,436
Consumer loans	11,577	—	11,577	7,618	—	7,618
Residential real estate loans	10,006	112	10,118	6,630	142	6,772
Wholesale real estate loans	1,855	49	1,904	326	—	326
Total loans, gross of allowance for loan losses	36,701	6,329	43,030	24,023	5,129	29,152
Allowance for loan losses	(156)	—	(156)	(106)	—	(106)
Total loans, net of allowance for loan losses(1)(2)	$36,545	$6,329	$42,874	$23,917	$5,129	$29,046

(1) Amounts include loans that are made to foreign borrowers of $4,729 million and $4,531 million at December 31, 2013 and December 31, 2012, respectively.

(2) See Note 13 for further information related to unfunded lending commitments.

The above table does not include loans held at fair value of $12,612 million and $17,311 million at December 31, 2013 and December 31, 2012, respectively. At December 31, 2013, loans held at fair value consisted of $9,774 million of Corporate loans, $1,434 million of Residential real estate loans and $1,404 million of Wholesale real estate loans. At December 31, 2012, loans held at fair value consisted of $13,350 million of Corporate loans, $1,870 million of Residential real estate loans and $2,091 million of Wholesale real estate loans. Loans held at fair value are recorded as Trading Assets in the Company's consolidated statement of financial condition. See Note 4 for further information.

Credit Quality.

The Company's Credit Risk Management department evaluates new obligors before credit transactions are initially approved, and at least annually thereafter for corporate and wholesale real estate loans. For corporate loans, credit evaluations typically involve the evaluation of financial statements, assessment of leverage, liquidity, capital strength, asset composition and quality, market capitalization and access to capital markets, cash flow projections and debt service requirements, and the adequacy of collateral, if applicable. Credit Risk Management will also evaluate strategy, market position, industry dynamics, obligor's management and other factors that could affect the obligor's risk profile. For wholesale real estate loans, the credit evaluation is focused on property and transaction metrics including property type, loan-to-value ratio, occupancy levels, debt service ratio, prevailing capitalization rates, and market dynamics. For residential real estate and consumer loans, the initial credit evaluation typically includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan-to-value ratio, and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level. Consumer loan collateral values are monitored on an ongoing basis.

The Company utilizes the following credit quality indicators which are consistent with banking regulators' definitions of criticized exposures, in its credit monitoring process for loans held for investment.

- Pass. A credit exposure rated pass has a continued expectation of timely repayment, all obligations of the borrower are current, and the obligor complies with material terms and conditions of the lending agreement.

- Special Mention. Extensions of credit that have potential weakness that deserve management's close attention, and if left uncorrected may, at some future date, result in the deterioration of the repayment prospects or collateral position.
- Substandard. Obligor has a well-defined weakness that jeopardizes the repayment of the debt and has a high probability of payment default with the distinct possibility that the Company will sustain some loss if noted deficiencies are not corrected.
- Doubtful. Inherent weakness in the exposure makes the collection or repayment in full, based on existing facts, conditions and circumstances, highly improbable, and the amount of loss is uncertain.
- Loss. Extensions of credit classified as loss are considered uncollectible and are charged off.

The following tables present credit quality indicators for the Company's loans held for investment, gross of allowance for loan losses, by product type, at December 31, 2013 and December 31, 2012.

	December 31, 2013				
Loans by Credit Quality Indicators	**Corporate**	**Consumer**	**Residential Real Estate**	**Wholesale Real Estate**	**Total**
	(dollars in millions)				
Pass	$12,893	$11,577	$ 9,992	$1,829	$36,291
Special Mention	189	—	—	16	205
Substandard	174	—	14	—	188
Doubtful	7	—	—	10	17
Loss	—	—	—	—	—
Total loans	$13,263	$11,577	$10,006	$1,855	$36,701

	December 31, 2012				
Loans by Credit Quality Indicators	**Corporate**	**Consumer**	**Residential Real Estate**	**Wholesale Real Estate**	**Total**
	(dollars in millions)				
Pass	$9,410	$7,618	$6,629	$302	$23,959
Special Mention	6	—	—	24	30
Substandard	7	—	1	—	8
Doubtful	26	—	—	—	26
Loss	—	—	—	—	—
Total loans	$9,449	$7,618	$6,630	$326	$24,023

Allowance for Loan Losses and Impaired Loans.

The allowance for loan losses estimates probable losses related to loans specifically identified for impairment in addition to the probable losses inherent in the held for investment loan portfolio.

There are two components of the allowance for loan losses: the inherent allowance component and the specific allowance component.

The inherent allowance component of the allowance for loan losses is used to estimate the probable losses inherent in the loan portfolio and includes non-homogeneous loans that have not been identified as impaired and portfolios of smaller balance homogeneous loans. The Company maintains methodologies by loan product for calculating an allowance for loan losses that estimates the inherent losses in the loan portfolio. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered in the calculations. The allowance for loan losses is maintained at a level reasonable to ensure that it can adequately absorb the estimated probable losses inherent in the portfolio.

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a TDR, which have been specifically identified for impairment analysis by the Company and determined to be impaired. As of December 31, 2013 and 2012 the Company's TDRs were not significant. For further information on allowance for loan losses, see Note 2.

The tables below provide detail on impaired loans, past due loans and allowances for the Company's held for investment loans:

	December 31, 2013				
Loans by Product Type	**Corporate**	**Consumer**	**Residential Real Estate**	**Wholesale Real Estate**	**Total**
			(dollars in millions)		
Impaired loans with allowance	$63	$—	$—	$ 10	$73
Impaired loans without allowance(1)	6	—	11	—	17
Impaired loans unpaid principal balance	69	—	11	10	90
Past due 90 days loans and on nonaccrual	7	—	11	10	28

	December 31, 2012				
Loans by Product Type	**Corporate**	**Consumer**	**Residential Real Estate**	**Wholesale Real Estate**	**Total**
			(dollars in millions)		
Impaired loans with allowance	$19	$—	$ 1	$—	$20
Impaired loans without allowance(1)	14	—	—	—	14
Impaired loans unpaid principal balance	33	—	1	—	34
Past due 90 days loans and on nonaccrual	25	—	1	—	26

	December 31, 2013				
Loans by Region	**Americas**	**EMEA**	**Asia**	**Others**	**Total**
			(dollars in millions)		
Impaired loans	$ 90	$—	$—	$—	$ 90
Past due 90 days loans and on nonaccrual	28	—	—	—	28
Allowance for loan losses	123	28	3	2	156

	December 31, 2012				
Loans by Region	**Americas**	**EMEA**	**Asia**	**Others**	**Total**
			(dollars in millions)		
Impaired loans	$34	$—	$—	$—	$ 34
Past due 90 days loans and on nonaccrual	26	—	—	—	26
Allowance for loan losses	52	52	2	—	106

EMEA—Europe, Middle East and Africa.

(1) At December 31, 2013 and 2012, no allowance was outstanding for these loans as the fair value of the collateral held exceeded or equaled the carrying value.

The table below summarizes information about the allowance for loan losses, loans by impairment methodology, the allowance for lending-related commitments and lending-related commitments by impairment methodology.

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Allowance for loan losses:					
Balance at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Gross charge-offs	(13)	—	(2)	—	(15)
Gross recoveries	—	—	—	—	—
Net charge-offs	(13)	—	(2)	—	(15)
Provision for loan losses(1)	54	(2)	1	12	65
Balance at December 31, 2013	$ 137	$ 1	$ 4	$ 14	$ 156
Allowance for loan losses by impairment methodology:					
Inherent	$ 126	$ 1	$ 4	$ 10	$ 141
Specific	11	—	—	4	15
Total allowance for loan losses at December 31, 2013	$ 137	$ 1	$ 4	$ 14	$ 156
Loans evaluated by impairment methodology(2):					
Inherent	$13,194	$11,577	$ 9,995	$1,845	$36,611
Specific	69	—	11	10	90
Total loans evaluated at December 31, 2013	$13,263	$11,577	$10,006	$1,855	$36,701
Allowance for lending-related commitments:					
Balance at December 31, 2012	$ 91	$ —	$ —	$ 1	$ 92
Provision for lending-related commitments(3)	44	—	—	1	45
Other	(10)	—	—	—	(10)
Balance at December 31, 2013	$ 125	$ —	$ —	$ 2	$ 127
Allowance for lending-related commitments by impairment methodology:					
Inherent	$ 125	$ —	$ —	$ 2	$ 127
Specific	—	—	—	—	—
Total allowance for lending-related commitments at December 31, 2013	$ 125	$ —	$ —	$ 2	$ 127
Lending-related commitments evaluated by impairment methodology:					
Inherent	$63,427	$ 2,151	$ 1,423	$ 207	$67,208
Specific	—	—	—	—	—
Total lending-related commitments evaluated at December 31, 2013	$63,427	$ 2,151	$ 1,423	$ 207	$67,208

[1] The Company recorded $65 million of provision for loan losses within Other revenues for the year ended December 31, 2013.

[2] Balances are gross of the allowance and represent recorded investment in the loans.

[3] The Company recorded $45 million of provision for lending-related commitments within Other non-interest expenses for the year ended December 31, 2013.

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2011	$ 14	$ 1	$ 1	$ 1	$ 17
Gross charge-offs	(11)	—	—	—	(11)
Gross recoveries	—	—	—	13	13
Net charge-offs	(11)	—	—	13	2
Provision for loan losses(1)	93	2	4	(12)	87
Balance at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Allowance for loan losses by impairment methodology:					
Inherent	$ 94	$ 3	$ 5	$ 2	$ 104
Specific	2	—	—	—	2
Total allowance for loan losses at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Loans evaluated by impairment methodology(2):					
Inherent	$ 9,416	$7,618	$6,629	$326	$23,989
Specific	33	—	1	—	34
Total loan evaluated at December 31, 2012	$ 9,449	$7,618	$6,630	$326	$24,023
Allowance for lending-related commitments:					
Balance at December 31, 2011	$ 19	$ 3	$ —	$ 2	$ 24
Provision for lending-related commitments(3)	72	(3)	—	(1)	68
Balance at December 31, 2012	$ 91	$ —	$ —	$ 1	$ 92
Allowance for lending-related commitments by impairment methodology:					
Inherent	$ 87	$ —	$ —	$ 1	$ 88
Specific	4	—	—	—	4
Total allowance for lending-related commitments at December 31, 2012	$ 91	$ —	$ —	$ 1	$ 92
Lending-related commitments evaluated by impairment methodology:					
Inherent	$44,079	$1,406	$ 712	$101	$46,298
Specific	47	—	—	—	47
Total lending-related commitments evaluated at December 31, 2012	$44,126	$1,406	$ 712	$101	$46,345

(1) The Company recorded $87 million of provision for loan losses within Other revenues for the year ended December 31, 2012.

(2) Balances are gross of the allowance and represent recorded investment in the loans.

(3) The Company recorded $67 million of provision for lending-related commitments within Other non-interest expenses for the year ended December 31, 2012.

Employee Loans.

Employee loans are granted primarily in conjunction with a program established in the Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the consolidated statements of financial condition. These loans are full recourse, generally require periodic payments and have repayment terms ranging from one to 12 years. The Company establishes a reserve for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At December 31, 2013, the Company had $5,487 million of employee loans, net of an allowance of approximately $109 million. At December 31, 2012, the Company had $5,998 million of employee loans, net of an allowance of approximately $131 million.

The Company has also granted loans to other employees primarily in conjunction with certain after-tax leveraged investment arrangements. At December 31, 2013, the balance of these loans was $100 million, net of an allowance of approximately $51 million. At December 31, 2012, the balance of these loans was $172 million, net of an allowance of approximately $108 million. The Company establishes a reserve for non-recourse loan amounts not recoverable from employees, which is recorded in Other expense.

Collateralized Transactions.

In certain instances, the Company enters into reverse repurchase agreements and securities borrowed transactions to acquire securities to cover short positions, to settle other securities obligations and to accommodate clients' needs. The Company also engages in margin lending to clients that allows the client to borrow against the value of the qualifying securities and is included within Customer and other receivables in the consolidated statements of financial condition (see Note 6).

Servicing Advances.

As part of its servicing activities, the Company may make servicing advances to the extent that it believes that such advances will be reimbursed (see Note 7).

9. Goodwill and Net Intangible Assets.

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques the Company believes market participants would use for each of the reporting units.

The estimated fair values are generally determined by utilizing a discounted cash flow methodology or methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies.

The Company completed its annual goodwill impairment testing at July 1, 2013 and July 1, 2012. The Company's impairment testing for each period did not indicate any goodwill impairment as each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value. Adverse market or economic events could result in impairment charges in future periods.

Goodwill.

Changes in the carrying amount of the Company's goodwill, net of accumulated impairment losses for 2013 and 2012, were as follows:

	Institutional Securities(1)	Wealth Management(1)	Investment Management	Total
		(dollars in millions)		
Goodwill at December 31, 2011(2)	$343	$5,603	$740	$6,686
Foreign currency translation adjustments and other	(6)	35	—	29
Goodwill disposed of during the period(3)	—	(65)	—	(65)
Goodwill at December 31, 2012(2)	$337	$5,573	$740	$6,650
Foreign currency translation adjustments and other	(27)	—	—	(27)
Goodwill disposed of during the period(4)(5)	(17)	(11)	—	(28)
Goodwill at December 31, 2013(2)	$293	$5,562	$740	$6,595

(1) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.

(2) The amount of the Company's goodwill before accumulated impairments of $700 million, which included $673 million related to the Institutional Securities business segment and $27 million related to the Investment Management business segment, was $7,295 million and $7,350 million at December 31, 2013 and December 31, 2012, respectively.

(3) The Wealth Management business segment activity represents goodwill disposed of in connection with the sale of Quilter (see Note 1).

(4) In 2011, the Company announced that it had reached an agreement with the employees of its in-house quantitative proprietary trading unit, Process Driven Trading ("PDT"), within the Institutional Securities business segment, whereby PDT employees will acquire certain assets from the Company and launch an independent advisory firm. This transaction closed on January 1, 2013.

(5) The Wealth Management business segment sold the U.K. operations of the Global Stock Plan Services business on May 31, 2013.

Net Intangible Assets.

Changes in the carrying amount of the Company's intangible assets for 2013 and 2012 were as follows:

	Institutional Securities	Wealth Management	Investment Management	Total
		(dollars in millions)		
Amortizable net intangible assets at December 31, 2011	$ 229	$3,641	$ 2	$3,872
Mortgage servicing rights (see Note 7)	122	11	—	133
Indefinite-lived intangible assets (see Note 2)	—	280	—	280
Net intangible assets at December 31, 2011	$ 351	$3,932	$ 2	$4,285
Amortizable net intangible assets at December 31, 2011	$ 229	$3,641	$ 2	$3,872
Foreign currency translation adjustments and other	5	1	—	6
Amortization expense	(17)	(322)	(1)	(340)
Impairment losses(1)	(4)	—	—	(4)
Increase due to Smith Barney tradename(2)	—	280	—	280
Intangible assets acquired during the period	4	—	—	4
Intangible assets disposed of during the period(3)	(42)	—	—	(42)
Amortizable net intangible assets at December 31, 2012	$ 175	$3,600	$ 1	$3,776
Mortgage servicing rights (see Note 7)	—	7	—	7
Net intangible assets at December 31, 2012	$ 175	$3,607	$ 1	$3,783
Amortizable net intangible assets at December 31, 2012	$ 175	$3,600	$ 1	$3,776
Foreign currency translation adjustments and other	—	(1)	—	(1)
Amortization expense(4)	(117)	(336)	—	(453)
Impairment losses(1)(5)	(2)	(42)	—	(44)
Amortizable net intangible assets at December 31, 2013	56	3,221	1	3,278
Mortgage servicing rights (see Note 7)	—	8	—	8
Net intangible assets at December 31, 2013	$ 56	$3,229	$ 1	$3,286

(1) Impairment losses are recorded within Other expenses in the consolidated statements of income.

(2) The Wealth Management business segment activity represents the reclassification of $280 million from an indefinite-lived to a finite-lived intangible asset (see Note 2).

(3) The Institutional Securities business segment activity represents intangible assets disposed of in connection with the sale of a principal investment.

(4) The Institutional Securities business segment activity primarily represents accelerated recovery of related intangible costs.

(5) The Wealth Management business segment activity primarily represents an impairment charge related to management contracts associated with alternative investment funds.

	At December 31, 2013		At December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(dollars in millions)		
Amortizable intangible assets:				
Trademarks	$ 7	$ 3	$ 7	$ 3
Tradename	280	12	280	2
Customer relationships	4,058	1,177	4,058	923
Management contracts	268	146	313	116
Research	176	176	176	126
Other	192	189	192	80
Total amortizable intangible assets	$4,981	$1,703	$5,026	$1,250

Amortization expense associated with intangible assets is estimated to be approximately $286 million per year over the next five years.

10. Deposits.

Deposits were as follows:

	At December 31, 2013(1)	At December 31, 2012(1)
	(dollars in millions)	
Savings and demand deposits(2)	$109,908	$80,058
Time deposits(3)	2,471	3,208
Total	$112,379	$83,266

(1) Total deposits subject to the Federal Deposit Insurance Corporation (the "FDIC") at December 31, 2013 and December 31, 2012 were $84 billion and $62 billion, respectively.

(2) Amounts include non-interest bearing deposits of $1,037 million at December 31, 2012. There were no non-interest bearing deposits at December 31, 2013.

(3) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4).

The weighted average interest rates of interest bearing deposits outstanding during 2013, 2012 and 2011 were 0.2%, 0.3% and 0.4%, respectively.

Interest-bearing deposits maturing over the next five years are as follows: $112,329 million in 2014 and $50 million in 2015. The amount for 2014 includes $109,908 million of saving deposits, which have no stated maturity, and $2,421 million of time deposits.

At December 31, 2013 and December 31, 2012, the Company had $2,283 million and $1,718 million, respectively, of time deposits in denominations of $100,000 or more.

11. Borrowings and Other Secured Financings.

Commercial Paper and Other Short-Term Borrowings.

The table below summarizes certain information regarding commercial paper and other short-term borrowings:

	December 31, 2013	December 31, 2012
	(dollars in millions)	
Commercial Paper:		
Balance at period-end	$ 8	$ 306
Average balance(1)	$ 155	$ 479
Weighted average interest rate on period-end balance(2)	10.4%	10.1%
Other Short-Term Borrowings(3)(4):		
Balance at period-end	$2,134	$1,832
Average balance(1)	$1,872	$1,461

(1) Average balances are calculated based upon weekly balances.

(2) The weighted average interest rates at December 31, 2013 and 2012 were driven primarily by commercial paper issued in a foreign country in which typical funding rates are significantly higher than in the U.S.

(3) These borrowings included bank loans, bank notes and structured notes with original maturities of 12 months or less.

(4) Certain structured short-term borrowings are carried at fair value under the fair value option. See Note 4 for additional information.

Long-Term Borrowings.

Maturities and Terms. Long-term borrowings consisted of the following (dollars in millions):

	Parent Company		Subsidiaries		At December 31, 2013(3)(4)	At December 31, 2012
	Fixed Rate	Variable Rate(1)(2)	Fixed Rate	Variable Rate(1)(2)		
Due in 2013	$ —	$ —	$—	$ —	$ —	$ 25,303
Due in 2014	11,665	10,830	18	1,680	24,193	21,751
Due in 2015	13,962	5,760	17	1,351	21,090	24,653
Due in 2016	11,521	9,621	43	1,959	23,144	19,984
Due in 2017	16,227	8,231	18	1,819	26,295	28,137
Due in 2018	10,689	2,886	18	1,715	15,308	7,733
Thereafter	34,748	7,165	440	1,192	43,545	42,010
Total	$98,812	$44,493	$554	$9,716	$153,575	$169,571
Weighted average coupon at period-end(5)	5.1%	1.0%	6.5%	0.7%	4.4%	4.4%

(1) Variable rate borrowings bear interest based on a variety of money market indices, including LIBOR and Federal Funds rates.

(2) Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.

(3) Amounts include an increase of approximately $2.2 billion at December 31, 2013, to the carrying amount of certain of the Company's long-term borrowings associated with fair value hedges. The increase to the carrying value associated with fair value hedges by year due was approximately less than $0.1 billion due in 2014, $0.4 billion due in 2015, $0.5 billion due in 2016, $1.0 billion due in 2017, $0.3 billion due in 2018 and $(0.1) billion due thereafter.

(4) Amounts include an increase of approximately $2.4 billion at December 31, 2013 to the carrying amounts of certain of the Company's long-term borrowings for which the fair value option was elected (see Note 4).

(5) Weighted average coupon was calculated utilizing U.S. and non-U.S. dollar interest rates and excludes financial instruments for which the fair value option was elected.

The Company's long-term borrowings included the following components:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Senior debt	$139,451	$158,899
Subordinated debt	9,275	5,845
Junior subordinated debentures	4,849	4,827
Total	$153,575	$169,571

During 2013, the Company issued and reissued notes with a principal amount of approximately $28 billion. This amount included the Company's issuances of $2.0 billion in subordinated debt on November 22, 2013, $2.0 billion in subordinated debt on May 21, 2013, $3.7 billion in senior unsecured debt on April 25, 2013 and $4.5 billion in senior unsecured debt on February 25, 2013. During 2013, approximately $39 billion of notes matured or were retired.

During 2012, the Company issued and reissued notes with a principal amount of approximately $24 billion. During 2012, approximately $43 billion of notes matured or were retired.

Senior debt securities often are denominated in various non-U.S. dollar currencies and may be structured to provide a return that is equity-linked, credit-linked, commodity-linked or linked to some other index (*e.g.*, the consumer price index). Senior debt also may be structured to be callable by the Company or extendible at the option of holders of the senior debt securities. Debt containing provisions that effectively allow the holders to put or extend the notes aggregated $1,175 million at December 31, 2013 and $1,131 million at December 31, 2012. In addition, separate agreements are entered into by the Company's subsidiaries that effectively allow the holders to put the notes aggregated $353 million at December 31, 2013 and $1,895 million at December 31, 2012. Subordinated debt and junior subordinated debentures generally are issued to meet the capital requirements of the Company or its regulated subsidiaries and primarily are U.S. dollar denominated.

Senior Debt—Structured Borrowings. The Company's index-linked, equity-linked or credit-linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (*e.g.,* Standard & Poor's 500), a basket of stocks, a specific equity security, a credit exposure or basket of credit exposures. To minimize the exposure resulting from movements in the underlying index, equity, credit or other position, the Company has entered into various swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. These instruments are included in the preceding table at their redemption values based on the performance of the underlying indices, baskets of stocks, or specific equity securities, credit or other position or index. The Company carries either the entire structured borrowing at fair value or bifurcates the embedded derivative and carries it at fair value. The swaps and purchased options used to economically hedge the embedded features are derivatives and also are carried at fair value. Changes in fair value related to the notes and economic hedges are reported in Trading revenues. See Note 4 for further information on structured borrowings.

Subordinated Debt and Junior Subordinated Debentures. Included in the Company's long-term borrowings are subordinated notes of $9,275 million having a contractual weighted average coupon of 4.69% at December 31, 2013 and $5,845 million having a weighted average coupon of 4.81% at December 31, 2012. Junior subordinated debentures outstanding by the Company were $4,849 million at December 31, 2013 and $4,827 million at December 31, 2012 having a contractual weighted average coupon of 6.37% at both December 31, 2013 and December 31, 2012. Maturities of the subordinated and junior subordinated notes range from 2014 to 2067. Maturities of certain junior subordinated debentures can be extended to 2052 at the Company's option.

Asset and Liability Management. In general, securities inventories that are not financed by secured funding sources and the majority of the Company's assets are financed with a combination of deposits, short-term funding, floating rate long-term debt or fixed rate long-term debt swapped to a floating rate. Fixed assets are generally financed with fixed rate long-term debt. The Company uses interest rate swaps to more closely match these borrowings to the duration, holding period and interest rate characteristics of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Company's fixed rate borrowings into floating rate obligations. In addition, for non-U.S. dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered into currency swaps that effectively convert the borrowings into U.S. dollar obligations. The Company's use of swaps for asset and liability management affected its effective average borrowing rate as follows:

	2013	2012	2011
Weighted average coupon of long-term borrowings at period-end(1)	4.4%	4.4%	4.0%
Effective average borrowing rate for long-term borrowings after swaps at period-end(1)	2.2%	2.3%	1.9%

(1) Included in the weighted average and effective average calculations are non-U.S. dollar interest rates.

Other. The Company, through several of its subsidiaries, maintains funded and unfunded committed credit facilities to support various businesses, including the collateralized commercial and residential mortgage whole loan, derivative contracts, warehouse lending, emerging market loan, structured product, corporate loan, investment banking and prime brokerage businesses.

Other Secured Financings.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, pledged commodities, certain equity-linked notes and other secured borrowings. See Note 7 for further information on other secured financings related to VIEs and securitization activities.

The Company's other secured financings consisted of the following:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Secured financings with original maturities greater than one year	$ 9,750	$14,431
Secured financings with original maturities one year or less(1)	4,233	641
Failed sales(2)	232	655
Total(3)	$14,215	$15,727

(1) At December 31, 2013, amount includes approximately $3,899 million of variable rate financings and approximately $334 million in fixed rate financings.

(2) For more information on failed sales, see Note 7.

(3) Amounts include $5,206 million and $9,466 million at fair value at December 31, 2013 and December 31, 2012, respectively.

Maturities and Terms: Secured financings with original maturities greater than one year consisted of the following:

	Fixed Rate	Variable Rate(1)(2)	At December 31, 2013	At December 31, 2012
		(dollars in millions)		
Due in 2013	$—	$ —	$ —	$ 8,528
Due in 2014	466	3,034	3,500	2,868
Due in 2015	29	1,877	1,906	960
Due in 2016	216	2,726	2,942	429
Due in 2017	—	160	160	181
Due in 2018	—	675	675	667
Thereafter	229	338	567	798
Total	$940	$8,810	$9,750	$14,431
Weighted average coupon rate at period-end(3)	2.4%	1.3%	1.4%	1.4%

(1) Variable rate borrowings bear interest based on a variety of indices, including LIBOR.

(2) Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.

(3) Weighted average coupon was calculated utilizing U.S. and non-U.S. dollar interest rates and excludes secured financings that are linked to non-interest indices.

Maturities and Terms: Failed sales consisted of the following:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Due in 2013	$—	$479
Due in 2014	100	17
Due in 2015	57	7
Due in 2016	36	136
Due in 2017	24	14
Due in 2018	—	—
Thereafter	15	2
Total	$232	$655

For more information on failed sales, see Note 7.

12. Derivative Instruments and Hedging Activities.

The Company trades, makes markets and takes proprietary positions globally in listed futures, 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 indices, asset-backed security indices, property indices, mortgage-related and other asset-backed securities, and real estate loan products. The Company uses these instruments for trading, foreign currency exposure management, and asset and liability management.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis.

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty. However, in certain circumstances: the Company may not have such an agreement in place; the relevant insolvency regime (which is based on the type of counterparty entity and the jurisdiction of organization of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures below. The Company's policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases, the Company may agree for such collateral to be posted to a third-party custodian under a control agreement that enables the Company to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits. The following tables present information about the offsetting of derivative instruments and related collateral amounts. See information related to offsetting of certain collateralized transactions in Note 6.

	At December 31, 2013					
				Amounts Not Offset in the Consolidated Statements of Financial Condition(3)		
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$404,352	$(378,459)	$25,893	$(8,785)	$(132)	$16,976
Cleared OTC(4)	267,057	(266,419)	638	—	—	638
Exchange traded	31,609	(25,673)	5,936	—	—	5,936
Total derivative assets	$703,018	$(670,551)	$32,467	$(8,785)	$(132)	$23,550
Derivative liabilities						
Bilateral OTC	$386,199	$(361,059)	$25,140	$(5,365)	$(136)	$19,639
Cleared OTC(4)	266,559	(265,378)	1,181	—	(372)	809
Exchange traded	33,113	(25,673)	7,440	(651)	—	6,789
Total derivative liabilities	$685,871	$(652,110)	$33,761	$(6,016)	$(508)	$27,237

(1) Amounts include $8.7 billion of derivative assets and $7.3 billion of derivative liabilities, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also “Fair Value and Notional of Derivative Instruments” for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

(2) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

(4) Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

	At December 31, 2012					
				Amounts Not Offset in the Consolidated Statements of Financial Condition(3)		
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 604,713	$(573,844)	$30,869	$(7,691)	$(232)	$22,946
Cleared OTC(4)	375,233	(374,546)	687	—	—	687
Exchange traded	24,305	(19,664)	4,641	—	—	4,641
Total derivative assets	$1,004,251	$(968,054)	$36,197	$(7,691)	$(232)	$28,274
Derivative Liabilities						
Bilateral OTC	$ 578,018	$(547,285)	$30,733	$(7,871)	$ (64)	$22,798
Cleared OTC(4)	374,960	(374,866)	94	—	(23)	71
Exchange traded	25,795	(19,664)	6,131	(1,028)	—	5,103
Total derivative liabilities	$ 978,773	$(941,815)	$36,958	$(8,899)	$ (87)	$27,972

[1] Amounts include $7.2 billion of derivative assets and $7.3 billion of derivative liabilities, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also "Fair Value and Notional of Derivative Instruments" for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

[2] Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

[3] Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

[4] Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets. The fair value of a derivative represents the amount at which the derivative could be exchanged in an orderly transaction between market participants and is further described in Notes 2 and 4.

The tables below present a summary by counterparty credit rating and remaining contract maturity of the fair value of OTC derivatives in a gain position at December 31, 2013 and December 31, 2012, respectively. Fair value is presented in the final column, net of collateral received (principally cash and U.S. government and agency securities):

OTC Derivative Products—Trading Assets at December 31, 2013(1)

	Years to Maturity				Cross-Maturity and Cash Collateral	Net Exposure	Net Exposure
Credit Rating(2)	Less than 1	1-3	3-5	Over 5	Netting(3)	Post-Cash Collateral	Post-Collateral
				(dollars in millions)			
AAA	$ 300	$ 752	$ 1,073	$ 3,664	$ (3,721)	$ 2,068	$ 1,673
AA	2,687	3,145	3,377	9,791	(13,515)	5,485	3,927
A	7,382	8,428	9,643	17,184	(35,644)	6,993	4,970
BBB	2,617	3,916	3,228	13,693	(16,191)	7,263	4,870
Non-investment grade	2,053	2,980	1,372	2,922	(4,737)	4,590	2,174
Total	$15,039	$19,221	$18,693	$47,254	$(73,808)	$26,399	$17,614

[1] Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange-traded derivatives and the effect of any related hedges utilized by the Company.

[2] Obligor credit ratings are determined by the Company's Credit Risk Management Department.

[3] Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

OTC Derivative Products—Trading Assets at December 31, 2012(1)

Credit Rating(2)	Years to Maturity Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-Cash Collateral	Net Exposure Post-Collateral
				(dollars in millions)			
AAA	$ 353	$ 551	$ 1,299	$ 6,121	$ (4,851)	$ 3,473	$ 3,088
AA	2,125	3,635	2,958	10,270	(12,761)	6,227	4,428
A	6,643	9,596	14,228	29,729	(50,722)	9,474	7,638
BBB	2,673	3,970	3,704	18,586	(21,713)	7,220	5,754
Non-investment grade	2,091	2,855	2,142	4,538	(6,696)	4,930	2,725
Total	$13,885	$20,607	$24,331	$69,244	$(96,743)	$31,324	$23,633

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange-traded derivatives and the effect of any related hedges utilized by the Company.

(2) Obligor credit ratings are determined by the Company's Credit Risk Management Department.

(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments to hedge interest rate and foreign exchange risk arising from assets and liabilities not held at fair value as part of asset and liability management and foreign currency exposure management.

The Company's hedges are designated and qualify for accounting purposes as one of the following types of hedges: hedges of exposure to changes in fair value of assets and liabilities being hedged (fair value hedges) and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges).

For all hedges where hedge accounting is being applied, effectiveness testing and other procedures to ensure the ongoing validity of the hedges are performed at least monthly.

Fair Value Hedges—Interest Rate Risk. The Company's designated fair value hedges consisted primarily of interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long-term borrowings. The Company uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships (*i.e.*, the Company applies the "long-haul" method of hedge accounting). A hedging relationship is deemed effective if the fair values of the hedging instrument (derivative) and the hedged item (debt liability) change inversely within a range of 80% to 125%. The Company considers the impact of valuation adjustments related to the Company's own credit spreads and counterparty credit spreads to determine whether they would cause the hedging relationship to be ineffective.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative and the changes in the fair value of the hedged liability provide offset of one another and, together with any resulting ineffectiveness, are recorded in Interest expense. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged liability is amortized to Interest expense over the remaining life of the liability using the effective interest method.

Net Investment Hedges. The Company may utilize forward foreign exchange contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency operations. No hedge ineffectiveness is recognized in earnings since the notional amounts of the hedging instruments equal the portion of the investments being hedged and the currencies being exchanged are the functional currencies of the parent and investee. The gain or loss from revaluing hedges of net investments in foreign operations at the spot rate is deferred and reported within AOCI. The forward points on the hedging instruments are recorded in Interest income.

During 2012, the Company recognized an out-of-period pre-tax gain of approximately $109 million in the Institutional Securities business segment's Other sales and trading net revenues related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts previously designated as net investment hedges of certain non-U.S. dollar-denominated subsidiaries. The Company has evaluated the effects of the incorrect application of hedge accounting, both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Subsequent to the identification of the incorrect application of net investment hedge accounting, the Company has appropriately redesignated the forward foreign exchange contracts and reapplied hedge accounting (see Note 15 for further information).

Fair Value and Notional of Derivative Instruments. The following tables summarize the fair value of derivative instruments designated as accounting hedges and the fair value of derivative instruments not designated as accounting hedges by type of derivative contract and the platform on which these instruments are traded or cleared on a gross basis. Fair values of derivative contracts in an asset position are included in Trading assets, and fair values of derivative contracts in a liability position are reflected in Trading liabilities in the consolidated statements of financial condition (see Note 4):

	Derivative Assets							
	At December 31, 2013							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 4,729	$ 287	$ —	$ 5,016	$ 54,696	$ 14,685	$ —	$ 69,381
Foreign exchange contracts	236	—	—	236	6,694	—	—	6,694
Total derivatives designated as accounting hedges	4,965	287	—	5,252	61,390	14,685	—	76,075
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	262,697	261,348	291	524,336	6,206,450	11,854,610	856,137	18,917,197
Credit contracts	39,054	5,292	—	44,346	1,244,004	240,781	—	1,484,785
Foreign exchange contracts	61,383	130	52	61,565	1,818,429	9,634	9,783	1,837,846
Equity contracts	26,104	—	28,001	54,105	294,524	—	437,842	732,366
Commodity contracts	10,106	—	3,265	13,371	144,981	—	139,433	284,414
Other	43	—	—	43	3,198	—	—	3,198
Total derivatives not designated as accounting hedges	399,387	266,770	31,609	697,766	9,711,586	12,105,025	1,443,195	23,259,806
Total derivatives	$ 404,352	$ 267,057	$ 31,609	$ 703,018	$9,772,976	$12,119,710	$1,443,195	$23,335,881
Cash collateral netting	(48,540)	(3,462)	—	(52,002)	—	—	—	—
Counterparty netting	(329,919)	(262,957)	(25,673)	(618,549)	—	—	—	—
Total derivative assets	$ 25,893	$ 638	$ 5,936	$ 32,467	$9,772,976	$12,119,710	$1,443,195	$23,335,881

	Derivative Liabilities							
	At December 31, 2013							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 570	$ 614	$ —	$ 1,184	$ 2,642	$ 12,667	$ —	$ 15,309
Foreign exchange contracts	258	5	—	263	5,970	503	—	6,473
Total derivatives designated as accounting hedges	828	619	—	1,447	8,612	13,170	—	21,782
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	244,906	261,011	228	506,145	6,035,757	11,954,325	1,067,894	19,057,976
Credit contracts	37,835	4,791	—	42,626	1,099,483	213,900	—	1,313,383
Foreign exchange contracts	61,635	138	23	61,796	1,897,400	10,505	3,106	1,911,011
Equity contracts	31,483	—	29,412	60,895	341,232	—	464,622	805,854
Commodity contracts	9,436	—	3,450	12,886	138,784	—	120,556	259,340
Other	76	—	—	76	4,659	—	—	4,659
Total derivatives not designated as accounting hedges	385,371	265,940	33,113	684,424	9,517,315	12,178,730	1,656,178	23,352,223
Total derivatives	$ 386,199	$ 266,559	$ 33,113	$ 685,871	$9,525,927	$12,191,900	$1,656,178	$23,374,005
Cash collateral netting	(31,139)	(2,422)	—	(33,561)	—	—	—	—
Counterparty netting	(329,920)	(262,956)	(25,673)	(618,549)	—	—	—	—
Total derivative liabilities	$ 25,140	$ 1,181	$ 7,440	$ 33,761	$9,525,927	$12,191,900	$1,656,178	$23,374,005

(1) Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

(2) Notional amounts include gross notionals related to open long and short futures contracts of $426 billion and $729 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $879 million and $27 million is included in Customer and other receivables and Customer and other payables, respectively, on the consolidated statements of financial condition.

	Derivative Assets							
	At December 31, 2012							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 8,046	$ 301	$ —	$ 8,347	$ 66,916	$ 8,199	$ —	$ 75,115
Foreign exchange contracts	367	—	—	367	10,291	—	—	10,291
Total derivatives designated as accounting hedges	8,413	301	—	8,714	77,207	8,199	—	85,406
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	443,523	371,789	142	815,454	8,029,510	10,096,252	776,130	18,901,892
Credit contracts	65,168	3,099	—	68,267	1,734,907	197,879	—	1,932,786
Foreign exchange contracts	52,349	44	34	52,427	1,831,385	3,834	5,967	1,841,186
Equity contracts	19,916	—	18,684	38,600	258,484	—	329,216	587,700
Commodity contracts	15,201	—	5,445	20,646	164,842	—	176,714	341,556
Other	143	—	—	143	4,908	—	—	4,908
Total derivatives not designated as accounting hedges	596,300	374,932	24,305	995,537	12,024,036	10,297,965	1,288,027	23,610,028
Total derivatives	$ 604,713	$ 375,233	$ 24,305	$1,004,251	$12,101,243	$10,306,164	$1,288,027	$23,695,434
Cash collateral netting	(68,024)	(1,224)	—	(69,248)	—	—	—	—
Counterparty netting	(505,820)	(373,322)	(19,664)	(898,806)	—	—	—	—
Total derivative assets	$ 30,869	$ 687	$ 4,641	$ 36,197	$12,101,243	$10,306,164	$1,288,027	$23,695,434

	Derivative Liabilities							
	At December 31, 2012							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 167	$ 1	$ —	$ 168	$ 2,000	$ 660	$ —	$ 2,660
Foreign exchange contracts	319	—	—	319	17,156	—	—	17,156
Total derivatives designated as accounting hedges	486	1	—	487	19,156	660	—	19,816
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	422,864	370,856	216	793,936	7,726,241	9,945,979	1,994,947	19,667,167
Credit contracts	60,420	4,074	—	64,494	1,645,464	222,343	—	1,867,807
Foreign exchange contracts	56,062	29	3	56,094	1,878,597	3,473	4,003	1,886,073
Equity contracts	22,239	—	19,631	41,870	257,340	—	329,858	587,198
Commodity contracts	15,886	—	5,945	21,831	169,189	—	155,912	325,101
Other	61	—	—	61	5,161	—	—	5,161
Total derivatives not designated as accounting hedges	577,532	374,959	25,795	978,286	11,681,992	10,171,795	2,484,720	24,338,507
Total derivatives	$ 578,018	$ 374,960	$ 25,795	$ 978,773	$11,701,148	$10,172,455	$2,484,720	$24,358,323
Cash collateral netting	(41,465)	(1,544)	—	(43,009)	—	—	—	—
Counterparty netting	(505,820)	(373,322)	(19,664)	(898,806)	—	—	—	—
Total derivative liabilities	$ 30,733	$ 94	$ 6,131	$ 36,958	$11,701,148	$10,172,455	$2,484,720	$24,358,323

(1) Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

(2) Notional amounts include gross notionals related to open long and short futures contracts of $368 billion and $1,476 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $1,073 million and $24 million is included in Customer and other receivables and Customer and other payables, respectively, on the consolidated statements of financial condition.

The following tables summarize the gains or losses reported on derivative instruments designated and qualifying as accounting hedges for 2013, 2012 and 2011.

Derivatives Designated as Fair Value Hedges.

The following table presents gains (losses) reported on derivative instruments and the related hedge item as well as the hedge ineffectiveness included in Interest expense in the consolidated statements of income from interest rate contracts:

	Gains (Losses) Recognized		
Product Type	2013	2012	2011
	(dollars in millions)		
Derivatives	$(4,332)	$ 29	$ 3,415
Borrowings	5,604	703	(2,549)
Total	$ 1,272	$732	$ 866

Derivatives Designated as Net Investment Hedges.

Product Type	Gains (Losses) Recognized in OCI (effective portion)		
	2013	2012(1)	2011
	(dollars in millions)		
Foreign exchange contracts(2)	$448	$102	$180
Total	$448	$102	$180

(1) A gain of $77 million, net of tax, related to net investment hedges was reclassified from other comprehensive income into income during 2012. The amount primarily related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts (see above for further information).

(2) Losses of $154 million, $235 million and $220 million were recognized in income related to amounts excluded from hedge effectiveness testing during 2013, 2012 and 2011.

The table below summarizes gains (losses) on derivative instruments not designated as accounting hedges for 2013, 2012 and 2011:

Product Type	Gains (Losses) Recognized in Income(1)(2)		
	2013	2012	2011
	(dollars in millions)		
Interest rate contracts	$ (608)	$ 2,930	$ 5,538
Credit contracts	74	(722)	38
Foreign exchange contracts	4,546	(340)	(2,982)
Equity contracts	(9,193)	(1,794)	3,880
Commodity contracts	772	387	500
Other contracts	(90)	1	(51)
Total derivative instruments	$(4,499)	$ 462	$ 6,923

(1) Gains (losses) on derivative contracts not designated as hedges are primarily included in Trading revenues in the consolidated statements of income.

(2) Gains (losses) associated with certain derivative contracts that have physically settled are excluded from the table above. Gains (losses) on these contracts are reflected with the associated cash instruments, which are also included in Trading revenues in the consolidated statements of income.

The Company also has certain embedded derivatives that have been bifurcated from the related structured borrowings. Such derivatives are classified in Long-term borrowings and had a net fair value of $32 million and $53 million at December 31, 2013 and December 31, 2012, respectively, and a notional value of $2,140 million and $2,178 million at December 31, 2013 and December 31, 2012, respectively. The Company recognized losses of $27 million, gains of $12 million and losses of $21 million related to changes in the fair value of its bifurcated embedded derivatives for 2013, 2012 and 2011, respectively.

At December 31, 2013 and December 31, 2012, the amount of payables associated with cash collateral received that was netted against derivative assets was $52.0 billion and $69.2 billion, respectively, and the amount of receivables in respect of cash collateral paid that was netted against derivative liabilities was $33.6 billion and $43.0 billion, respectively. Cash collateral receivables and payables of $10 million and $13 million, respectively, at December 31, 2013 and $158 million and $34 million, respectively, at December 31, 2012, were not offset against certain contracts that did not meet the definition of a derivative.

Credit-Risk-Related Contingencies.

In connection with certain OTC trading agreements, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties in the event of a credit ratings downgrade. At December 31, 2013, the aggregate fair value of OTC derivative contracts that contain credit-risk-related contingent features that are in a net liability position totaled $21,176 million, for which the Company has posted collateral of $18,714 million, in the normal course of business. The additional collateral or termination payments which may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's Investor Services, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P"). At December 31, 2013, for such OTC trading agreements, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers were $1,244 million and an incremental $2,924 million, respectively. Of these amounts, $2,771 million at December 31, 2013 related to bilateral arrangements between the Company and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are a risk management tool used extensively by the Company as credit exposures are reduced if counterparties are downgraded.

Credit Derivatives and Other Credit Contracts.

The Company enters into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. A majority of the Company's counterparties are banks, broker-dealers, insurance and other financial institutions, and monoline insurers.

The tables below summarize the notional and fair value of protection sold and protection purchased through credit default swaps at December 31, 2013 and December 31, 2012:

	At December 31, 2013			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 799,838	$ (9,349)	$ 758,536	$ 8,564
Index and basket credit default swaps	454,355	(3,756)	361,961	2,827
Tranched index and basket credit default swaps	146,597	(3,889)	276,881	3,883
Total	$1,400,790	$(16,994)	$1,397,378	$ 15,274

	At December 31, 2012			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$1,069,474	$ 2,889	$1,029,543	$ (2,456)
Index and basket credit default swaps	551,630	5,664	454,800	(5,124)
Tranched index and basket credit default swaps	272,088	2,330	423,058	(7,076)
Total	$1,893,192	$ 10,883	$1,907,401	$(14,656)

The table below summarizes the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at December 31, 2013:

	Protection Sold					
	Maximum Potential Payout/Notional					Fair Value (Asset)/ Liability(1)(2)
	Years to Maturity					
Credit Ratings of the Reference Obligation	Less than 1	1-3	3-5	Over 5	Total	
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 1,546	$ 8,661	$ 12,128	$ 1,282	$ 23,617	$ (145)
AA	9,443	24,158	25,310	4,317	63,228	(845)
A	45,663	53,755	44,428	4,666	148,512	(2,704)
BBB	103,143	122,382	112,950	20,491	358,966	(4,294)
Non-investment grade	60,254	77,393	61,088	6,780	205,515	(1,361)
Total	220,049	286,349	255,904	37,536	799,838	(9,349)
Index and basket credit default swaps(3):						
AAA	14,890	40,522	30,613	2,184	88,209	(1,679)
AA	3,751	4,127	4,593	6,006	18,477	(275)
A	2,064	2,263	11,633	36	15,996	(418)
BBB	5,974	29,709	74,982	3,847	114,512	(2,220)
Non-investment grade	67,108	157,149	122,516	16,985	363,758	(3,053)
Total	93,787	233,770	244,337	29,058	600,952	(7,645)
Total credit default swaps sold	$313,836	$520,119	$500,241	$66,594	$1,400,790	$(16,994)
Other credit contracts(4)(5)	$ 75	$ 441	$ 529	$ 816	$ 1,861	$ (457)
Total credit derivatives and other credit contracts	$313,911	$520,560	$500,770	$67,410	$1,402,651	$(17,451)

[1] Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.

[2] Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.

[3] Credit ratings are calculated internally.

[4] Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.

[5] Fair value amount shown represents the fair value of the hybrid instruments.

The table below summarizes the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at December 31, 2012:

	Protection Sold					
	Maximum Potential Payout/Notional					
	Years to Maturity					Fair Value (Asset)/
Credit Ratings of the Reference Obligation	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total**	**Liability(1)(2)**
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 2,368	$ 6,592	$ 19,848	$ 5,767	$ 34,575	$ (204)
AA	10,984	16,804	34,280	7,193	69,261	(325)
A	66,635	72,796	67,285	10,760	217,476	(2,740)
BBB	124,662	145,462	142,714	34,396	447,234	(492)
Non-investment grade	91,743	98,515	92,143	18,527	300,928	6,650
Total	296,392	340,169	356,270	76,643	1,069,474	2,889
Index and basket credit default swaps(3):						
AAA	18,652	36,005	45,789	3,240	103,686	(1,377)
AA	1,255	9,479	12,026	8,343	31,103	(55)
A	2,684	5,423	5,440	125	13,672	(155)
BBB	27,720	105,870	143,562	29,101	306,253	(862)
Non-investment grade	97,389	86,703	153,858	31,054	369,004	10,443
Total	147,700	243,480	360,675	71,863	823,718	7,994
Total credit default swaps sold	$444,092	$583,649	$716,945	$148,506	$1,893,192	$10,883
Other credit contracts(4)(5)	$ 796	$ 125	$ 155	$ 1,323	$ 2,399	$ (745)
Total credit derivatives and other credit contracts	$444,888	$583,774	$717,100	$149,829	$1,895,591	$10,138

[1] Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.

[2] Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.

[3] Credit ratings are calculated internally.

[4] Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.

[5] Fair value amount shown represents the fair value of the hybrid instruments.

Single Name Credit Default Swaps. A credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium (generally quarterly) over the life of the contract and is protected for the period. The Company in turn will have to perform under a credit default swap if a credit event as defined under the contract occurs. Typical credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay and restructuring of the obligations of the referenced entity. In order to provide an indication of the current payment status or performance risk of the credit default swaps, the external credit ratings of the underlying reference entity of the credit default swaps are disclosed.

Index and Basket Credit Default Swaps. Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. Generally, in the event of a default on one of the underlying names, the Company will have to pay a pro rata portion of the total notional amount of the credit default index or basket contract. In order to provide an indication of the current payment status or performance risk of these credit default swaps, the weighted average external credit ratings of the underlying reference entities comprising the basket or index were calculated and disclosed.

The Company also enters into index and basket credit default swaps where the credit protection provided is based upon the application of tranching techniques. In tranched transactions, the credit risk of an index or basket is separated into various portions of the capital structure, with different levels of subordination. The most junior tranches cover initial defaults, and once losses exceed the notional of the tranche, they are passed on to the next most senior tranche in the capital structure.

When external credit ratings are not available, credit ratings were determined based upon an internal methodology.

Credit Protection Sold through CLNs and CDOs. The Company has invested in CLNs and CDOs, which are hybrid instruments containing embedded derivatives, in which credit protection has been sold to the issuer of the note. If there is a credit event of a reference entity underlying the instrument, the principal balance of the note may not be repaid in full to the Company.

Purchased Credit Protection with Identical Underlying Reference Obligations. For single name credit default swaps and non-tranched index and basket credit default swaps, the Company has purchased protection with a notional amount of approximately $1.1 trillion and $1.5 trillion at December 31, 2013 and December 31, 2012, respectively, compared with a notional amount of approximately $1.3 trillion and $1.6 trillion at December 31, 2013 and December 31, 2012, respectively, of credit protection sold with identical underlying reference obligations. In order to identify purchased protection with the same underlying reference obligations, the notional amount for individual reference obligations within non-tranched indices and baskets was determined on a pro rata basis and matched off against single name and non-tranched index and basket credit default swaps where credit protection was sold with identical underlying reference obligations.

The purchase of credit protection does not represent the sole manner in which the Company risk manages its exposure to credit derivatives. The Company manages its exposure to these derivative contracts through a variety of risk mitigation strategies, which include managing the credit and correlation risk across single name, non-tranched indices and baskets, tranched indices and baskets, and cash positions. Aggregate market risk limits have been established for credit derivatives, and market risk measures are routinely monitored against these limits. The Company may also recover amounts on the underlying reference obligation delivered to the Company under credit default swaps where credit protection was sold.

13. Commitments, Guarantees and Contingencies.

Commitments.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, and mortgage lending at December 31, 2013 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				Total at December 31, 2013
	Less than 1	1-3	3-5	Over 5	
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 389	$ 1	$ —	$ 1	$ 391
Investment activities	518	70	30	447	1,065
Primary lending commitments—investment grade(1)	7,695	14,674	36,224	798	59,391
Primary lending commitments—non-investment grade(1)	1,657	5,402	10,066	2,119	19,244
Secondary lending commitments(2)	44	38	10	72	164
Commitments for secured lending transactions	1,094	166	—	—	1,260
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	44,890	—	—	—	44,890
Commercial and residential mortgage-related commitments	1,199	48	301	313	1,861
Underwriting commitments	588	—	—	—	588
Other lending commitments	2,660	340	193	128	3,321
Total	$60,734	$20,739	$46,824	$3,878	$132,175

(1) This amount includes $49.4 billion of investment grade and $12 billion of non-investment grade unfunded commitments accounted for as held for investment and $3.5 billion of investment grade and $4.6 billion of non-investment grade unfunded commitments accounted for as held for sale at December 31, 2013. The remainder of these lending commitments is carried at fair value.

(2) These commitments are recorded at fair value within Trading assets and Trading liabilities in the consolidated statements of financial condition (see Note 4).

(3) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to December 31, 2013 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days and of the total amount at December 31, 2013, $42.9 billion settled within three business days.

(4) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $1.1 billion.

Letters of Credit and Other Financial Guarantees Obtained to Satisfy Collateral Requirements. The Company has outstanding letters of credit and other financial guarantees issued by third-party banks to certain of the Company's counterparties. The Company is contingently liable for these letters of credit and other financial guarantees, which are primarily used to provide collateral for securities and commodities borrowed and to satisfy various margin requirements in lieu of depositing cash or securities with these counterparties.

Investment Activities. The Company enters into commitments associated with its real estate, private equity and principal investment activities, which include alternative products.

Lending Commitments. Primary lending commitments are those that are originated by the Company whereas secondary lending commitments are purchased from third parties in the market. The commitments include lending commitments that are made to investment grade and non-investment grade companies in connection with corporate lending and other business activities.

Commitments for Secured Lending Transactions. Secured lending commitments are extended by the Company to companies and are secured by real estate or other physical assets of the borrower. Loans made under these arrangements typically are at variable rates and generally provide for over-collateralization based upon the creditworthiness of the borrower.

Forward Starting Reverse Repurchase Agreements. The Company has entered into forward starting securities purchased under agreements to resell (agreements that have a trade date at or prior to December 31, 2013 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations.

Commercial and Residential Mortgage-Related Commitments. The Company enters into forward purchase contracts involving residential mortgage loans, residential mortgage lending commitments to individuals and residential home equity lines of credit. In addition, the Company enters into commitments to originate commercial and residential mortgage loans.

Underwriting Commitments. The Company provides underwriting commitments in connection with its capital raising sources to a diverse group of corporate and other institutional clients.

Other Lending Commitments. Other commitments generally include commercial lending commitments to small businesses and commitments related to securities-based lending activities in connection with the Company's Wealth Management business segment.

The Company sponsors several non-consolidated investment funds for third-party investors where the Company typically acts as general partner of, and investment advisor to, these funds and typically commits to invest a minority of the capital of such funds, with subscribing third-party investors contributing the majority. The Company's employees, including its senior officers, as well as the Company's Directors, may participate on the same terms and conditions as other investors in certain of these funds that the Company forms primarily for client investment, except that the Company may waive or lower applicable fees and charges for its employees. The Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to these investment funds.

Premises and Equipment. The Company has non-cancelable operating leases covering premises and equipment (excluding commodities operating leases, shown separately). At December 31, 2013, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows (dollars in millions):

Year Ended	Operating Premises Leases
2014	$ 672
2015	656
2016	621
2017	554
2018	481
Thereafter	2,712

The total of minimum rentals to be received in the future under non-cancelable operating subleases at December 31, 2013 was $107 million.

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges. Total rent expense, net of sublease rental income, was $742 million, $765 million and $781 million in 2013, 2012 and 2011, respectively.

In connection with its commodities business, the Company enters into operating leases for both crude oil and refined products storage and for vessel charters. At December 31, 2013, future minimum rental commitments under such leases were as follows (dollars in millions):

Year Ended	Operating Equipment Leases
2014	$239
2015	149
2016	92
2017	87
2018	76
Thereafter	98

Guarantees.

The table below summarizes certain information regarding the Company's obligations under guarantee arrangements at December 31, 2013:

	Maximum Potential Payout/Notional					Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	Years to Maturity						
Type of Guarantee	Less than 1	1-3	3-5	Over 5	Total		
	(dollars in millions)						
Credit derivative contracts(1)	$ 313,836	$520,119	$500,241	$ 66,594	$1,400,790	$(16,994)	$ —
Other credit contracts	75	441	529	816	1,861	(457)	—
Non-credit derivative contracts(1)	1,249,932	794,776	353,559	474,921	2,873,188	54,098	—
Standby letters of credit and other financial guarantees issued(2)(3)	1,024	812	1,205	5,652	8,693	(208)	7,016
Market value guarantees	—	112	83	515	710	7	106
Liquidity facilities	2,328	—	—	—	2,328	(4)	3,042
Whole loan sales representations and warranties	—	—	—	23,755	23,755	56	—
Securitization representations and warranties	—	—	—	67,249	67,249	82	—
General partner guarantees	42	41	62	301	446	73	—

(1) Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 12.

(2) Approximately $2.0 billion of standby letters of credit are also reflected in the "Commitments" table above in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Trading assets or Trading liabilities in the consolidated statements of financial condition.

(3) Amounts include guarantees issued by consolidated real estate funds sponsored by the Company of approximately $13.8 million. These guarantees relate to obligations of the fund's investee entities, including guarantees related to capital expenditures and principal and interest debt payments.

The Company has obligations under certain guarantee arrangements, including contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others. The Company's use of guarantees is described below by type of guarantee:

Derivative Contracts. Certain derivative contracts meet the accounting definition of a guarantee, including certain written options, contingent forward contracts and credit default swaps (see Note 12 regarding credit derivatives in which the Company has sold credit protection to the counterparty). Although the Company's derivative arrangements do not specifically identify whether the derivative counterparty retains the underlying asset, liability or equity security, the Company has disclosed information regarding all derivative contracts that could meet the accounting definition of a guarantee. The maximum potential payout for certain derivative contracts, such as written interest rate caps and written foreign currency options, cannot be estimated, as increases in interest or foreign exchange rates in the future could possibly be unlimited. Therefore, in order to provide information regarding the maximum potential amount of future payments that the Company could be required to make under certain derivative contracts, the notional amount of the contracts has been disclosed. In certain situations, collateral may be held by the Company for those contracts that meet the definition of a guarantee. Generally, the Company sets collateral requirements by counterparty so that the collateral covers various transactions and products and is not allocated specifically to individual contracts. Also, the Company may recover amounts related to the underlying asset delivered to the Company under the derivative contract.

The Company records all derivative contracts at fair value. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company also manages its exposure to these derivative contracts through a variety of risk mitigation strategies, including, but not limited to, entering into offsetting economic hedge positions. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure.

Standby Letters of Credit and Other Financial Guarantees Issued. In connection with its corporate lending business and other corporate activities, the Company provides standby letters of credit and other financial guarantees to counterparties. Such arrangements represent obligations to make payments to third parties if the counterparty fails to fulfill its obligation under a borrowing arrangement or other contractual obligation. A majority of the Company's standby letters of credit is provided on behalf of counterparties that are investment grade.

Market Value Guarantees. Market value guarantees are issued to guarantee timely payment of a specified return to investors in certain affordable housing tax credit funds. These guarantees are designed to return an investor's contribution to a fund and the investor's share of tax losses and tax credits expected to be generated by a fund. From time to time, the Company may also guarantee return of principal invested, potentially including a specified rate of return, to fund investors.

Liquidity Facilities. The Company has entered into liquidity facilities with SPEs and other counterparties, whereby the Company is required to make certain payments if losses or defaults occur. Primarily, the Company acts as liquidity provider to municipal bond securitization SPEs and for standalone municipal bonds in which the holders of beneficial interests issued by these SPEs or the holders of the individual bonds, respectively, have the right to tender their interests for purchase by the Company on specified dates at a specified price. The Company often may have recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity facilities as well as make-whole or recourse provisions with the trust sponsors. Primarily all of the underlying assets in the SPEs are investment grade. Liquidity facilities provided to municipal tender option bond trusts are classified as derivatives.

Whole Loan Sale Guarantees. The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain whole loan sales. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. The Company's maximum potential payout related to such representations and warranties is equal to the current unpaid principal balance ("UPB") of such loans. The Company has information on the current UPB only when it services the loans. The amount included in the above table for the maximum potential payout of $23.8 billion includes the current UPB where known ($4.8 billion) and the UPB at the time of sale ($18.9 billion) when the current UPB is not known. The UPB at the time of the sale of all loans covered by these representations and warranties was approximately $44.9 billion. The related liability primarily relates to sales of loans to the federal mortgage agencies.

Securitization Representations and Warranties. As part of the Company's Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company. The extent and nature of the representations and warranties, if any, vary among different securitizations. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. The maximum potential amount of future payments the Company could be required to make would be equal to the current outstanding balances of, or losses associated with, the assets subject to breaches of such representations and warranties. The amount included in the above table for the maximum potential payout includes the current UPB where known and the UPB at the time of sale when the current UPB is not known.

Between 2004 and 2013, the Company sponsored approximately $148.0 billion of RMBS primarily containing U.S. residential loans that are outstanding at December 31, 2013. Of that amount, the Company made representations and warranties concerning approximately $47.0 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 $21.0 billion of loans. At December 31, 2013, the Company had recorded $82 million in the consolidated financial statements for payments owed as a result of breach of representations and warranties made in connection with these residential mortgages. At December 31, 2013, the current UPB for all the residential assets subject to such representations and warranties was approximately $17.2 billion and the cumulative losses associated with U.S. RMBS were approximately $13.5 billion. The Company did not make, or otherwise agree to be responsible for the representations and warranties made by third party sellers on approximately $79.9 billion of residential loans that it securitized during that time period. The Company has not sponsored any U.S. RMBS transactions since 2007.

The Company also made representations and warranties in connection with its role as an originator of certain commercial mortgage loans that it securitized in CMBS. Between 2004 and 2013, the Company originated approximately $50.6 billion and $13.0 billion of U.S. and non-U.S. commercial mortgage loans, respectively, that were placed into CMBS sponsored by the Company that are outstanding at December 31, 2013. At December 31, 2013, the Company had not accrued any amounts in the consolidated financial statements for payments owed as a result of breach of representations and warranties made in connection with these commercial mortgages. At December 31, 2013, the current UPB for all U.S. commercial mortgage loans subject to such representations and warranties was $33.0 billion. For the non-U.S. commercial mortgage loans, the amount included in the above table for the maximum potential payout includes the current UPB when known of $3.0 billion and the UPB at the time of sale when the current UPB is not known of $0.4 billion.

General Partner Guarantees. As a general partner in certain private equity and real estate partnerships, the Company receives certain distributions from the partnerships related to achieving certain return hurdles according to the provisions of the partnership agreements. The Company, from time to time, may be required to return all or a portion of such distributions to the limited partners in the event the limited partners do not achieve a certain return as specified in various partnership agreements, subject to certain limitations.

Other Guarantees and Indemnities.

In the normal course of business, the Company provides guarantees and indemnifications in a variety of commercial transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications are described below.

- Trust Preferred Securities. The Company has established Morgan Stanley Capital Trusts for the limited purpose of issuing trust preferred securities to third parties and lending the proceeds to the Company in exchange for junior subordinated debentures. The Company has directly guaranteed the repayment of the trust preferred securities to the holders thereof to the extent that the Company has made payments to a Morgan Stanley Capital Trust on the junior subordinated debentures. In the event that the Company does not make payments to a Morgan Stanley Capital Trust, holders of such series of trust preferred securities would not be able to rely upon the guarantee for payment of those amounts. The Company has not recorded any liability in the consolidated financial statements for these guarantees and believes that the occurrence of any events (*i.e.*, non-performance on the part of the paying agent) that would trigger payments under these contracts is remote. See Note 11.
- Indemnities. The Company provides standard indemnities to counterparties for certain contingent exposures and taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, certain annuity products and other financial arrangements. These indemnity payments could be required based on a change in the tax laws or a change in interpretation of applicable tax rulings or a change in factual circumstances. Certain contracts contain provisions that enable the Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated.
- Exchange/Clearinghouse Member Guarantees. The Company is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or derivative contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's guarantee obligations would arise only if the exchange or clearinghouse had previously exhausted its resources. The maximum potential payout under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.
- Merger and Acquisition Guarantees. The Company may, from time to time, in its role as investment banking advisor be required to provide guarantees in connection with certain European merger and acquisition transactions. If required by the regulating authorities, the Company provides a guarantee that the acquirer in the merger and acquisition transaction has or will have sufficient funds to complete the transaction and would then be required to make the acquisition payments in the event the acquirer's funds are insufficient at the completion date of the transaction. These arrangements generally cover the time frame from the transaction offer date to its closing date and, therefore, are generally short term in nature. The maximum potential amount of future payments that the Company could be required to make cannot be estimated. The Company believes the likelihood of any payment by the Company under these arrangements is remote given the level of the Company's due diligence associated with its role as investment banking advisor.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the Company's consolidated financial statements.

Contingencies.

Legal. 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 are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis related matters. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by government and self-regulatory agencies 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 and, while the Company has identified below any individual proceedings where the Company believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be probable or possible and reasonably estimable losses.

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. The Company expects future litigation accruals in general to continue to be elevated and the changes in accruals from period to period may fluctuate significantly, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

The Company incurred litigation expenses of approximately $1,952 million in 2013, $513 million in 2012 and $151 million in 2011. The litigation expenses incurred in 2013 were primarily due to settlements and reserve additions related to various matters, including the Company's February 7, 2014 agreement to settle the *Federal Housing Finance Agency, as Conservator v. Morgan Stanley et al.* litigation for $1,250 million, the Company's January 30, 2014 agreement in principle with the Staff of the Enforcement Division of the U.S. Securities and Exchange Commission (the "SEC") to resolve an investigation related to certain subprime RMBS transactions for $275 million, the Company's February 11, 2014 agreement to settle the *Cambridge Place Investment Management Inc. v. Morgan Stanley & Co., Inc., et al.* litigation, and the Company's January 23, 2014 agreement in principle to settle the *Metropolitan Life Insurance Company, et al. v. Morgan Stanley, et al.* litigation, which were reflected within the Institutional Securities business segment.

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation.

For certain other legal proceedings and investigations, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's consolidated financial statements as a whole, other than the matters referred to in the following paragraphs.

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 filed on June 10, 2010 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 August 11, 2011, plaintiff's Securities Act claims were dismissed with prejudice. The defendants filed answers to the amended complaints on October 7, 2011. On February 9, 2012, defendants' demurrers with respect to all other claims were overruled. On December 20, 2013, plaintiff's negligent misrepresentation claims were dismissed with prejudice. A bellwether trial is currently scheduled to begin in September 2014. The Company is not a defendant in connection with the securitizations at issue in that trial. At December 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in these cases was approximately $316 million, and the certificates had incurred actual losses of approximately $5 million. Based on currently available information, the Company believes it could incur a loss for this action up to the difference between the $316 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Company, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"). 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 February 28, 2011, the court denied the Company's motion to dismiss the complaint. Based on currently available information, the Company believes it could incur a loss of up to approximately $240 million plus pre- and post-judgment interest, fees and costs.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a complaint against the Company and other defendants in the Circuit Court of the State of Illinois styled *Federal Home Loan Bank of Chicago v. Bank of*

America Funding Corporation et al. The complaint alleges 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 this action was approximately $203 million. The complaint raises claims under Illinois law and seeks, among other things, to rescind the plaintiff's purchase of such certificates. On March 24, 2011, the court granted plaintiff leave to file an amended complaint. The Company filed its answer on December 21, 2012. On December 13, 2013, the court entered an order dismissing all claims related to one of the securitizations at issue. At December 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $94 million and certain certificates had incurred actual losses of approximately $1 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $94 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

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*. An amended complaint was filed on April 2, 2012 and 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 amended 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. The Company filed its answer on August 17, 2012. Trial is currently scheduled to begin in May 2015. At December 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $116 million, and the certificates had incurred actual losses of approximately $1 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $116 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus post-judgment interest, fees and costs. The Company may be entitled to an offset for interest received by the plaintiff prior to a judgment.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company is approximately $1 billion. The complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud and tortious interference with contract and seeks, among other things, compensatory damages, punitive damages, rescission and rescissionary damages associated with plaintiffs' purchases of such certificates. On October 16, 2012, plaintiffs filed an amended complaint which, among other things, increases the total amount of the certificates at issue by approximately $80 million, adds causes of action for fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On March 15, 2013, the court denied the defendants' motion to dismiss the amended complaint. On April 26, 2013, the defendants filed an answer to the amended complaint. At December 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $648 million, and the certificates had not yet incurred actual losses. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the

$648 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

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*. An amended complaint was filed on June 19, 2012 and 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 $385 million. The amended 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. On October 11, 2012, defendants filed motions to dismiss the amended complaint, which was granted in part and denied in part on September 30, 2013. The defendants filed an answer to the amended complaint on December 16, 2013. At December 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $79 million, and the certificates had incurred actual losses of $0.7 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $79 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On August 8, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*. and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. On October 9, 2012, the Company filed a motion to dismiss the complaint. On August 16, 2013, the court granted in part and denied in part the Company's motion to dismiss the complaint. On September 17, 2013, the Company filed its answer to the complaint. On September 26, 2013, and October 7, 2013, the Company and the plaintiffs, respectively, filed notices of appeal with respect to the court's August 16, 2013 decision. The plaintiff is seeking, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $527 million, plus pre- and post-interest, fees and costs.

On September 23, 2013, plaintiffs in *National Credit Union Administration Board v. Morgan Stanley & Co. Inc., et al.* filed a complaint against the Company and certain affiliates in the United States District Court for the Southern District of New York. The complaint alleges that defendants made untrue statements of material fact or omitted to state material facts in the sale to plaintiffs of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $417 million. The complaint alleges causes of action against the Company for violations of Section 11 and Section 12(a)(2) of the Securities Act of 1933, violations of the Texas Securities Act, and violations of the Illinois Securities Law of 1953 and seeks, among other things, rescissory and compensatory damages. The defendants filed a motion to dismiss the complaint on November 13, 2013. On January 22, 2014 the court granted defendants' motion to dismiss with respect to claims arising under the Securities Act of 1933 and denied defendants' motion to dismiss with respect to claims arising under Texas Securities Act and the Illinois Securities Law of 1953. At December 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $225 million, and the certificates had incurred actual losses of $23 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $225 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

14. Regulatory Requirements.

Morgan Stanley. The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency establishes similar capital requirements and standards for MSBNA and MSPBNA.

As of December 31, 2013, the Company calculated its capital ratios and risk-weighted assets ("RWAs") in accordance with the existing capital adequacy standards for financial holding companies adopted by the Federal Reserve. These existing capital 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 U.S. banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years.

In December 2010, the Basel Committee reached an agreement on Basel III. In July 2013, the U.S. banking regulators promulgated final rules to implement many aspects of Basel III (the "U.S. Basel III final rule"). The U.S. Basel III final rule contains new capital standards that raise capital requirements, strengthen counterparty credit risk capital requirements, introduce a leverage ratio as a supplemental measure to the risk-based ratio and replace the use of externally developed credit ratings with alternatives such as the Organisation for Economic Co-operation and Development's country risk classifications. Under the U.S. Basel III final rule, the Company is subject, on a fully phased in basis, to a minimum Common Equity Tier 1 risk-based capital ratio of 4.5%, a minimum Tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 8%. The Company is also subject to a 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed, up to a 2.5% Common Equity Tier 1 countercyclical buffer on a fully phased-in basis by 2019. Failure to maintain such buffers will result in restrictions on the Company's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. In addition, certain new items will be deducted from Common Equity Tier 1 capital and certain existing deductions will be modified. The majority of these capital deductions is subject to a phase-in schedule and will be fully phased-in by 2018. Under the U.S. Basel III final rule, unrealized gains and losses on available-for-sale securities will be reflected in Common Equity Tier 1 capital, subject to a phase-in schedule. The U.S. Basel III final rule also subjects certain banking organizations, including the Company, to a minimum supplementary leverage ratio of 3%. The Company became subject to the U.S. Basel III final rule beginning on January 1, 2014. Certain requirements in the U.S. Basel III final rule, including the minimum risk-based capital ratios and new capital buffers, will be phased in over several years.

U.S. banking regulators have 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 minimum capital requirements that are not less than the generally applicable risk-based capital requirements. Currently, this minimum "capital floor" is based on Basel I. Beginning on January 1, 2015, the U.S. Basel III final rule will replace the current Basel I-based "capital floor" with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes. The "capital floor" applies to the calculation of minimum risk-based capital requirements as well as the capital conservation buffer and, if deployed, the countercyclical capital buffer. Accordingly, the methods for calculating the Company's capital ratios will change as the U.S. Basel III final rule's revisions to the numerator and denominator are phased in and following the Company's completion of the U.S. Basel III advanced approach parallel run period. These ongoing methodological changes may result in differences in the Company's reported capital ratios from one reporting period to the next that are independent of changes to the Company's capital base, asset composition, off-balance sheet exposures or risk profile.

On January 1, 2013, the U.S. banking regulators' rules to implement the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book as well as incorporated add-ons for stressed Value-at-Risk ("VaR") and incremental risk requirements ("market risk capital framework amendment").

At December 31, 2013, the Company's capital levels calculated under Basel I, inclusive of the market risk capital framework amendment, were in excess of well-capitalized levels with ratios of Tier 1 capital to RWAs of 15.7% and total capital to RWAs of 16.9% (6% and 10% being well-capitalized for regulatory purposes, respectively). The Company's ratio of Tier 1 common capital to RWAs was 12.8% (5% under stressed conditions is the current minimum under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") framework). Financial holding companies, including the Company, are subject to a Tier 1 leverage ratio defined by the Federal Reserve. Consistent with the Federal Reserve's definition, the Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets and financial and non-financial equity investments). The adjusted average total assets are derived using weekly balances for the period. At December 31, 2013, the Company was in compliance with the Federal Reserve's Tier 1 leverage requirement, with a Tier 1 leverage ratio of 7.6% (5% is the current well-capitalized standard for regulatory purposes).

The following table summarizes the capital measures for the Company:

	December 31, 2013		December 31, 2012	
	Balance	Ratio	Balance	Ratio
	(dollars in millions)			
Tier 1 common capital(1)	$ 49,917	12.8%	$ 44,794	14.6%
Tier 1 capital(1)	61,007	15.7%	54,360	17.7%
Total capital(1)	66,000	16.9%	56,626	18.5%
RWAs(1)	389,675	—	306,746	—
Adjusted average total assets	805,838	—	769,495	—
Tier 1 leverage	—	7.6%	—	7.1%

(1) Effective January 1, 2013, in accordance with the U.S. banking regulators' rules the Company implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", which increased the capital requirement for securitizations and correlation trading within the Company's trading book as well as incorporated add-ons for stressed VaR and incremental risk requirements. Under the market risk capital framework amendment, total RWAs would have been approximately $424 billion at December 31, 2012. At December 31, 2012, the capital ratios would have been approximately as follows: Total capital ratio 13.4%, Tier 1 common capital ratio 10.6% and Tier 1 capital ratio 12.8%.

The Company's U.S. Bank Operating Subsidiaries. The Company's U.S. bank operating subsidiaries are subject to various regulatory capital requirements as administered by U.S. federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's U.S. bank operating subsidiaries' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company's U.S. bank operating subsidiaries must meet specific capital guidelines that involve quantitative measures of the Company's U.S. bank operating subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

At December 31, 2013, the Company's U.S. bank operating subsidiaries met all capital adequacy requirements to which they are subject and exceeded all regulatory mandated and targeted minimum regulatory capital requirements to be well-capitalized. There are no conditions or events that management believes have changed the Company's U.S. bank operating subsidiaries' category.

The table below sets forth the capital information for the Company's U.S. bank operating subsidiaries, which are U.S. depository institutions, calculated in a manner consistent with the guidelines described under Basel I in 2012. In 2013, the RWAs disclosed reflect the implementation of the market risk capital framework amendment, commonly referred to as "Basel 2.5", which became effective on January 1, 2013.

	December 31, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(dollars in millions)			
Total capital (to RWAs):				
MSBNA(1)	$12,468	16.5%	$11,509	16.7%
MSPBNA	$ 2,184	26.6%	$ 1,673	28.8%
Tier 1 capital (to RWAs):				
MSBNA(1)	$10,805	14.3%	$ 9,918	14.4%
MSPBNA	$ 2,177	26.5%	$ 1,665	28.7%
Tier 1 leverage:				
MSBNA	$10,805	10.6%	$ 9,918	13.3%
MSPBNA	$ 2,177	9.7%	$ 1,665	10.6%

[1] MSBNA's Tier 1 capital ratio and Total capital ratio at December 31, 2012 were each reduced by approximately 50 basis points due to an approximate $2.0 billion adjustment to notional value of derivatives contracts, which resulted in an increase to MSBNA's RWAs by such amount.

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well-capitalized, must maintain a ratio of total capital to RWAs of 10%, a capital ratio of Tier 1 capital to RWAs of 6%, and a ratio of Tier 1 capital to average total assets (leverage ratio) of 5%. Each U.S. depository institution subsidiary of the Company must be well-capitalized in order for the Company to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At December 31, 2013 and December 31, 2012, the Company's U.S. depository institutions maintained capital at levels in excess of the universally mandated well-capitalized levels. These subsidiary depository institutions maintain capital at levels sufficiently in excess of the "well-capitalized" requirements to address any additional capital needs and requirements identified by the federal banking regulators.

MS&Co. and Other Broker-Dealers. MS&Co. is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the SEC, the Financial Industry Regulatory Authority, Inc. and the U.S. Commodity Futures Trading Commission (the "CFTC"). MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co.'s net capital totaled $7,201 million and $7,820 million at December 31, 2013 and December 31, 2012, respectively, which exceeded the amount required by $5,627 million and $6,453 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1. MS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. At December 31, 2013, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

MSSB LLC is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the SEC, the Financial Industry Regulatory Authority, Inc. and the CFTC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements. MSSB LLC's net capital totaled $3,489 million and $2,167 million at December 31, 2013 and December 31, 2012, respectively, which exceeded the amount required by $3,308 million and $2,017 million, respectively.

MSIP, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Prudential Regulation Authority, and MSMS, a Tokyo-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated with capital in excess of their respective regulatory capital requirements.

Other Regulated Subsidiaries. Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated with capital in excess of their local capital adequacy requirements.

Morgan Stanley Derivative Products Inc. ("MSDP"), a derivative products subsidiary rated A3 by Moody's and AA- by S&P, maintains certain operating restrictions that have been reviewed by Moody's and S&P. MSDP is operated such that creditors of the Company should not expect to have any claims on the assets of MSDP, unless and until the obligations to its own creditors are satisfied in full. Creditors of MSDP should not expect to have any claims on the assets of the Company or any of its affiliates, other than the respective assets of MSDP.

The regulatory capital requirements referred to above, and certain covenants contained in various agreements governing indebtedness of the Company, may restrict the Company's ability to withdraw capital from its subsidiaries. At December 31, 2013 and 2012, approximately $21.9 billion and $17.6 billion, respectively, of net assets of consolidated subsidiaries may be restricted as to the payment of cash dividends and advances to the parent company.

15. Redeemable Noncontrolling Interests and Total Equity.

Redeemable Noncontrolling Interests.

Redeemable noncontrolling interests related to the Wealth Management JV (see Note 3). Changes in redeemable noncontrolling interests for 2013 and 2012 were as follows:

	2013	2012
	(dollars in millions)	
Balance at beginning of period	$ 4,309	$ —
Reclassification from nonredeemable noncontrolling interests	—	4,288
Net income applicable to redeemable noncontrolling interests	222	124
Net change in AOCI	—	(2)
Distributions	(38)	(97)
Other	(11)	(4)
Carrying value of additional stake in Wealth Management JV purchased from Citi	(4,482)	—
Balance at end of period	$ —	$4,309

Total Equity.

Morgan Stanley Shareholders' Equity.

Common Stock. Changes in shares of common stock outstanding for 2013, 2012 and 2011 were as follows (share data in millions):

	2013	2012	2011
Shares outstanding at beginning of period	1,974	1,927	1,512
Public offerings and other issuances of common stock	—	—	385
Net impact of other share activity	(2)	60	41
Treasury stock purchases(1)	(27)	(13)	(11)
Shares outstanding at end of period	1,945	1,974	1,927

[1] Treasury stock purchases include repurchases of common stock for employee tax withholding.

Treasury Shares. In July 2013, the Company received no objection from the Federal Reserve to repurchase through March 31, 2014 up to $500 million of the Company's outstanding common stock under rules relating to annual capital distributions (Title 12 of the Code of Federal Regulations, Section 225.8, *Capital Planning*). Share repurchases are made pursuant to the share repurchase program previously authorized by the Company's Board of Directors and are exercised from time to time at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time (see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II, Item 5).

During 2013, the Company repurchased approximately $350 million of the Company's outstanding common stock as part of its share repurchase program. During 2012, the Company did not repurchase common stock as part of its share repurchase program. At December 31, 2013, the Company had approximately $1.2 billion remaining under its share repurchase program out of the $6 billion authorized by the Board of Directors in December 2006. The share repurchase program considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. Share repurchases by the Company are subject to regulatory approval.

MUFG Stock Conversion. On June 30, 2011, the Company's outstanding Series B Preferred Stock owned by MUFG with a face value of $7.8 billion (carrying value $8.1 billion) and a 10% dividend was converted into 385,464,097 shares of Company common stock, including approximately 75 million shares resulting from the adjustment to the conversion ratio pursuant to the transaction agreement. As a result of the adjustment to the conversion ratio, the Company incurred a one-time, non-cash negative adjustment of approximately $1.7 billion in its calculation of basic and diluted earnings per share during 2011.

Employee Stock Trusts. The Company has established Employee Stock Trusts to provide common stock voting rights to certain employees who hold outstanding RSUs, excluding the awards granted for 2012 performance year. The assets of the Employee Stock Trusts are consolidated with those of the Company, and the value of the Company's stock held in the Employee Stock Trusts is classified in Morgan Stanley shareholders' equity and generally accounted for in a manner similar to treasury stock.

Preferred Stock. The Company is authorized to issue 30 million shares of preferred stock and the Company's preferred stock outstanding consisted of the following:

Series	Shares Outstanding at December 31, 2013	Liquidation Preference per Share	Carrying Value At December 31, 2013	Carrying Value At December 31, 2012
			(dollars in millions)	
A	44,000	$25,000	$1,100	$1,100
C	519,882	1,000	408	408
E	34,500	25,000	862	—
F	34,000	25,000	850	—
Total			$3,220	$1,508

The Company's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 14).

Series A Preferred Stock. In July 2006, the Company issued 44,000,000 Depositary Shares in an aggregate of $1,100 million. Each Depositary Share represents 1/1,000th of a Share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value ("Series A Preferred Stock"). The Series A Preferred Stock is redeemable at the Company's option, in whole or in part, on or after July 15, 2011 at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series A Preferred Stock also has a preference over the Company's common stock upon liquidation. In December 2013, the Company declared a quarterly dividend of $255.56 per share of Series A Preferred Stock that was paid on January 15, 2014 to preferred shareholders of record on December 31, 2013.

Series B and Series C Preferred Stock. On October 13, 2008, the Company issued to MUFG 7,839,209 shares of Series B Preferred Stock and 1,160,791 shares of Series C Preferred Stock for an aggregate purchase price of $9 billion.

The Series C Preferred Stock is redeemable by the Company, in whole or in part, on or after October 15, 2011 at a redemption price of $1,100 per share. Dividends on the Series C Preferred Stock are payable, on a non-cumulative basis, as and if declared by the Board of Directors of the Company, in cash, at the rate of 10% per annum of the liquidation preference of $1,000 per share. In December 2013, the Company declared a quarterly dividend of $25.00 per share of Series C Preferred Stock that was paid on January 15, 2014 to preferred shareholders of record on December 31, 2013.

The $9 billion in proceeds was allocated to the Series B Preferred Stock and the Series C Preferred Stock based on their relative fair values at issuance (approximately $8.1 billion was allocated to the Series B Preferred Stock and approximately $0.9 billion to the Series C Preferred Stock). Upon redemption by the Company, the excess of the redemption value of $1,100 per share over the carrying value of the Series C Preferred Stock ($0.9 billion allocated at inception or approximately $784 per share) will be charged to Retained earnings (*i.e.*, treated in a manner similar to the treatment of dividends paid). The amount charged to Retained earnings will be deducted from the numerator in calculating basic and diluted earnings per share during the related reporting period in which the Series C Preferred Stock is redeemed by the Company (see Note 16 for additional details).

During 2009, 640,909 shares of the Series C Preferred Stock were redeemed with an aggregate price equal to the aggregate price exchanged by MUFG for approximately $0.7 billion of common stock.

During 2011, the Company and MUFG completed the conversion of MUFG Series B Preferred Stock (see "MUFG Stock Conversion" above).

Series E Preferred Stock. On September 30, 2013, the Company issued 34,500,000 Depositary Shares, for an aggregate price of $862 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series E Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value ("Series E Preferred Stock"). The Series E Preferred Stock is redeemable at the Company's option, (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2023 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depository Share). The Series E Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series E Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $854 million. In December 2013, the Company declared a quarterly dividend of $519.53 per share of Series E Preferred Stock that was paid on January 15, 2014 to preferred shareholders of record on December 31, 2013.

Series F Preferred Stock. On December 10, 2013, the Company issued 34,000,000 Depositary Shares, for an aggregate price of $850 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series F Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value ("Series F Preferred Stock"). The Series F Preferred Stock is redeemable at the Company's option, (i) in whole or in part, from time to time, on any dividend payment date on or after January 15, 2024 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series F Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series F Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $842 million. In December 2013, the Company declared the initial quarterly dividend of $167.10 per share of Series F Preferred Stock that was paid on January 15, 2014 to preferred shareholders of record on December 31, 2013.

Accumulated Other Comprehensive Loss.

The following table presents changes in AOCI by component, net of noncontrolling interests, in 2013 (dollars in millions):

	Foreign Currency Translation Adjustments	Net Change in Cash Flow Hedges	Change in Net Unrealized Gains (Losses) on Securities Available for Sale	Pension, Postretirement and Other Related Adjustments	Total
Balance at December 31, 2012	$(123)	$ (5)	$ 151	$(539)	$ (516)
Other comprehensive income (loss) before reclassifications	(143)	—	(406)	(16)	(565)
Amounts reclassified from AOCI	—	4	(27)	11	(12)
Net other comprehensive income (loss) during the period	(143)	4	(433)	(5)	(577)
Balance at December 31, 2013	$(266)	$ (1)	$(282)	$(544)	$(1,093)

The Company had no significant reclassifications out of AOCI for 2013.

Cumulative Foreign Currency Translation Adjustments. Cumulative foreign currency translation adjustments include gains or losses resulting from translating foreign currency financial statements from their respective functional currencies to U.S. dollars, net of hedge gains or losses and related tax effects. The Company uses foreign currency contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency subsidiaries. Increases or decreases in the value of the Company's net foreign investments generally are tax deferred for U.S. purposes, but the related hedge gains and losses are taxable currently. The Company attempts to protect its net book value from the effects of fluctuations in currency exchange rates on its net investments in non-U.S. dollar subsidiaries by selling the appropriate non-U.S. dollar currency in the forward market. Under some circumstances, however, the Company may elect not to hedge its net investments in certain foreign operations due to market conditions, including the availability of various currency contracts at acceptable costs. Information at December 31, 2013 and December 31, 2012 relating to the effects on cumulative foreign currency translation adjustments resulting from translation of foreign currency financial statements and from gains and losses from hedges of the Company's net investments in non-U.S. dollar functional currency subsidiaries is summarized below:

	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Net investments in non-U.S. dollar functional currency subsidiaries subject to hedges	$11,708	$13,811
Cumulative foreign currency translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ (259)	$ 348
Cumulative foreign currency translation adjustments resulting from realized or unrealized losses on hedges, net of tax(1)	(7)	(471)
Total cumulative foreign currency translation adjustments, net of tax	$ (266)	$ (123)

[1] A gain of $77 million, net of tax, related to net investment hedges was reclassified from other comprehensive income into income during 2012. The amount primarily related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts (see Note 12 for further information).

Nonredeemable Noncontrolling Interests.

Changes in nonredeemable noncontrolling interests in 2013 primarily resulted from distributions related to MSMS of $292 million and a real estate fund of $214 million. In September 2012, the Company reclassified approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests for Citi's remaining 35% interest in the Wealth Management JV (see Note 3). Changes in nonredeemable noncontrolling interests in 2012 also included distributions related to MSMS of $151 million.

16. Earnings per Common Share.

Basic EPS is computed by dividing earnings (loss) applicable to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Common shares outstanding include common stock and vested RSUs where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. The Company calculates EPS using the two-class method and determines whether instruments granted in share-based payment transactions are participating securities (see Note 2). The following table presents the calculation of basic and diluted EPS (in millions, except for per share data):

	2013	2012	2011
Basic EPS:			
Income from continuing operations	$3,656	$ 757	$ 4,696
Net gain (loss) from discontinued operations	(43)	(41)	(51)
Net income	3,613	716	4,645
Net income applicable to redeemable noncontrolling interests	222	124	—
Net income applicable to nonredeemable noncontrolling interests	459	524	535
Net income applicable to Morgan Stanley	2,932	68	4,110
Less: Preferred dividends (Series A Preferred Stock)	(44)	(44)	(44)
Less: Preferred dividends (Series B Preferred Stock)	—	—	(196)
Less: MUFG stock conversion	—	—	(1,726)
Less: Preferred dividends (Series C Preferred Stock)	(52)	(52)	(52)
Less: Preferred dividends (Series E Preferred Stock)	(18)	—	—
Less: Preferred dividends (Series F Preferred Stock)	(6)	—	—
Less: Wealth Management JV redemption value adjustment (see Note 3)	(151)	—	—
Less: Allocation of (earnings) loss to participating RSUs(1):			
From continuing operations	(6)	(2)	(26)
From discontinued operations	—	—	1
Earnings (loss) applicable to Morgan Stanley common shareholders	$2,655	$ (30)	$ 2,067
Weighted average common shares outstanding	1,906	1,886	1,655
Earnings (loss) per basic common share:			
Income from continuing operations	$ 1.42	$ 0.02	$ 1.28
Net gain (loss) from discontinued operations	(0.03)	(0.04)	(0.03)
Earnings (loss) per basic common share	$ 1.39	$ (0.02)	$ 1.25
Diluted EPS:			
Earnings (loss) applicable to Morgan Stanley common shareholders	$2,655	$ (30)	$ 2,067
Weighted average common shares outstanding	1,906	1,886	1,655
Effect of dilutive securities:			
Stock options and RSUs(1)	51	33	20
Weighted average common shares outstanding and common stock equivalents	1,957	1,919	1,675
Earnings (loss) per diluted common share:			
Income from continuing operations	$ 1.38	$ 0.02	$ 1.27
Net gain (loss) from discontinued operations	(0.02)	(0.04)	(0.04)
Earnings (loss) per diluted common share	$ 1.36	$ (0.02)	$ 1.23

[1] RSUs that are considered participating securities participate in all of the earnings of the Company in the computation of basic EPS, and, therefore, such RSUs are not included as incremental shares in the diluted calculation.

The following securities were considered antidilutive and, therefore, were excluded from the computation of diluted EPS:

Number of Antidilutive Securities Outstanding at End of Period:	2013	2012	2011
	(shares in millions)		
RSUs and performance-based stock units	3	8	21
Stock options	33	42	57
Total	36	50	78

17. Interest Income and Interest Expense.

Details of Interest income and Interest expense were as follows:

	2013	2012	2011
	(dollars in millions)		
Interest income(1):			
Trading assets(2)	$2,292	$2,736	$3,593
Securities available for sale	447	343	348
Loans	1,121	643	356
Interest bearing deposits with banks	129	124	186
Federal funds sold and securities purchased under agreements to resell and Securities borrowed	(20)	364	886
Other	1,240	1,482	1,865
Total interest income	$5,209	$5,692	$7,234
Interest expense(1):			
Deposits	$ 159	$ 181	$ 236
Commercial paper and other short-term borrowings	20	38	41
Long-term debt	3,758	4,622	4,912
Securities sold under agreements to repurchase and Securities loaned	1,469	1,805	1,925
Other	(975)	(749)	(231)
Total interest expense	$4,431	$5,897	$6,883
Net interest	$ 778	$ (205)	$ 351

[1] Interest income and expense are recorded within the consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instrument's fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.

[2] Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.

18. Deferred Compensation Plans.

The Company maintains various deferred compensation plans for the benefit of its employees. The two principal forms of deferred compensation are granted under several stock-based compensation and cash-based compensation plans.

Stock-Based Compensation Plans. The accounting guidance for stock-based compensation requires measurement of compensation cost for stock-based awards at fair value and recognition of compensation cost over the service period, net of estimated forfeitures (see Note 2).

The components of the Company's stock-based compensation expense (net of cancellations) are presented below:

	2013	2012	2011
	(dollars in millions)		
Restricted stock units(1)	$1,140	$864	$1,057
Stock options	15	4	24
Performance-based stock units	29	29	32
Total(2)	$1,184	$897	$1,113

(1) Amounts for 2013, 2012 and 2011 include $25 million, $31 million and $186 million, respectively, related to stock-based awards that were granted in 2014, 2013 and 2012, respectively, to employees who satisfied retirement-eligible requirements under award terms that do not contain a service period.

(2) Annual expense fluctuations are primarily due to the introduction in 2012 of a new vesting requirement for certain employees who satisfy existing retirement-eligible requirements to provide a one-year advance notice of their intention to retire from the Company. As such, expense recognition for these awards begins after the grant date (see Note 2).

The table above excludes stock-based compensation expense recorded in discontinued operations, which was approximately $3 million in 2012. See Note 1 for additional information on discontinued operations.

The tax benefit related to stock-based compensation expense was $371 million, $306 million and $383 million for 2013, 2012 and 2011, respectively. The tax benefit for stock-based compensation expense included in discontinued operations was $1 million in 2012.

At December 31, 2013, the Company had $749 million of unrecognized compensation cost related to unvested stock-based awards. Absent estimated or actual forfeitures or cancellations, this amount of unrecognized compensation cost will be recognized as $470 million in 2014, $205 million in 2015 and $74 million thereafter. These amounts do not include 2013 performance year awards granted in January 2014, which will begin to be amortized in 2014.

In connection with awards under its stock-based compensation plans, the Company is authorized to issue shares of its common stock held in treasury or newly issued shares. At December 31, 2013, approximately 107 million shares were available for future grant under these plans.

The Company generally uses treasury shares, if available, to deliver shares to employees and has an ongoing repurchase authorization that includes repurchases in connection with awards granted under its stock-based compensation plans. Share repurchases by the Company are subject to regulatory approval. See Note 15 for additional information on the Company's share repurchase program.

Restricted Stock Units. The Company has granted restricted stock unit awards pursuant to several stock-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation with awards made in the form of restricted common stock or in the right to receive unrestricted shares of common stock in the future. Awards under these plans are generally subject to vesting over time contingent upon continued employment and to restrictions on sale, transfer or assignment until the end of a specified period, generally one to three years from the date of grant. All or a portion of an award may be canceled if employment is terminated before the end of the relevant restriction period. All or a portion of a vested award also may be canceled in certain limited situations, including termination for cause during the relevant restriction period. Recipients of stock-based awards may have voting rights, at the Company's discretion, and generally receive dividend equivalents.

The following table sets forth activity relating to the Company's vested and unvested RSUs (share data in millions):

	2013	
	Number of Shares	Weighted Average Grant Date Fair Value
RSUs at beginning of period	122	$24.29
Granted	57	22.72
Conversions to common stock	(41)	28.51
Canceled	(6)	22.21
RSUs at end of period(1)	132	$22.41

(1) At December 31, 2013, approximately 121 million RSUs with a weighted average grant date fair value of $22.47 were vested or expected to vest.

The weighted average price for RSUs granted during 2012 and 2011 was $18.09 and $28.94, respectively. At December 31, 2013, the weighted average remaining term until delivery for the Company's outstanding RSUs was approximately 1.3 years.

At December 31, 2013, the intrinsic value of outstanding RSUs was $4,130 million.

The total fair market value of RSUs converted to common stock during 2013, 2012 and 2011 was $939 million, $660 million and $935 million, respectively.

The following table sets forth activity relating to the Company's unvested RSUs (share data in millions):

	2013	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested RSUs at beginning of period	83	$23.83
Granted	57	22.72
Vested	(36)	26.67
Canceled	(6)	22.19
Unvested RSUs at end of period(1)	98	$22.29

(1) Unvested RSUs represent awards where recipients have yet to satisfy either the explicit vesting terms or retirement-eligible requirements. At December 31, 2013, approximately 87 million unvested RSUs with a weighted average grant date fair value of $22.35 were expected to vest.

The aggregate fair value of awards that vested during 2013, 2012 and 2011 was $842 million, $753 million and $870 million, respectively.

Stock Options. The Company has granted stock option awards pursuant to several stock-based compensation plans. The plans provide for the deferral of a portion of certain key employees' incentive compensation with awards made in the form of stock options generally having an exercise price not less than the fair value of the Company's common stock on the date of grant. Such stock option awards generally become exercisable over a three-year period and expire five to 10 years from the date of grant, subject to accelerated expiration upon termination of employment. Stock option awards have vesting, restriction and cancellation provisions that are generally similar to those in restricted stock units. The weighted average fair value of the Company's options granted during 2013 and 2011 were $5.41 and $8.24, respectively, utilizing the following weighted average assumptions:

Grant Year	Risk-Free Interest Rate	Expected Life	Expected Stock Price Volatility	Expected Dividend Yield
2013	0.6%	3.9 years	32.0%	0.9%
2011	2.1%	5.0 years	32.7%	1.5%

No options were granted during 2012.

The Company's expected option life has been determined based upon historical experience. The expected stock price volatility assumption was determined using the implied volatility of exchange-traded options, in accordance with accounting guidance for share-based payments. The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues.

The following table sets forth activity relating to the Company's stock options (options data in millions):

	2013	
	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of period	42	$48.37
Granted	3	22.98
Canceled	(12)	39.93
Options outstanding at end of period(1)	33	49.40
Options exercisable at end of period	30	52.09

(1) At December 31, 2013, approximately 30 million options with a weighted average exercise price of $51.50 were vested.

There were no stock options exercised during 2013, 2012 or 2011. At December 31, 2013, the intrinsic value of in-the-money exercisable stock options was $7 million.

The following table presents information relating to the Company's stock options outstanding at December 31, 2013 (options data in millions):

At December 31, 2013	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Life (Years)	Number Exercisable	Weighted Average Exercise Price	Average Remaining Life (Years)
$22.00 – $39.99	6	$26.88	4.0	3	$28.94	4.0
$40.00 – $49.99	15	46.51	0.2	15	46.51	0.2
$50.00 – $59.99	1	52.08	2.0	1	52.08	2.0
$60.00 – $76.99	11	66.75	2.9	11	66.75	2.9
Total	33			30		

Performance-Based Stock Units. The Company has granted PSUs to certain senior executives. These PSUs will vest and convert to shares of common stock at the end of the performance period only if the Company satisfies predetermined performance and market goals over the three-year performance period that began on

January 1 of the grant year and ends three years later on December 31. Under the terms of the grant, the number of PSUs that will actually vest and convert to shares will be based on the extent to which the Company achieves the specified performance goals during the performance period. Performance-based stock unit awards have vesting, restriction and cancellation provisions that are generally similar to those in restricted stock units.

One-half of the award will be earned based on the Company's return on average common shareholders' equity, excluding the impact of the fluctuation in the Company's credit spreads and other credit factors for certain of the Company's long-term and short-term borrowings, primarily structured notes, that are accounted for at fair value ("MS Average ROE"). For PSUs granted after 2011, the MS Average ROE also excludes certain gains or losses associated with the sale of specified businesses, specified goodwill impairments, certain gains or losses associated with specified legal settlements related to business activities conducted prior to January 1, 2011 and specified cumulative catch-up adjustments resulting from changes in an existing, or application of a new, accounting principle that is not applied on a fully retrospective basis. The number of PSUs ultimately earned for this portion of the awards will be applied by a multiplier as follows:

	Minimum		Maximum	
Grant Year	MS Average ROE	Multiplier	MS Average ROE	Multiplier
2013	Less than 5%	0.0	13% or more	2.0
2012	Less than 6%	0.0	12% or more	1.5
2011	Less than 7.5%	0.0	18% or more	2.0

The fair value per share of this portion of the award for 2013, 2012 and 2011 was $22.85, $18.16 and $29.89, respectively.

One-half of the award will be earned based on the Company's total shareholder return ("TSR"), relative to the S&P Financial Sectors Index (for the 2013 and 2012 awards) and to members of a comparison peer group (for the 2011 award). The number of PSUs ultimately earned for this portion of the awards will be applied by a multiplier as follows:

		Minimum		Maximum	
Year	Metrics	TSR	Multiplier	TSR	Multiplier
2013	Comparison of TSR	Below	Down to 0.0	Above	Up to 2.0
2012	Comparison of TSR	Below	Down to 0.0	Above	Up to 1.5
2011	Ranking within the comparison group	Rank 9 or 10	0.0	Rank 1	2.0

The fair value per share of this portion of the award for 2013, 2012 and 2011 was $34.65, $20.42 and $43.14, respectively, estimated on the date of grant using a Monte Carlo simulation and the following assumptions:

Grant Year	Risk-Free Interest Rate	Expected Stock Price Volatility	Expected Dividend Yield
2013	0.4%	45.4%	0.0%
2012	0.4%	56.0%	1.1%
2011	1.0%	89.0%	1.5%

Because the payout depends on the Company's total shareholder return relative to a comparison group, the valuation also depended on the performance of the stocks in the comparison group as well as estimates of the correlations among their performance. The expected stock price volatility assumption was determined using historical volatility because correlation coefficients can only be developed through historical volatility. The expected dividend yield was based on historical dividend payments. The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues.

	2013
	Number of Shares
	(in millions)
PSUs at beginning of period	5
Granted	1
Canceled	(2)
PSUs at end of period	4

Deferred Cash-Based Compensation Plans. The Company maintains various deferred cash-based compensation plans for the benefit of certain current and former employees that provide a return to the plan participants based upon the performance of various referenced investments. The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred cash-based compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues.

The components of the Company's deferred compensation expense (net of cancellations) are presented below:

	2013	2012	2011
	(dollars in millions)		
Deferred cash-based awards(1)	$1,490	$1,815	$1,809
Return on referenced investments	772	435	132
Total	$2,262	$2,250	$1,941

(1) Amounts for 2013, 2012 and 2011 include $78 million, $93 million and $113 million, respectively, related to deferred cash-based awards that were granted in 2014, 2013 and 2012, respectively, to employees who satisfied retirement-eligible requirements under award terms that do not contain a service period.

The table above excludes deferred cash-based compensation expense recorded in discontinued operations, which was approximately $7 million in 2012 and $7 million in 2011. See Note 1 for additional information on discontinued operations.

At December 31, 2013, the Company had approximately $672 million of unrecognized compensation cost related to unvested deferred cash-based awards (excluding unrecognized expense for returns on referenced investments). Absent actual cancellations and any future return on referenced investments, this amount of unrecognized compensation cost will be recognized as $361 million in 2014, $162 million in 2015 and $149 million thereafter. These amounts do not include 2013 performance year awards granted in January 2014, which will begin to be amortized in 2014.

2013 Performance Year Deferred Compensation Awards. In January 2014, the Company granted approximately $1.2 billion of stock-based awards and $1.4 billion of deferred cash-based awards related to the 2013 performance year that contain a future service requirement. Absent estimated or actual forfeitures or cancellations or accelerations, and any future return on referenced investments, the annual compensation cost for these awards will be recognized as follows:

	2014	2015	Thereafter	Total
		(dollars in millions)		
Stock-based awards	$ 749	$309	$169	$1,227
Deferred cash-based awards	990	259	142	1,391
	$1,739	$568	$311	$2,618

19. Employee Benefit Plans.

The Company sponsors various pension plans for the majority of its U.S. and non-U.S. employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. employees. The Company also provides certain postemployment benefits to certain former employees or inactive employees prior to retirement.

Pension and Other Postretirement Plans. Substantially all of the U.S. employees of the Company and its U.S. affiliates who were hired before July 1, 2007 are covered by the U.S. pension plan, a non-contributory, defined benefit pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the "U.S. Qualified Plan"). Unfunded supplementary plans (the "Supplemental Plans") cover certain executives. In addition, certain of the Company's non-U.S. subsidiaries also have defined benefit pension plans covering substantially all of their employees. These pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. The Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax laws. Liabilities for benefits payable under the Supplemental Plans are accrued by the Company and are funded when paid to the participants and beneficiaries. The Company's U.S. Qualified Plan ceased future benefit accruals after December 31, 2010.

The Company also has an unfunded postretirement benefit plan that provides medical and life insurance for eligible U.S. retirees and medical insurance for their dependents.

Net Periodic Benefit Expense.

The following table presents the components of the net periodic benefit expense (income) for 2013, 2012 and 2011:

	Pension			Postretirement		
	2013	2012	2011	2013	2012	2011
			(dollars in millions)			
Service cost, benefits earned during the period	$ 23	$ 26	$ 27	$ 4	$ 4	$ 4
Interest cost on projected benefit obligation	151	156	158	7	7	8
Expected return on plan assets	(114)	(110)	(131)	—	—	—
Net amortization of prior service cost (credit)	—	—	—	(13)	(14)	(14)
Net amortization of actuarial loss	36	27	17	3	2	2
Settlement loss	1	—	1	—	—	—
Net periodic benefit expense (income)	$ 97	$ 99	$ 72	$ 1	$ (1)	$—

Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) on a pre-tax basis in 2013, 2012 and 2011 were as follows:

	Pension			Postretirement		
	2013	2012	2011	2013	2012	2011
	(dollars in millions)					
Net loss (gain)	$ 87	$416	$(401)	$ (52)	$ 16	$ (5)
Prior service cost	3	3	2	—	—	—
Amortization of prior service credit	—	—	—	13	14	14
Amortization of net loss	(37)	(27)	(18)	(3)	(2)	(2)
Total recognized in other comprehensive loss (income)	$ 53	$392	$(417)	$ (42)	$ 28	$ 7

The Company, for most plans, amortizes (as a component of net periodic benefit expense) unrecognized net gains and losses over the average future service of active participants to the extent that the gain (loss) exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. Effective January 1, 2011, the U.S. Qualified Plan amortizes the unrecognized net gains and losses using the average life expectancy of participants.

The following table presents the weighted average assumptions used to determine net periodic benefit expense for 2013, 2012 and 2011:

	Pension			Postretirement		
	2013	2012	2011	2013	2012	2011
Discount rate	3.95%	4.57%	5.44%	3.88%	4.56%	5.41%
Expected long-term rate of return on plan assets	3.73	3.78	4.78	N/A	N/A	N/A
Rate of future compensation increases	0.98	2.14	2.28	N/A	N/A	N/A

N/A—Not Applicable.

The expected long-term rate of return on plan assets represents the Company's best estimate of the long-term return on plan assets. For the U.S. Qualified Plan, the expected long-term rate of return was estimated by computing a weighted average return of the underlying long-term expected returns on the plan's fixed income assets based on the investment managers' target allocations within this asset class. The expected long-term return on assets is a long-term assumption that generally is expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions. The U.S. Qualified Plan is 100% invested in fixed income securities and related derivative instruments, including interest rate swap contracts. This asset allocation is expected to help protect the plan's funded status and limit volatility of the Company's contributions. Total U.S. Qualified Plan investment portfolio performance is assessed by comparing actual investment performance to changes in the estimated present value of the U.S. Qualified Plan's benefit obligation.

Benefit Obligations and Funded Status.

The following table provides a reconciliation of the changes in the benefit obligation and fair value of plan assets for 2013 and 2012:

	Pension	Postretirement
	(dollars in millions)	
Reconciliation of benefit obligation:		
Benefit obligation at December 31, 2011	$3,517	$154
Service cost	26	4
Interest cost	156	7
Actuarial loss	405	15
Plan settlements	(2)	—
Benefits paid	(147)	(6)
Other, including foreign currency exchange rate changes	(72)	—
Benefit obligation at December 31, 2012	$3,883	$174
Service cost	23	4
Interest cost	151	7
Actuarial gain	(537)	(52)
Plan amendments	2	—
Plan settlements	(7)	—
Benefits paid	(186)	(6)
Other, including foreign currency exchange rate changes	1	1
Benefit obligation at December 31, 2013	$3,330	$128
Reconciliation of fair value of plan assets:		
Fair value of plan assets at December 31, 2011	$3,604	$—
Actual return on plan assets	83	—
Employer contributions	42	6
Benefits paid	(147)	(6)
Plan settlements	(2)	—
Other, including foreign currency exchange rate changes	(61)	—
Fair value of plan assets at December 31, 2012	$3,519	$—
Actual return on plan assets	(512)	—
Employer contributions	42	6
Benefits paid	(186)	(6)
Plan settlements	(7)	—
Other, including foreign currency exchange rate changes	11	—
Fair value of plan assets at December 31, 2013	$2,867	$—

The following table presents a summary of the funded status at December 31, 2013 and December 31, 2012:

	Pension		Postretirement	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	(dollars in millions)			
Funded (unfunded) status	$(463)	$(364)	$(128)	$(174)
Amounts recognized in the consolidated statements of financial condition consist of:				
Assets	$ 60	$ 97	$ —	$ —
Liabilities	(523)	(461)	(128)	(174)
Net amount recognized	$(463)	$(364)	$(128)	$(174)
Amounts recognized in accumulated other comprehensive loss consist of:				
Prior-service cost (credit)	$ 1	$ (2)	$ (11)	$ (24)
Net loss (gain)	871	821	(14)	41
Net loss (gain) recognized	$ 872	$ 819	$ (25)	$ 17

The estimated prior-service cost (credit) that will be amortized from accumulated other comprehensive loss into net periodic benefit expense over 2014 is $11 million for postretirement plans. The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic benefit expense over 2014 is approximately $21 million for defined benefit pension plans.

The accumulated benefit obligation for all defined benefit pension plans was $3,309 million and $3,858 million at December 31, 2013 and December 31, 2012, respectively.

The following table contains information for pension plans with projected benefit obligations in excess of the fair value of plan assets at period-end:

	December 31, 2013	December 31, 2012
	(dollars in millions)	
Projected benefit obligation	$3,127	$552
Fair value of plan assets	2,603	90

The following table contains information for pension plans with accumulated benefit obligations in excess of the fair value of plan assets at period-end:

	December 31, 2013	December 31, 2012
	(dollars in millions)	
Accumulated benefit obligation	$3,089	$527
Fair value of plan assets	2,586	90

The following table presents the weighted average assumptions used to determine benefit obligations at period-end:

	Pension		Postretirement	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Discount rate	4.74%	3.95%	4.75%	3.88%
Rate of future compensation increase	1.06	0.98	N/A	N/A

N/A—Not Applicable.

The discount rates used to determine the benefit obligations for the U.S. pension, U.S. postretirement and the U.K. pension plans' liabilities were selected by the Company, in consultation with its independent actuaries, using a pension discount yield curve based on the characteristics of the plans, each determined independently. The pension discount yield curve represents spot discount yields based on duration implicit in a representative broad-based Aa rated corporate bond universe of high-quality fixed income investments. For all other non-U.S. pension plans, the Company set the assumed discount rates based on the nature of liabilities, local economic environments and available bond indices.

The following table presents assumed health care cost trend rates used to determine the U.S. postretirement benefit obligations at period-end:

	December 31, 2013	December 31, 2012
Health care cost trend rate assumed for next year:		
Medical	6.90-7.38%	6.93-7.53%
Prescription	8.25%	8.66%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029	2029

Assumed health care cost trend rates can have a significant effect on the amounts reported for the Company's postretirement benefit plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point (Decrease)
	(dollars in millions)	
Effect on total postretirement service and interest cost	$ 2	$ (1)
Effect on postretirement benefit obligation	19	(11)

No impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 has been reflected in the Company's consolidated statements of income as Medicare prescription drug coverage was deemed to have no material effect on the Company's postretirement benefit plan.

Plan Assets. The U.S. Qualified Plan assets represent 87% of the Company's total pension plan assets. The U.S. Qualified Plan uses a combination of active and risk-controlled fixed income investment strategies. The fixed income asset allocation consists primarily of fixed income securities designed to approximate the expected cash flows of the plan's liabilities in order to help reduce plan exposure to interest rate variation and to better align assets with obligations. The longer duration fixed income allocation is expected to help protect the plan's funded status and maintain the stability of plan contributions over the long run.

The allocation among investment managers of the Company's U.S. Qualified Plan is reviewed by the Morgan Stanley Retirement Plan Investment Committee (the "Investment Committee") on a regular basis. When the exposure to a given investment manager reaches a minimum or maximum allocation level, an asset allocation review process is initiated, and the portfolio will be rebalanced toward the target allocation unless the Investment Committee determines otherwise.

Derivative instruments are permitted in the U.S. Qualified Plan's investment portfolio only to the extent that they comply with all of the plan's policy guidelines and are consistent with the plan's risk and return objectives. In addition, any investment in derivatives must meet the following conditions:

- Derivatives may be used only if they are deemed by the investment manager to be more attractive than a similar direct investment in the underlying cash market or if the vehicle is being used to manage risk of the portfolio.
- Derivatives may not be used in a speculative manner or to leverage the portfolio under any circumstances.
- Derivatives may not be used as short-term trading vehicles. The investment philosophy of the U.S. Qualified Plan is that investment activity is undertaken for long-term investment rather than short-term trading.
- Derivatives may be used in the management of the U.S. Qualified Plan's portfolio only when their possible effects can be quantified, shown to enhance the risk-return profile of the portfolio, and reported in a meaningful and understandable manner.

As a fundamental operating principle, any restrictions on the underlying assets apply to a respective derivative product. This includes percentage allocations and credit quality. Derivatives will be used solely for the purpose of enhancing investment in the underlying assets and not to circumvent portfolio restrictions.

Plan assets are measured at fair value using valuation techniques that are consistent with the valuation techniques applied to the Company's major categories of assets and liabilities as described in Note 4. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units multiplied by the market price. If a quoted market price is not available, the estimate of fair value is based on the valuation approaches that maximize use of observable inputs and minimize use of unobservable inputs.

The fair value of OTC derivative contracts is derived primarily using pricing models, which may require multiple market input parameters. Derivative contracts are presented on a gross basis prior to cash collateral or counterparty netting. Derivatives consist of investments in interest rate swap contracts and are categorized as Level 2 of the fair value hierarchy.

Commingled trust funds are privately offered funds available to institutional clients that are regulated, supervised and subject to periodic examination by a U.S. federal or state agency. The trust must be maintained for the collective investment or reinvestment of assets contributed to it from employee benefit plans maintained by more than one employer or a controlled group of corporations. The sponsor of the commingled trust funds values the funds' NAV based on the fair value of the underlying securities. The underlying securities of the commingled trust funds consist of mainly long-duration fixed income instruments. Commingled trust funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy, otherwise they are categorized in Level 3 of the fair value hierarchy.

Some non-U.S.-based plans hold foreign funds that consist of investments in foreign corporate equity funds, foreign corporate bond funds, foreign target cash flow funds and foreign liquidity funds. Foreign corporate equity funds and foreign corporate bond funds invest in individual securities quoted on a recognized stock exchange or traded in a regulated market and certain bond funds that aim to produce returns as close as possible to certain Financial Times Stock Exchange indexes. Foreign target cash flow funds are designed to provide a series of fixed annual cash flows over five or 10 years achieved by investing in government bonds and derivatives. Foreign liquidity funds place a high priority on capital preservation, stable value and a high liquidity of assets. Foreign funds are generally categorized in Level 2 of the fair value hierarchy as they are readily redeemable at their NAV. Corporate equity funds traded on a recognized exchange are categorized in Level 1 of the fair value hierarchy.

Other investments held by non-U.S. based plans consist of real estate funds, hedge funds and insurance annuity contracts. These real estate and hedge funds are categorized in Level 2 of the fair value hierarchy to the extent that they are readily redeemable at their NAV, otherwise they are categorized in Level 3 of the fair value hierarchy. The insurance annuity contracts are valued based on the premium reserve of the insurer for a guarantee that the insurer has given to the employee benefit plan that approximates fair value. The insurance annuity contracts are categorized in Level 3 of the fair value hierarchy.

The following table presents the fair value of the net pension plan assets at December 31, 2013. There were no transfers between levels during 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(dollars in millions)		
Assets:				
Investments:				
Cash and cash equivalents(1)	$ 91	$ —	$ —	$ 91
U.S. government and agency securities:				
U.S. Treasury securities	1,047	—	—	1,047
U.S. agency securities	—	204	—	204
Total U.S. government and agency securities	1,047	204	—	1,251
Corporate and other debt:				
State and municipal securities	—	2	—	2
Collateralized debt obligations	—	76	—	76
Total corporate and other debt	—	78	—	78
Derivative contracts(2)	—	122	—	122
Derivative-related cash collateral receivable	—	37	—	37
Commingled trust funds(3)	—	1,004	—	1,004
Foreign funds(4)	21	291	—	312
Other investments	—	10	38	48
Total investments	1,159	1,746	38	2,943
Receivables:				
Other receivables(1)	—	20	—	20
Total receivables	—	20	—	20
Total assets	$1,159	$1,766	$ 38	$2,963
Liabilities:				
Derivative contracts(5)	$ —	$ 92	$ —	$ 92
Derivative-related cash collateral payable	—	2	—	2
Other liabilities(1)	—	2	—	2
Total liabilities	—	96	—	96
Net pension assets	$1,159	$1,670	$ 38	$2,867

(1) Cash and cash equivalents, other receivables and other liabilities are valued at their carrying value, which approximates fair value.

(2) Derivative contracts in an asset position consist of investments in interest rate swaps of $122 million.

(3) Commingled trust funds consist of investments in fixed income funds of $1,004 million.

(4) Foreign funds include investments in corporate bond funds, targeted cash flow funds, liquidity funds, corporate equity funds and diversified funds of $157 million, $77 million, $56 million, $21 million and $1 million, respectively.

(5) Derivative contracts in a liability position consist of investments in interest rate swaps of $92 million.

The following table presents the fair value of the net pension plan assets at December 31, 2012. There were no transfers between levels during 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(dollars in millions)		
Assets:				
Investments:				
Cash and cash equivalents(1)	$ 80	$ —	$—	$ 80
U.S. government and agency securities:				
U.S. Treasury securities	1,354	—	—	1,354
U.S. agency securities	—	241	—	241
Total U.S. government and agency securities	1,354	241	—	1,595
Corporate and other debt:				
State and municipal securities	—	2	—	2
Collateralized debt obligations	—	71	—	71
Total corporate and other debt	—	73	—	73
Corporate equities	20	—	—	20
Derivative contracts(2)	—	224	—	224
Derivative-related cash collateral receivable	—	3	—	3
Commingled trust funds(3)	—	1,275	—	1,275
Foreign funds(4)	—	282	—	282
Other investments	—	11	30	41
Total investments	1,454	2,109	30	3,593
Receivables:				
Other receivables(1)	—	71	—	71
Total receivables	—	71	—	71
Total assets	$1,454	$2,180	$ 30	$3,664
Liabilities:				
Derivative contracts(5)	$ —	$ 57	$—	$ 57
Derivative-related cash collateral payable	—	28	—	28
Other liabilities(1)	—	60	—	60
Total liabilities	—	145	—	145
Net pension assets	$1,454	$2,035	$ 30	$3,519

(1) Cash and cash equivalents, other receivables and other liabilities are valued at their carrying value, which approximates fair value.

(2) Derivative contracts in an asset position consist of investments in interest rate swaps of $224 million.

(3) Commingled trust funds consist of investments in fixed income funds of $1,275 million.

(4) Foreign funds include investments in corporate bond funds, targeted cash flow funds, liquidity funds and diversified funds of $141 million, $85 million, $55 million and $1 million, respectively.

(5) Derivative contracts in a liability position consist of investments in interest rate swaps of $57 million.

The following table presents changes in Level 3 pension assets measured at fair value for 2013:

	Beginning Balance at January 1, 2013	Actual Return on Plan Assets Related to Assets Still Held at December 31, 2013	Actual Return on Plan Assets Related to Assets Sold during 2013	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers In and/or (Out) of Level 3	Ending Balance at December 31, 2013
			(dollars in millions)			
Investments						
Other investments	$30	$2	$—	$4	$2	$38
Total investments	$30	$2	$—	$4	$2	$38

The following table presents changes in Level 3 pension assets measured at fair value for 2012:

	Beginning Balance at January 1, 2012	Actual Return on Plan Assets Related to Assets Still Held at December 31, 2012	Actual Return on Plan Assets Related to Assets Sold during 2012	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers In and/or (Out) of Level 3	Ending Balance at December 31, 2012
			(dollars in millions)			
Investments						
Other investments	$26	$—	$—	$4	$—	$30
Total investments	$26	$—	$—	$4	$—	$30

Cash Flows.

At December 31, 2013, the Company expects to contribute approximately $50 million to its pension and postretirement benefit plans in 2014 based upon the plans' current funded status and expected asset return assumptions for 2014, as applicable.

Expected benefit payments associated with the Company's pension and postretirement benefit plans for the next five years and in aggregate for the five years thereafter at December 31, 2013 are as follows:

	Pension	Postretirement
	(dollars in millions)	
2014	$129	$ 6
2015	128	6
2016	130	6
2017	138	7
2018	137	7
2019-2023	788	40

Morgan Stanley 401(k) Plan. U.S. employees meeting certain eligibility requirements may participate in the Morgan Stanley 401(k) Plan. Eligible U.S. employees receive 401(k) matching cash contributions representing a $1 for $1 Company match up to 4% of eligible pay, up to the Internal Revenue Service ("IRS") limit. Matching contributions for 2013 and 2012 were allocated according to participants' current investment direction. Eligible U.S. employees with eligible pay less than or equal to $100,000 also receive a fixed contribution under the

401(k) Plan that equals 2% of eligible pay. A transition contribution is allocated to participants who received a 2010 accrual in the U.S. Qualified Plan or a 2010 retirement contribution in the 401(k) Plan and who met certain age and service requirements as of December 31, 2010.

A separate transition contribution is allocated to certain eligible legacy Smith Barney employees. The Company match, fixed contribution and transition contributions are included in the Company's 401(k) expense. The pre-tax 401(k) expense for 2013, 2012 and 2011 was $242 million, $246 million and $257 million, respectively.

Defined Contribution Pension Plans. The Company maintains separate defined contribution pension plans that cover substantially all employees of certain non-U.S. subsidiaries. Under such plans, benefits are determined based on a fixed rate of base salary with certain vesting requirements. In 2013, 2012 and 2011, the Company's expense related to these plans was $111 million, $126 million and $136 million, respectively.

Other Postemployment Benefits. Postemployment benefits may include, but are not limited to, salary continuation, severance benefits, disability-related benefits, and continuation of health care and life insurance coverage provided to former employees or inactive employees after employment but before retirement. The postemployment benefit obligations were not material at December 31, 2013 and December 31, 2012.

20. Income Taxes.

The provision for (benefit from) income taxes from continuing operations consisted of:

	2013	2012	2011
	(dollars in millions)		
Current:			
U.S. federal	$ 153	$(178)	$ 35
U.S. state and local	164	140	276
Non-U.S.:			
United Kingdom	178	(16)	169
Japan	88	90	19
Hong Kong	36	16	(3)
Other(1)	301	355	378
	$ 920	$ 407	$ 874
Deferred:			
U.S. federal	$ (3)	$(748)	$ 508
U.S. state and local	1	(64)	(49)
Non-U.S.:			
United Kingdom	(75)	77	32
Japan	262	170	41
Hong Kong	(14)	35	27
Other(1)	(265)	(114)	(19)
	$ (94)	$(644)	$ 540
Provision for (benefit from) income taxes from continuing operations	$ 826	$(237)	$1,414
Provision for (benefit from) income taxes from discontinued operations	$ (29)	$ (7)	$ (119)

(1) Results for 2013 Non-U.S. other jurisdictions included significant total tax provisions (benefits) of $59 million, $54 million, and $(156) million from Brazil, India, and Luxembourg, respectively. Results for 2012 Non-U.S. other jurisdictions included significant total tax provisions (benefits) of $43 million, $36 million, $36 million, $33 million, $32 million, and $(31) million from India, Brazil, Spain, Canada, Singapore, and Netherlands, respectively. Results for 2011 Non-U.S. other jurisdictions included significant total tax provisions of $98 million, $78 million, $68 million, and $27 million from Brazil, Netherlands, Spain, and India, respectively.

The following table reconciles the provision for (benefit from) income taxes to the U.S. federal statutory income tax rate:

	2013	2012(1)	2011
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	2.4	8.6	2.6
Domestic tax credits	(4.3)	(42.7)	(3.9)
Tax exempt income	(2.5)	(29.9)	(0.3)
Non-U.S. earnings:			
Foreign Tax Rate Differential	(6.1)	(14.0)	0.7
Change in Reinvestment Assertion	(1.4)	4.8	(2.2)
Change in Foreign Tax Rates	0.1	(0.3)	1.6
Valuation allowance	—	—	(7.3)
Other	(4.8)	(7.1)	(3.1)
Effective income tax rate	18.4%	(45.6)%	23.1%

(1) 2012 percentages are reflective of the lower level of income from continuing operations before income taxes on a comparative basis due to the change in the fair value of certain of the Company's long-term and short-term borrowings resulting from fluctuations in its credit spreads and other credit factors.

The Company's effective tax rate from continuing operations for 2013 included an aggregate discrete net tax benefit of $407 million. This included discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of certain tax authority examinations; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act"). The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside the U.S. until such income is repatriated to the U.S. as a dividend. Excluding the aggregate discrete net tax benefit noted above, the effective tax rate from continuing operations in 2013 would have been 27.5%.

The Company's effective tax rate from continuing operations for 2012 included an aggregate net tax benefit of $142 million. This included a discrete tax benefit of $299 million related to the remeasurement of reserves and related interest associated with either the expiration of the applicable statute of limitations or new information regarding the status of certain IRS examinations and an aggregate out-of-period net tax provision of $157 million, to adjust the overstatement of deferred tax assets associated with partnership investments, principally in the Company's Investment Management business segment and repatriated earnings of foreign subsidiaries recorded in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Excluding the aggregate net tax benefit noted above, the effective tax rate from continuing operations in 2012 would have been a benefit of 18.3%.

The Company's effective tax rate from continuing operations for 2011 included an aggregate discrete net tax benefit of $484 million. This included a $447 million discrete net tax benefit from the remeasurement of a deferred tax asset and the reversal of a related valuation allowance. The deferred tax asset and valuation allowance were recognized in income from discontinued operations in 2010 in connection with the recognition of a $1.2 billion loss due to writedowns and related costs following the Company's commitment to a plan to dispose of Revel. The Company recorded the valuation allowance because the Company did not believe it was more likely than not that it would have sufficient future net capital gain to realize the benefit of the expected capital loss to be recognized upon the disposal of Revel. During the quarter ended March 31, 2011, the disposal of Revel was restructured as a tax-free like kind exchange and the disposal was completed. The restructured transaction changed the character of the future taxable loss to ordinary. The Company reversed the valuation allowance because the Company believes it is more likely than not that it will have sufficient future ordinary taxable income to recognize the recorded deferred tax asset. In accordance with the applicable accounting literature, this reversal of a previously established valuation allowance due to a change in circumstances was recognized in income from continuing operations during the quarter ended March 31, 2011. Additionally, in 2011 the Company recognized a discrete tax benefit of $137 million related to the reversal of U.S. deferred tax liabilities associated with prior-years' undistributed earnings of certain non-U.S. subsidiaries that were determined to be indefinitely reinvested abroad, and a discrete tax cost of $100 million related to the remeasurement of Japanese deferred tax assets as a result of a decrease in the local statutory income tax rates starting in 2012. Excluding the aggregate net discrete tax benefit noted above, the effective tax rate from continuing operations in 2011 would have been 31.0%.

The Company had $6,675 million and $7,191 million of cumulative earnings at December 31, 2013 and December 31, 2012, respectively, attributable to foreign subsidiaries for which no U.S. provision has been recorded for income tax that could occur upon repatriation. Except to the extent such earnings can be repatriated tax efficiently, they are permanently invested abroad. Accordingly, $736 million and $719 million of deferred tax liabilities were not recorded with respect to these earnings at December 31, 2013 and December 31, 2012, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities at December 31, 2013 and December 31, 2012 were as follows:

	December 31, 2013	December 31, 2012
	(dollars in millions)	
Gross deferred tax assets:		
Tax credits and loss carryforwards	$5,130	$6,193
Employee compensation and benefit plans	2,417	2,173
Valuation and liability allowances	1,122	529
Valuation of inventory, investments and receivables	418	—
Other	—	158
Total deferred tax assets	9,087	9,053
Valuation allowance(1)	38	48
Deferred tax assets after valuation allowance	$9,049	$9,005
Gross deferred tax liabilities:		
Non-U.S. operations	$1,293	$1,253
Fixed assets	275	115
Valuation of inventory, investments and receivables	—	351
Other	253	—
Total deferred tax liabilities	$1,821	$1,719
Net deferred tax assets	$7,228	$7,286

[1] The valuation allowance reduces the benefit of certain separate Company federal net operating loss and state capital loss carryforwards to the amount that will more likely than not be realized.

During 2013, the valuation allowance was decreased by $10 million related to the ability to utilize certain state capital losses.

The Company had tax credit carryforwards for which a related deferred tax asset of $4,932 million and $5,705 million was recorded at December 31, 2013 and December 31, 2012, respectively. These carryforwards are subject to annual limitations on utilization, with a significant amount scheduled to expire in 2020, if not utilized.

The Company believes the recognized net deferred tax asset (after valuation allowance) of $7,228 million is more likely than not to be realized based on expectations as to future taxable income in the jurisdictions in which it operates.

The Company recorded net income tax provision to Paid-in capital related to employee stock-based compensation transactions of $121 million, $114 million, and $76 million in 2013, 2012, and 2011, respectively.

Cash payments for income taxes were $930 million, $388 million, and $892 million in 2013, 2012, and 2011, respectively.

The following table presents the U.S. and non-U.S. components of income from continuing operations before income tax expense (benefit) for 2013, 2012, and 2011, respectively:

	2013	2012	2011
	(dollars in millions)		
U.S.	$1,662	$(1,241)	$3,250
Non-U.S.(1)	2,820	1,761	2,860
	$4,482	$ 520	$6,110

(1) Non-U.S. income is defined as income generated from operations located outside the U.S.

The total amount of unrecognized tax benefits was approximately $4.1 billion, $4.1 billion, and $4.0 billion at December 31, 2013, December 31, 2012, and December 31, 2011, respectively. Of this total, approximately $1.4 billion, $1.6 billion, and $1.8 billion, respectively (net of federal benefit of state issues, competent authority and foreign tax credit offsets) represent the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes. The Company recognized $50 million, $(10) million, and $56 million of interest expense (benefit) (net of federal and state income tax benefits) in the consolidated statements of income for 2013, 2012, and 2011, respectively. Interest expense accrued at December 31, 2013, December 31, 2012, and December 31, 2011 was approximately $293 million, $243 million, and $330 million, respectively, net of federal and state income tax benefits. Penalties related to unrecognized tax benefits for the years mentioned above were immaterial.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for 2013, 2012 and 2011 (dollars in millions):

Unrecognized Tax Benefits	
Balance at December 31, 2010	$3,711
Increase based on tax positions related to the current period	412
Increase based on tax positions related to prior periods	70
Decreases based on tax positions related to prior periods	(79)
Decreases related to settlements with taxing authorities	(56)
Decreases related to a lapse of applicable statute of limitations	(13)
Balance at December 31, 2011	$4,045
Increase based on tax positions related to the current period	$ 299
Increase based on tax positions related to prior periods	127
Decreases based on tax positions related to prior periods	(21)
Decreases related to settlements with taxing authorities	(260)
Decreases related to a lapse of applicable statute of limitations	(125)
Balance at December 31, 2012	$4,065
Increase based on tax positions related to the current period	$ 51
Increase based on tax positions related to prior periods	267
Decreases based on tax positions related to prior periods	(141)
Decreases related to settlements with taxing authorities	(146)
Balance at December 31, 2013	$4,096

The Company is under continuous examination by the IRS and other tax authorities in certain countries, such as Japan and the U.K., and in states in which the Company has significant business operations, such as New York. The Company is currently under review by the IRS Appeals Office for the remaining issues covering tax years 1999 – 2005. Also, the Company is currently at various levels of field examination with respect to audits by the IRS, as well as New York State and New York City, for tax years 2006 – 2008 and 2007 – 2009, respectively. During 2014, the Company expects to reach a conclusion with the U.K. tax authorities on substantially all issues through tax year 2010.

The Company believes that the resolution of tax matters will not have a material effect on the consolidated statements of financial condition of the Company, although a resolution could have a material impact on the Company's consolidated statements of income for a particular future period and on the Company's effective income tax rate for any period in which such resolution occurs. The Company has established a liability for unrecognized tax benefits that the Company believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from the expiration of the applicable statute of limitations or new information regarding the status of current and subsequent years' examinations. As part of the Company's periodic review, federal and state unrecognized tax benefits were released or remeasured. As a result of this remeasurement, the income tax provision included a discrete tax benefit of $161 million and $299 million in 2013 and 2012, respectively.

It is reasonably possible that the gross balance of unrecognized tax benefits of approximately $4.1 billion as of December 31, 2013 may decrease significantly within the next 12 months due to an expected completion of the field examination in connection with the audit by the IRS for tax years 2006 – 2008. At this time, however, it is not possible to reasonably estimate the decrease to the net balance of unrecognized tax benefits, as well as the impact on the effective tax rate and the potential benefit to Income from continuing operations due to the forward-looking nature of such analysis.

The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax Year
United States	1999
New York State and City	2007
Hong Kong	2007
United Kingdom	2010
Japan	2012

21. Segment and Geographic Information.

Segment Information.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company provides a wide range of financial products and services to its customers in each of its business segments: Institutional Securities, Wealth Management and Investment Management. For further discussion of the Company's business segments, see Note 1.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, generally based on each segment's respective net revenues, non-interest expenses or other relevant measures.

As a result of revenues and expenses from transactions with other operating segments being treated as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company's consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Wealth Management business segment related to the bank deposit program.

Selected financial information for the Company's segments is presented below:

2013	Institutional Securities	Wealth Management	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$16,544	$12,334	$2,994	$(233)	$31,639
Interest income	3,572	2,100	9	(472)	5,209
Interest expense	4,673	220	15	(477)	4,431
Net interest	(1,101)	1,880	(6)	5	778
Net revenues	$15,443	$14,214	$2,988	$(228)	$32,417
Income from continuing operations before income taxes	$ 869	$ 2,629	$ 984	$ —	$ 4,482
Provision for income taxes	(393)	920	299	—	826
Income from continuing operations	1,262	1,709	685	—	3,656
Discontinued operations(1):					
Gain (loss) from discontinued operations	(81)	(1)	9	1	(72)
Provision for (benefit from) income taxes	(29)	—	—	—	(29)
Net gain (loss) on discontinued operations	(52)	(1)	9	1	(43)
Net income	1,210	1,708	694	1	3,613
Net income applicable to redeemable noncontrolling interests	1	221	—	—	222
Net income applicable to nonredeemable noncontrolling interests	277	—	182	—	459
Net income applicable to Morgan Stanley	$ 932	$ 1,487	$ 512	$ 1	$ 2,932

2012	Institutional Securities(3)	Wealth Management(3)	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$12,772	$11,467	$2,243	$(175)	$26,307
Interest income	4,224	1,886	10	(428)	5,692
Interest expense	5,971	319	34	(427)	5,897
Net interest	(1,747)	1,567	(24)	(1)	(205)
Net revenues	$11,025	$13,034	$2,219	$(176)	$26,102
Income (loss) from continuing operations before income taxes	$ (1,688)	$ 1,622	$ 590	$ (4)	$ 520
Provision for (benefit from) income taxes(2)	(1,061)	557	267	—	(237)
Income (loss) from continuing operations	(627)	1,065	323	(4)	757
Discontinued operations(1):					
Gain (loss) from discontinued operations	(158)	94	13	3	(48)
Provision for (benefit from) income taxes	(36)	26	4	(1)	(7)
Net gain (loss) on discontinued operations	(122)	68	9	4	(41)
Net income (loss)	(749)	1,133	332	—	716
Net income applicable to redeemable noncontrolling interests	4	120	—	—	124
Net income applicable to nonredeemable noncontrolling interests	170	167	187	—	524
Net income (loss) applicable to Morgan Stanley	$ (923)	$ 846	$ 145	$ —	$ 68

2011	Institutional Securities(3)	Wealth Management(3)	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues(4)	$18,723	$11,340	$1,928	$(115)	$31,876
Interest income	5,860	1,719	10	(355)	7,234
Interest expense	6,900	287	51	(355)	6,883
Net interest	(1,040)	1,432	(41)	—	351
Net revenues	$17,683	$12,772	$1,887	$(115)	$32,227
Income from continuing operations before income taxes	$ 4,550	$ 1,307	$ 253	$ —	$ 6,110
Provision for income taxes	880	461	73	—	1,414
Income from continuing operations	3,670	846	180	—	4,696
Discontinued operations(1):					
Gain (loss) from discontinued operations	(216)	21	24	1	(170)
Provision for (benefit from) income taxes	(110)	7	(17)	1	(119)
Net gain (loss) from discontinued operations	(106)	14	41	—	(51)
Net income	3,564	860	221	—	4,645
Net income applicable to nonredeemable noncontrolling interests	220	170	145	—	535
Net income applicable to Morgan Stanley	$ 3,344	$ 690	$ 76	$ —	$ 4,110

[1] See Note 1 for discussion of discontinued operations.

[2] Results for 2012 included an out-of-period net tax provision of $107 million, attributable to the Investment Management business segment, related to the overstatement of deferred tax assets associated with partnership investments in prior years and an out-of-period net tax provision of $50 million, attributable to the Institutional Securities business segment, related to the overstatement of deferred tax assets associated with repatriated earnings of a foreign subsidiary recorded in prior years (see Note 20).

[3] On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior-period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.

[4] In the fourth quarter of 2011, the Company recognized a pre-tax loss of approximately $108 million, in net revenues upon application of the OIS curve within the Institutional Securities business segment (see Note 4).

Total Assets(1)	Institutional Securities(2)	Wealth Management(2)	Investment Management	Total
		(dollars in millions)		
At December 31, 2013	$668,596	$156,711	$7,395	$832,702
At December 31, 2012	$648,049	$125,565	$7,346	$780,960

[1] Corporate assets have been fully allocated to the Company's business segments.

[2] Prior-period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Geographic Information.

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted and managed through European and Asian locations. The net revenues disclosed in the following table reflect the regional view of the Company's consolidated net revenues on a managed basis, based on the following methodology:

- Institutional Securities: advisory and equity underwriting—client location, debt underwriting—revenue recording location, sales and trading—trading desk location.
- Wealth Management: wealth management representative coverage location.
- Investment Management: client location, except for Merchant Banking and Real Estate Investing businesses, which are based on asset location.

Net Revenues	2013	2012	2011
	(dollars in millions)		
Americas	$23,282	$20,200	$22,306
EMEA	4,542	3,078	6,619
Asia	4,593	2,824	3,302
Net revenues	$32,417	$26,102	$32,227

Total Assets	At December 31, 2013	At December 31, 2012
	(dollars in millions)	
Americas	$632,255	$587,993
EMEA	123,008	122,152
Asia	77,439	70,815
Total	$832,702	$780,960

22. Equity Method Investments.

The Company has investments accounted for under the equity method of accounting (see Note 1) of $4,746 million and $4,682 million at December 31, 2013 and December 31, 2012, respectively, included in Other investments in the consolidated statements of financial condition. Income (losses) from these investments were $375 million, $(23) million and $(995) million for 2013, 2012 and 2011, respectively, and are included in Other revenues in the consolidated statements of income. The gains (losses) for 2013, 2012 and 2011 were primarily related to the gains and losses related to the Company's 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS"), as described below.

The following presents certain equity method investees at December 31, 2013 and 2012:

		Book Value(1)	
	Percent Ownership	December 31, 2013	December 31, 2012
		(dollars in millions)	
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	40%	$1,610	$1,428
Lansdowne Partners(2)	19.8%	221	221
Avenue Capital Group(2)(3)	—	198	224

[1] Book value of these investees exceeds the Company's share of net assets, reflecting equity method intangible assets and equity method goodwill.

[2] The Company's ownership interest represents limited partnership interests. The Company is deemed to have significant influence in these limited partnerships, as the Company's limited partnership interests were above the 3% to 5% threshold for interests that should be accounted for under the equity method.

[3] The Company's ownership interest represents limited partnership interests in a number of different entities within the Avenue Capital Group.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest and MUFG holds a 60% voting interest in MUMSS. The Company accounts for its interest in MUMSS as an equity method investment within the Institutional Securities business segment (see Note 15). During 2013, 2012 and 2011, the Company recorded income (loss) of $570 million, $152 million and $(783) million, respectively, within Other revenues in the consolidated statements of income, arising from the Company's 40% stake in MUMSS.

To the extent that losses incurred by MUMSS result in a requirement to restore its capital, MUFG is solely responsible for providing this additional capital to a minimum level, whereas the Company is not obligated to contribute additional capital to MUMSS. To the extent that MUMSS is required to increase its capital level due to factors other than losses, such as changes in regulatory requirements, both MUFG and the Company are required to contribute the necessary capital based upon their economic interest as set forth above.

In June 2013, MUMSS paid a dividend of approximately $287 million, of which the Company received approximately $115 million for its proportionate share of MUMSS.

The following presents summarized financial data for MUMSS:

	At December 31,	
	2013	2012
	(dollars in millions)	
Total assets	$118,108	$141,635
Total liabilities	114,648	138,742
Noncontrolling interests	13	41

	2013	2012	2011
	(dollars in millions)		
Net revenues	$3,305	$2,365	$ 735
Income (loss) from continuing operations before income taxes	1,325	333	(1,746)
Net income (loss)	1,459	405	(1,976)
Net income (loss) applicable to MUMSS	1,441	397	(1,976)

Huaxin Securities Joint Venture.

In June 2011, the Company and Huaxin Securities Co., Ltd. ("Huaxin Securities") (also known as China Fortune Securities Co., Ltd.) jointly announced the operational commencement of their securities joint venture in China. During 2011, the Company recorded initial costs of $130 million related to the formation of this new Chinese securities joint venture in Other expenses in the consolidated statement of income. The joint venture, Morgan Stanley Huaxin Securities Company Limited, is registered and principally located in Shanghai. Huaxin Securities holds a two-thirds interest in the joint venture, while the Company owns a one-third interest. The establishment of the joint venture allows the Company to further build on its established onshore businesses in China. The joint venture's business includes underwriting and sponsorship of shares in the domestic China market (including A shares and foreign investment shares), as well as underwriting, sponsorship and principal trading of bonds (including government and corporate bonds).

Other.

Lansdowne Partners is a London-based investment manager. Avenue Capital Group is a New York-based investment manager. The investments are accounted for within the Investment Management business segment.

The Company also invests in certain structured transactions and other investments not integral to the operations of the Company accounted for under the equity method of accounting amounting to $2.7 billion and $2.8 billion at December 31, 2013 and 2012, respectively.

23. Parent Company.

Parent Company Only
Condensed Statements of Financial Condition
(dollars in millions, except share data)

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 2,296	$ 1,342
Deposits with banking subsidiaries	7,070	8,222
Interest bearing deposits with banks	6,846	4,165
Trading assets, at fair value	9,704	2,930
Securities purchased under agreement to resell with affiliate	33,748	48,493
Advances to subsidiaries:		
Bank and bank holding company	17,015	16,731
Non-bank	114,833	115,949
Equity investments in subsidiaries:		
Bank and bank holding company	24,144	23,511
Non-bank	34,968	32,591
Other assets	7,508	7,201
Total assets	$258,132	$261,135
Liabilities		
Commercial paper and other short-term borrowings	$ 506	$ 228
Trading liabilities, at fair value	1,135	1,117
Payables to subsidiaries	43,420	36,733
Other liabilities and accrued expenses	3,312	3,132
Long-term borrowings	143,838	157,816
Total liabilities	192,211	199,026
Commitments and contingent liabilities		
Equity		
Preferred stock (see Note 15)	3,220	1,508
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at December 31, 2013 and December 31, 2012;		
Shares issued: 2,038,893,979 at December 31, 2013 and December 31, 2012;		
Shares outstanding: 1,944,868,751 at December 31, 2013 and 1,974,042,123 at December 31, 2012	20	20
Additional paid-in capital	24,570	23,426
Retained earnings	42,172	39,912
Employee stock trusts	1,718	2,932
Accumulated other comprehensive loss	(1,093)	(516)
Common stock held in treasury, at cost, $0.01 par value; 94,025,228 shares at December 31, 2013 and 64,851,856 shares at December 31, 2012	(2,968)	(2,241)
Common stock issued to employee stock trusts	(1,718)	(2,932)
Total shareholders' equity	65,921	62,109
Total liabilities and equity	$258,132	$261,135

Parent Company Only
Condensed Statements of Income and Comprehensive Income
(dollars in millions)

	2013	2012	2011
Revenues:			
Dividends from non-bank subsidiaries	$ 1,113	$ 545	$ 7,153
Trading	(635)	(3,400)	4,772
Investments	—	2	—
Other	27	36	(241)
Total non-interest revenues	505	(2,817)	11,684
Interest income	2,783	3,316	3,251
Interest expense	4,053	5,190	5,600
Net interest	(1,270)	(1,874)	(2,349)
Net revenues	(765)	(4,691)	9,335
Non-interest expenses:			
Non-interest expenses	185	114	120
Income (loss) before provision for (benefit from) income taxes	(950)	(4,805)	9,215
Provision for (benefit from) income taxes	(354)	(1,088)	1,825
Net income (loss) before undistributed gain (loss) subsidiaries	(596)	(3,717)	7,390
Undistributed gain (loss) of subsidiaries	3,528	3,785	(3,280)
Net income	2,932	68	4,110
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(143)	(128)	(35)
Amortization of cash flow hedges	4	6	7
Change in net unrealized gains (losses) on securities available for sale	(433)	28	87
Pension, postretirement and other related adjustments	(5)	(265)	251
Comprehensive income (loss)	$ 2,355	$ (291)	$ 4,420
Net income	$ 2,932	$ 68	$ 4,110
Preferred stock dividends	277	98	2,043
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 2,655	$ (30)	$ 2,067

Parent Company Only
Condensed Statements of Cash Flows
(dollars in millions)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,932	$ 68	$ 4,110
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Deferred income taxes	(303)	(1,653)	279
Compensation payable in common stock and options	1,180	891	1,300
Amortization	(47)	23	22
Undistributed (gain) loss of subsidiaries	(3,528)	(3,785)	3,280
Other non-cash adjustments to net income	—	(29)	(155)
Change in assets and liabilities:			
Trading assets, net of Trading liabilities	(7,332)	9,587	81
Other assets	(165)	1,235	681
Other liabilities and accrued expenses	(4,192)	6,637	(4,242)
Net cash provided by (used for) operating activities	(11,455)	12,974	5,356
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to and investments in subsidiaries	7,458	6,461	10,290
Securities purchased under agreement to resell with affiliate	14,745	1,864	(726)
Net cash provided by investing activities	22,203	8,325	9,564
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	279	(872)	(253)
Proceeds from:			
Excess tax benefits associated with stock-based awards	10	42	—
Issuance of preferred stock, net of issuance costs	1,696	—	—
Issuance of long-term borrowings	22,944	20,582	28,106
Payments for:			
Long-term borrowings	(31,928)	(41,914)	(35,805)
Repurchases of common stock	(691)	(227)	(317)
Cash dividends	(475)	(469)	(834)
Net cash used for financing activities	(8,165)	(22,858)	(9,103)
Effect of exchange rate changes on cash and cash equivalents	(100)	(32)	113
Net increase (decrease) in cash and cash equivalents	2,483	(1,591)	5,930
Cash and cash equivalents, at beginning of period	13,729	15,320	9,390
Cash and cash equivalents, at end of period	$ 16,212	$ 13,729	$ 15,320
Cash and cash equivalents include:			
Cash and due from banks	$ 2,296	$ 1,342	$ 1,804
Deposits with banking subsidiaries	7,070	8,222	10,131
Interest bearing deposits with banks	6,846	4,165	3,385
Cash and cash equivalents, at end of period	$ 16,212	$ 13,729	$ 15,320

Supplemental Disclosure of Cash Flow Information.

Cash payments for interest were $3,733 million, $4,254 million and $4,617 million for 2013, 2012 and 2011, respectively.

Cash payments (refunds) for income taxes were $268 million, $(13) million and $57 million for 2013, 2012 and 2011, respectively.

Transactions with Subsidiaries.

The Parent Company has transactions with its consolidated subsidiaries determined on an agreed-upon basis and has guaranteed certain unsecured lines of credit and contractual obligations of certain of its consolidated subsidiaries. Certain reclassifications have been made to prior-period amounts to conform to the current year's presentation.

Guarantees.

In the normal course of its business, the Parent Company guarantees certain of its subsidiaries' obligations under derivative and other financial arrangements. The Parent Company records Trading assets and Trading liabilities, which include derivative contracts, at fair value on its condensed statements of financial condition.

The Parent Company also, in the normal course of its business, provides standard indemnities to counterparties on behalf of its subsidiaries for taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, and certain annuity products. These indemnity payments could be required based on a change in the tax laws or change in interpretation of applicable tax rulings. Certain contracts contain provisions that enable the Parent Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Parent Company could be required to make under these indemnifications cannot be estimated. The Parent Company has not recorded any contingent liability in the condensed financial statements for these indemnifications and believes that the occurrence of any events that would trigger payments under these contracts is remote.

The Parent Company has issued guarantees on behalf of its subsidiaries to various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or futures contracts. Under these guarantee arrangements, the Parent Company may be required to pay the financial obligations of its subsidiaries related to business transacted on or with the exchanges and clearinghouses in the event of a subsidiary's default on its obligations to the exchange or the clearinghouse. The Parent Company has not recorded any contingent liability in the condensed financial statements for these arrangements and believes that any potential requirements to make payments under these arrangements are remote.

The Parent Company guarantees certain debt instruments and warrants issued by subsidiaries. The debt instruments and warrants totaled $12.0 billion and $8.9 billion at December 31, 2013 and 2012, respectively. In connection with subsidiary lease obligations, the Parent Company has issued guarantees to various lessors. At December 31, 2013 and 2012, the Parent Company had $1.4 billion and $1.4 billion of guarantees outstanding, respectively, under subsidiary lease obligations, primarily in the U.K.

24. Quarterly Results (unaudited).

	2013 Quarter				2012 Quarter			
	First	Second	Third	Fourth(1)	First	Second(2)	Third(3)	Fourth(3)
	(dollars in millions, except per share data)							
Total non-interest revenues	$7,972	$8,297	$7,822	$7,548	$6,981	$7,100	$ 5,436	$6,790
Net interest	182	204	110	282	(59)	(161)	(158)	173
Net revenues	8,154	8,501	7,932	7,830	6,922	6,939	5,278	6,963
Total non-interest expenses	6,572	6,725	6,591	8,047	6,719	6,001	6,760	6,102
Income (loss) from continuing operations before income taxes	1,582	1,776	1,341	(217)	203	938	(1,482)	861
Provision for (benefit from) income taxes	332	556	339	(401)	54	225	(525)	9
Income (loss) from continuing operations	1,250	1,220	1,002	184	149	713	(957)	852
Discontinued operations(4):								
Gain (loss) from discontinued operations	(30)	(42)	14	(14)	27	51	(13)	(113)
Provision for (benefit from) income taxes	(11)	(13)	(2)	(3)	42	14	(14)	(49)
Net gain (loss) from discontinued operations	(19)	(29)	16	(11)	(15)	37	1	(64)
Net income (loss)	1,231	1,191	1,018	173	134	750	(956)	788
Net income applicable to redeemable noncontrolling interests	122	100	—	—	—	—	8	116
Net income applicable to nonredeemable noncontrolling interests	147	111	112	89	228	159	59	78
Net income (loss) applicable to Morgan Stanley	$ 962	$ 980	$ 906	$ 84	$ (94)	$ 591	$(1,023)	$ 594
Preferred stock dividends	26	177	26	48	25	27	24	26
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 936	$ 803	$ 880	$ 36	$ (119)	$ 564	$(1,047)	$ 568
Earnings (loss) per basic common share(5):								
Income (loss) from continuing operations	$ 0.50	$ 0.44	$ 0.45	$ 0.02	$ (0.05)	$ 0.28	$ (0.55)	$ 0.34
Net gain (loss) from discontinued operations	(0.01)	(0.02)	0.01	—	(0.01)	0.02	—	(0.04)
Earnings (loss) per basic common share	$ 0.49	$ 0.42	$ 0.46	$ 0.02	$ (0.06)	$ 0.30	$ (0.55)	$ 0.30
Earnings (loss) per diluted common share(5):								
Income (loss) from continuing operations	$ 0.49	$ 0.43	$ 0.44	$ 0.02	$ (0.05)	$ 0.28	$ (0.55)	$ 0.33
Net gain (loss) from discontinued operations	(0.01)	(0.02)	0.01	—	(0.01)	0.01	—	(0.04)
Earnings (loss) per diluted common share	$ 0.48	$ 0.41	$ 0.45	$ 0.02	$ (0.06)	$ 0.29	$ (0.55)	$ 0.29
Dividends declared per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Book value per common share	$31.21	$31.48	$32.13	$32.24	$30.74	$31.02	$ 30.53	$30.70

(1) The fourth quarter of 2013 included a discrete tax benefit of $192 million, consisting of $100 million related to the remeasurement of reserves and related interest and $92 million related to the establishment of a previously unrecognized deferred tax asset associated with the reorganization of certain non-U.S. legal entities (see Note 20). The fourth quarter of 2013 included litigation expenses of $1.4 billion related to settlements and reserve additions (see Note 13).

(2) The second quarter of 2012 included an out-of-period pre-tax gain of approximately $300 million related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts previously designated as net investment hedges of certain foreign, non-U.S. dollar denominated subsidiaries. This amount included a pre-tax gain of approximately $191 million related to the first quarter of 2012, with the remainder impacting prior periods (see Note 12).

(3) The third quarter of 2012 included an out-of-period net tax provision of $82 million primarily related to the overstatement of tax benefits associated with repatriated earnings of a foreign subsidiary in prior periods, while the fourth quarter of 2012 included an out-of-period net tax provision of $75 million primarily related to the overstatement of deferred tax assets associated with partnership investments in prior periods (see Note 20).

(4) See Note 1 for more information on discontinued operations.

(5) Summation of the quarters' earnings per common share may not equal the annual amounts due to the averaging effect of the number of shares and share equivalents throughout the year.

25. Subsequent Events.

The Company has evaluated subsequent events for adjustment to or disclosure in the consolidated financial statements through the date of this report and the Company has not identified any recordable or disclosable events, not otherwise reported in these consolidated financial statements or the notes thereto, except for the following:

Common Dividend.

On January 17, 2014, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. The dividend is payable on February 14, 2014 to common shareholders of record on January 31, 2014.

Long-Term Borrowings.

Subsequent to December 31, 2013 and through February 10, 2014, the Company's long-term borrowings (net of issuances) decreased by approximately $2.2 billion. This amount includes the Company's issuance of $2.8 billion in senior debt on January 24, 2014.

Legal Matters.

On February 4, 2014, and subsequent to the release of the Company's 2013 earnings on January 17, 2014, legal reserves were increased within the Institutional Securities business segment, related to the settlement with the Federal Housing Finance Agency (see Note 13).

FINANCIAL DATA SUPPLEMENT (Unaudited)
Average Balances and Interest Rates and Net Interest Income

	2013		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$119,549	$ 1,948	1.6%
Non-U.S.	103,774	344	0.3
Securities available for sale:			
U.S.	44,112	447	1.0
Loans:			
U.S.	33,939	1,052	3.1
Non-U.S.	489	69	14.1
Interest bearing deposits with banks:			
U.S.	34,636	86	0.2
Non-U.S.	7,609	43	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	203,742	(217)	(0.1)
Non-U.S.	77,713	197	0.3
Other:			
U.S.	62,028	751	1.2
Non-U.S.	19,077	489	2.6
Total	$706,668	$ 5,209	0.7%
Non-interest earning assets	121,793		
Total assets	$828,461		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 91,713	$ 159	0.2%
Non-U.S.	260	—	—
Commercial paper and other short-term borrowings:			
U.S.	964	2	0.2
Non-U.S.	1,063	18	1.7
Long-term debt:			
U.S.	152,532	3,696	2.4
Non-U.S.	9,857	62	0.6
Trading liabilities(1):			
U.S.	31,861	—	—
Non-U.S.	59,200	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	108,896	681	0.6
Non-U.S.	66,697	788	1.2
Other:			
U.S.	98,335	(1,117)	(1.1)
Non-U.S.	37,679	142	0.4
Total	$659,057	$ 4,431	0.7
Non-interest bearing liabilities and equity	169,404		
Total liabilities and equity	$828,461		
Net interest income and net interest rate spread		$ 778	—%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	2012		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$133,615	$ 2,247	1.7%
Non-U.S.	82,019	489	0.6
Securities available for sale:			
U.S.	35,141	343	1.0
Loans:			
U.S.	20,996	597	2.8
Non-U.S.	363	46	12.7
Interest bearing deposits with banks:			
U.S.	25,905	58	0.2
Non-U.S.	10,612	66	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	189,186	(315)	(0.2)
Non-U.S.	91,851	679	0.7
Other:			
U.S.	54,651	471	0.9
Non-U.S.	15,404	1,011	6.6
Total	$659,743	$ 5,692	0.9%
Non-interest earning assets	122,428		
Total assets	$782,171		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 69,265	$ 181	0.3%
Non-U.S.	165	—	—
Commercial paper and other short-term borrowings:			
U.S.	557	5	0.9
Non-U.S.	1,383	33	2.4
Long-term debt:			
U.S.	163,961	4,544	2.8
Non-U.S.	7,552	78	1.0
Trading liabilities(1):			
U.S.	38,125	—	—
Non-U.S.	51,834	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	101,210	522	0.5
Non-U.S.	59,932	1,283	2.1
Other:			
U.S.	82,881	(1,475)	(1.8)
Non-U.S.	33,992	726	2.1
Total	$610,857	$ 5,897	1.0
Non-interest bearing liabilities and equity	171,314		
Total liabilities and equity	$782,171		
Net interest income and net interest rate spread		$ (205)	(0.1)%

[1] Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	2011		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$122,704	$ 2,636	2.1%
Non-U.S.	114,445	957	0.8
Securities available for sale:			
U.S.	27,712	348	1.3
Loans:			
U.S.	12,294	326	2.7
Non-U.S.	420	30	7.1
Interest bearing deposits with banks:			
U.S.	41,256	49	0.1
Non-U.S.	16,558	137	0.8
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	191,843	(79)	—
Non-U.S.	110,682	965	0.9
Other:			
U.S.	45,336	1,335	2.9
Non-U.S.	15,454	530	3.4
Total	$698,704	$ 7,234	1.0%
Non-interest earning assets	140,131		
Total assets	$838,835		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 64,559	$ 236	0.4%
Non-U.S.	91	—	—
Commercial paper and other short-term borrowings:			
U.S.	874	7	0.8
Non-U.S.	2,163	34	1.6
Long-term debt:			
U.S.	184,623	4,880	2.6
Non-U.S.	7,701	32	0.4
Trading liabilities(1):			
U.S.	30,070	—	—
Non-U.S.	61,313	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	110,270	649	0.6
Non-U.S.	69,276	1,276	1.8
Other:			
U.S.	90,193	(1,094)	(1.2)
Non-U.S.	38,139	863	2.3
Total	$659,272	$ 6,883	1.0
Non-interest bearing liabilities and equity	179,563		
Total liabilities and equity	$838,835		
Net interest income and net interest rate spread		$ 351	— %

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

The following tables set forth an analysis of the effect on net interest income of volume and rate changes:

	2013 versus 2012		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$(237)	$ (62)	$ (299)
Non-U.S.	130	(275)	(145)
Securities available for sale:			
U.S.	88	16	104
Loans:			
U.S.	368	87	455
Non-U.S.	16	7	23
Interest bearing deposits with banks:			
U.S.	20	8	28
Non-U.S.	(19)	(4)	(23)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	(24)	122	98
Non-U.S.	(105)	(377)	(482)
Other:			
U.S.	64	216	280
Non-U.S.	241	(763)	(522)
Change in interest income	$ 542	$(1,025)	$ (483)
Interest bearing liabilities			
Deposits:			
U.S.	$ 59	$ (81)	$ (22)
Commercial paper and other short-term borrowings:			
U.S.	4	(7)	(3)
Non-U.S.	(8)	(7)	(15)
Long-term debt:			
U.S.	(317)	(531)	(848)
Non-U.S.	24	(40)	(16)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	40	119	159
Non-U.S.	145	(640)	(495)
Other:			
U.S.	(276)	634	358
Non-U.S.	79	(663)	(584)
Change in interest expense	$(250)	$(1,216)	$(1,466)
Change in net interest income	$ 792	$ 191	$ 983

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

	2012 versus 2011		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$ 234	$ (623)	$ (389)
Non-U.S.	(271)	(197)	(468)
Securities available for sale:			
U.S.	93	(98)	(5)
Loans:			
U.S.	231	40	271
Non-U.S.	(4)	20	16
Interest bearing deposits with banks:			
U.S.	(18)	27	9
Non-U.S.	(49)	(22)	(71)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	1	(237)	(236)
Non-U.S.	(164)	(122)	(286)
Other:			
U.S.	274	(1,138)	(864)
Non-U.S.	(2)	483	481
Change in interest income	$ 325	$(1,867)	$(1,542)
Interest bearing liabilities			
Deposits:			
U.S.	$ 17	$ (72)	$ (55)
Commercial paper and other short-term borrowings:			
U.S.	(3)	1	(2)
Non-U.S.	(12)	11	(1)
Long-term debt:			
U.S.	(546)	210	(336)
Non-U.S.	(1)	47	46
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(53)	(74)	(127)
Non-U.S.	(172)	179	7
Other:			
U.S.	89	(470)	(381)
Non-U.S.	(94)	(43)	(137)
Change in interest expense	$ (775)	$ (211)	$ (986)
Change in net interest income	$1,100	$(1,656)	$ (556)

Deposits

	Average Deposits(1)					
	2013		2012		2011	
	Average Amount(1)	Average Rate	Average Amount(1)	Average Rate	Average Amount(1)	Average Rate
	(dollars in millions)					
Deposits(2):						
Savings deposits	$90,447	0.1%	$66,073	0.1%	$61,258	0.2%
Time deposits	1,526	3.9%	3,357	2.6%	3,392	3.5%
Total	$91,973	0.2%	$69,430	0.3%	$64,650	0.4%

(1) The Company calculates its average balances based upon weekly amounts, except where weekly balances are unavailable, month-end balances are used.

(2) Deposits are primarily located in U.S. offices.

Ratios

	2013	2012	2011
Net income to average assets	0.4%	N/M	0.5%
Return on average common equity(1)	4.3%	N/M	3.8%
Return on total equity(2)	4.6%	0.1%	6.9%
Dividend payout ratio(3)	14.7%	N/M	16.3%
Total average common equity to average assets	7.5%	7.8%	6.5%
Total average equity to average assets	7.7%	8.0%	7.1%

N/M—Not meaningful.

(1) Percentage is based on net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity.

(2) Percentage is based on net income as a percentage of average total equity.

(3) Percentage is based on dividends declared per common share as a percentage of net income per diluted share.

Short-term Borrowings

	2013	2012	2011
	(dollars in millions)		
Securities sold under repurchase agreements:			
Period-end balance	$145,676	$122,674	$104,800
Average balance(1)(2)	136,151	125,465	142,784
Maximum balance at any month-end	145,676	139,962	164,511
Weighted average interest rate during the period(3)	0.7%	0.9%	0.9%
Weighted average interest rate on period-end balance(4)	0.4%	0.8%	0.8%
Securities loaned:			
Period-end balance	$ 32,799	$ 36,849	$ 30,462
Average balance(1)	39,442	35,677	36,762
Maximum balance at any month-end	44,182	39,881	50,709
Weighted average interest rate during the period(3)	1.2%	1.9%	1.9%
Weighted average interest rate on period-end balance(4)	1.2%	1.5%	1.8%

(1) The Company calculates its average balances based upon weekly amounts, except where weekly balances are unavailable, month-end balances are used.

(2) In 2011, the period-end balance was lower than the annual average primarily due to a decrease in the overall balance sheet during the year.

(3) The approximated weighted average interest rate was calculated using (a) interest expense incurred on all securities sold under repurchase agreements and securities loaned transactions, whether or not such transactions were reported on the consolidated statements of financial condition and (b) average balances that were reported on a net basis where certain criteria were met in accordance with applicable offsetting guidance. In addition, securities-for-securities transactions in which the Company was the borrower were not included in the average balances since they were not reported on the consolidated statements of financial condition.

(4) The approximated weighted average interest rate was calculated using (a) interest expense for all securities sold under repurchase agreements and securities loaned transactions, whether or not such transactions were reported on the consolidated statements of financial condition and (b) period-end balances that were reported on a net basis where certain criteria were met in accordance with applicable offsetting guidance. In addition, securities-for-securities transactions in which the Company was the borrower were not included in the period-end balances since they were not reported on the consolidated statements of financial condition.

Cross-border Outstandings

Cross-border outstandings are based upon the Federal Financial Institutions Examination Council's ("FFIEC") regulatory guidelines for reporting cross-border risk. Claims include cash, customer and other receivables, securities purchased under agreements to resell, securities borrowed and cash trading instruments, but exclude commitments. Securities purchased under agreements to resell and securities borrowed are presented based on the domicile of the counterparty, without reduction for related securities collateral held. Effective December 31, 2013, the regulatory guidelines for reporting cross-border risk were updated and prospectively require the reporting of, among other items, cross-border exposure to Non-banking financial institutions. Cross-border risk at December 31, 2012 and December 31, 2011 was not recast to reflect the new requirements. For purposes of comparability, exposure to Non-banking financial institutions as of December 31, 2013 is reported in Other in the tables below. For information regarding the Company's country risk exposure, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk—Country Risk Exposure" in Part II, Item 7A.

The following tables set forth cross-border outstandings for each country in which cross-border outstandings exceed 1% of the Company's consolidated assets or 20% of the Company's total capital, whichever is less, at December 31, 2013, December 31, 2012 and December 31, 2011, respectively, in accordance with the FFIEC guidelines (dollars in millions):

	At December 31, 2013			
Country	Banks	Governments	Other(1)	Total
United Kingdom	$11,874	$ 911	$57,594	$70,379
Japan	27,251	3,622	26,426	57,299
Cayman Islands	1	—	45,041	45,042
Germany	8,844	10,312	10,613	29,769
France	22,408	264	6,247	28,919
Canada	2,988	2,012	7,108	12,108
Netherlands	1,474	—	10,015	11,489
Korea	65	4,307	3,376	7,748

	At December 31, 2012			
Country	Banks	Governments	Other	Total
United Kingdom	$17,504	$ 6	$100,090	$117,600
Cayman Islands	5	10	41,628	41,643
France	28,699	149	3,915	32,763
Japan	24,935	148	2,967	28,050
Germany	15,084	3,014	4,192	22,290
Netherlands	1,700	—	10,920	12,620
Canada	6,651	1,310	2,893	10,854
Korea	32	6,812	2,311	9,155
Switzerland	3,319	242	5,483	9,044
Luxembourg	221	223	7,952	8,396

	At December 31, 2011			
Country	Banks	Governments	Other	Total
United Kingdom	$13,852	$ 2	$89,585	$103,439
Cayman Islands	766	—	31,169	31,935
France	23,561	1,096	4,196	28,853
Japan	23,542	436	2,821	26,799
Germany	18,674	3,485	1,859	24,018
Netherlands	3,508	23	8,826	12,357
Luxembourg	1,619	94	6,137	7,850
Brazil	149	3,398	2,165	5,712
Australia	2,008	557	1,414	3,979
Italy	881	1,463	539	2,883

(1) Other includes Non-banking financial institutions and others in the 2013 presentation.

For cross-border exposure that exceeds 0.75% but does not exceed 1% of the Company's consolidated assets, Ireland, Switzerland and China had a total cross-border exposure of $20,534 million at December 31, 2013, Saudi Arabia and Singapore had a total cross-border exposure of $12,848 million at December 31, 2012, and Korea, Singapore, Canada and certain other countries had a total cross-border exposure of $26,908 million at December 31, 2011.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992).* Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2013.

The Company's independent registered public accounting firm has audited and issued a report on the Company's internal control over financial reporting, which appears below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the internal control over financial reporting of Morgan Stanley and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of December 31, 2013, and for the year then ended, and our report dated February 25, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
New York, New York
February 25, 2014

Changes in Internal Control Over Financial Reporting.

No change in the Company's internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the quarter ended December 31, 2013 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Information relating to the Company's directors and nominees under the following captions in the Company's definitive proxy statement for its 2014 annual meeting of shareholders ("Morgan Stanley's Proxy Statement") is incorporated by reference herein.

- "Item 1—Election of Directors—Director Nominees"
- "Item 1—Election of Directors—Corporate Governance—Board Meetings and Committees"
- "Item 1—Election of Directors—Beneficial Ownership of Company Common Stock—Section 16(a) Beneficial Ownership Reporting Compliance"

Information relating to the Company's executive officers is contained in Part I, Item 1 of this report under "Executive Officers of Morgan Stanley."

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. You can find our Code of Ethics and Business Conduct on our internet site, *www.morganstanley.com/about/company/governance/ethics.html*. We 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 NYSE, on our internet site.

Item 11. Executive Compensation.

Information relating to director and executive officer compensation under the following captions in Morgan Stanley's Proxy Statement is incorporated by reference herein.

- "Item 1—Election of Directors—Executive Compensation"
- "Item 1—Election of Directors—Corporate Governance—Director Compensation"

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information. The following table provides information about outstanding awards and shares of common stock available for future awards under all of Morgan Stanley's equity compensation plans as of December 31, 2013. Morgan Stanley has not made any grants of common stock outside of its equity compensation plans.

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)(1)	Weighted-average exercise price of outstanding options, warrants and rights ($)(2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#)
Equity compensation plans approved by security holders	169,757,711	49.3974	107,080,353[3]
Equity compensation plans not approved by security holders	1,482,390	—	—[4]
Total	171,240,101	49.3974	107,080,353

[1] Amounts include outstanding stock option, restricted stock unit and performance stock unit awards. The number of outstanding performance stock unit awards is based on the target number of units granted to senior executives.

[2] Amounts reflect the weighted-average exercise price with respect to outstanding stock options and does not take into account outstanding restricted stock units and performance stock units, which do not provide for an exercise price.

[3] Amount includes the following:

(a) 39,182,870 shares available under the Morgan Stanley Employee Stock Purchase Plan ("ESPP"). Pursuant to this plan, which is qualified under Section 423 of the Internal Revenue Code, eligible employees were permitted to purchase shares of common stock at a discount to market price through regular payroll deduction. The Compensation, Management Development and Succession ("CMDS") Committee approved the discontinuation of the ESPP, effective June 1, 2009, such that no further contributions to the plan will be permitted following such date, until such time as the CMDS Committee determines to recommence contributions under the plan.

(b) 61,388,699 shares available under the 2007 Equity Incentive Compensation Plan. Awards may consist of stock options, stock appreciation rights, restricted stock, restricted stock units to be settled by the delivery of shares of common stock (or the value thereof), performance-based units, other awards that are valued by reference to or otherwise based on the fair market value of common stock, and other equity-based or equity-related awards approved by the CMDS Committee.

(c) 5,579,314 shares available under the Employee Equity Accumulation Plan, which includes 732,857 shares available for awards of restricted stock and restricted stock units. Awards may consist of stock options, stock appreciation rights, restricted stock, restricted stock units to be settled by the delivery of shares of common stock (or the value thereof), other awards that are valued by reference to or otherwise based on the fair market value of common stock, and other equity-based or equity-related awards approved by the CMDS Committee.

(d) 355,243 shares available under the Tax Deferred Equity Participation Plan. Awards consist of restricted stock units, which are settled by the delivery of shares of common stock.

(e) 574,227 shares available under the Directors' Equity Capital Accumulation Plan. This plan provides for periodic awards of shares of common stock and stock units to non-employee directors and also allows non-employee directors to defer the cash fees they earn for services as a director in the form of stock units.

[4] As of December 31, 2013, no shares remained available for future issuance under the Financial Advisor and Investment Representative Compensation Plan ("FAIRCP"), which was terminated effective December 31, 2011, and the Morgan Stanley 2009 Replacement Equity Incentive Compensation Plan for Morgan Stanley Smith Barney Employees ("REICP"), which was terminated effective December 31, 2012. However, awards remained outstanding under these plans as of December 31, 2013. The material features of the FAIRCP and the REICP, which were not approved by shareholders under SEC rules, are as follows:

(a) FAIRCP: Financial advisors and investment representatives in the Wealth Management business segment were eligible to receive awards under FAIRCP in the form of cash, restricted stock and restricted stock units settled by the delivery of shares of common stock.

(b) REICP: REICP was adopted in connection with the Wealth Management JV and without stockholder approval pursuant to the employment inducement award exception under the New York Stock Exchange Corporate Governance Listing Standards. The equity awards granted pursuant to the REICP were limited to awards to induce certain Citigroup Inc. ("Citi") employees to join the new Wealth Management JV by replacing the value of Citi awards that were forfeited in connection with the employees' transfer of employment to the Wealth Management business segment. Awards under the REICP were authorized in the form of restricted stock units, stock appreciation rights, stock options and restricted stock and other forms of stock-based awards.

The foregoing descriptions do not purport to be complete and are qualified in their entirety by reference to the FAIRCP and REICP plan documents which, along with all plans under which awards were available for grant in 2013, are included as exhibits to this Annual Report on Form 10-K.

* * *

Other information relating to security ownership of certain beneficial owners and management is set forth under the caption "Item 1—Election of Directors—Beneficial Ownership of Company Common Stock" in Morgan Stanley's Proxy Statement and such information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions under the following caption in Morgan Stanley's Proxy Statement is incorporated by reference herein.

- "Item 1—Election of Directors—Corporate Governance—Related Person Transactions Policy"
- "Item 1—Election of Directors—Corporate Governance—Certain Transactions"

Information regarding director independence under the following caption in Morgan Stanley's Proxy Statement is incorporated by reference herein.

- "Item 1—Election of Directors—Corporate Governance—Director Independence"

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services under the following caption in Morgan Stanley's Proxy Statement is incorporated by reference herein.

- "Item 2—Ratification of Appointment of Morgan Stanley's Independent Auditor" (excluding the information under the subheading "Audit Committee Report")

Part IV

Item 15. Exhibits and Financial Statement Schedules.

Documents filed as part of this report.

- The consolidated financial statements required to be filed in this Annual Report on Form 10-K are included in Part II, Item 8 hereof.
- An exhibit index has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 25, 2014.

MORGAN STANLEY
(REGISTRANT)
By: /s/ JAMES P. GORMAN
(James P. Gorman)
Chairman of the Board and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned, hereby severally constitute Ruth Porat, Eric F. Grossman and Martin M. Cohen, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 25th day of February, 2014.

Signature	Title
/s/ JAMES P. GORMAN (James P. Gorman)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ RUTH PORAT (Ruth Porat)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ PAUL C. WIRTH (Paul C. Wirth)	Deputy Chief Financial Officer (Principal Accounting Officer)
/s/ ERSKINE B. BOWLES (Erskine B. Bowles)	Director
/s/ HOWARD J. DAVIES (Howard J. Davies)	Director
/s/ THOMAS H. GLOCER (Thomas H. Glocer)	Director
/s/ ROBERT H. HERZ (Robert H. Herz)	Director
/s/ C. ROBERT KIDDER (C. Robert Kidder)	Director
/s/ KLAUS KLEINFELD (Klaus Kleinfeld)	Director

Signature	**Title**
/s/ DONALD T. NICOLAISEN (Donald T. Nicolaisen)	Director
/s/ HUTHAM S. OLAYAN (Hutham S. Olayan)	Director
/s/ JAMES W. OWENS (James W. Owens)	Director
/s/ O. GRIFFITH SEXTON (O. Griffith Sexton)	Director
/s/ RYOSUKE TAMAKOSHI (Ryosuke Tamakoshi)	Director
/s/ MASAAKI TANAKA (Masaaki Tanaka)	Director
/s/ LAURA D’ANDREA TYSON (Laura D’Andrea Tyson)	Director
/s/ RAYFORD WILKINS, JR. (Rayford Wilkins, Jr.)	Director

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS TO FORM 10-K

For the year ended December 31, 2013
Commission File No. 1-11758

Morgan Stanley

Exhibit Index

Certain of the following exhibits, as indicated parenthetically, were previously filed as exhibits to registration statements filed by Morgan Stanley or its predecessor companies under the Securities Act or to reports or registration statements filed by Morgan Stanley or its predecessor companies under the Exchange Act and are hereby incorporated by reference to such statements or reports. Morgan Stanley's Exchange Act file number is 1-11758. The Exchange Act file number of Morgan Stanley Group Inc., a predecessor company ("MSG"), was 1-9085.[1]

Exhibit No.	Description
2.1	Amended and Restated Joint Venture Contribution and Formation Agreement dated as of May 29, 2009 by and among Citigroup Inc. and Morgan Stanley and Morgan Stanley Smith Barney Holdings LLC (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated May 29, 2009).
2.2	Integration and Investment Agreement dated as of March 30, 2010 by and between Mitsubishi UFJ Financial Group, Inc. and Morgan Stanley (Exhibit 2.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
3.1	Amended and Restated Certificate of Incorporation of Morgan Stanley, as amended to date (Exhibit 3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009), as amended by the Certificate of Elimination of Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (Exhibit 3.1 Morgan Stanley's Current Report on Form 8-K dated July 20, 2011), as amended by the Certificate of Merger of Domestic Corporations dated December 29, 2011 (Exhibit 3.3 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2012), as amended by the Certificate of Designation of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E (Exhibit 2.5 to Morgan Stanley's Registration Statement on Form 8-A dated September 27, 2013), as amended by the Certificate of Designation of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F (Exhibit 2.3 to Morgan Stanley's Registration Statement on Form 8-A dated December 9, 2013).
3.2	Amended and Restated Bylaws of Morgan Stanley, as amended to date (Exhibit 3.1 to Morgan Stanley's Current Report on Form 8-K dated March 9, 2010).
4.1	Indenture dated as of February 24, 1993 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4 to Morgan Stanley's Registration Statement on Form S-3 (No. 33-57202)).
4.2	Amended and Restated Senior Indenture dated as of May 1, 1999 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-e to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289) as amended by Fourth Supplemental Senior Indenture dated as of October 8, 2007 (Exhibit 4.3 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
4.3	Senior Indenture dated as of November 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752), as amended by First Supplemental Senior Indenture dated as of September 4, 2007 (Exhibit 4.5 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007), Second Supplemental Senior Indenture dated as of January 4, 2008 (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated January 4, 2008), Third Supplemental Senior Indenture dated as of September 10, 2008 (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008), Fourth Supplemental Senior Indenture dated as of December 1, 2008

[1] For purposes of this Exhibit Index, references to "The Bank of New York" mean in some instances the entity successor to JPMorgan Chase Bank, N.A. or J.P. Morgan Trust Company, National Association; references to "JPMorgan Chase Bank, N.A." mean the entity formerly known as The Chase Manhattan Bank, in some instances as the successor to Chemical Bank; references to "J.P. Morgan Trust Company, N.A." mean the entity formerly known as Bank One Trust Company, N.A., as successor to The First National Bank of Chicago.

Exhibit No.	Description
	(Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated December 1, 2008), Fifth Supplemental Senior Indenture dated as of April 1, 2009 (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009), Sixth Supplemental Senior Indenture dated as of September 16, 2011 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011), Seventh Supplemental Senior Indenture dated as of November 21, 2011 (Exhibit 4.4 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011) and Eighth Supplemental Senior Indenture dated as of May 4, 2012 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
4.4	The Unit Agreement Without Holders' Obligations, dated as of August 29, 2008, between Morgan Stanley and The Bank of New York Mellon, as Unit Agent, as Trustee and Paying Agent under the Senior Indenture referred to therein and as Warrant Agent under the Warrant Agreement referred to therein (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated August 29, 2008).
4.5	Amended and Restated Subordinated Indenture dated as of May 1, 1999 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289)).
4.6	Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-g to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752)).
4.7	Junior Subordinated Indenture dated as of March 1, 1998 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998).
4.8	Junior Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-ww to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752)).
4.9	Junior Subordinated Indenture dated as of October 12, 2006 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated October 12, 2006).
4.10	Deposit Agreement dated as of July 6, 2006 among Morgan Stanley, JPMorgan Chase Bank, N.A. and the holders from time to time of the depositary receipts described therein (Exhibit 4.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2006).
4.11	Depositary Receipt for Depositary Shares, representing Floating Rate Non-Cumulative Preferred Stock, Series A (included in Exhibit 4.10 hereto).
4.12	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust III dated as of February 27, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee, and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2003).
4.13	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust IV dated as of April 21, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware Trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2003).
4.14	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust V dated as of July 16, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2003).
4.15	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VI dated as of January 26, 2006 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006).

Exhibit No.	Description
4.16	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VII dated as of October 12, 2006 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley's Current Report on Form 8-K dated October 12, 2006).
4.17	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VIII dated as of April 26, 2007 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley's Current Report on Form 8-K dated April 26, 2007).
4.18	Instruments defining the Rights of Security Holders, Including Indentures—Except as set forth in Exhibits 4.1 through 4.17 above, the instruments defining the rights of holders of long-term debt securities of Morgan Stanley and its subsidiaries are omitted pursuant to Section (b)(4)(iii) of Item 601 of Regulation S-K. Morgan Stanley hereby agrees to furnish copies of these instruments to the SEC upon request.
10.1	Amended and Restated Trust Agreement dated as of October 18, 2011 by and between Morgan Stanley and State Street Bank and Trust Company (Exhibit 10.1 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011).
10.2	Transaction Agreement dated as of April 21, 2011 between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated April 21, 2011).
10.3	Amended and Restated Investor Agreement dated as of June 30, 2011 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated June 30, 2011), as amended by Third Amendment, dated October 3, 2013 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.4†	Morgan Stanley 401(k) Plan, amended and restated as of January 1, 2013 (Exhibit 10.6 to Morgan Stanley Annual Report on Form 10-K for the year ended December 31, 2012).
10.5†*	Amendment to Morgan Stanley 401(k) Plan, dated as of December 20, 2013.
10.6†*	Amendment to Morgan Stanley 401(k) Savings Plan, dated as of December 20, 2013.
10.7†	1994 Omnibus Equity Plan as amended and restated (Exhibit 10.23 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2003) as amended by Amendment (Exhibit 10.11 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006).
10.8†	Tax Deferred Equity Participation Plan as amended and restated as of November 26, 2007 (Exhibit 10.9 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.9†	Directors' Equity Capital Accumulation Plan as amended and restated as of March 22, 2012 (Exhibit 10.2 to Morgan Stanley's Current Report on Form 8-K dated May 15, 2012).
10.10†	Select Employees' Capital Accumulation Program as amended and restated as of May 7, 2008 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2008).
10.11†	Form of Term Sheet under the Select Employees' Capital Accumulation Program (Exhibit 10.9 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.12†	Employees' Equity Accumulation Plan as amended and restated as of November 26, 2007 (Exhibit 10.12 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).

Exhibit No.	Description
10.13†	Employee Stock Purchase Plan as amended and restated as of February 1, 2009 (Exhibit 10.20 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.14†	Morgan Stanley Supplemental Executive Retirement and Excess Plan, amended and restated effective December 31, 2008 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009) as amended by Amendment (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009), Amendment (Exhibit 10.19 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2010) and Amendment (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
10.15†	1995 Equity Incentive Compensation Plan (Annex A to MSG's Proxy Statement for its 1996 Annual Meeting of Stockholders) as amended by Amendment (Exhibit 10.39 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000), Amendment (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2005), Amendment (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006), Amendment (Exhibit 10.24 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006) and Amendment (Exhibit 10.22 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.16†	Form of Equity Incentive Compensation Plan Award Certificate (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2004).
10.17†	Form of Management Committee Equity Award Certificate for Discretionary Retention Award of Stock Units and Stock Options (Exhibit 10.30 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006).
10.18†	Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program 2 (Exhibit 10.12 to MSG's Annual Report for the fiscal year ended November 30, 1996).
10.19†	Key Employee Private Equity Recognition Plan (Exhibit 10.43 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).
10.20†	Morgan Stanley Financial Advisor and Investment Representative Compensation Plan as amended and restated as of November 26, 2007 (Exhibit 10.34 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.21†	Morgan Stanley UK Share Ownership Plan (Exhibit 4.1 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-146954)).
10.22†	Supplementary Deed of Participation for the Morgan Stanley UK Share Ownership Plan, dated as of November 5, 2009 (Exhibit 10.36 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2009).
10.23†	Aircraft Time Sharing Agreement, dated as of January 1, 2010, by and between Corporate Services Support Corp. and James P. Gorman (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
10.24†	Agreement between Morgan Stanley and James P. Gorman, dated August 16, 2005, and amendment dated December 17, 2008 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
10.25†*	Amendment to Agreement between Morgan Stanley and James P. Gorman, effective as of December 19, 2013.
10.26†	Agreement between Morgan Stanley and Gregory J. Fleming, dated February 3, 2010 (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.27†	Form of Restrictive Covenant Agreement (Exhibit 10 to Morgan Stanley's Current Report on Form 8-K dated November 22, 2005).

Exhibit No.	Description
10.28†	Morgan Stanley Performance Formula and Provisions (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2006).
10.29†	Morgan Stanley Performance Formula and Provisions (Exhibit 10.2 to Morgan Stanley's Current Report on Form 8-K dated May 14, 2013).
10.30†	2007 Equity Incentive Compensation Plan, as amended and restated as of March 21, 2013 (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated May 14, 2013).
10.31†	Morgan Stanley 2006 Notional Leveraged Co-Investment Plan, as amended and restated as of November 28, 2008 (Exhibit 10.47 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.32†	Form of Award Certificate under the 2006 Notional Leveraged Co-Investment Plan (Exhibit 10.7 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.33†	Morgan Stanley 2007 Notional Leveraged Co-Investment Plan, amended as of June 4, 2009 (Exhibit 10.6 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.34†	Form of Award Certificate under the 2007 Notional Leveraged Co-Investment Plan for Certain Management Committee Members (Exhibit 10.8 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.35†	Governmental Service Amendment to Outstanding Stock Option and Stock Unit Awards (replacing and superseding in its entirety Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2007) (Exhibit 10.41 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.36†	Amendment to Outstanding Stock Option and Stock Unit Awards (Exhibit 10.53 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.37†	Morgan Stanley Compensation Incentive Plan (Exhibit 10.54 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.38†	Form of Executive Waiver (Exhibit 10.55 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.39†	Form of Executive Letter Agreement (Exhibit 10.56 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.40†	Morgan Stanley 2009 Replacement Equity Incentive Compensation Plan for Morgan Stanley Smith Barney Employees (Exhibit 4.2 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-159504)).
10.41†	Form of Award Certificate for Discretionary Retention Awards of Stock Units (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.42†	Form of Award Certificate for Performance Stock Units (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.43†	Form of Award Certificate for Special Discretionary Retention Awards of Stock Options (Exhibit 10.4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.44†	Morgan Stanley Schedule of Non-Employee Directors Annual Compensation, effective as of May 17, 2011 (Exhibit 10.59 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011).
10.45†	Form of Award Certificate for Discretionary Retention Awards of Stock Units (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.46†	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan Deferred Bonus Program (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).

Exhibit No.	Description
10.47†	Form of Award Certificate for Performance Stock Units (Exhibit 10.3 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.48†	Memorandum to Colm Kelleher Regarding Repatriation to London (Exhibit 10.4 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.49†	Morgan Stanley U.S. Tax Equalization Program (Exhibit 10.5 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.50†	Change of Employment Status and Release Agreement between Morgan Stanley and Paul J. Taubman, dated January 3, 2013 (Exhibit 10.1 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.51†	Morgan Stanley UK Limited Alternative Retirement Plan, dated as of October 8, 2009 (Exhibit 10.2 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.52†	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan (Exhibit 10.3 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.53†	Form of Award Certificate for Discretionary Retention Awards of Stock Units (Exhibit 10.4 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.54†	Form of Award Certificate for Discretionary Retention Awards of Stock Options (Exhibit 10.5 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.55†	Form of Award Certificate for Long-Term Incentive Program Awards (Exhibit 10.6 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
12*	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	Subsidiaries of Morgan Stanley.
23.1*	Consent of Deloitte & Touche LLP.
24	Powers of Attorney (included on signature page).
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition—December 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Income—Twelve Months Ended December 31, 2013, December 31, 2012 and December 31, 2011, (iii) the Consolidated Statements of Comprehensive Income—Twelve Months Ended December 31, 2013, December 31, 2012 and December 31, 2011, (iv) the Consolidated Statements of Cash Flows—Twelve Months Ended December 31, 2013, December 31, 2012 and December 31, 2011, (v) the Consolidated Statements of Changes in Total Equity—Twelve Months Ended December 31, 2013, December 31, 2012, and December 31, 2011, and (vi) Notes to Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

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, 2014

Commission File Number 1-11758

Morgan Stanley

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**1585 Broadway** **New York, NY 10036** (Address of principal executive offices, including zip code)	**36-3145972** (I.R.S. Employer Identification No.)	**(212) 761-4000** (Registrant's telephone number, including area 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
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series G, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, $0.01 par value	New York Stock Exchange
6 ¼% Capital Securities of Morgan Stanley Capital Trust III (and Registrant's guaranty with respect thereto)	New York Stock Exchange
6 ¼% Capital Securities of Morgan Stanley Capital Trust IV (and Registrant's guaranty with respect thereto)	New York Stock Exchange
5 ¾% 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
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.

Indicate by check mark if Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ 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 ☒

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 ☒ 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 ☒ 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 ☒	Accelerated Filer □
Non-Accelerated Filer □ (Do not check if a smaller reporting company)	Smaller reporting company □

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

As of June 30, 2014, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $60,823,096,775. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2015, there were 1,976,612,907 shares of Registrant's common stock, $0.01 par value, outstanding.

Documents Incorporated by Reference: Portions of Registrant's definitive proxy statement for its 2015 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

Morgan Stanley

ANNUAL REPORT ON FORM 10-K

for the year ended December 31, 2014

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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, possibly materially, 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 and energy 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), policies (including fiscal and monetary) and legal and regulatory actions in the United States of America (“U.S.”) and worldwide;
- the level and volatility of equity, fixed income and commodity prices (including oil 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, consumer and business sentiment and confidence in the financial markets;
- the performance of our acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements;
- our reputation and the general perception of the financial services industry;
- inflation, natural disasters, pandemics and acts of war or terrorism;
- the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations;
- the effectiveness of our risk management policies;
- technological changes and risks and cybersecurity risks (including cyber attacks and business continuity risks); 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.

Part I

Item 1. Business.

Overview.

Morgan Stanley is a global financial services firm that, 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. 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, 2014, the Company had 55,802 employees worldwide. Unless the context otherwise requires, the terms "Morgan Stanley," the "Company," "we," "us" and "our" mean Morgan Stanley together with its consolidated subsidiaries.

Financial information concerning the Company, its business segments and geographic regions for each of the 12 months ended December 31, 2014 ("2014"), December 31, 2013 ("2013") and December 31, 2012 ("2012") 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-us-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-us-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 Company's Board of Directors; Policy Regarding Director Candidates Recommended by Shareholders; Policy Regarding Corporate Political Activities; Policy Regarding Shareholder Rights Plan; Code of Ethics and Business Conduct; Code of Conduct; and Integrity Hotline information.

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. 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, Wealth Management and Investment Management.

Institutional Securities.

The Company's Institutional Securities business segment 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.") and Morgan Stanley & Co. International plc ("MSIP"), 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 and services 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 select corporate clients through its subsidiaries, including Morgan Stanley Bank, N.A. ("MSBNA"). These loans and lending commitments have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged 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, swaps and futures, both on exchanges and in over-the-counter ("OTC") markets around the world. The Company's Institutional Securities sales and trading activities comprise Institutional Equity; Fixed Income and Commodities; Research; and Investments.

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

The Company acts as agent and principal (including as a market-maker) in executing transactions globally in equity derivatives and equity-linked or related products, including options, equity swaps, warrants, structured notes and futures on individual securities, indices and baskets of securities and other equity-related products. The Company offers prime brokerage services to clients, including consolidated clearance, settlement, custody, financing and portfolio reporting. In addition, the Company provides wealth management services to ultra-high net worth and high net worth clients in select regions outside the U.S.

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; and 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, as well as Canada.

The Company trades, invests and makes markets globally in listed swaps and futures and OTC cleared and uncleared 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, and distributes such securitized assets to investors. 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 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 trades, invests and makes markets in the spot, forward, OTC cleared and uncleared swaps, options 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 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. The Company 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.

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^{sm} and Matrix^{sm}, 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 "Investment Management" herein.

Operations and Information Technology.

The Company's Operations and Information Technology departments provide the process and technology platform required to support 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 support is provided for 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. 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.

Wealth Management.

The Company's Wealth Management business segment provides comprehensive financial services to clients through a network of 16,076 global representatives in 622 locations at year-end 2014. As of December 31, 2014, Wealth Management had $2,025 billion in client assets.

Clients.

Wealth Management 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. Wealth Management representatives are located in branches across the U.S. and provide solutions designed to accommodate the individual investment objectives, risk tolerance and liquidity needs of investors residing in and outside the U.S. Call centers are available to meet the needs of emerging affluent clients.

Products and Services.

Wealth Management provides clients with a comprehensive array of financial solutions, including products and services from the Company and third-party providers, such as other financial institutions, insurance companies and mutual fund families. Wealth Management 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. Wealth Management also engages in fixed income principal trading, which primarily facilitates clients' trading or investments in such securities. In addition, Wealth Management offers education savings programs, financial and wealth planning services, and annuity and other insurance products.

In addition, Wealth Management 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 MSBNA and Morgan Stanley Private Bank, National Association ("MSPBNA" and, together with MSBNA, the "U.S. Subsidiary Banks"), including securities-based lending, mortgage loans and home equity lines of credit. Wealth Management also offers access to 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.

Wealth Management 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.

The Company's Operations and Information Technology departments provide the process and technology platform to support the Wealth Management business segment, including core securities processing, capital markets operations, product services, and alternative investments, margin, payments and related internal controls over activity from trade entry through settlement and custody. These activities are undertaken through the Company's own facilities, through membership in various clearing and settlement organizations, and through agreements with affiliates and unaffiliated third parties.

Investment Management.

The Company's Investment Management business segment, consisting of Traditional Asset Management, Alternative Investments, Merchant Banking and Real Estate Investing activities, is one of the largest global investment management organizations of any full-service financial services firm and offers clients a broad array of equity, fixed income, alternative investments, real estate and merchant banking strategies. Portfolio managers and other investment professionals 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 capitalization ranges.

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 Services 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 broker-dealers and banks.

Alternative Investments, Merchant Banking and Real Estate Investing.

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 product mix includes funds of hedge funds, funds of private equity and real estate funds, portable alpha strategies and managed futures. The Company also holds minority stakes in Lansdowne Partners and Avenue Capital Group. The Company's real estate and merchant banking businesses include its real estate investing business, private equity funds, credit investing group and infrastructure investing group. The 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.

Operations and Information Technology.

The Company's Operations and Information Technology departments provide or oversee the process and technology platform required to support its Investment Management business segment, including transfer agency, mutual fund accounting and administration, transaction processing and certain fiduciary services on behalf of institutional, intermediary and high net worth clients. 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.

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, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds and private equity funds, energy companies and other companies offering financial or ancillary 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 left businesses, 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, or new competitors may emerge. See also "—Supervision and Regulation" below and "Risk Factors" in Part I, Item 1A.

Institutional Securities and Wealth Management.

The Company's competitive position for its Institutional Securities and Wealth Management 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.

The Company's ability to access capital at competitive rates (which is generally impacted by 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 on the Company's businesses. Operating within the financial services industry on a global basis presents, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for the Company to remain competitive. In addition, the Company's business is subject to increased regulation in the U.S. and abroad, while certain of its competitors may be subject to less stringent legal and regulatory regimes than the Company, thereby putting the Company at a competitive disadvantage.

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 and comparable fees. The trend toward direct access to automated, electronic markets will likely increase as additional markets move to more automated trading platforms. It is also possible that the Company will experience competitive pressures in these and other areas in the future as some of its competitors seek to obtain market share by reducing prices (in the form of commissions or pricing).

Investment 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 funds of funds, compete with similar products offered by both alternative and traditional asset managers, who may be subject to less stringent legal and regulatory regimes than the Company.

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 conducts its business. Moreover, in response to the 2007–2008 financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, continue to propose and are in the process of adopting, finalizing and implementing a wide range of reforms that are resulting in major changes to the way the Company is regulated and conducts its business. These reforms include the Dodd-Frank Act; risk-based capital, leverage and liquidity standards adopted by the Basel Committee on Banking Supervision (the "Basel Committee"), including Basel III, and the national implementation of those standards; and new resolution regimes that are being developed in the U.S. and other jurisdictions. While certain portions of these reforms are effective, others are still subject to final rulemaking or transition periods.

It is likely that 2015 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 the exact impact these changes will have on the Company's business, financial condition, results of operations and cash flows for a particular future period.

Financial Holding Company.

Consolidated Supervision.

The Company has operated as a bank holding company and financial holding company under the BHC Act since September 2008. 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, or will become, 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 a systemic risk regime that imposes heightened capital and liquidity requirements, to new restrictions on activities and investments imposed by a section of the BHC Act added by the Dodd-Frank Act referred to as the "Volcker Rule" and to comprehensive new derivatives regulation. In addition, the Consumer Financial Protection Bureau has primary rulemaking, enforcement and examination authority over the Company and its subsidiaries with respect to federal consumer protection laws, to the extent applicable.

Scope of Permitted Activities. The BHC Act places limits on the activities of bank holding companies and financial holding companies, and grants the Federal Reserve authority to limit the Company's ability to conduct activities. The Company must obtain Federal Reserve Board ("FRB") approval before engaging in certain banking and other financial activities both in the U.S. and internationally. Since becoming a bank holding company, the Company has disposed of certain nonconforming assets and conformed certain activities to the requirements of the BHC Act.

In addition, the Company continues to engage 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. At this time, the Company believes, based on its interpretation of applicable law, that (i) such commodities activities qualify for the BHC Act grandfather exemption or otherwise conform to the BHC Act and (ii) if the Federal Reserve were to determine otherwise, any required divestment would not have a material adverse impact on its financial condition. After issuing an advance notice of proposed rulemaking in January 2014 on certain aspects of financial holding companies' physical commodities activities and merchant banking investments in nonfinancial companies, the Federal Reserve stated that it is considering a range of possible actions to address the risks associated with these activities and investments, including additional capital, risk management and reporting requirements, and indicated that it will issue a formal notice of rulemaking regarding such matters in 2015.

Activities Restrictions under the Volcker Rule. In December 2013, U.S. regulators issued final regulations to implement the Volcker Rule. The Volcker Rule will, over time, prohibit "banking entities," including the Company and its affiliates, from engaging in certain prohibited "proprietary trading" activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market making-related activities, risk-mitigating hedging and certain other activities. The Volcker Rule will also require banking entities to either restructure or unwind certain investments and relationships with "covered funds," as defined in the Volcker Rule, subject to certain exemptions and exclusions. Banking entities have until July 21, 2015 to bring all of their activities and investments into conformance with the Volcker Rule, subject to certain extensions. In addition, the Volcker Rule requires banking entities to establish comprehensive compliance programs designed to help ensure and monitor compliance with restrictions under the Volcker Rule.

The Volcker Rule also requires that certain deductions be made from a bank holding company's Tier 1 capital for certain investments in covered funds. These deductions do not yet apply and in any event must be reconciled by the applicable regulators with the U.S. Basel III capital requirements discussed below.

The Company is taking steps to establish the necessary compliance programs to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

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 U.S. Subsidiary Banks.

The current risk-based and leverage capital framework governing the Company and its U.S. Subsidiary Banks is based on the Basel III capital standards established by the Basel Committee, as modified in certain respects by the U.S. banking agencies, and is referred to herein as "U.S. Basel III." The Company and its U.S. Subsidiary Banks became subject to U.S. Basel III on January 1, 2014. Aspects of U.S. Basel III, such as the minimum risk-based capital ratio requirements, new capital buffers, and certain deductions from and adjustments to capital, will be phased in over several years. Prior to January 1, 2014, the Company and its U.S. Subsidiary Banks calculated regulatory capital ratios using the U.S. banking regulators' U.S. Basel I-based rules ("U.S. Basel I") as supplemented by rules that implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5."

U.S. Basel III, which is aimed at increasing the quality and amount of regulatory capital, establishes Common Equity Tier 1 capital as a new tier of capital, increases minimum required risk-based capital ratios, provides for capital buffers above those minimum ratios, narrows the eligibility criteria for regulatory capital instruments, provides for new regulatory capital deductions and adjustments, modifies methods for calculating risk-weighted assets ("RWAs")—the denominator of risk-based capital ratios—by, among other things, increasing counterparty credit risk capital requirements and, introduces a supplementary leverage ratio.

On a fully phased in basis, the Company will be subject to the following minimum capital ratios under U.S. Basel III: Common Equity Tier 1 capital ratio of 4.5%; Tier 1 capital ratio of 6.0%; Total capital ratio of 8.0%; Tier 1 leverage ratio of 4.0%; and supplementary leverage ratio of 3.0%. In addition, on a fully phased in basis by 2019, the Company will also be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer. The capital conservation buffer and countercyclical capital buffer, if any, apply over each of the Company's Common Equity Tier 1, Tier 1 and Total risk-based capital ratios. Failure to maintain such buffers will result in restrictions on the Company's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company's particular condition, risk profile and growth plans.

Effective January 1, 2015, the Company's U.S. Subsidiary Banks qualify as "well-capitalized" under the higher capital requirements in U.S. Basel III, by maintaining a total risk-based capital ratio (total capital to risk-weighted assets) of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a Common Equity Tier 1 risk-based capital ratio of at least 6.5%, and a Tier 1 leverage ratio (Tier 1 capital to average total consolidated assets) of at least 5%.

In addition, under U.S. Basel III, new items (including certain investments in the capital instruments of unconsolidated financial institutions) are deducted from the respective tiers of regulatory capital, and certain existing regulatory deductions and adjustments are modified or are no longer applicable. Most of these capital deductions are subject to a phase in schedule and will be fully phased in by 2018. Unrealized gains and losses on available-for-sale securities are reflected in Common Equity Tier 1 capital, subject to a phase in schedule.

On February 21, 2014, the Federal Reserve and the OCC approved the Company's and its U.S. Subsidiary Banks' respective use of the U.S. Basel III advanced internal ratings-based approach for determining credit risk capital requirements and advanced measurement approaches for determining operational risk capital requirements to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014, subject to the "capital floor" discussed below (the "Advanced Approach"). As an Advanced Approach banking organization, the Company is required to compute risk-based capital ratios using both (i) standardized approaches for calculating credit risk weighted assets ("RWAs") and market risk RWAs (the "Standardized Approach"); and (ii) an advanced internal ratings-based approach for calculating credit risk RWAs, an advanced measurement approach for calculating operational risk RWAs, and an advanced approach for calculating market risk RWAs under U.S. Basel III.

To implement a provision of the Dodd-Frank Act, U.S. Basel III subjects Advanced Approach banking organizations that have been approved by their regulators to exit the parallel run, such as the Company, to a permanent "capital floor." In 2014, as a result of the capital floor, an Advanced Approach banking organization's binding risk-based capital ratios were the lower of its ratios computed under the Advanced Approach and U.S. Basel I as supplemented by Basel 2.5. Beginning on January 1, 2015, the Company's ratios for regulatory purposes are the lower of the capital ratios computed under the Advanced Approach or the Standardized Approach under U.S. Basel III. The U.S. Basel III Standardized Approach modifies certain U.S. Basel I-based methods for calculating RWAs and prescribes new standardized risk weights for certain types of assets and exposures. The capital floor applies to the calculation of the minimum risk-based capital requirements as well as the capital conservation buffer and, if deployed by banking regulators, the countercyclical capital buffer. The methods for calculating each of the Company's risk-based capital ratios will change through January 1, 2022 as U.S. Basel III's revisions to the numerator and denominator are phased in and as the Company calculates RWAs using the Advanced Approach and the Standardized Approach. These ongoing methodological changes may result in differences in the Company's reported capital ratios from one reporting period to the next that are independent of changes to the Company's capital base, asset composition, off-balance sheet exposures or risk profile.

U.S. Basel III also requires the Company and its U.S. Subsidiary Banks to comply with supplementary leverage ratio requirements, which U.S. banking regulators increased in 2014 above standards established by the Basel Committee. Specifically, beginning in 2018, the Company must maintain a Tier 1 supplementary leverage capital buffer of greater than 2% in addition to the 3% minimum supplementary leverage ratio (for a total of greater than 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. In addition, beginning in 2018, to be considered "well-capitalized" the Company's U.S. Subsidiary Banks must maintain a supplementary leverage ratio of 6%. The denominator of the supplementary leverage ratio, as revised by the U.S. banking agencies in 2014 to conform with revised leverage standards adopted by the Basel Committee, is based on the average daily balance of consolidated on-balance sheet assets under generally accepted accounting principles in the U.S. ("U.S. GAAP") less certain amounts deducted from Tier 1 capital at quarter-end and the average month-end balance of certain off-balance sheet exposures associated with derivatives (including centrally cleared derivatives and sold credit protection), repo-style transactions and other off-balance sheet items during the calendar quarter. The enhanced supplementary leverage ratio standards will become effective for both the Company and its U.S. Subsidiary Banks on January 1, 2018 with quarterly public disclosure beginning on January 1, 2015.

Although U.S. Basel III is in effect, the U.S. banking agencies and the Basel Committee have each proposed, or are considering proposing, revisions to the regulatory capital framework that would modify the regulatory capital standards governing the Company and its U.S. Subsidiary Banks. In December 2014, the Federal Reserve issued a proposed rule that would impose risk-based capital surcharges on U.S. bank holding companies that are identified as global systemically important banks ("G-SIBs"). Although the Federal Reserve's proposal is based upon the Basel Committee's international G-SIB surcharge framework, the methodologies proposed by the Federal Reserve generally would result in G-SIB surcharges that are higher than the levels required by the Basel Committee framework and would directly take into account the extent of each U.S. G-SIB's reliance on short-term wholesale funding. Under the proposal, a bank holding company identified as a G-SIB would calculate its G-SIB surcharge under two methods. The first would consider the G-SIB's size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity, which is generally consistent with the methodology developed by the Basel Committee. The second method would use similar inputs, but would replace substitutability with use of short-term wholesale funding and generally would result in higher surcharges than the Basel Committee framework. A G-SIB's surcharge would be the higher of the surcharges determined under the two methods. Under the proposal, the G-SIB surcharge must be satisfied using Common Equity Tier 1 capital and would function as an extension of the capital conservation buffer. The Federal Reserve estimates that its proposal could result in G-SIB surcharges ranging from 1.0% to 4.5% of a G-SIB's RWAs. The proposal would be phased in between January 1, 2016 and January 1, 2019.

The Basel Committee is in the process of considering revisions to various provisions of the Basel III framework that, if adopted by the U.S. banking agencies, could result in substantial changes to U.S. Basel III. In particular, the Basel Committee has finalized a new methodology for calculating counterparty credit risk exposures, the standardized approach for measuring counterparty credit risk exposures ("SA-CCR"); has finalized a revised framework establishing capital requirements for securitizations; and has proposed revisions to various regulatory capital standards. In each case, the impact of these revised standards on the Company and its U.S. Subsidiary Banks is uncertain and depends on future rulemakings by the U.S. banking agencies.

In addition to capital regulations, the U.S. banking agencies and the Basel Committee have adopted, or are in the process of considering, liquidity standards. The Basel Committee has developed two standards intended for use in liquidity risk supervision, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR generally requires banking organizations to maintain an amount of high-quality liquid assets that is no less than 100% of their total net cash outflows arising from significant stress over a prospective 30 calendar-day period.

In September 2014, U.S. banking regulators issued a final rule to implement the LCR in the U.S. ("U.S. LCR"). The U.S. LCR applies to the Company and its U.S. Subsidiary Banks. The U.S. LCR is more stringent in certain respects than the Basel Committee's version of the LCR as it includes a generally narrower definition of debt and equity securities that qualify as high-quality liquid assets, different methodologies and assumptions for calculating net cash outflows during the 30-day stress period, a maturity mismatch add-on, and a shorter, two-year phase-in period that ends on December 31, 2016. Additionally, under the U.S. LCR, a banking organization must submit a liquidity compliance plan to its primary federal banking agency if it fails to maintain the minimum U.S. LCR requirement for three consecutive business days. Beginning on January 1, 2015, the Company and its U.S. Subsidiary Banks are required to maintain a minimum U.S. LCR of 80%. This minimum requirement will increase to 90% beginning on January 1, 2016, and will be fully phased in at 100% beginning on January 1, 2017. The Company and its U.S. Subsidiary Banks must calculate their respective LCR on a monthly basis during the period between January 1, 2015 and June 30, 2015, and on each business day starting on July 1, 2015.

The NSFR is defined as the ratio of the amount of available stable funding to the amount of required stable funding. The standard's objective is to reduce funding risk over a one-year horizon by requiring banking organizations to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. In October 2014, the Basel Committee finalized revisions to the original December 2010 version of the NSFR. The U.S. banking agencies are expected to issue a proposal to implement the NSFR in the U.S. The Company continues to evaluate the NSFR and its potential impact on the Company's current liquidity and funding requirements.

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

Capital Planning, Stress Tests and Dividends. Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including the Company, which form part of the Federal Reserve's annual Comprehensive Capital Analysis and Review ("CCAR") framework. Under the Federal Reserve's capital plan rule, the Company must submit an annual capital plan to the Federal Reserve, taking into account the results of separate stress tests designed by the Company and the Federal Reserve.

The capital plan 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 plan must include a discussion of how the bank holding company will maintain capital above the minimum regulatory capital ratios, including the minimum ratios under U.S. Basel III that are phased in over the planning horizon, and above a Tier 1 common risk-based capital ratio of 5%, and serve as a source of strength to its subsidiary U.S. depository institutions under supervisory stress scenarios. The capital plan rule requires that such companies receive no objection from the Federal Reserve before making a capital distribution. In addition, even with an approved capital plan, the bank holding company must seek the approval of the Federal Reserve before making a capital distribution if, among other reasons, the bank holding company would not meet its regulatory capital requirements after making the proposed capital distribution. In addition to capital planning requirements, the OCC, the Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") have the authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including the Company and its U.S. Subsidiary Banks, 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 affect the Company's ability to pay dividends and/or repurchase stock, or require it to provide capital assistance to its U.S. Subsidiary Banks under circumstances which the Company would not otherwise decide to do so.

In addition, the Federal Reserve's final rule on stress testing under the Dodd-Frank Act requires the Company to conduct semi-annual company-run stress tests. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve. On January 5, 2015, the Company submitted the results of its semi-annual stress test to the Federal Reserve.

The Company expects that, on March 11, 2015, the Federal Reserve will provide its response to the Company's 2015 capital plan (that was submitted to the Federal Reserve on January 5, 2015). The Company received no objection to its 2014 capital plan (see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Capital Management" in Part II, Item 7).

The Dodd-Frank Act also requires each of the Company's U.S. Subsidiary Banks to conduct an annual stress test. MSBNA submitted its 2015 annual company-run stress tests to the OCC on January 5, 2015. MSPBNA will submit its 2015 annual company-run stress tests in March 2015.

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

Systemic Risk Regime. The Dodd-Frank Act established a 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 "FSOC"), can recommend prudential standards, reporting and disclosure requirements for systemically important financial institutions to the Federal Reserve. The FSOC is also empowered to designate systemically 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.

The systemic risk regime established by the Dodd-Frank Act, provides that, if the Federal Reserve determines that a systemically important financial institution poses a "grave threat" to U.S. financial stability, the Federal Reserve, with the FSOC's approval, 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. 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.

In February 2014, the Federal Reserve issued final rules to implement certain requirements of the Dodd-Frank Act's enhanced prudential standards. Effective on January 1, 2015, the final rules require bank holding companies with $50 billion or more in total consolidated assets, such as the Company, to conduct internal liquidity stress tests, maintain unencumbered highly liquid assets to meet projected net cash outflows for 30 days over the range of liquidity stress scenarios used in internal stress tests, and comply with various liquidity risk management requirements. In addition, the final rules require institutions to comply with a range of risk management and 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. Under the final rules, upon a grave threat determination by the FSOC, the Federal Reserve must require the affected bank holding company to maintain a debt-to-equity ratio of no more than 15-to-1 if the FSOC considers it necessary to mitigate the risk.

In addition, the Federal Reserve has proposed rules that would limit the aggregate exposure of each bank holding company with $500 billion or more in total consolidated assets, such as the Company, and each company designated by the FSOC, to 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 unaffiliated counterparty to 25% of the institution's aggregate capital and surplus. The proposed rules would also create a new early remediation framework 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 Federal Reserve has stated that it will issue, at a later date, final rules establishing single counterparty credit limits and an early remediation framework.

See also "—Capital and Liquidity Standards" herein and "—Resolution and Recovery Planning" below.

Resolution and Recovery Planning. Pursuant to the Dodd-Frank Act, the Company is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the Company. On August 5, 2014, the Federal Reserve and the FDIC notified the Company and 10 other large banking organizations that certain shortcomings in their 2013 resolution plans must be addressed in the 2015 resolution plans, which must be submitted on or before July 1, 2015. If the Federal Reserve and the FDIC were to determine that the Company's resolution plan is not credible or would not facilitate an orderly resolution and the Company does not cure the plan's deficiencies, the Company or any of its subsidiaries may be subjected to more stringent capital, leverage, or liquidity requirements or restrictions on its growth, activities, or operations, or the Company may be required to divest assets or operations.

In addition, MSBNA must submit to the FDIC an annual resolution plan that describes MSBNA's strategy for a rapid and orderly resolution in the event of a material financial distress or failure of MSBNA. On December 17, 2014, the FDIC issued guidance regarding the resolution plans for insured depository institutions such as MSBNA, including requirements with respect to failure scenarios and the development and analysis of a range of realistic resolution strategies.

Further, the Company is required to submit an annual recovery plan to the Federal Reserve that outlines the steps that management could take over time to reduce risk, increase liquidity, and conserve capital in times of prolonged stress.

Certain of the Company's foreign subsidiaries are also subject to resolution and recovery planning requirements in the jurisdictions in which they operate.

Under the Dodd-Frank Act, certain financial companies, including bank holding companies such as the Company and certain covered subsidiaries, can be subjected to resolution under an orderly liquidation authority with the FDIC appointed as receiver. A financial company whose largest U.S. subsidiary is a broker or dealer could be resolved under this authority only upon the recommendation of two-thirds of the FRB and two-thirds of the SEC Commissioners, on their own initiative or at the request of the U.S. Treasury Secretary, and in consultation with the FDIC as well as a determination by the U.S. Treasury Secretary in consultation with the President of the U.S.

The orderly liquidation authority rulemaking is proceeding in stages, with some regulations now finalized and others planned but not yet proposed. If the Company were subject to the orderly liquidation authority, the FDIC would have considerable powers, including (i) the power to remove officers and directors responsible for the Company's failure and to appoint new directors and officers; (ii) the power to assign assets and liabilities to a third party or bridge financial company without the need for creditor consent or prior court review; (iii) the ability 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 (iv) broad powers to administer the claims process to determine distributions from the assets of the receivership. In December 2013, the FDIC released its proposed single point of entry strategy for resolution of a systemically important financial institution under the orderly liquidation authority. The strategy involves placing the top-tier U.S. holding company in receivership and keeping its operating subsidiaries open and out of insolvency proceedings by transferring the operating subsidiaries to a new bridge holding company, recapitalizing the operating subsidiaries and imposing losses on the shareholders and creditors of the holding company in receivership according to their statutory order of priority.

The Federal Reserve has indicated that it may also introduce a requirement that certain large bank holding companies maintain a minimum amount of long-term debt at the holding company level to facilitate orderly resolution of those firms. In November 2014, the Financial Stability Board ("FSB") issued a policy proposal to establish a minimum international standard for total loss-absorbing capacity ("TLAC") for G-SIBs, in addition to regulatory capital requirements, in order to enhance the loss-absorbing and recapitalization capacity of such institutions in resolution. The FSB's proposed minimum TLAC requirement would be set within the range of 16% to 20% of RWAs (excluding any applicable regulatory capital buffers, which would continue to be required in addition to the minimum TLAC requirement) and at least twice the minimum Basel III Tier 1 leverage ratio requirement. Regulators may also impose an additional TLAC requirement taking into account the G-SIB's recovery and resolution plans, systemic footprint, business model, risk profile and organizational structure. The minimum TLAC requirement would apply to each entity to which resolution tools would be applied within a G-SIB. The FSB has proposed eligibility criteria for liabilities to qualify as TLAC and a requirement that TLAC-eligible liabilities be subordinated to non-TLAC-eligible liabilities. In addition, certain material entities that are not resolution entities would be subject to an internal TLAC requirement. According to the FSB, the conformance period for the TLAC requirement would not begin prior to January 1, 2019.

On November 12, 2014, the Company and certain of its subsidiaries adhered to the International Swaps and Derivatives Association ("ISDA") 2014 Resolution Stay Protocol (the "Protocol"), which applies to OTC derivatives traded under ISDA Master Agreements. The Protocol overrides certain cross-default rights and certain other default rights related to the entry of an adhering dealer party or its affiliates into certain resolution proceedings. The Federal Reserve is expected to promulgate regulations implementing portions of the Protocol related to U.S. Bankruptcy Code and certain other matters, which are anticipated to take effect in 2016 or 2017.

As with other major financial companies, the combined effects of the orderly liquidation authority and of the FSB's TLAC proposal and requirements that may be enacted by the Federal Reserve and the FDIC to facilitate the orderly resolution of G-SIBs, may make more uncertain recoveries by creditors of the parent holding company in the event of its resolution.

U.S. Subsidiary Banks.

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

MSPBNA offers certain mortgage and other secured lending products primarily for customers of its affiliate retail broker-dealer, Morgan Stanley Smith Barney LLC ("MSSB LLC"). MSPBNA also offers certain deposit products, as well as prime brokerage custody services. MSPBNA is an FDIC-insured national bank that is subject to supervision, regulation and examination by the OCC.

Effective October 1, 2013, the lending limits applicable to the Company's U.S. Subsidiary Banks were revised to take into account credit exposure arising from derivative transactions, securities lending, securities borrowing and repurchase and reverse repurchase agreements with third parties.

In September 2014, the OCC issued final risk governance guidelines to establish heightened standards for large national banks, and the guidelines apply to both MSBNA and MSPBNA. The final guidelines set minimum standards for the design and implementation of a bank's risk governance framework and the oversight of that framework by a bank's board of directors.

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" ("PCA") with respect to a depository institution if that institution does not meet certain capital adequacy standards. Current PCA regulations generally apply only to insured banks and thrifts such as MSBNA or MSPBNA and not to their parent holding companies. 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. The Dodd-Frank Act also formalized the requirement that bank holding companies, such the Company, serve as a source of strength to their U.S. bank subsidiaries and commit resources to support these subsidiaries in the event such subsidiaries are in 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 "covered transactions" with any affiliates. Covered transactions include any extension of credit to, purchase of assets from, and certain other transactions with an affiliate. These restrictions limit the total amount of credit exposure that the Company's U.S. Subsidiary Banks 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. Effective July 2012, derivatives, securities borrowing and securities lending transactions between the Company's U.S. Subsidiary Banks and their affiliates became subject to these restrictions. These reforms place limits on the Company's U.S. Subsidiary Banks' ability to engage in derivatives, repurchase agreements and securities lending transactions with other affiliates of the Company. The Federal Reserve has indicated that it will propose a rulemaking to implement these more recent restrictions, but has not yet done so.

In addition, the Volcker Rule generally prohibits covered transactions between (i) the Company or any of its affiliates and (ii) covered funds for which the Company or any of its affiliates serve as the investment manager, investment adviser, commodity trading advisor or sponsor or other covered funds organized and offered by the Company or any of its affiliates pursuant to specific exemptions in the Volcker Rule.

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 commonly controlled FDIC-insured depository institutions, each of MSBNA and MSPBNA could be responsible for any loss to the FDIC from the failure of the other. 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 FDIC deposit insurance assessments are calculated using a new methodology that generally favors banks that are mostly funded by deposits.

Institutional Securities and Wealth Management.

Broker-Dealer and Investment Adviser 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. 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 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.

In addition, MSSB LLC is a registered investment adviser with the SEC. MSSB LLC's relationship with its investment advisory clients is subject to the fiduciary and other obligations imposed on investment advisors under the Investment Advisers Act of 1940, and the rules and regulations promulgated thereunder as well as various state securities laws. These laws and regulations generally grant the SEC and other supervisory bodies with broad administrative powers to address non-compliance, including the power to restrict or limit MSSB LLC from carrying on its investment advisory and other asset management activities. Other sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain activities for specified periods of time or for specified types of clients, the revocation of registrations, other censures and significant fines.

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 personalized investment advice about securities to retail customers. 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.

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 liquid assets be maintained by the subsidiary. See also "—Financial Holding Company—Consolidated Supervision" and "—Financial Holding Company—Capital and Liquidity 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 "—Financial Holding Company—Systemic Risk Regime" above, 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.

The SEC adopted rules requiring broker-dealers to maintain risk management controls and supervisory procedures with respect to providing access to securities markets, which became fully effective in 2012. In July 2012, the SEC adopted a rule requiring the creation of a consolidated audit trail, which, when implemented, will require broker-dealers to report into one consolidated audit trail comprehensive information about every material event in the lifecycle of every quote, order, and execution in all exchange-listed stocks and options, and may ultimately be expanded to other instruments.

It is possible that the SEC or self-regulatory organizations could propose or adopt additional market structure or other rules for equity and fixed income markets 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 the Company operates.

Regulation of Futures Activities and Certain Commodities Activities. MS&Co., as a futures commission merchant, and MSSB LLC, as an introducing broker, are subject to net capital requirements of, and their activities are regulated by, the U.S. Commodity Futures Trading Commission (the "CFTC"), the National Futures Association (the "NFA"), a registered futures association, and various commodity futures exchanges. MS&Co. and MSSB LLC and certain of their affiliates are registered members of the NFA in various capacities. Rules and regulations of the CFTC, NFA and commodity futures exchanges address obligations related to, among other things, the segregation of customer funds and the holding of a part of a secured amount, the use by futures commission merchants of customer funds, recordkeeping and reporting obligations of futures commission merchants and introducing brokers, risk disclosure, risk management and discretionary trading. Under rules finalized by the CFTC in November 2013 and effective in January 2014, MS&Co. and MSSB LLC are required to incorporate enhanced customer protections as part of their existing customer protection regime.

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 commodity pool operators that are registered with the NFA must distribute disclosure documents and maintain specified records relating to their activities, and commodity trading advisors and commodity pool operators have certain responsibilities with respect to each pool they advise or operate. 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 the Company or locations to which the Company has sent wastes for disposal. See also "—Financial Holding Company—Scope of Permitted Activities" above.

Derivatives Regulation. Through the Dodd-Frank Act, the Company faces 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. is being, and will continue to be, effected and implemented through the CFTC, SEC and other agency regulations. The CFTC has completed the majority of its regulations in this area, most of which are in effect. The SEC has not yet adopted the majority of its Swaps regulations.

Subject to certain limited exceptions, 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. Reporting requirements for CFTC-regulated Swaps are now in effect and certain types of CFTC-regulated interest rate and index credit default swaps are subject to mandatory central clearing. Certain Swaps are also required to be traded on an exchange or execution facility.

The Dodd-Frank Act also requires the registration of "swap dealers" with the CFTC and "security-based swap dealers" with the SEC (collectively, "Swaps Entities"). Certain of the Company's subsidiaries have registered with the CFTC as swap dealers and in the future additional subsidiaries may register with the CFTC. One or more subsidiaries of the Company will in the future be required to register with the SEC as security-based swap dealers.

Swaps Entities are or 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 are subject to additional duties, including, among others, internal and external business conduct and documentation standards with respect to their Swaps counterparties and recordkeeping.

The specific parameters of some of these requirements for Swaps have been and continue to be developed through the CFTC, SEC and bank regulator rulemakings. In particular, in September 2014, the CFTC and the U.S. banking regulators re-proposed their rules on margin requirements for uncleared Swaps. The full impact on the Company of the U.S. agencies' margin and capital requirements for Swaps Entities will not be known with certainty until the requirements are finalized. In December 2014, the CFTC re-opened the comment period on re-proposed rules that, if finalized as proposed, would limit positions in 28 agricultural, energy and metals commodities, including Swaps, futures and options that are economically equivalent to those commodity contracts. Through this re-proposal, the CFTC is taking steps to institute position limits that were previously finalized in November 2011 but were vacated by a federal court in September 2012.

Although the full impact of U.S. derivatives regulation on the Company remains unclear, the Company has already, and will continue to, face increased costs and regulatory oversight due to the registration and regulatory requirements indicated above. Complying with the Swaps rules also has required, and will in the future require, the Company to change its Swaps businesses, and has required, and will in the future require, extensive systems and personnel changes. Compliance with Swap-related regulatory capital requirements may require the Company to devote more capital to its Swaps business.

The European Union ("E.U.") has adopted and implemented certain rules relating to the OTC derivatives market and these rules imposed regulatory reporting beginning in February 2014. The E.U. plans to impose central clearing requirements on OTC derivatives beginning in 2015 and has started reviewing and adopting determinations of equivalence of the regulatory regimes for central counterparties and trade repositories, and of risk mitigation requirements. In April 2014, E.U. regulators also proposed margin requirements for uncleared Swaps. In addition, other non-U.S. jurisdictions are in the process of adopting and implementing legislation emanating from the G-20 commitments that will require, among other things, the central clearing of certain OTC derivatives, mandatory reporting of derivatives and bilateral risk mitigation procedures for non-cleared trades. It remains unclear at present how the non-U.S. and U.S. derivatives regulatory regimes will interact.

Credit Risk Retention. In October 2014, federal regulatory agencies issued final rules to implement the credit risk retention requirements of Section 941 of the Dodd-Frank Act, which generally require securitizers of different types of asset-backed securitizations, including transactions backed by residential mortgages, commercial mortgages, and corporate, credit card and auto loans, to retain at least 5% of the credit risk of the assets being securitized. Compliance with respect to new securitization transactions backed by residential mortgages is required beginning December 24, 2015 and with respect to new securitization transactions backed by other types of assets beginning December 24, 2016. The Company continues to evaluate the final rules and assess their impact on its securitization activities.

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. Non-U.S. policy makers and regulators, including the European Commission and European Supervisory Authorities, continue to propose and adopt numerous market reforms, including those that may further impact the structure of banks, and formulate regulatory standards and measures that will be of relevance and importance to the Company's European operations. 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 Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and several securities and futures exchanges in the United Kingdom ("U.K."), including the London Stock Exchange and ICE Futures Europe, regulate the Company's activities in the U.K.; the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) and the Deutsche Börse AG regulate its activities in the Federal Republic of Germany; Eidgenössische 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.

Regulators in the U.K., E.U. and other major jurisdictions have also finalized or are in the process of proposing or finalizing risk-based capital, leverage capital, liquidity, banking structural reforms and other regulatory standards applicable to certain Morgan Stanley subsidiaries that operate in those jurisdictions. For example, the Company's primary broker-dealer in the U.K., MSIP, is subject to regulation and supervision by the PRA with respect to prudential matters. As a prudential regulator, the PRA seeks to promote the safety and soundness of the firms that it regulates and to minimize the adverse effects that such firms may have on the stability of the U.K. financial system. The PRA has broad legal authority to establish prudential and other standards to pursue these objectives, including approvals of relevant regulatory models, as well as to bring public and non-public disciplinary actions against regulated firms to address noncompliance with such standards. MSIP is also regulated and supervised by the FCA with respect to business conduct matters. On January 1, 2014, MSIP became subject to the Capital Requirements Regulation and Capital Requirements Directive (collectively, "CRD IV"), which implements the Basel III and other regulatory requirements for E.U. credit institutions and investment firms, including MSIP. European Market Infrastructure Regulation introduces new requirements regarding the central clearing and reporting of derivatives. In addition, the E.U. Bank Recovery and Resolution Directive ("BRRD") has established a recovery and resolution framework for E.U. credit institutions and investment firms, including MSIP. E.U. Member States were required to apply provisions implementing the BRRD as of January 1, 2015, subject to certain exemptions. A recast Markets in Financial Instruments Directive ("MiFID II") and a new Markets in Financial Instruments Regulation ("MiFIR") have also been adopted and will introduce various trading and market infrastructure reforms in the E.U. MiFID II and MiFIR are to apply from January 3, 2017, subject to certain exemptions.

Investment 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 Investment Management business segment. A number of legal entities within the Company's Investment Management business 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. See also "—Institutional Securities and Wealth Management—Broker-Dealer and Investment Adviser Regulation" and "—Institutional Securities and Wealth Management—Regulation of Futures Activities and Certain Commodities Activities" 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, "covered funds," as defined in the Volcker Rule, subject to certain limited exemptions, 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.

The Company is continuing its review of its asset management activities that may be affected by the Volcker Rule and is taking steps to establish the necessary compliance programs to help ensure and monitor compliance with the Volcker Rule. The Company had already taken certain steps to comply with the Volcker Rule prior to the issuance of the final regulations, including, for example, launching new funds that are designed to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain, and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight. See also "—Financial Holding Company—Activities Restrictions under the Volcker Rule."

The Company's Investment Management business is also regulated outside the U.S. For example, the FCA is the primary regulator of the Company's business in the U.K.; the Financial Services Agency regulates the Company's business in Japan; the Hong Kong Securities and Futures Commission regulates the Company's business in Hong Kong; 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, introducing brokers 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 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 target foreign countries, entities and individuals based on external threats to U.S. foreign policy, national security or economic interests, and as applicable similar sanctions programs imposed by foreign governments or global or regional multilateral organizations such as the United Nations Security Council and the E.U. Council.

Anti-Corruption.

The Company is subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, in the jurisdictions in which it operates. Anti-corruption laws generally prohibit offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. 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 businesses 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. In November 2014, FINRA proposed to amend its equity research rules and adopt new rules for debt research. 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 particular, the Company is subject to the Federal Reserve's guidance that is 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 peer review process, and the Company expects that these policies will evolve over a number of years.

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 risk taking 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. Further, pursuant to the Dodd-Frank Act, 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, including those relating to the E.U. CRD IV, the Alternative Investment Fund Managers Directive, the fifth Undertakings for Collective Investment in Transferable Securities Directive, the Markets in Financial Instruments Directive and the future second Markets in Financial Instruments Directive and Regulation. The Company's compensation practices with respect to certain employees whose activities have a material impact on the risk profile of the Company's E.U. operations are subject to the CRD IV and related E.U. and local Member State regulations, including, amongst others, a cap on the ratio of variable remuneration to fixed remuneration and other variable remuneration restrictions. In the U.K., the remuneration of certain employees of banks and other firms is governed by the Remuneration Codes in the PRA and FCA Handbooks, including since January 1, 2014, provisions that implement the CRD IV as well as additional U.K. requirements.

For a discussion of certain risks relating to the Company's regulatory environment, see "Risk Factors" in Part I, Item 1A.

Executive Officers of Morgan Stanley.

The executive officers of Morgan Stanley and their ages and titles as of March 2, 2015 are set forth below. Business experience for the past five years is provided in accordance with SEC rules.

Gregory J. Fleming (52). Executive Vice President (since February 2010), President of Investment Management (since February 2010) and President of Wealth Management 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 (56). Chairman of the Board of Directors and Chief Executive Officer of Morgan Stanley (since January 2012). President and Chief Executive Officer (January 2010 through December 2011) and member of the Board of Directors (since January 2010). Co-President (December 2007 to December 2009) and Co-Head of Strategic Planning (October 2007 to December 2009). President and Chief Operating Officer of Wealth Management (February 2006 to April 2008).

Eric F. Grossman (48). 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 Wealth Management (November 2008 to September 2010). Partner at the law firm of Davis Polk & Wardwell LLP (June 2001 to December 2005).

Keishi Hotsuki (52). Executive Vice President (since May 2014) and Chief Risk Officer of Morgan Stanley (since May 2011). Interim Chief Risk Officer (January 2011 to May 2011) and Head of Market Risk Department (March 2008 to April 2014). 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 (57). Executive Vice President (since October 2007), President of Institutional Securities (since January 2013) and of Head of International (since January 2011) of Morgan Stanley. Co-President of Institutional Securities (January 2010 to December 2012). 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).

Ruth Porat (57). 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 Investment Banking.

James A. Rosenthal (61). 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 Wealth Management (January 2010 to August 2011). Head of Firmwide Technology and Operations of Morgan Stanley (March 2008 to January 2010). Chief Financial Officer of Tishman Speyer (May 2006 to March 2008).

Item 1A. Risk Factors.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio owned by us. For more information on how we monitor and manage market risk, see "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A.

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 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, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate and energy markets; the impact of current, pending and future legislation (including the Dodd-Frank Act), regulation (including capital, leverage and liquidity requirements), policies (including fiscal and monetary), and legal and regulatory actions in the U.S. and worldwide; the level and volatility of equity, fixed income and commodity prices (including oil 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, consumer and business sentiment and confidence in the financial markets; the performance of our acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements (including with Mitsubishi UFJ Financial Group, Inc. ("MUFG")); our reputation and the general perception of the financial services industry; inflation, natural disasters, pandemics and acts of war or terrorism; the actions and initiatives of current and potential competitors, as well as governments, regulators and self-regulatory organizations; the effectiveness of our risk management policies; and technological changes and risks and cybersecurity risks (including cyber attacks and business continuity risks); 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 adverse 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 Wealth Management 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 Investment 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 make it extremely difficult to value certain of our financial instruments, particularly during periods of market displacement. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these instruments in future periods. In addition, at the time of any sales and settlements of these financial instruments, 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 financial instruments, 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. 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 the last several years, and we could realize significant losses if extreme market events were to occur.

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.

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us. For more information on how we monitor and manage credit risk, see “Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk” in Part II, Item 7A.

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 our 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; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in 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 our Wealth Management business segment lending to mainly individual investors, including, but not limited to, margin and securities-based 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 adverse difficult economic conditions may negatively impact our clients and our current credit exposures. In addition, as a clearing member of several central counterparties, 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 a 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. For example, increased centralization of trading activities through particular clearing houses, central agents or exchanges as required by provisions of the Dodd-Frank Act may increase our concentration of risk with respect to these entities. 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 with on a daily basis, and therefore could adversely affect us. See also "Systemic Risk Regime" under "Business—Supervision and Regulation—Financial Holding Company" in Part I, Item 1.

Operational Risk.

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue-generating activities (*e.g.*, sales and trading) and control groups (*e.g.*, information technology and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under "Legal, Regulatory and Compliance 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.

We are subject to operational risks, including a failure, breach or other disruption of our operational or security systems, that could adversely affect our businesses or reputation.

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 some of our businesses, the transactions we process are complex. In addition, we may introduce new products or services or change processes, resulting in new operational risk that we may not fully appreciate or identify. The technology used is increasingly complex and relies on the continued effectiveness of the programming code and integrity of the data to process the trades. 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 unaffiliated third parties to process a high volume of transactions.

As a major participant in the global capital markets, we maintain extensive controls to reduce the risk of incorrect valuation or risk management of our trading positions due to flaws in data, models, systems or processes or due to fraud. Nevertheless, such risk cannot be completely eliminated.

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. In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business.

Despite the business contingency plans we have in place, there can be no assurance that such plans will fully mitigate all potential business continuity risks to us. 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, which are concentrated in the New York metropolitan area, London, Hong Kong and Tokyo as well as Mumbai, Budapest, Glasgow and Baltimore. This may include a disruption involving physical site access, cyber incidents, terrorist activities, disease pandemics, catastrophic events, natural disasters, extreme weather events, electrical, environmental, computer servers, communications or other services we use, our employees or third parties with whom we conduct business.

Although we devote significant resources to maintaining and upgrading our systems and networks with measures such as intrusion and detection prevention systems, monitoring firewalls to safeguard critical business applications, and supervising third party providers that have access to our systems, there is no guarantee that these measures or any other measures can provide absolute security. The increased use of smartphones, tablets and other mobile devices as well as cloud computing may also heighten these and other operational risks. Like other financial services firms, we and our third party providers continue to be the subject of attempted unauthorized access, mishandling or misuse of information, computer viruses or malware, cyber attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, denial of service attacks and other events. These threats may derive from human error, fraud or malice on the part of our employees or third parties, including third party providers, or may result from accidental technological failure. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends. Any of these parties may also attempt to fraudulently induce employees, customers, clients, third parties or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. There can be no assurance that such unauthorized access or cyber incidents will not occur in the future, and they could occur more frequently and on a more significant scale.

If one or more of these events occur, it could result in a security impact on our systems and jeopardize our or our clients', partners' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, our and our third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in our, our clients', partners', counterparties' or third parties' operations, which could result in reputational damage with our clients and the market, client dissatisfaction, additional costs to us (such as repairing systems or adding new personnel or protection technologies), regulatory investigations, litigation or enforcement or regulatory fines or penalties, all or any of which could adversely affect our business, financial condition or results of operations.

Given our global footprint and the high volume of transactions we process, the large number of clients, partners and counterparties with which we do business, and the increasing sophistication of cyber attacks, a cyber attack could occur without detection for an extended period of time. In addition, we expect that any investigation of a cyber attack will be inherently unpredictable and it may take time before any investigation is complete and full and reliable information is available. During such time we may not know the extent of the harm or how best to remediate it and certain errors or actions may be repeated or compounded before they are discovered and rectified, all or any of which would further increase the costs and consequences of a cyber attack.

While many of our agreements with partners and third party vendors include indemnification provisions, we may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses. In addition, although we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

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.

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 remaining sovereign debt issues in Europe or fiscal matters in the U.S., could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if investors or lenders develop a negative perception of our long-term or short-term financial prospects due to factors such as an incurrence of large trading losses, a downgrade by the rating agencies, 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 to market value, either of which could adversely affect our results of operations, cash flows and financial condition.

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 impacted by our short-term and long-term credit ratings. 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 rating 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.

Our credit ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate Swaps. In connection with certain OTC trading agreements and certain other agreements associated with our Institutional Securities business segment, we may be required to provide additional collateral to, or immediately settle any outstanding liability balance with, certain counterparties in the event of a credit ratings downgrade. Termination of our trading and other agreements could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements. The additional collateral or termination payments which may occur in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody’s Investor Services and Standard & Poor’s Rating Services. At December 31, 2014, the future potential collateral amounts and termination payments that could be called or required by counterparties, exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers were $1,856 million and an incremental $2,984 million, respectively.

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, tax restrictions or elections 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, including steps to “ring fence” entities by regulators outside of the U.S. to protect clients and creditors of such entities in the event of financial difficulties involving such entities. 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 common 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 U.S. Subsidiary Banks.

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 economies. Global market and economic conditions have been particularly disrupted and volatile in the last several years and may be in the future. In particular, our cost and availability of funding in the past have been, and may in the future be, adversely affected by illiquid credit markets and wider credit spreads. Significant 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.

Legal, Regulatory and Compliance Risk.

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation we may suffer as a result of our failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. This 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, regulatory and compliance risk. For more information on how we monitor and manage legal, regulatory and compliance risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Legal and Compliance Risk" in Part II, Item 7A.

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 conduct our business. These laws and regulations significantly affect the way we do business and can restrict the scope of our existing businesses and limit our ability to expand our product offerings and pursue certain investments.

In response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, continue to propose and are in the process of adopting, finalizing and implementing a wide range of financial market reforms that are resulting in major changes to the way our global operations are regulated and conducted. In particular, as a result of these reforms, we are, or will become, subject to (among other things) significantly revised and expanded regulation and supervision, more intensive scrutiny of our businesses and any plans for expansion of those businesses, new activities limitations, a systemic risk regime that imposes heightened capital and liquidity requirements and other enhanced prudential standards, new resolution regimes and resolution planning requirements, new restrictions on activities and investments imposed by the Volcker Rule, and comprehensive new derivatives regulation. While certain portions of these reforms are effective, others are still subject to final rulemaking or transition periods. Many of the changes required by these reforms could materially impact the profitability of our businesses and the value of assets we hold, expose us to additional costs, require changes to business practices or force us to discontinue businesses, adversely affect our ability to pay dividends and repurchase our stock, or require us to raise capital, including in ways that may adversely impact our shareholders or creditors. In addition, regulatory requirements that are being proposed by foreign policymakers and regulators may be inconsistent or conflict with regulations that we are subject to in the U.S. and, if adopted, may adversely affect us. While there continues to be uncertainty about the full impact of these changes, we do know that the Company is and will continue to 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 provisions of the Dodd-Frank Act will have an impact on us, including potentially limiting various aspects of our business. We are continuing our review of activities that may be affected by the Volcker Rule and are taking steps to establish the necessary compliance programs to comply with the Volcker Rule. Given the complexity of the new framework, the full impact of the Volcker Rule is still uncertain and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

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

As a global financial services firm, we face the risk of investigations and proceedings by governmental and self-regulatory organizations 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 compensation to whistleblowers who present the SEC or CFTC with information related to securities or commodities law violations that leads to a successful enforcement action. As a result of this compensation, it is possible we could face an increased number of investigations by the SEC or CFTC.

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.

We may be responsible for representations and warranties associated with residential and commercial real estate loans and may incur losses in excess of our reserves.

We 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. 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, 2014, we sponsored residential mortgage-backed securities transactions containing approximately $148.0 billion of residential loans, primarily in the U.S. Of that amount, we made representations and warranties concerning approximately $47.0 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 $21.0 billion of loans. At December 31, 2014, the current unpaid principal balance ("UPB") for all the U.S. residential loans subject to such representations and warranties was approximately $15.5 billion and the cumulative losses associated with such loans were approximately $14.1 billion. We did not make, or otherwise agree to be responsible, for the representations and warranties made by third party sellers on approximately $79.9 billion of residential loans that we securitized during that time period. We have not made representations and warranties on loans deposited into 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 December 31, 2014, we originated approximately $56.0 billion and $7.0 billion of U.S. and non-U.S. commercial mortgage loans, respectively, that were placed into CMBS sponsored by us. At December 31, 2014, the current UPB for all U.S. commercial mortgage loans subject to such representations and warranties was $33.7 billion. At December 31, 2014, the current UPB when known for all non-U.S. commercial mortgage loans, subject to such representations and warranties was approximately $1.8 billion and the UPB at the time of sale when the current UPB is not known was $0.4 billion.

We currently have several legal proceedings related to claims for alleged breaches of representations and warranties. If there are decisions adverse to us in those legal proceedings, we may incur losses substantially in excess of our reserves. In addition, our reserves are based, in part, on certain factual and legal assumptions. If those assumptions are incorrect and need to be revised, we may need to adjust our reserves substantially.

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), 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 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 continue to engage 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. See also "Scope of Permitted Activities" under "Business—Supervision and Regulation" in Part I, Item 1.

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 conducting 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.

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

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 and reputation.

Our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions. 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 U.S. Subsidiary Banks and their affiliates.

Risk Management.

Our risk management strategies may not be fully effective in mitigating our risk exposures 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 risk management strategies, including our hedging strategies, 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. As our businesses change and grow, and the markets in which we operate evolve, our risk management strategies may not always adapt with those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. 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 during the financial crisis involved unprecedented dislocations and highlight the limitations inherent in using historical information to manage risk. Management of market, credit, liquidity, operational, legal, regulatory and compliance 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. For example, to the extent that our trading or investing activities involve less liquid trading markets or are otherwise subject to restrictions on sale or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. We may, therefore, incur losses in the course of our trading or investing 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.

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, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial or ancillary 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 left businesses, been acquired by or merged into other firms or have declared bankruptcy. Such changes 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, or new competitors may emerge. We have experienced and may continue to experience pricing pressures as a result of these factors and as some of our competitors seek to obtain market share by reducing prices. In addition, certain of our competitors may be subject to different, and in some cases, less stringent, legal and regulatory regimes, than we are, thereby putting us at a competitive disadvantage. For more information regarding the competitive environment in which we operate, see “Business—Competition” and “Business—Supervision and Regulation” in Part I, Item 1.

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, derivatives and other financial instrument trades electronically on exchanges, Swap execution facilities, and other automated trading platforms has increased the pressure on bid-offer spreads, commissions, markups or comparable fees. The trend toward direct access to automated, electronic markets will likely continue and will likely increase as additional markets move to more automated trading platforms. 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 bid-offer spreads, commissions, markups or comparable fees.

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. If we are unable to continue to attract and retain highly qualified employees, or do so at rates or in forms 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, defaults or potential defaults on sovereign debt, 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.

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, as well as applicable anti-corruption laws in the jurisdictions in which we operate. A violation of a sanction, embargo program, or anti-corruption law could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties.

Acquisition, Divestiture and Joint Venture Risk.

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

In connection with past or future acquisitions, divestitures, joint ventures or strategic alliances (including with MUFG), we face numerous risks and uncertainties combining, transferring, separating or integrating the relevant businesses and systems, including the need to combine or separate 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Other Matters—Japanese Securities Joint Venture” in Part II, Item 7.

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 or divestitures will be successfully integrated or disaggregated or yield all of the positive benefits anticipated. If we are not able to integrate or disaggregate successfully our past and future acquisitions or dispositions, 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.

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.

Item 2. Properties.

The Company has 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, 2014(A)
U.S. Locations			
1585 Broadway New York, New York *(Global Headquarters and Institutional Securities Headquarters)*	Owned	N/A	1,332,700 square feet
2000 Westchester Avenue Purchase, New York *(Wealth Management Headquarters)*	Owned	N/A	597,400 square feet
522 Fifth Avenue New York, New York *(Investment Management Headquarters)*	Owned	N/A	571,800 square feet
New York, New York *(Several locations)*	Leased	2015 – 2029	2,346,000 square feet
Brooklyn, New York *(Several locations)*	Leased	2016 – 2023	344,100 square feet
655 Howard Avenue Somerset, New Jersey *(Data Center)*	Owned	N/A	369,600 square feet
International Locations			
20 Bank Street London *(London Headquarters)*	Leased	2038	546,500 square feet
25 Cabot Square Canary Wharf London	Leased	2020	454,600 square feet
1 Austin Road West Kowloon *(Hong Kong Headquarters)*	Leased	2019	499,900 square feet
Otemachi Financial City South Tower Otemachi, Chiyoda-ku *(Tokyo Headquarters)*	Leased	2023	246,700 square feet

(A) The indicated total aggregate square footage leased does not include space occupied by Morgan Stanley branch offices.

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, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Company, and 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. The Company expects future litigation accruals in general to continue to be elevated and the changes in accruals from period to period may fluctuate significantly, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

In many proceedings and investigations, 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 or investigations will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings and investigations will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings or investigations 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 (both formal and informal) by government and self-regulatory agencies 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 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 claims that have not yet been asserted or are not yet determined to be material.

Residential Mortgage and Credit Crisis Related Matters.

Regulatory and Governmental Matters. The Company has received subpoenas and requests for information from certain federal and state regulatory and governmental entities, including among others various members of the RMBS Working Group of the Financial Fraud Enforcement Task Force, such as the United States Department of Justice, Civil Division and several state Attorney General's Offices, 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, some of which are in advanced stages, 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.

In May 2014, the California Attorney General's Office ("CAAG"), which is one of the members of the RMBS Working Group, indicated that it has made certain preliminary conclusions that the Company made knowing and material misrepresentations regarding RMBS and that it knowingly caused material misrepresentations to be made regarding the Cheyne SIV, which issued securities marketed to the California Public Employees Retirement System. The CAAG has further indicated that it believes the Company's conduct violated California law and that it may seek treble damages, penalties and injunctive relief. The Company does not agree with these conclusions and has presented defenses to them to the CAAG.

On September 16, 2014, the Virginia Attorney General's Office filed a civil lawsuit, styled *Commonwealth of Virginia ex rel. Integra REC LLC v. Barclays Capital Inc., et al.*, against the Company and several other defendants in the Circuit Court of the City of Richmond related to RMBS. The lawsuit alleges that the Company and the other defendants knowingly made misrepresentations and omissions related to the loans backing RMBS purchased by the Virginia Retirement System ("VRS"). The complaint alleges VRS suffered total losses of approximately $384 million on these securities, but does not specify the amount of alleged losses attributable to RMBS sponsored or underwritten by the Company. The complaint asserts claims under the Virginia Fraud Against Taxpayers Act, as well as common law claims of actual and constructive fraud, and seeks, among other things, treble damages and civil penalties. On January 20, 2015, the defendants filed a demurrer to the complaint and a plea in bar seeking dismissal of the complaint.

In October 2014, the Illinois Attorney General's Office ("IL AG") sent a letter to the Company alleging that the Company knowingly made misrepresentations related to RMBS purchased by certain pension funds affiliated with the State of Illinois and demanding that the Company pay the IL AG approximately $88 million. The Company does not agree with these allegations and has presented defenses to them to the IL AG.

On January 13, 2015, the New York Attorney General's Office ("NYAG"), which is also a member of the RMBS Working Group, indicated that it intends to file a lawsuit related to approximately 30 subprime securitizations sponsored by the Company. NYAG indicated that the lawsuit would allege that the Company misrepresented or omitted material information related to the due diligence, underwriting and valuation of the loans in the securitizations and the properties securing them and indicated that its lawsuit would be brought under the Martin Act. The Company does not agree with NYAG's allegations and has presented defenses to them to NYAG.

On February 25, 2015, the Company reached an agreement in principle with the United States Department of Justice, Civil Division and the United States Attorney's Office for the Northern District of California, Civil Division (collectively, the "Civil Division") to pay $2.6 billion to resolve certain claims that the Civil Division indicated it intended to bring against the Company. While the Company and the Civil Division have reached an agreement in principle to resolve this matter, there can be no assurance that the Company and the Civil Division will agree on the final documentation of the settlement.

Class Actions

On February 12, 2008, a purported class action, styled *Joel Stratte-McClure, et al. v. Morgan Stanley, et al.*, was filed in the United States District Court for the Southern District of New York ("SDNY") against the Company and certain present and former executives asserting 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 related in large part to the Company's subprime and other mortgage related losses, and also included allegations regarding the Company's disclosures, internal controls, accounting and other matters. On August 8, 2011, defendants filed a motion to dismiss the second amended complaint, which was granted on January 18, 2013. On May 29, 2013, the plaintiffs filed an appeal in the United States Court of Appeals for the Second Circuit (the "Second Circuit"). On January 12, 2015, the Second Circuit affirmed the dismissal of the action.

On October 25, 2010, the Company, certain affiliates and Pinnacle Performance Limited, a special purpose vehicle ("SPV"), were named as defendants in a purported class action related to securities issued by the SPV in Singapore, commonly referred to as Pinnacle Notes. The case is styled *Ge Dandong, et al. v. Pinnacle Performance Ltd., et al.* and is pending in the SDNY. The court granted class certification on October 17, 2013. The second amended complaint, filed on January 31, 2014, alleges that the defendants engaged in a fraudulent scheme to defraud investors by structuring the Pinnacle Notes to fail and benefited subsequently from the securities' failure, that the securities' offering materials contained material misstatements or omissions regarding the securities' underlying assets and alleged conflicts of interest between the defendants and the investors, and asserts common law claims of fraud, aiding and abetting fraud, fraudulent inducement, aiding and abetting fraudulent inducement, and breach of the implied covenant of good faith and fair dealing. Plaintiffs seek damages of approximately $138.7 million, rescission, punitive damages, and interest. On July 17, 2014, the parties reached an agreement in principle to settle the litigation, which received preliminary court approval December 2, 2014. The final approval hearing is scheduled for July 2, 2015.

Other Litigation. 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.* The amended complaint, filed on September 28, 2010, 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 7, 2013, the court granted defendants' motion to strike plaintiff's demand for a jury trial.

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, filed on June 10, 2010, 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 August 11, 2011, plaintiff's federal securities law claims were dismissed with prejudice. On February 9, 2012, defendants' demurrers with respect to all other claims were overruled. On December 20, 2013, plaintiff's negligent misrepresentation claims were dismissed with prejudice. On January 26, 2015, the plaintiff requested dismissal with prejudice of all remaining claims against the Company in the *Federal Home Loan Bank of San Francisco v. Credit Suisse Securities (USA) LLC, et al.* action.

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 substantially overruled defendants' demurrers. On March 5, 2012, the plaintiff filed a second amended complaint. On April 10, 2012, the Company filed a demurrer to certain causes of action in the second amended complaint, which the court overruled on July 24, 2012. On November 24, 2014, plaintiff's negligent misrepresentation claims were dismissed with prejudice. An initial trial of certain of plaintiff's claims is scheduled to begin in August 2015.

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Company, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"). 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 February 28, 2011, the court denied the Company's motion to dismiss the complaint.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a complaint against the Company and other defendants in the Circuit Court of the State of Illinois, styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al.* A corrected amended complaint was filed on April 8, 2011. The corrected amended complaint alleges 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 and asserts claims under Illinois law. The total amount of certificates allegedly sold to plaintiff by the Company at issue in the action was approximately $203 million. The complaint seeks, among other things, to rescind the plaintiff's purchase of such certificates. The defendants filed a motion to dismiss the corrected amended complaint on May 27, 2011, which was denied on September 19, 2012. On December 13, 2013, the court entered an order dismissing all claims related to one of the securitizations at issue. After that dismissal, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $78 million.

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.* An amended complaint was filed on June 29, 2012 and 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 $385 million. The amended 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. On October 11, 2012, defendants filed motions to dismiss the amended complaint, which were granted in part and denied in part on September 30, 2013. On November 25, 2013 and July 16, 2014, respectively, the plaintiff voluntarily dismissed its claims against the Company with respect to two of the securitizations at issue. After these voluntary dismissals, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $358 million.

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*. An amended complaint was filed on April 2, 2012 and 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 amended 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 May 21, 2012, the Company filed a motion to dismiss the amended complaint, which was denied on August 3, 2012. The Company filed a motion for summary judgment on January 20, 2015. Trial is currently scheduled to begin in July 2015.

On November 4, 2011, the Federal Deposit Insurance Corporation ("FDIC"), as receiver for Franklin Bank S.S.B, filed two complaints against the Company in the District Court of the State of Texas. Each was 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 alleged 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 raised 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 June 7, 2012, the two cases were consolidated. The Company filed a motion for summary judgment and special exceptions, which was denied in substantial part on April 26, 2013. The FDIC filed a second amended consolidated complaint on May 3, 2013. The Company filed a motion for leave to file an interlocutory appeal as to the court's order denying its motion for summary judgment and special exceptions, which was denied on August 1, 2013. On October 7, 2014, the court denied the Company's motion for reconsideration of the court's order denying its motion for summary judgment and special exceptions and granted its motion for reconsideration of the court's order denying leave to file an interlocutory appeal. On November 21, 2014, the Company filed a motion for summary judgment, which was denied on February 10, 2015. The Texas Fourteenth Court of Appeals denied Morgan Stanley's petition for interlocutory appeal on November 25, 2014. Trial is currently scheduled to begin in July 2015.

On January 20, 2012, Sealink Funding Limited filed a complaint against the Company in the Supreme Court of NY, 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. A second amended complaint, filed on March 20, 2013, 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 $507 million. The second amended complaint raises common law claims of fraud, fraudulent inducement, and aiding and abetting fraud and seeks, among other things, compensatory and/or rescissionary damages as well as punitive damages associated with plaintiffs' purchases of such certificates. On May 3, 2013, the Company moved to dismiss the second amended complaint, and on April 18, 2014, the court granted the Company's motion. On May 1, 2014, the plaintiff filed a notice of appeal of that decision.

On January 25, 2012, Dexia SA/NV and certain of its affiliated entities filed a complaint against the Company in the Supreme Court of NY, styled *Dexia SA/NV et al. v. Morgan Stanley, et al.* An amended complaint was filed on May 24, 2012 and 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 $626 million. The amended complaint raises common law claims of fraud, fraudulent inducement, and aiding and abetting fraud and seeks, among other things, compensatory and/or rescissionary damages as well as punitive damages associated with plaintiffs' purchases of such certificates. On

October 16, 2013, the court granted the defendants' motion to dismiss the amended complaint. On November 18, 2013, plaintiffs filed a notice of appeal of the dismissal. Plaintiffs also filed a motion to renew their opposition to defendants' motion to dismiss, which the court denied on June 23, 2014. On July 16, 2014, plaintiffs filed a notice of appeal of that decision, which has been consolidated with the appeal of the motion to dismiss.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey, styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* On October 16, 2012, plaintiffs filed an amended complaint. The amended complaint alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company is approximately $1.073 billion. The amended complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud, fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On March 15, 2013, the court denied the defendants' motion to dismiss the amended complaint. On January 2, 2015, the court denied defendants' renewed motion to dismiss the amended complaint.

On August 7, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL (together, the "Trust") against the Company. The matter is styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v. Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the Trust, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On August 8, 2014, the court granted in part and denied in part the defendants' motion to dismiss.

On August 8, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*. and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. On October 9, 2012, the Company filed a motion to dismiss the complaint. On August 16, 2013, the court granted in part and denied in part the Company's motion to dismiss the complaint. On September 26, 2013, and October 7, 2013, the Company and the plaintiffs, respectively, filed notices of appeal with respect to the court's August 16, 2013 decision.

On August 10, 2012, the FDIC, as receiver for Colonial Bank, filed a complaint against the Company and other defendants in the Circuit Court of Montgomery, Alabama styled *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Citigroup Mortgage Loan Trust Inc. et al.* The plaintiff filed an amended complaint on September 13, 2013. The complaint alleges that the Company made untrue statements and material omissions in connection with the sale to Colonial Bank of a mortgage pass-through certificate backed by a securitization trust containing residential loans. The complaint asserts claims under federal securities law and the Alabama Securities Act, and seeks, among other things, compensatory damages. The total amount of the certificate allegedly sponsored, underwritten and/or sold by the Company to Colonial Bank was approximately $65 million. On November 12, 2013, the defendants filed a motion to dismiss the amended complaint, which was denied on April 10, 2014.

On September 28, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.,* pending in the Supreme Court of NY. U.S. Bank filed an amended complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. On September 30, 2014, the court granted in part and denied in part the Company's motion to dismiss the amended complaint. On November 7, 2014, plaintiff filed a notice of appeal from the court's September 30, 2014 decision.

On December 14, 2012, Royal Park Investments SA/NV filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY, styled *Royal Park Investments SA/NV v. Merrill Lynch et al.* The complaint alleges that defendants made material misrepresentations and omissions in the sale to plaintiff of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans totaling approximately $628 million. On October 24, 2013, plaintiff filed a new complaint against the Company in the Supreme Court of NY, styled *Royal Park Investments SA/NV v. Morgan Stanley et al.* The new complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $597 million. The complaint raises common law claims of fraud, fraudulent inducement, negligent misrepresentation, and aiding and abetting fraud and seeks, among other things, compensatory and punitive damages. On February 3, 2014, the Company filed a motion to dismiss the complaint.

On January 10, 2013, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-10SL and Mortgage Pass-Through Certificates, Series 2006-10SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $300 million, breached various representations and warranties. The complaint seeks, among other relief, an order requiring the Company to comply with the loan breach remedy procedures in the transaction documents, unspecified damages, and interest. On August 8, 2014, the court granted in part and denied in part the Company's motion to dismiss the complaint.

On January 31, 2013, HSH Nordbank AG and certain affiliates filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY, styled *HSH Nordbank AG et al. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $524 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On April 12, 2013, defendants filed a motion to dismiss the complaint.

On February 14, 2013, Bank Hapoalim B.M. filed a complaint against the Company and certain affiliates in the Supreme Court of NY, styled *Bank Hapoalim B.M. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $141 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, compensatory and punitive damages. On April 22, 2014, the court denied the defendants' motion to dismiss in substantial part. On September 18, 2014, the Company filed a notice of appeal from the ruling denying defendants' motion to dismiss.

On March 7, 2013, the Federal Housing Finance Agency filed a summons with notice on behalf of the trustee of the Saxon Asset Securities Trust, Series 2007-1, against the Company and an affiliate. The matter is styled *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Saxon Asset Securities Trust, Series 2007-1 v. Saxon Funding Management LLC and Morgan Stanley* and is pending in the Supreme Court of NY. The notice asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $593 million, breached various representations and warranties. The notice seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, indemnity, and interest.

On May 3, 2013, plaintiffs in *Deutsche Zentral-Genossenschaftsbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $694 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On June 10, 2014, the court denied the defendants' motion to dismiss the case. On August 4, 2014, claims regarding two certificates were dismissed by stipulation. After these dismissals, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $644 million.

On May 17, 2013, plaintiff in *IKB International S.A. in Liquidation, et al. v. Morgan Stanley, et al.* filed a complaint against the Company and certain affiliates in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $132 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, compensatory and punitive damages. On October 30, 2014, the court granted in part and denied in part the Company's motion to dismiss. All claims regarding four certificates were dismissed. After these dismissals, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $116 million. On December 1, 2014, the Company filed a notice of appeal from the Court's October 30, 2014 decision.

On July 2, 2013, the trustee, Deutsche Bank became the named plaintiff in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 (MSAC 2007-NC1) v. Morgan Stanley ABS Capital I Inc.*, and filed a complaint in the Supreme Court of NY under the caption *Deutsche Bank National Trust Company, as Trustee for the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 v. Morgan Stanley ABS Capital I, Inc.* On February 3, 2014, the plaintiff filed an amended complaint, which asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.25 billion, breached various representations and warranties. The amended complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, rescission and interest. On March 12, 2014, the Company filed a motion to dismiss the amended complaint.

July 8, 2013, plaintiff filed a complaint in *Morgan Stanley Mortgage Loan Trust 2007-2AX, by U.S. Bank National Association, solely in its capacity as Trustee v. Morgan Stanley Mortgage Capital Holdings LLC, as* *successor-by-merger to Morgan Stanley Mortgage Capital Inc., and Greenpoint Mortgage Funding, Inc.* The complaint, filed in the Supreme Court of NY, asserts claims for breach of contract and alleges, among other things, that the loans in the Trust, which had an original principal balance of approximately $650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On August 22, 2013, the Company a filed a motion to dismiss the complaint, which was granted in part and denied in part on November 24, 2014.

On August 5, 2013, Landesbank Baden-Württemberg and two affiliates filed a complaint against the Company and certain affiliates in the Supreme Court of NY, styled *Landesbank Baden-Württemberg et al. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $50 million. The complaint alleges causes of action against the Company for, among other things, common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission based upon mutual mistake, and seeks, among other things, rescission, compensatory damages, and punitive damages. On October 4, 2013, defendants filed a motion to dismiss the complaint.

On August 16, 2013, the plaintiff in *National Credit Union Administration Board v. Morgan Stanley & Co. Incorporated, et al.* filed a complaint against the Company and certain affiliates in the United States District Court for the District of Kansas. The complaint alleges that defendants made untrue statements of material fact or omitted to state material facts in the sale to the plaintiff of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $567 million. The complaint alleges causes of action against the Company for violations of Section 11 and Section 12(a)(2) of the Securities Act of 1933, violations of the California Corporate Securities Law of 1968, and violations of the Kansas Blue Sky Law and seeks, among other things, rescissionary and compensatory damages. On December 27, 2013, the court granted the defendants' motion to dismiss in substantial part. The surviving claims relate to one certificate purchased by the plaintiff for approximately $17 million. On November 17, 2014, the plaintiff filed an amended complaint. On December 15, 2014, defendants filed a motion to dismiss the amended complaint in part.

On August 26, 2013, a complaint was filed against the Company and certain affiliates in the Supreme Court of NY, styled *Phoenix Light SF Limited et al v. Morgan Stanley et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiffs, or their assignors, 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 or their assignors by the Company was approximately $344 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud, negligent misrepresentation and rescission based on mutual mistake and seeks, among other things, compensatory damages, punitive damages or alternatively rescission or rescissionary damages associated with the purchase of such certificates. The defendants filed a motion to dismiss the complaint on December 13, 2013. On June 17, 2014, plaintiffs filed an amended complaint. By stipulation dated July 18, 2014, the parties agreed that the Company's previously filed motion to dismiss would be deemed to be directed at the amended complaint.

On September 23, 2013, the plaintiff in *National Credit Union Administration Board v. Morgan Stanley & Co. Inc., et al.* filed a complaint against the Company and certain affiliates in the SDNY. The complaint alleges that defendants made untrue statements of material fact or omitted to state material facts in the sale to plaintiffs of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $417 million. The complaint alleges causes of action against the Company for violations of Section 11 and Section 12(a)(2) of the Securities Act of 1933, violations of the Texas Securities Act, and violations of the Illinois Securities Law of 1953 and seeks, among other things, rescissionary and compensatory damages. On January 22, 2014, the court granted defendants' motion to dismiss with respect to claims arising under the Securities Act of 1933 and denied defendants' motion to dismiss with respect to claims arising under Texas Securities Act and the Illinois Securities Law of 1953. On April 28, 2014, the court granted in part and denied in part the plaintiff's motion to strike certain of the defendants' affirmative defenses. On July 11, 2014, the defendants filed a motion for reconsideration of the court's order on the motion to dismiss the complaint or, in the alternative, for certification of interlocutory appeal and a stay of all proceedings, which the court denied on September 30, 2014. On November 17, 2014, the plaintiff filed an amended complaint.

On November 6, 2013, Deutsche Bank, in its capacity as trustee, became the named plaintiff in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC3 (MSAC 2007-NC3) v. Morgan Stanley Mortgage Capital Holdings LLC*, and filed a complaint in the Supreme Court of NY under the caption *Deutsche Bank National Trust Company, solely in its capacity as Trustee for Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC3 v. Morgan Stanley Mortgage Capital Holdings LLC, as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc.* The complaint asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.3 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, rescission, interest and costs. On December 16, 2013, the Company filed a motion to dismiss the complaint.

On December 24, 2013, Commerzbank AG London Branch filed a summons with notice against the Company and others in the Supreme Court of NY, styled *Commerzbank AG London Branch v. UBS AG et al.* Plaintiff purports to be the assignee of claims of certain other entities. The complaint, which was filed on May 20, 2014, alleges that the Company made material misrepresentations and omissions in the sale to plaintiff's assignors of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs' assignors was approximately $185 million. The complaint asserts causes of action against the Company for common law fraud, fraudulent concealment, and aiding and abetting common law fraud and fraudulent concealment and seeks, among other things, compensatory and punitive damages. The Company and other defendants moved to dismiss the complaint on December 5, 2014.

On December 30, 2013, Wilmington Trust Company, in its capacity as trustee for Morgan Stanley Mortgage Loan Trust 2007-12, filed a complaint against the Company. The matter is styled *Wilmington Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC et al.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $516 million, breached various representations and warranties. The complaint seeks, among other relief, unspecified damages, interest and costs. On February 28, 2014, the defendants filed a motion to dismiss the complaint.

On January 15, 2014, the FDIC, as receiver for United Western Bank filed a complaint against the Company and others in the District Court of the State of Colorado, styled *Federal Deposit Insurance Corporation, as Receiver for United Western Bank v. Banc of America Funding Corp., et al.* The complaint alleges that the Company made untrue statements and material omissions in connection with the sale to United Western Bank of mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly sponsored, underwritten and/or sold to United Western Bank by the Company was approximately $75 million. The complaint raises claims under both federal securities law and the Colorado Securities Act and seeks, among other things, compensatory damages associated with plaintiff's purchase of such certificates. On February 14, 2014, the defendants filed a notice removing the litigation to the United States District Court for the District of Colorado. On March 14, 2014, the plaintiff filed a motion to remand the action. On April 30, 2014, the defendants filed a motion to dismiss the complaint.

On April 28, 2014, Deutsche Bank National Trust Company, in its capacity as trustee for Morgan Stanley Structured Trust I 2007-1, filed a complaint against the Company. The matter is styled *Deutsche Bank National Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC* and is pending in the SDNY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $735 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified compensatory and/or rescissory damages, interest and costs. On July 21, 2014, the Company filed a motion to dismiss the complaint.

On September 19, 2014, Financial Guaranty Insurance Company ("FGIC") filed a complaint against the Company in the Supreme Court of the State of New York, New York County ("Supreme Court of New York") styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* The complaint asserts claims for breach of contract and alleges, among other things, that the net interest margin securities ("NIMS") in the trust breached various representations and warranties. FGIC issued a financial guaranty policy with respect to certain notes that had an original balance of approximately $475 million. The complaint seeks, among other relief, specific performance of the NIM breach remedy procedures in the transaction documents, unspecified damages, reimbursement of certain payments made pursuant to the transaction documents, attorneys' fees and interest. On November 24, 2014, the Company filed a motion to dismiss the complaint.

On September 19, 2014, Deutsche Bank National Trust Company, in its capacity as trustee of Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC4, filed a summons with notice against the Company in the Supreme Court of New York styled *Deutsche Bank National Trust Company, solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC, as successor-by-merger to Morgan Stanley Mortgage Capital Inc.*, *and Morgan Stanley ABS Capital I Inc*. The notice asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.05 billion, breached various representations and warranties. The trustee filed its complaint on January 23, 2015, alleging breaches of representations and warranties, the repurchase obligation, and the duty to notify, and seeking, among other relief, specific performance of the loan breach remedy procedures in the transaction documents; compensatory, consequential, rescissory, equitable and/or punitive damages; attorneys' fees, costs and other related expenses, and interest.

On September 23, 2014, FGIC filed a complaint against the Company in the Supreme Court of New York styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* The complaint asserts claims for breach of contract and fraudulent inducement and alleges, among other things, that the loans in the trust breached various representations and warranties and defendants made untrue statements and material omissions to induce FGIC to issue a financial guaranty policy on certain classes of certificates that had an original balance of approximately $876 million. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential and punitive damages, attorneys' fees and interest. On November 24, 2014, the Company filed a motion to dismiss the complaint.

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. On September 19, 2012, the Company received two purported Notices of Non-Performance from the Law Firm purportedly on behalf of the holders of significant voting rights in various trusts securing over $28 billion of residential mortgage backed securities sponsored or underwritten by the Company. The Notice purports to identify certain covenants in Pooling and Servicing Agreements ("PSAs") that the holders allege that the Servicer and Master Servicer failed to perform, and alleges that each of these failures has materially affected the rights of certificateholders and constitutes an ongoing event of default under the relevant PSAs. On November 2, 2012, the Company responded to the letters, denying the allegations therein.

Commercial Mortgage Related Matter.

On January 25, 2011, the Company was named as a defendant in *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc.,* a litigation pending in the SDNY. The suit, brought by the trustee of a series of commercial mortgage pass-through certificates, alleges that the Company breached certain representations and warranties with respect to an $81 million commercial mortgage loan that was originated and transferred to the trust by the Company. The complaint seeks, among other things, to have the Company repurchase the loan and pay additional monetary damages. On June 16, 2014, the court granted the Company's supplemental motion for summary judgment. On June 17, 2014, the court entered judgment in the Company's favor. On July 16, 2014, the plaintiff filed a notice of appeal.

Matters Related to the CDS Market.

On July 1, 2013, the European Commission ("EC") issued a Statement of Objections ("SO") addressed to twelve financial firms (including the Company), the International Swaps and Derivatives Association, Inc. ("ISDA") and Markit Group Limited ("Markit") and various affiliates alleging that, between 2006 and 2009, the recipients breached European Union competition law by taking and refusing to take certain actions in an effort to prevent the development of exchange traded credit default swap ("CDS") products. The SO indicates that the EC plans to impose remedial measures and fines on the recipients. The Company and the other recipients of the SO filed a response to the SO on January 21, 2014, and attended oral hearings before the EC during the period May 12-19, 2014. The Company's oral hearing took place on May 15, 2014. The Company filed a supplemental response to the SO on July 11, 2014. The Company and others have also responded to an investigation by the Antitrust Division of the United States Department of Justice related to the CDS market.

Beginning in May 2013, twelve financial firms (including the Company), as well as ISDA and Markit, were named as defendants in multiple purported antitrust class actions now consolidated into a single proceeding in the SDNY styled *In Re: Credit Default Swaps Antitrust Litigation*. Plaintiffs allege that defendants violated United States antitrust laws from 2008 to present in connection with their alleged efforts to prevent the development of exchange traded CDS products. The complaints seek, among other relief, certification of a class of plaintiffs who purchased CDS from defendants in the United States, treble damages and injunctive relief. On September 4, 2014, the court granted in part and denied in part the defendants' motion to dismiss the second amended complaint.

The following matters were terminated during or following the quarter ended December 31, 2014:

In re Morgan Stanley ERISA Litigation and *Coulter v. Morgan Stanley & Co. Incorporated et al* were purported class action complaints asserting claims on behalf of participants in the Company's 401(k) plan and employee stock ownership plan against the Company and other parties, including certain present and former directors and officers, under the Employee Retirement Income Security Act of 1974 ("ERISA") relating to the Company's subprime and other mortgage related losses. Both cases were dismissed by the SDNY and their dismissal affirmed by the Second Circuit. On December 3, 2014, the time for plaintiffs to pursue a further appeal expired.

In re Morgan Stanley Mortgage Pass-Through Certificates Litigation, which had been pending in the SDNY, was a putative class action involving allegations that, among other things, the registration statements and offering documents related to the offerings of certain mortgage pass-through certificates in 2006 and 2007 contained false and misleading information concerning the pools of residential loans that backed these securitizations. On December 18, 2014, the parties' agreement to settle the litigation received final court approval, and on December 19, 2014, the court entered an order dismissing the action.

In re IndyMac Mortgage-Backed Securities Litigation, which had been pending in the SDNY, was a class action involving allegations that, among other things, the registration statements and offering documents related to the offerings of certain mortgage pass-through certificates contained false and misleading information concerning the pools of residential loans that backed these securitizations. On February 3, 2015, the court issued its final approval of the parties' agreement to settle the litigation and on February 23, 2015, the court entered a final judgment dismissing the action.

Allstate Insurance Company, et al. v. Morgan Stanley, et al., which had been pending in the Supreme Court of NY, involved allegations 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. On January 16, 2015, the parties reached an agreement to settle the litigation.

Item 4. Mine Safety Disclosures

Not applicable.

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 under the symbol "MS" on the NYSE. As of February 18, 2015, the Company had 73,376 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
2014:			
Fourth Quarter	$31.35	$39.19	$0.10
Third Quarter	$31.12	$36.44	$0.10
Second Quarter	$28.31	$32.82	$0.10
First Quarter	$28.78	$33.52	$0.05
2013:			
Fourth Quarter	$26.41	$31.85	$0.05
Third Quarter	$23.83	$29.50	$0.05
Second Quarter	$20.16	$27.17	$0.05
First Quarter	$19.32	$24.47	$0.05

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, 2014.

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, 2014—October 31, 2014)				
Share Repurchase Program(A)	1,372,885	$33.87	1,372,885	$534
Employee Transactions(B)	83,415	$34.12	—	—
Month #2 (November 1, 2014—November 30, 2014)				
Share Repurchase Program(A)	2,563,394	$35.32	2,563,394	$443
Employee Transactions(B)	71,601	$35.50	—	—
Month #3 (December 1, 2014—December 31, 2014)				
Share Repurchase Program(A)	3,628,350	$36.69	3,628,350	$310
Employee Transactions(B)	254,550	$35.87	—	—
Total				
Share Repurchase Program(A)	7,564,629	$35.71	7,564,629	$310
Employee Transactions(B)	409,566	$35.45	—	—

(A) The Company's Board of Directors has authorized the repurchase 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. In March 2014, the Company received no objection from the Federal Reserve to repurchase up to $1 billion of the Company's outstanding common stock beginning in the second quarter of 2014 through the end of the first quarter of 2015 under the Company's 2014 capital plan. During the quarter ended December 31, 2014, the Company repurchased approximately $271 million of the Company's outstanding common stock as part of its Share Repurchase Program. For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Management" in Part II, Item 7.

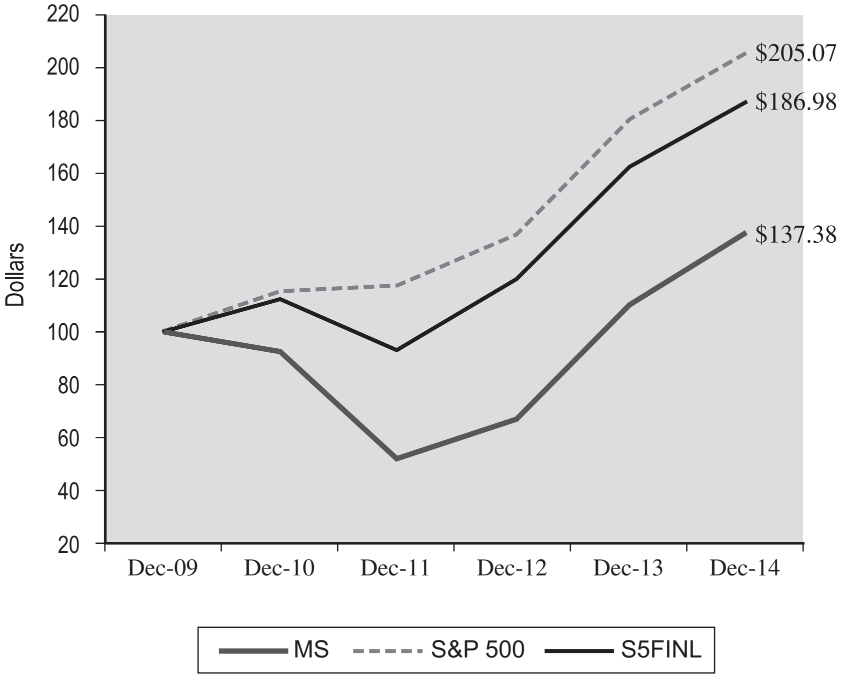
(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under 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 and may be suspended at any time.

***

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 31, 2009 and reinvestment of dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of the Company's common stock.

CUMULATIVE TOTAL RETURN
December 31, 2009 - December 31, 2014



	MS	S&P 500	S5FINL
12/31/2009	$100.00	$100.00	$100.00
12/31/2010	$ 92.60	$115.06	$112.12
12/31/2011	$ 51.93	$117.48	$ 93.00
12/30/2012	$ 66.43	$136.27	$119.73
12/31/2013	$109.83	$180.83	$162.34
12/31/2014	$137.38	$205.07	$186.98

Item 6. Selected Financial Data.

MORGAN STANLEY

SELECTED FINANCIAL DATA
(dollars in millions, except share and per share data)

	2014	2013	2012	2011	2010
Income Statement Data:					
Revenues:					
Total non-interest revenues	$32,540	$31,715	$26,383	$31,953	$30,407
Interest income	5,413	5,209	5,692	7,234	7,288
Interest expense	3,678	4,431	5,897	6,883	6,394
Net interest	1,735	778	(205)	351	894
Net revenues	34,275	32,493	26,178	32,304	31,301
Non-interest expenses:					
Compensation and benefits	17,824	16,277	15,615	16,325	15,860
Other	12,860	11,658	9,967	9,792	9,154
Total non-interest expenses	30,684	27,935	25,582	26,117	25,014
Income from continuing operations before income taxes	3,591	4,558	596	6,187	6,287
Provision for (benefit from) income taxes	(90)	902	(161)	1,491	823
Income from continuing operations	3,681	3,656	757	4,696	5,464
Discontinued operations(1):					
Income (loss) from discontinued operations before income taxes	(19)	(72)	(48)	(170)	600
Provision for (benefit from) income taxes	(5)	(29)	(7)	(119)	362
Income (loss) from discontinued operations	(14)	(43)	(41)	(51)	238
Net income	3,667	3,613	716	4,645	5,702
Net income applicable to redeemable noncontrolling interests(2)	—	222	124	—	—
Net income applicable to nonredeemable noncontrolling interests(2)	200	459	524	535	999
Net income applicable to Morgan Stanley	$ 3,467	$ 2,932	$ 68	$ 4,110	$ 4,703
Preferred stock dividends and other	315	277	98	2,043	1,109
Earnings (loss) applicable to Morgan Stanley common shareholders(3)	$ 3,152	$ 2,655	$ (30)	$ 2,067	$ 3,594
Amounts applicable to Morgan Stanley:					
Income from continuing operations	$ 3,481	$ 2,975	$ 138	$ 4,168	$ 4,478
Income (loss) from discontinued operations	(14)	(43)	(70)	(58)	225
Net income applicable to Morgan Stanley	$ 3,467	$ 2,932	$ 68	$ 4,110	$ 4,703

	2014	2013	2012	2011	2010
Per Share Data:					
Earnings (loss) per basic common share(4):					
Income from continuing operations	$ 1.65	$ 1.42	$ 0.02	$ 1.28	$ 2.49
Income (loss) from discontinued operations	(0.01)	(0.03)	(0.04)	(0.03)	0.15
Earnings (loss) per basic common share	$ 1.64	$ 1.39	$ (0.02)	$ 1.25	$ 2.64
Earnings (loss) per diluted common share(4):					
Income from continuing operations	$ 1.61	$ 1.38	$ 0.02	$ 1.27	$ 2.45
Income (loss) from discontinued operations	(0.01)	(0.02)	(0.04)	(0.04)	0.18
Earnings (loss) per diluted common share	$ 1.60	$ 1.36	$ (0.02)	$ 1.23	$ 2.63
Book value per common share(5)	$ 33.25	$ 32.24	$ 30.70	$ 31.42	$ 31.49
Dividends declared per common share	0.35	0.20	0.20	0.20	0.20
Average common shares outstanding(3):					
Basic	1,923,805,397	1,905,823,882	1,885,774,276	1,654,708,640	1,361,670,938
Diluted	1,970,535,560	1,956,519,738	1,918,811,270	1,675,271,669	1,411,268,971
Balance Sheet and Other Operating Data:					
Trading assets	$ 256,801	$ 280,744	$ 267,603	$ 275,353	$ 306,746
Loans(6)	66,577	42,874	29,046	15,369	10,576
Total assets	801,510	832,702	780,960	749,898	807,698
Total deposits	133,544	112,379	83,266	65,662	63,812
Long-term borrowings	152,772	153,575	169,571	184,234	192,457
Morgan Stanley shareholders' equity	70,900	65,921	62,109	62,049	57,211
Return on average common equity(7)	4.8%	4.3%	N/M	3.8%	9.0%

N/M—Not Meaningful

(1) Prior-period amounts have been recast for discontinued operations. See Note 1 to the Company's consolidated financial statements in Item 8 for information on discontinued operations.

(2) Information includes 100%, 65% and 51% ownership of the retail securities joint venture between the Company and Citigroup Inc. (the "Wealth Management JV") effective June 28, 2013, September 17, 2012 and May 31, 2009, respectively (see Note 3 to the Company's consolidated financial statements in Item 8).

(3) Amounts shown are used to calculate earnings (loss) per basic and diluted common share.

(4) For the calculation of basic and diluted earnings (loss) per common share, see Note 16 to the Company's consolidated financial statements in Item 8.

(5) Book value per common share equals common shareholders' equity of $64,880 million at December 31, 2014, $62,701 million at December 31, 2013, $60,601 million at December 31, 2012, $60,541 million at December 31, 2011 and $47,614 million at December 31, 2010, divided by common shares outstanding of 1,951 million at December 31, 2014, 1,945 million at December 31, 2013, 1,974 million at December 31, 2012, 1,927 million at December 31, 2011 and 1,512 million at December 31, 2010.

(6) Amounts include loans held for investment and loans held for sale and exclude loans at fair value which are included in Trading assets in the Company's consolidated statements of financial condition (see Note 8 to the Company's consolidated financial statements in Item 8).

(7) The calculation of return on average common equity uses net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity. The return on average common equity is a non-generally accepted accounting principle financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance.

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, Wealth Management and Investment Management. Unless the context otherwise requires, the terms "Morgan Stanley" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries.

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

> *Institutional Securities* provides financial advisory and capital-raising 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.
>
> *Wealth Management* 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; and retirement services; and engages in fixed income trading, which primarily facilitates clients' trading or investments in such securities.
>
> *Investment 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.

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, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets and energy 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), policies (including fiscal and monetary), and legal and regulatory actions in the United States of America ("U.S.") and worldwide; the level and volatility of equity, fixed income and commodity prices (including oil 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 the Company's unsecured short-term and long-term debt; investor, consumer and business sentiment and confidence in the financial markets; the performance of the Company's acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements; the Company's reputation and the general perception of the financial services industry; inflation, natural disasters, pandemics and acts of war or terrorism; the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations; the effectiveness of the Company's risk management policies; technological changes and risks and cybersecurity risks (including cyber attacks and business continuity risks); 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 adverse 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 "Liquidity and Capital Resources—Regulatory Requirements" herein.

The discussion of the Company's results of operations below may contain forward-looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect the Company's future results, see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Business—Competition" and

“Business—Supervision and Regulation” in Part I, Item 1, “Risk Factors” in Part I, Item 1A and “Liquidity and Capital Resources—Regulatory Requirements” herein.

See Note 1 to the Company’s consolidated financial statements in Item 8 for a discussion of its discontinued operations.

Executive Summary.

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

	2014	2013	2012
Net revenues:			
Institutional Securities	$16,871	$15,519	$11,101
Wealth Management(1)	14,888	14,143	12,947
Investment Management(1)	2,712	3,059	2,306
Intersegment Eliminations	(196)	(228)	(176)
Consolidated net revenues	$34,275	$32,493	$26,178
Net income	$ 3,667	$ 3,613	$ 716
Net income applicable to redeemable noncontrolling interests(2)	—	222	124
Net income applicable to nonredeemable noncontrolling interests(2)	200	459	524
Net income applicable to Morgan Stanley	$ 3,467	$ 2,932	$ 68
Income (loss) from continuing operations applicable to Morgan Stanley:			
Institutional Securities	$ (77)	$ 983	$ (797)
Wealth Management(1)	3,192	1,473	772
Investment Management(1)	366	519	167
Intersegment Eliminations	—	—	(4)
Income from continuing operations applicable to Morgan Stanley	$ 3,481	$ 2,975	$ 138
Income (loss) from discontinued operations applicable to Morgan Stanley(3)	(14)	(43)	(70)
Net income applicable to Morgan Stanley	$ 3,467	$ 2,932	$ 68
Preferred stock dividend and other	315	277	98
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 3,152	$ 2,655	$ (30)
Earnings (loss) per basic common share:			
Income from continuing operations	$ 1.65	$ 1.42	$ 0.02
Income (loss) from discontinued operations(3)	(0.01)	(0.03)	(0.04)
Earnings (loss) per basic common share(4)	$ 1.64	$ 1.39	$ (0.02)
Earnings (loss) per diluted common share:			
Income from continuing operations	$ 1.61	$ 1.38	$ 0.02
Income (loss) from discontinued operations(3)	(0.01)	(0.02)	(0.04)
Earnings (loss) per diluted common share(4)	$ 1.60	$ 1.36	$ (0.02)
Regional net revenues(5):			
Americas	$25,140	$23,358	$20,276
EMEA	4,772	4,542	3,078
Asia-Pacific	4,363	4,593	2,824
Net revenues	$34,275	$32,493	$26,178
Pre-tax profit margin(6):			
Institutional Securities	N/M	6%	N/M
Wealth Management	20%	18%	12%
Investment Management	24%	33%	28%
Consolidated	10%	14%	2%
Effective income tax rate from continuing operations(7)	(2.5)%	19.8%	(27.0)%

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

	2014	2013	2012
Average common equity (dollars in billions)(8):			
Institutional Securities	$ 32.2	$ 37.9	$ 29.0
Wealth Management	11.2	13.2	13.3
Investment Management	2.9	2.8	2.4
Parent capital	19.0	8.0	16.1
Consolidated average common equity	$ 65.3	$ 61.9	$ 60.8
Return on average common equity from continuing operations(9):			
Institutional Securities	N/M	2.3%	N/M
Wealth Management	27.5%	9.9%	5.7%
Investment Management	12.8%	18.1%	6.7%
Consolidated	4.9%	4.4%	0.1%
Average tangible common equity (dollars in billions)(10)	$ 55.5	$ 53.0	$ 53.9
Return on average tangible common equity from continuing operations(11)	5.7%	5.1%	0.1%
Selected management financial measures, excluding DVA:			
Net revenues, excluding DVA(12)	$33,624	$33,174	$30,580
Income from continuing operations applicable to Morgan Stanley, excluding DVA(12)	$ 3,063	$ 3,427	$ 3,256
Income per diluted common share from continuing operations, excluding DVA(12)	$ 1.39	$ 1.61	$ 1.64
Return on average common equity, excluding DVA(9)	4.1%	5.0%	5.2%
Return on average tangible common equity, excluding DVA(11)	4.9%	5.8%	5.9%

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

	At December 31, 2014	At December 31, 2013
Total loans(13)	$ 66,577	$ 42,874
Total assets	$801,510	$832,702
U.S. Subsidiary Banks loans(13)(14)	$ 59,622	$ 35,039
U.S. Subsidiary Banks assets(14)	$151,157	$125,341
Total deposits	$133,544	$112,379
Long-term borrowings	$152,772	$153,575
Maturities of long-term borrowings outstanding (next 12 months)	$ 20,740	$ 24,193
Worldwide employees	55,802	55,794
Book value per common share(15)	$ 33.25	$ 32.24
Tangible book value per common share(16)	$ 28.26	$ 27.16
Global Liquidity Reserve held by bank and non-bank legal entities (dollars in billions)(17)	$ 193	$ 202
Average Global Liquidity Reserve (dollars in billions)(17)(18):		
Bank legal entities	$ 87	$ 75
Non-bank legal entities	108	117
Total average Global Liquidity Reserve	$ 195	$ 192
Capital ratios(19):		
Common Equity Tier 1 capital ratio (Transitional/Advanced Approach in 2014)	12.6%	N/A
Tier 1 common capital ratio	N/A	12.8%
Tier 1 capital ratio (Transitional/Advanced Approach in 2014)	14.1%	15.6%
Total capital ratio (Transitional/Advanced Approach in 2014)	16.4%	16.9%
Tier 1 leverage ratio (Transitional/Advanced Approach in 2014)(20)	7.9%	7.6%
Consolidated assets under management or supervision (dollars in billions)(1)(21):		
Investment Management(22)	$ 403	$ 377
Wealth Management	778	688
Total	$ 1,181	$ 1,065

N/M—Not Meaningful

N/A—Not Applicable

EMEA—Europe, Middle East and Africa

DVA—Debt Valuation Adjustment represents the change in the fair value of certain of the Company's long-term and short-term borrowings resulting from the fluctuation in the Company's credit spreads and other credit factors.

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(2) See Notes 2, 3 and 15 to the Company's consolidated financial statements in Item 8 for information on redeemable and nonredeemable noncontrolling interests.

(3) See Note 1 to the Company's consolidated financial statements in Item 8 for information on discontinued operations.

(4) For the calculation of basic and diluted earnings per share ("EPS"), see Note 16 to the Company's consolidated financial statements in Item 8.

(5) Regional net revenues reflect the regional view of the Company's consolidated net revenues, on a managed basis. For a further discussion regarding the geographic methodology for net revenues, see Note 21 to the Company's consolidated financial statements in Item 8.

(6) Pre-tax profit margin is a non-generally accepted accounting principle ("non-GAAP") financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance. Percentages represent income from continuing operations before income taxes as a percentage of net revenues.

(7) For a discussion of the effective income tax rate, see "Overview of 2014 Financial Results" herein and Note 20 to the Company's consolidated financial statements in Item 8.

(8) The computation of average common equity for each business segment is determined using the Company's Required Capital framework, an internal capital adequacy measure (see "Liquidity and Capital Resources—Regulatory Requirements—Required Capital" herein). Average common equity for each business segment is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to assess capital adequacy.

(9) The calculation of each business segment's return on average common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of each business segment's average common equity. The return on average common equity is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance. The effective tax rates used in the computation of business segments' return on average common equity were determined on a separate legal entity basis. To determine the return on consolidated average common equity, excluding the impact of DVA, also a non-GAAP financial measure, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA in 2014, 2013 and 2012 was 0.8%, (0.6)% and (5.1)%, respectively.

(10) Average tangible common equity is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to assess capital adequacy. For a discussion of tangible common equity, see "Liquidity and Capital Resources—Capital Management" herein.

(11) Return on average tangible common equity is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to assess capital adequacy. The calculation of return on average tangible common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity. To determine the return on average tangible common equity, excluding the impact of DVA, also a non-GAAP financial measure, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA in 2014, 2013 and 2012 was 0.8%, (0.7)% and (5.8)%, respectively.

(12) From time to time, the Company may disclose certain "non-GAAP financial measures" in the course of its earnings releases, earnings conference calls, financial presentations and otherwise. For these purposes, "U.S. GAAP" refers to accounting principles generally accepted in the U.S. The U S. Securities and Exchange Commission (the "SEC") defines a "non-GAAP financial measure" as a numerical measure of historical or future financial performance, financial positions, or cash flows that excludes or includes amounts or is subject to adjustments that effectively exclude, or include, amounts from the most directly comparable measure calculated and presented in accordance with U.S. GAAP. Non-GAAP financial measures disclosed by the Company are provided as additional information to investors in order to provide them with further transparency about, or as an alternative method for assessing, the Company's financial condition and operating results. These measures are not in accordance with, or a substitute for, U S. GAAP, and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever the Company refers to a non-GAAP financial measure, the Company will also generally present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the non-GAAP financial measure and the U S. GAAP financial measure.

	2014	2013	2012
Reconciliation of selected management financial measures from a Non-GAAP to a U.S. GAAP basis (dollars in millions, except per share amounts):			
Net revenues			
Net revenues—non-GAAP	$33,624	$33,174	$30,580
Impact of DVA	651	(681)	(4,402)
Net revenues—U.S. GAAP	$34,275	$32,493	$26,178
Income from continuing operations applicable to Morgan Stanley			
Income applicable to Morgan Stanley—non-GAAP	$ 3,063	$ 3,427	$ 3,256
Impact of DVA	418	(452)	(3,118)
Income applicable to Morgan Stanley—U.S. GAAP	$ 3,481	$ 2,975	$ 138
Earnings per diluted common share			
Income from continuing operations per diluted common share—non-GAAP	$ 1.39	$ 1.61	$ 1.64
Impact of DVA	0.22	(0.23)	(1.62)
Income from continuing operations per diluted common share—U.S. GAAP	$ 1.61	$ 1.38	$ 0.02

(13) Amounts include loans held for investment and loans held for sale and exclude loans at fair value which are included in Trading assets in the Company's consolidated statements of financial condition (see Note 8 to the Company's consolidated financial statements in Item 8).

(14) Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA") represent the Company's U.S. bank operating subsidiaries ("U.S. Subsidiary Banks") and amounts exclude transactions with affiliated entities.

(15) Book value per common share equals common shareholders' equity of $64,880 million at December 31, 2014 and $62,701 million at December 31, 2013 divided by common shares outstanding of 1,951 million at December 31, 2014 and 1,945 million at December 31, 2013.

(16) Tangible book value per common share equals tangible common equity of $55,138 million at December 31, 2014 and $52,828 million at December 31, 2013 divided by common shares outstanding of 1,951 million at December 31, 2014 and 1,945 million at December 31, 2013. Tangible book value per common share is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy.

(17) Global Liquidity Reserve, which is held within the Company's bank and non-bank legal entities, is composed of highly liquid and diversified cash and cash equivalents and unencumbered securities. Eligible unencumbered securities include U.S. government securities,

U.S. agency securities, U.S. agency mortgage-backed securities, non-U.S. government securities and other highly liquid investment-grade securities. For a discussion of Global Liquidity Reserve, see "Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve" herein.

(18) The Company calculates the average Global Liquidity Reserve based upon daily amounts.

(19) The Company calculates its applicable risk-based capital ratios and risk-weighted assets ("RWAs") in accordance with the capital adequacy standards for financial holding companies adopted by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). For a further discussion of the Company's methods for calculating its risk-based capital ratios and RWAs, see "Liquidity and Capital Resources—Regulatory Requirements" herein.

(20) Beginning with the first quarter of 2014, Tier 1 leverage ratio equals Tier 1 capital (calculated under U.S. Basel III Transitional rules) divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain financial equity investments and other adjustments). In 2013, Tier 1 leverage ratio equaled Tier 1 capital (calculated under U.S. Basel I) divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets, and financial and non-financial equity investments).

(21) Revenues and expenses associated with these assets are included in the Company's Wealth Management and Investment Management business segments.

(22) Amounts exclude the Company's Investment Management business segment's proportionate share of assets managed by entities in which it owns a minority stake.

Global Market and Economic Conditions.

During 2014, global market and economic conditions displayed a continued but choppy improvement from 2013, characterized by continued global central bank accommodations, low inflation, geopolitical tensions, and sharply lower oil prices during the final months of the year. The U.S. economy which started 2014 with a weather-impacted first quarter decline in gross domestic product ("GDP") ended the year with an annualized GDP growth rate of 2.4%. The Eurozone economy by contrast stalled in the second quarter before showing some signs of improvement in the second half of the year, as the annexation of the Crimea region in Ukraine by Russia and conflict in Eastern Ukraine raised anxiety and tensions which weighed on regional economies. In the United Kingdom ("U.K."), GDP growth continued to accelerate, with an annualized growth rate of 2.6% for all of 2014, while the Japanese economy saw substantial volatility surrounding a national sales tax hike to 8% from 5% in April, resulting in a GDP growth rate near zero for all of 2014. In China, the government continued reforms to change the structure of the Chinese economy, accepting a somewhat less rapid growth pace as deleveraging is pursued, but targeted easing measures by the Chinese central bank supported a 7.4% gain in real GDP in 2014.

In the U.S., major equity market indices ended the year significantly higher compared with year-end 2013, with the S&P 500 stock index posting a gain of 11.4% for the year, supported by the relative strength of the U.S. economy. The growth in U.S. GDP was driven by an improving labor market, with the unemployment rate dropping below 6% for the first time in six years to end 2014 at 5.6%, a 1.1% decline from the end of 2013. Average wage growth remained tepid, however, and inflation continued to run well below the Federal Reserve's 2% target. Household spending growth accelerated markedly over the course of 2014, supported by strong job growth and lower energy prices, while business investment also accelerated during the second and third quarters of 2014, but showed signs of sluggishness during the fourth quarter as uncertainty about global economic conditions increased. The recovery in the housing market remained slow, hampered by tight mortgage lending conditions. In October 2014, the Federal Open Market Committee ("FOMC") of the Federal Reserve ended its quantitative easing program with its final $15 billion reduction in monthly bond purchases. At December 31, 2014, the federal funds target rate remained between 0.00% and 0.25%, while the discount rate remained at 0.75%. At its December 2014 meeting, the FOMC announced that it would be patient in beginning to normalize its stance on monetary policy.

In Europe, major equity market indices ended the year lower compared with year-end 2013 except for the DAX 30 index in Germany, which ended the year with a 2.7% gain. Euro-area GDP growth turned positive after declining in 2013, but the recovery was sluggish at less than 1% for 2014, and market-based measures of Eurozone inflation expectations fell well below levels consistent with the European Central Bank's ("ECB") 2% inflation target, prompting an announcement of additional easing measures in September 2014, including a cut in the benchmark repurchase rate to 0.05% from 0.25% and in the deposit facility rate to negative 0.20% from 0.00% at the end of 2013, and the announcement of asset-backed securities and covered bond purchase programs. In January 2015, the ECB announced an expanded asset purchase program involving the purchase of Euro-area sovereign debt. In the U.K., stronger GDP growth in 2014 was supported by faster growth in consumer spending, business investment and residential investment, but export performance was sluggish. The U.K. also continued to experience significant declines in unemployment, while average wage gains also remained tepid, and inflation fell below the Bank of England's ("BOE") target. At December 31, 2014, the BOE's benchmark interest rate was 0.5%, which was unchanged from December 31, 2013, and BOE asset purchases remained at £375 billon, also unchanged from December 31, 2013.

Major equity market indices in Asia ended 2014 higher compared with year-end 2013, except for the KOSPI Composite index in the Republic of Korea, which ended the year down 4.8%. Japan's economy resumed growth after the mid-year recession following the April 2014 tax increase, with support from a substantial increase in asset purchases announced by the Bank of Japan in October 2014 and strong exports. China's annual rate of economic growth has slowed slightly but remained above 7%, which is strong compared with the rest of the world. Nonetheless, the Chinese economy still faces downward pressure, and its government plans to respond with targeted measures to boost growth. The Chinese government's announced reforms reflect its intention to restructure its economy away from reliance on exports and investments and toward more sustainable growth driven by domestic consumption.

Overview of 2014 Financial Results.

Consolidated Results. The Company recorded net income applicable to Morgan Stanley of $3,467 million on net revenues of $34,275 million in 2014 compared with net income applicable to Morgan Stanley of $2,932 million on net revenues of $32,493 million in 2013.

Net revenues in 2014 included positive revenues due to the impact of DVA of $651 million compared with negative revenues of $681 million in 2013. In addition, net revenues in 2014 included a charge of approximately $468 million related to the implementation of Funding Valuation Adjustments ("FVA") (see "Critical Accounting Policies" herein and Note 2 to the Company's consolidated financial statements in Item 8), which was recorded in the Company's Institutional Securities business segment. Non-interest expenses were $30,684 million in 2014 compared with $27,935 million in 2013. Compensation expenses increased 10% to $17,824 million in 2014 compared with $16,277 million in 2013, primarily driven by compensation expense adjustments of approximately $1.1 billion related to changes in discretionary incentive compensation deferrals (see "Business Segments—Compensation Expense—Discretionary Incentive Compensation" herein). Non-compensation expenses increased 10% to $12,860 million in 2014 compared with $11,658 million in 2013, primarily due to higher legal expenses.

Diluted EPS and diluted EPS from continuing operations were $1.60 and $1.61, respectively, in 2014 compared with $1.36 and $1.38, respectively, in 2013. The diluted EPS calculation for 2013 included a negative adjustment of approximately $151 million, or $0.08 per diluted share, related to the purchase of the retail securities joint venture between the Company and Citigroup Inc. ("Citi") (the "Wealth Management JV"), which was completed in June 2013.

Excluding the impact of DVA, net revenues were $33,624 million and diluted EPS from continuing operations were $1.39 per share in 2014 compared with $33,174 million and $1.61 per share, respectively, in 2013. The presentation of net revenues excluding the impact of DVA is a non-GAAP financial measure that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance.

The Company's effective tax rate from continuing operations was a benefit of 2.5% and a provision of 19.8% for 2014 and 2013, respectively. The results for 2014 and 2013 included discrete net tax benefits of $2,226 million and $407 million, respectively. Excluding these discrete net tax benefits, the effective tax rates from continuing operations for 2014 and 2013 would have been 59.5% and 28.7%, respectively. The increase in the tax rate is mainly attributable to higher non-deductible expenses related to litigation and regulatory matters and, to a lesser extent, the geographic mix of earnings. For a discussion of the net discrete tax benefits, see "Other Matters—Income Tax Matters" herein.

Institutional Securities. Income (loss) from continuing operations before taxes was $(58) million in 2014 compared with $946 million in 2013. Net revenues for 2014 were $16,871 million compared with $15,519 million in 2013. The results in 2014 included positive revenues due to the impact of DVA of $651 million compared with negative revenues of $681 million in 2013. Investment banking revenues increased 19% from 2013 to $5,203 million in 2014, reflecting increases across equity and fixed income underwriting and advisory revenues. Equity sales and trading net revenues, excluding the impact of DVA, increased 4% from 2013 to $6,903 million in 2014, primarily due to higher revenues in the prime brokerage business driven by higher client balances partially offset by a decrease in derivatives revenues, reflecting unfavorable volatility movement. Excluding the impact of DVA, fixed income and commodities sales and trading net revenues decreased 10% from 2013 to $3,795 million in 2014 as lower fixed income product results, which included a charge of $466 million related to the implementation of FVA, were partially offset by higher commodity net revenues. Non-interest expenses increased 16% from $14,573 million in 2013 to $16,929 million in 2014, primarily due to higher non-compensation expenses, reflecting increased legal expenses related to certain legacy residential mortgage matters, and higher compensation expense (see "Other Matters—Legal" herein and "Contingencies—Legal" in Note 13 to the Company's financial statements in Item 8 and "Business Segments—Compensation Expense—Discretionary Incentive Compensation" herein).

Wealth Management. Income from continuing operations before taxes was $2,985 million in 2014 compared with $2,604 million in 2013. Net revenues were $14,888 million in 2014 compared with $14,143 million in 2013. Transactional revenues, consisting of Investment banking, Trading, and Commissions and fees, decreased 10% from 2013 to $3,875 million in 2014. Investment banking revenues decreased 14% from 2013 to $791 million in 2014, primarily due to lower levels of underwriting activity in closed-end funds partially offset by higher revenues from structured products. Trading revenues decreased 18% from 2013 to $957 million in 2014, primarily due to lower gains related to investments associated with certain employee deferred compensation plans and lower revenues from fixed income products. Commissions and fees revenues decreased 4% from 2013 to $2,127 million in 2014, primarily due to lower equity, insurance and mutual fund activity. Asset management, distribution and administration fees increased 10% from 2013 to $8,345 million in 2014, primarily due to higher fee-based revenues partially offset by lower revenues from referral fees from the bank deposit program. Net interest increased 25% from 2013 to $2,339 million in 2014, primarily due to higher lending balances and growth in loans and lending commitments in Portfolio Loan Account ("PLA") securities-based lending products. Non-interest expenses increased 3% from $11,539 million in 2013 to $11,903 million in 2014 primarily due to higher compensation expenses, which were partially offset by lower non-compensation expenses. Total client asset balances were $2,025 billion and total client liability balances were $51 billion at December 31, 2014. Balances in the bank deposit program were $137 billion at December 31, 2014, which included deposits held by Company-affiliated Federal Deposit Insurance Corporation ("FDIC") insured depository institutions of $128 billion at December 31, 2014. Client assets in fee-based accounts were $785 billion, or 39% of total client assets, at December 31, 2014. Fee-based client asset flows for 2014 were $58.8 billion compared with $51.9 billion in 2013.

Investment Management. Income from continuing operations before taxes was $664 million in 2014 compared with $1,008 million in 2013. Net revenues were $2,712 million in 2014 compared with $3,059 million in 2013. The decrease in net revenues was primarily related to lower net investment gains and the non-recurrence of an additional allocation of fund income to the Company as general partner, in 2013 upon exceeding cumulative fund performance thresholds ("carried interest") in the Company's Merchant Banking and Real Estate Investing businesses and lower gains from investments in the Company's deferred compensation and co-investment plans. Results also reflected lower revenues from the prior year on investments in the Real Estate Investing business driven by the deconsolidation in the second quarter of 2014 of certain legal entities associated with a real estate fund sponsored by the Company. Non-interest expenses of $2,048 million in 2014 were essentially unchanged from 2013.

Business Segments.

Substantially all of the Company's operating revenues and operating expenses are directly attributable to its business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company's consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Company's Institutional Securities business segment to the Company's Wealth Management business segment related to the bank deposit program.

Net Revenues.

Trading. Trading revenues include revenues from customers' purchases and sales of financial instruments in which the Company acts as a market maker as well as gains and losses on the Company's related positions.

Trading revenues include the realized gains and losses from sales of cash instruments and derivative settlements, unrealized gains and losses from ongoing fair value changes of the Company's positions related to market-making activities, and gains and losses related to investments associated with certain employee deferred compensation plans. In many markets, the realized and unrealized gains and losses from the purchase and sale transactions will include any spreads between bids and offers. Certain fees received on loans carried at fair value and dividends from equity securities are also recorded in this line item since they relate to market-making positions. Commissions received for purchasing and selling listed equity securities and options are recorded separately in the Commissions and fees line item. Other cash and derivative instruments typically do not have fees associated with them, and fees for related services are recorded in Commissions and fees.

The Company often invests in investments or other financial instruments to economically hedge its obligations under its deferred compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues. Expenses associated with the related deferred compensation plans are recorded in Compensation and benefits. Compensation expense is calculated based on the notional value of the award granted, adjusted for upward and downward changes in fair value of the referenced investment and is recognized ratably over the prescribed vesting period for the award. Generally, changes in compensation expense resulting from changes in fair value of the referenced investment will be offset by changes in fair value of the investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period.

As a market maker, the Company stands ready to buy, sell or otherwise transact with customers under a variety of market conditions and to provide firm or indicative prices in response to customer requests. The Company's liquidity obligations can be explicit and obligatory in some cases, and in others, customers expect the Company to be willing to transact with them. In order to most effectively fulfill its market-making function, the Company engages in activities across all of its trading businesses that include, but are not limited to: (i) taking positions in anticipation of, and in response to, customer demand to buy or sell and—depending on the liquidity of the relevant market and the size of the position—to hold those positions for a period of time; (ii) managing and assuming basis risk (risk associated with imperfect hedging) between customized customer risks and the standardized products available in the market to hedge those risks; (iii) building, maintaining and rebalancing inventory, through trades with other market participants, and engaging in accumulation activities to accommodate anticipated customer demand; (iv) trading in the market to remain current on pricing and trends; and (v) engaging in other activities to provide efficiency and liquidity for markets. Although not included in Trading revenues, interest income and expense are also impacted by market-making activities as debt securities held by the Company earn interest and securities are loaned, borrowed, sold with agreement to repurchase and purchased with agreement to resell.

Investments. The Company's investments generally are held for long-term appreciation and generally are subject to significant sales restrictions. Estimates of the fair value of the investments may involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions. In some cases, such investments are required or are a necessary part of offering other products. The revenues recorded are the result of realized gains and losses from sales and unrealized gains and losses from ongoing fair value changes of the Company's holdings as well as from investments associated with certain employee deferred compensation and co-investment plans. Typically, there are no fee revenues from these investments. The sales restrictions on the investments relate primarily to redemption and withdrawal restrictions on investments in real estate funds, hedge funds and private equity funds, which include investments made in connection with certain employee deferred compensation plans (see Note 4 to the Company's consolidated financial statements in Item 8). Restrictions on interests in exchanges and clearinghouses generally include a requirement to hold those interests for the period of time that the Company is clearing trades on that exchange or clearinghouse. Additionally, there are certain investments related to assets held by consolidated real estate funds, which are primarily related to holders of noncontrolling interests.

Commissions and Fees. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities, services related to sales and trading activities, and sales of mutual funds, futures, insurance products and options.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include fees associated with the management and supervision of assets, account services and administration, performance-based fees relating to certain funds, separately managed accounts, shareholder servicing and the distribution of certain open-ended mutual funds.

Asset management, distribution and administration fees in the Company's Wealth Management business segment also include revenues from individual investors electing a fee-based pricing arrangement and fees for investment management. Mutual fund distribution fees in the Company's Wealth Management business segment are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management fees in the Company's Investment Management business segment arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. The Company receives fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity for other vehicles. Performance-based fees in the Company's Investment Management business segment are earned on certain funds as a percentage of appreciation earned by those funds and, in certain cases, are based upon the achievement of performance criteria. These fees are normally earned annually and are recognized on a monthly or quarterly basis.

Net Interest. Interest income and Interest expense are a function of the level and mix of total assets and liabilities, including Trading assets and Trading liabilities; investment securities, which include available for sale ("AFS") securities and held to maturity ("HTM") securities; securities borrowed or purchased under agreements to resell; securities loaned or sold under agreements to repurchase; loans; deposits; commercial paper and other short-term borrowings; long-term borrowings; trading strategies; customer activity in the Company's prime brokerage business; and the prevailing level, term structure and volatility of interest rates. Certain Securities purchased under agreements to resell ("reverse repurchase agreements") and Securities sold under agreements to repurchase ("repurchase agreements") and Securities borrowed and Securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest income on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions.

***Compensation Expense*.**

The Company's compensation and benefits expense includes accruals for base salaries and fixed allowances, formulaic programs, discretionary incentive compensation, amortization of deferred cash and equity awards, changes in fair value of deferred compensation plan referenced investments, and other items such as health and welfare benefits. The factors that drive compensation for the Company's employees vary from quarter to quarter, segment to segment and within a segment. For certain revenue-producing employees in the Company's Wealth Management and Investment Management business segments, their compensation is largely paid on the basis of formulaic payouts that link their compensation to revenues. Compensation for certain employees, including revenue-producing employees in the Company's Institutional Securities business segment, may also include incentive compensation that is determined following the assessment of the Company, business unit and individual performance. Compensation for the Company's remaining employees is largely fixed in nature (*e.g.*, base salary, benefits, etc.).

Discretionary Incentive Compensation. On December 1, 2014, the Compensation, Management Development and Succession Committee ("CMDS Committee") of the Company's Board of Directors approved an approach for awards of discretionary incentive compensation for the 2014 performance year to be granted in 2015 that would reduce the average deferral of such awards to an approximate baseline of 50%. Additionally, the CMDS

Committee approved the acceleration of vesting for certain outstanding deferred cash-based incentive compensation awards. The deferred cash-based incentive compensation awards subject to accelerated vesting will be distributed on their regularly scheduled future distribution dates and will continue to be subject to cancellation and clawback provisions. With its business strategy in place and greater financial stability, the Company is in a position to change the level of deferrals, making the Company's practice more consistent with deferral levels at the Company's global competitors. The increase in compensation and benefits expense for the Company and each of its business segments as a result of these actions was as follows:

	Institutional Securities	Wealth Management	Investment Management	Total
		(dollars in millions)		
Pro forma 2014 compensation and benefits expense(1)	$6,882	$8,737	$1,068	$16,687
Fourth quarter actions:				
Change in 2014 level of deferrals(2)	610	66	80	756
Acceleration of prior-year cash-based deferred awards(3)	294	22	65	381
Fourth quarter actions total	$ 904	$ 88	$ 145	$ 1,137
Actual 2014 compensation and benefits expense	$7,786	$8,825	$1,213	$17,824

(1) Pro forma 2014 represents compensation and benefits expense at pre-adjustment accrual levels (*i.e.*, at an approximate average baseline 74% deferral rate and with no acceleration of cash-based award vesting that was utilized for the first three quarters of 2014).

(2) Amounts reflect reduction in deferral level from an approximate average baseline of 74% to an approximate average baseline of 50%.

(3) Amounts represent acceleration of vesting for certain cash-based awards.

INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

	2014	2013	2012
	(dollars in millions)		
Revenues:			
Investment banking	$ 5,203	$ 4,377	$ 3,930
Trading	8,445	8,147	6,003
Investments	240	707	219
Commissions and fees	2,610	2,425	2,175
Asset management, distribution and administration fees	281	280	241
Other	684	684	279
Total non-interest revenues	17,463	16,620	12,847
Interest income	3,389	3,572	4,224
Interest expense	3,981	4,673	5,970
Net interest	(592)	(1,101)	(1,746)
Net revenues	16,871	15,519	11,101
Compensation and benefits	7,786	6,823	6,979
Non-compensation expenses	9,143	7,750	5,734
Total non-interest expenses	16,929	14,573	12,713
Income (loss) from continuing operations before income taxes	(58)	946	(1,612)
Provision for (benefit from) income taxes	(90)	(315)	(985)
Income (loss) from continuing operations	32	1,261	(627)
Discontinued operations:			
Income (loss) from discontinued operations before income taxes	(26)	(81)	(158)
Provision for (benefit from) income taxes	(7)	(29)	(36)
Income (losses) from discontinued operations	(19)	(52)	(122)
Net income (loss)	13	1,209	(749)
Net income applicable to redeemable noncontrolling interests	—	1	4
Net income applicable to nonredeemable noncontrolling interests	109	277	170
Net income (loss) applicable to Morgan Stanley	$ (96)	$ 931	$ (923)
Amounts applicable to Morgan Stanley:			
Income (loss) from continuing operations	$ (77)	$ 983	$ (797)
Income (loss) from discontinued operations	(19)	(52)	(126)
Net income (loss) applicable to Morgan Stanley	$ (96)	$ 931	$ (923)

Supplemental Financial Information.

Investment Banking. Investment banking revenues are composed of fees from advisory services and revenues from the underwriting of securities offerings and syndication of loans, net of syndication expenses.

Investment banking revenues were as follows:

	2014	2013	2012
	(dollars in millions)		
Advisory revenues	$1,634	$1,310	$1,369
Underwriting revenues:			
Equity underwriting revenues	1,613	1,262	892
Fixed income underwriting revenues	1,956	1,805	1,669
Total underwriting revenues	3,569	3,067	2,561
Total investment banking revenues	$5,203	$4,377	$3,930

The following table presents the Company's volumes of announced and completed mergers and acquisitions, equity and equity-related offerings, and fixed income offerings:

	2014(1)	2013(1)	2012(1)
	(dollars in billions)		
Announced mergers and acquisitions(2)	$745	$518	$464
Completed mergers and acquisitions(2)	620	526	391
Equity and equity-related offerings(3)	72	61	52
Fixed income offerings(4)	260	289	277

(1) Source: Thomson Reuters, data at January 20, 2015. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.

(2) Amounts include transactions of $100 million or more. Announced mergers and acquisitions exclude terminated transactions.

(3) Amounts include Rule 144A and public common stock, convertible and rights offerings.

(4) Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities and taxable municipal debt. Amounts also include publicly registered and Rule 144A issues. Amounts exclude leveraged loans and self-led issuances.

Sales and Trading Net Revenues. Sales and trading net revenues are composed of Trading revenues; Commissions and fees; Asset management, distribution and administration fees; and Net interest income (expenses). See "Business Segments—Net Revenues" herein for information about the composition of the above-referenced components of sales and trading revenues. In assessing the profitability of its sales and trading activities, the Company views these net revenues in the aggregate. In addition, decisions relating to trading are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions and fees, dividends, the interest income or expense associated with financing or hedging the Company's positions, and other related expenses. See Note 12 to the Company's consolidated financial statements in Item 8 for further information related to gains (losses) on derivative instruments.

Sales and trading net revenues were as follows:

	2014	2013	2012
	(dollars in millions)		
Trading(1)	$ 8,445	$ 8,147	$ 6,003
Commissions and fees	2,610	2,425	2,175
Asset management, distribution and administration fees	281	280	241
Net interest	(592)	(1,101)	(1,746)
Total sales and trading net revenues	$10,744	$ 9,751	$ 6,673

Sales and trading net revenues by business were as follows:

	2014	2013	2012
	(dollars in millions)		
Equity(1)	$ 7,135	$6,529	$4,811
Fixed income and commodities(1)	4,214	3,594	2,358
Other(2)	(605)	(372)	(496)
Total sales and trading net revenues	$10,744	$9,751	$6,673

(1) Results in 2014 included a charge of $468 million related to the implementation of FVA (Equity: $2 million; Fixed income and commodities: $466 million).

(2) Amounts include net losses associated with costs related to the amount of liquidity held ("negative carry"), net gains (losses) on economic hedges related to the Company's long-term borrowings, and revenues from corporate loans and lending commitments.

The following sales and trading net revenues results exclude the impact of DVA. The reconciliation of sales and trading, including equity sales and trading and fixed income and commodities sales and trading net revenues, from a non-GAAP to a GAAP basis is as follows:

	2014	2013	2012
	(dollars in millions)		
Total sales and trading net revenues—non-GAAP(1)	$10,093	$10,432	$11,075
Impact of DVA	651	(681)	(4,402)
Total sales and trading net revenues(2)	$10,744	$ 9,751	$ 6,673
Equity sales and trading net revenues—non-GAAP(1)	$ 6,903	$ 6,607	$ 5,941
Impact of DVA	232	(78)	(1,130)
Equity sales and trading net revenues(2)	$ 7,135	$ 6,529	$ 4,811
Fixed income and commodities sales and trading net revenues —non-GAAP(1)	$ 3,795	$ 4,197	$ 5,630
Impact of DVA	419	(603)	(3,272)
Fixed income and commodities sales and trading net revenues(2)	$ 4,214	$ 3,594	$ 2,358

(1) Sales and trading net revenues, including equity and fixed income and commodities sales and trading net revenues that exclude the impact of DVA, are non-GAAP financial measures that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance.

(2) Results in 2014 included a charge of $468 million related to the implementation of FVA (Equity: $2 million; Fixed income and commodities: $466 million).

2014 Compared with 2013.

Investment Banking. Investment banking revenues for 2014 increased 19% from 2013, reflecting increases across equity and fixed income underwriting and advisory revenues. Overall, underwriting revenues of $3,569 million increased 16% from 2013. Equity underwriting revenues increased 28% to $1,613 million in 2014, reflecting increased activity with clients across all regions. Fixed income underwriting revenues of $1,956 million increased 8% from 2013, reflecting increased investment grade volumes and lower leveraged loan issuance. Advisory revenues from merger, acquisition and restructuring transactions ("M&A") were $1,634 million in 2014, an increase of 25% from 2013, reflective of increased deal activity primarily driven by the Americas and Asia-Pacific regions. Industry-wide announced M&A volume activity for 2014 increased across all regions compared with 2013, primarily driven by cross-border activity.

Sales and Trading Net Revenues. Total sales and trading net revenues increased to $10,744 million in 2014 from $9,751 million in 2013, reflecting higher revenues in equity and fixed income and commodities sales and trading net revenues partially offset by higher losses in other sales and trading net revenues.

Equity. Equity sales and trading net revenues increased 9% from 2013 to $7,135 million in 2014. The results in equity sales and trading net revenues included positive revenues in 2014 of $232 million due to the impact of DVA compared with negative revenues of $78 million in 2013. Equity sales and trading net revenues, excluding the impact of DVA, increased 4% from 2013 to $6,903 million in 2014, primarily due to higher revenues in the prime brokerage business driven by higher client balances partially offset by a decrease in derivatives revenues, reflecting unfavorable volatility movement.

Exclusive of a charge related to the implementation of FVA, equity sales and trading net revenues in 2014 reflected gains of $18 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' credit default swap ("CDS") spreads and other factors compared with gains of $37 million in 2013. The Company's CDS spreads and other factors did not have a material impact on equity sales and trading net revenues for 2014 and 2013. The gains and losses on CDS spreads and other factors included gains and losses on related hedging instruments.

Fixed Income and Commodities. Fixed income and commodities sales and trading net revenues increased 17% from 2013 to $4,214 million in 2014. Results in 2014 included positive revenues of $419 million due to the impact of DVA compared with negative revenues of $603 million in 2013. Excluding the impact of DVA, fixed income and commodities sales and trading net revenues decreased 10% from 2013 to $3,795 million in 2014 as lower fixed income product results were partially offset by higher commodity net revenues. Net revenues in 2014 included a charge of $466 million related to the implementation of FVA. Fixed income product net revenues, excluding the impact of DVA, decreased 15% from 2013 as higher results in interest rate products were offset by declines in credit products, which reflected an unfavorable market environment. Commodity net revenues, excluding the impact of DVA, increased 34% from 2013, reflecting higher levels of client demand for structured transactions and volatility in natural gas and power partly offset by lower revenues in the oil related businesses in part attributable to TransMontaigne Inc., which was sold on July 1, 2014 (see "Global Oil Merchanting Business, CanTerm and TransMontaigne" herein).

Exclusive of the FVA charge noted above, fixed income and commodities sales and trading net revenues in 2014 also reflected gains of $23 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' CDS spreads and other factors compared with gains of $127 million in 2013. In addition, the Company also recorded losses of $55 million in 2014 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company's CDS spreads and other factors compared with losses of $114 million in 2013. The gains and losses on CDS spreads and other factors included gains and losses on related hedging instruments.

Other. In addition to the equity and fixed income and commodities sales and trading net revenues discussed above, sales and trading net revenues included other trading revenues, consisting of costs related to negative carry, gains (losses) on economic hedges related to the Company's long-term borrowings and certain activities associated with the Company's corporate lending activities.

In 2014, other sales and trading recognized negative net revenues of $605 million compared with negative net revenues of $372 million in 2013. Results in both periods included losses related to negative carry and losses on economic hedges and other costs related to the Company's long-term borrowings. Results in both periods also included net revenues from corporate loans and lending commitments, which were $325 million and $440 million in 2014 and 2013, respectively.

Investments. See "Business Segments—Net Revenues" herein for further information on what is included in Investments.

Net investment gains of $240 million were recognized in 2014 compared with net investment gains of $707 million in 2013. The decline reflects a gain recorded in the prior year related to the disposition of an investment in an insurance broker, lower gains on principal investments and from investments associated with the Company's deferred compensation and co-investment plans.

Other. Other revenues were $684 million in 2014 and 2013. The results in 2014 included income of $224 million, arising from the Company's 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS") compared with income of $570 million in 2013 (see "Other Matters—Japanese Securities Joint Venture" herein and Note 22 to the Company's consolidated financial statements in Item 8). In 2014, Other revenues also included a $112 million gain on sale of the Company's ownership stake in TransMontaigne Inc. (see "Global Oil Merchanting Business, CanTerm and TransMontaigne" herein), a gain on sale of a retail property space of $84 million and a $39 million gain related to the acquisition of NaturEner USA, LLC (see Note 9 to the Company's consolidated financial statements in Item 8).

Non-interest Expenses. Non-interest expenses increased 16% in 2014 compared with 2013. The increase was primarily due to higher legal expenses and higher compensation expenses. Non-compensation expenses increased 18% in 2014 compared with 2013. The increase primarily reflected higher legal expenses related to certain legacy residential mortgage matters (see "Other Matters—Legal" herein and "Contingencies—Legal" in Note 13 to the Company's consolidated financial statements in Item 8). Compensation and benefits expenses increased 14% in 2014 from 2013. The increase was primarily due to the reduction of average deferral rates for discretionary incentive-based awards, an increase in amortization due to accelerated vesting of certain awards, and an increase in base salaries and fixed allowances partially offset by a decrease in the fair value of deferred compensation plan referenced investments (see also "Business Segments—Compensation Expense—Discretionary Incentive Compensation" herein).

2013 Compared with 2012.

Investment Banking. Investment banking revenues in 2013 increased 11% from 2012, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower advisory revenues. Overall, underwriting revenues of $3,067 million increased 20% from 2012. Equity underwriting revenues increased 41% to $1,262 million in 2013, largely driven by increased client activity across Europe, Asia and the Americas. Fixed income underwriting revenues were $1,805 million in 2013, an increase of 8% from 2012, reflecting a continued favorable debt underwriting environment. Advisory revenues from M&A were $1,310 million in 2013, a decrease of 4% from 2012, reflective of the lower level of deal activity in 2013. Industry-wide announced M&A activity for 2013 was relatively flat compared with 2012, with increases in the Americas offset by decreases in EMEA.

Sales and Trading Net Revenues. Total sales and trading net revenues increased to $9,751 million in 2013 from $6,673 million in 2012, reflecting higher revenues in equity and fixed income sales and trading net revenues and lower losses in other sales and trading net revenues.

Equity. Equity sales and trading net revenues increased to $6,529 million in 2013 from $4,811 million in 2012. The results in equity sales and trading net revenues included negative revenues due to the impact of DVA of $78 million in 2013 compared with negative revenues of $1,130 million in 2012. Equity sales and trading net revenues, excluding the impact of DVA, increased 11% to $6,607 million in 2013 from 2012, reflecting strong performance across most products and regions, from higher client activity with particular strength in prime brokerage.

In 2013, equity sales and trading net revenues also reflected gains of $37 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' CDS spreads and other factors compared with gains of $68 million in 2012. The Company also recorded losses of $15 million in 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company's CDS spreads and other factors compared with losses of $243 million in 2012. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Fixed Income and Commodities. Fixed income and commodities sales and trading net revenues were $3,594 million in 2013 compared with net revenues of $2,358 million in 2012. Results in 2013 included negative revenues of $603 million due to the impact of DVA compared with negative revenues of $3,272 million in 2012. Fixed income product net revenues, excluding the impact of DVA, in 2013 decreased 26% over 2012, primarily reflecting lower levels of client activity across most products and significant revenue declines in interest rate products. Commodity net revenues, excluding the impact of DVA, in 2013 decreased 38% over 2012, primarily reflecting lower levels of client activity across energy markets.

In 2013, fixed income and commodities sales and trading net revenues reflected gains of $127 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' CDS spreads and other factors compared with losses of $128 million in 2012 due to the widening of such spreads and other factors. The Company also recorded losses of $114 million in 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company's CDS spreads and other factors compared with losses of $482 million in 2012. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Other. Other sales and trading net losses were $372 million in 2013 compared with net losses of $496 million in 2012. The results in both periods included net losses related to negative carry and losses on economic hedges and other costs related to the Company's long-term borrowings. The results in 2013 and 2012 were partially offset by revenues of $440 million and $740 million, respectively, associated with corporate loans and lending commitments.

Investments. Net investment gains of $707 million were recognized in 2013 compared with net investment gains of $219 million in 2012. The increase primarily reflected a gain on the disposition of an investment in an insurance broker. The results in 2013 and 2012 included mark-to-market gains on principal investments in real estate funds and net gains from investments associated with the Company's deferred compensation and co-investment plans.

Other. Other revenues of $684 million were recognized in 2013 compared with other revenues of $279 million in 2012. The results in 2013 primarily included income of $570 million, arising from the Company's 40% stake in MUMSS, compared with income of $152 million in 2012 (see "Other Matters—Japanese Securities Joint Venture" herein and Note 22 to the Company's consolidated financial statements in Item 8).

Non-interest Expenses. Non-interest expenses increased 15% in 2013 compared with 2012. The increase was primarily due to higher non-compensation expenses. Compensation and benefits expenses decreased 2% in 2013, primarily due to a decrease in salaries due to lower headcount. Non-compensation expenses increased 35% in 2013 compared with 2012. The increase primarily reflected additions to legal expenses for litigation and investigations related to residential mortgage-backed securities and the credit crisis related matters (see "Other Matters—Legal" herein and "Contingencies—Legal" in Note 13 to the Company's consolidated financial statements in Item 8).

Brokerage, clearing and exchange expenses increased 16% in 2013 compared with 2012 primarily due to higher volumes of activity. Information processing and communications expenses decreased 9% in 2013 compared with 2012 primarily due to lower technology costs. Professional services expenses increased 5% in 2013 compared with 2012 primarily due to higher consulting expenses related to the Company's technology platform.

Income Tax Items.

In 2014, the Company recognized in Provision for (benefit from) income taxes an aggregate discrete net tax benefit of $839 million attributable to its Institutional Securities business segment. This included discrete tax benefits of: $612 million principally associated with remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination, and $237 million primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated. In addition, the Company's Provision for (benefit from) income taxes for the business segment was impacted by approximately $900 million of tax provision as a result of non-deductible expenses related to litigation and regulatory matters.

In 2013, the Company recognized in Provision for (benefit from) income taxes an aggregate discrete net tax benefit of $407 million attributable to its Institutional Securities business segment. This included discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of certain tax authority examinations; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act"). For a further discussion of the Relief Act, see "Other Matters—Income Tax Matters" herein.

In 2012, the Company recognized in Provision for (benefit from) income taxes a net tax benefit of $249 million attributable to its Institutional Securities business segment. This included a discrete tax benefit of $299 million related to the remeasurement of reserves and related interest associated with either the expiration of the applicable statute of limitations or new information regarding the status of certain Internal Revenue Service examinations and an out-of-period net tax provision of $50 million, primarily related to the overstatement of deferred tax assets associated with repatriated earnings of foreign subsidiaries recorded in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Discontinued Operations.

For a discussion about discontinued operations, see Note 1 to the Company's consolidated financial statements in Item 8.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests primarily relate to Mitsubishi UFJ Financial Group, Inc.'s ("MUFG") interest in Morgan Stanley MUFG Securities Co., Ltd. (see Note 22 to the Company's consolidated financial statements in Item 8).

Global Oil Merchanting Business, CanTerm and TransMontaigne.

On December 20, 2013, the Company and a subsidiary of Rosneft Oil Company ("Rosneft") entered into a Purchase Agreement pursuant to which the Company would sell the global oil merchanting unit of its commodities division (the "global oil merchanting business") to Rosneft. On December 22, 2014, the Company announced the termination of the sale due to the expiration of the Purchase Agreement on December 20, 2014. The Company continues to explore strategic options for its global oil merchanting business.

On March 27, 2014, the Company completed the sale of Canterm Canadian Terminals Inc. ("CanTerm"), a public storage terminal operator for refined products with two distribution terminals in Canada. As a result of the Company's level of continuing involvement with CanTerm, the results of CanTerm are reported as a component of continuing operations within the Company's Institutional Securities business segment for all periods presented. The gain on sale was approximately $45 million.

On July 1, 2014, the Company completed the sale of its ownership stake in TransMontaigne Inc., a U.S.-based oil storage, marketing and transportation company, as well as related physical inventory and the assumption of the Company's obligations under certain terminal storage contracts, to NGL Energy Partners LP. The gain on sale, which was included in continuing operations, was approximately $112 million for 2014.

WEALTH MANAGEMENT

INCOME STATEMENT INFORMATION

	2014	2013(1)	2012(1)
	(dollars in millions)		
Revenues:			
Investment banking	$ 791	$ 923	$ 835
Trading	957	1,161	1,041
Investments	9	14	10
Commissions and fees	2,127	2,209	2,087
Asset management, distribution and administration fees	8,345	7,571	7,101
Other	320	390	313
Total non-interest revenues	12,549	12,268	11,387
Interest income	2,516	2,100	1,886
Interest expense	177	225	326
Net interest	2,339	1,875	1,560
Net revenues	14,888	14,143	12,947
Compensation and benefits	8,825	8,265	7,788
Non-compensation expenses	3,078	3,274	3,587
Total non-interest expenses	11,903	11,539	11,375
Income from continuing operations before income taxes	2,985	2,604	1,572
Provision for (benefit from) income taxes	(207)	910	538
Income from continuing operations	3,192	1,694	1,034
Discontinued operations:			
Income (loss) from discontinued operations before income taxes	—	(1)	94
Provision for income taxes	—	—	26
Income (loss) from discontinued operations	—	(1)	68
Net income	3,192	1,693	1,102
Net income applicable to redeemable noncontrolling interests	—	221	120
Net income applicable to nonredeemable noncontrolling interests	—	—	167
Net income applicable to Morgan Stanley	$ 3,192	$ 1,472	$ 815
Amounts applicable to Morgan Stanley:			
Income from continuing operations	$ 3,192	$ 1,473	$ 772
Income (loss) from discontinued operations	—	(1)	43
Net income applicable to Morgan Stanley	$ 3,192	$ 1,472	$ 815

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

Statistical Data (dollars in billions, except where noted).

	2014	2013(1)	2012(1)
Annual revenues per representative (dollars in thousands)(2)	$ 914	$ 863	$ 780
Client assets per representative (dollars in millions)(3)	$ 126	$ 116	$ 104
Fee-based asset flows(4)	$58.8	$51.9	$26.9

	At December 31, 2014	At December 31, 2013
Client assets	$ 2,025	$ 1,909
Fee-based client assets(5)	$ 785	$ 697
Fee-based client assets as a percentage of total client assets(5)	39%	37%
Client liabilities	$ 51	$ 39
Bank deposit program(6)	$ 137	$ 134
Wealth Management U.S. Subsidiary Banks data(7):		
Investment securities portfolio	$ 57.3	$ 53.4
Loans and lending commitments	$ 42.7	$ 29.5
Wealth Management representatives	16,076	16,456
Retail locations	622	649

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(2) Annual revenues per representative for 2014, 2013 and 2012 equal the Company's Wealth Management business segment's annual revenues divided by the average representative headcount in 2014, 2013 and 2012, respectively.

(3) Client assets per representative equal total period-end client assets divided by period-end representative headcount.

(4) Fee-based asset flows include net new fee-based assets, net account transfers, dividends, interest and client fees and exclude cash management-related activity.

(5) Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets.

(6) Balances in the bank deposit program included deposits held by the Company's U.S. Subsidiary Banks of $128 billion and $104 billion at December 31, 2014 and December 31, 2013, respectively, with the remainder held at Citi-affiliated FDIC-insured depositories. See Note 3 to the Company's consolidated financial statements in Item 8 for further discussion of the Company's customer deposits held by Citi.

(7) Wealth Management U.S. Subsidiary Banks refers to the Company's U.S. bank operating subsidiaries MSBNA and MSPBNA.

Wealth Management JV. On June 28, 2013, the Company completed the purchase of the remaining 35% stake in the Wealth Management JV for $4.725 billion. As the 100% owner of the Wealth Management JV, the Company retains all of the related net income previously applicable to the noncontrolling interests in the Wealth Management JV and benefits from the termination of certain related debt and operating agreements with the Wealth Management JV partner.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. During 2014 and 2013, $19 billion and $26 billion, respectively, of deposits held by Citi relating to the Company's customer accounts were transferred to the Company's depository institutions. At December 31, 2014, approximately $9 billion of additional deposits are scheduled to be transferred to the Company's depository institutions on an agreed-upon basis through June 2015.

For further information, see Note 3 to the Company's consolidated financial statements in Item 8.

Net Revenues. The Company's Wealth Management business segment's net revenues are composed of Transactional, Asset management, Net interest and Other revenues. Transactional revenues include Investment banking, Trading, and Commissions and fees. Asset management revenues include Asset management, distribution and administration fees, and referral fees related to the bank deposit program. Net interest income includes interest related to the bank deposit program, interest on AFS securities and HTM securities, interest on lending activities and other net interest. Other revenues include revenues from AFS securities and HTM securities, customer account services fees, other miscellaneous revenues and revenues from Investments.

	2014	2013(1)	2012(1)
	(dollars in millions)		
Net revenues:			
Transactional	$ 3,875	$ 4,293	$ 3,963
Asset management	8,345	7,571	7,101
Net interest	2,339	1,875	1,560
Other	329	404	323
Net revenues	$14,888	$14,143	$12,947

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

2014 Compared with 2013.

Transactional.

Investment Banking. The Company's Wealth Management business segment's investment banking revenues include revenues from the distribution of equity and fixed income securities, including initial public offerings, secondary offerings, closed-end funds and unit trusts. Investment banking revenues decreased 14% from 2013 to $791 million in 2014, primarily due to lower levels of underwriting activity in closed-end funds partially offset by higher revenues from structured products.

Trading. Trading revenues include revenues from customers' purchases and sales of financial instruments, in which the Company acts as principal, gains and losses on the Company's inventory positions, which are held primarily to facilitate customer transactions, and gains and losses associated with certain employee deferred compensation plans. Trading revenues decreased 18% from 2013 to $957 million in 2014, primarily due to lower gains related to investments associated with certain employee deferred compensation plans and lower revenues from fixed income products.

Commissions and Fees. Commissions and fees revenues primarily arise from agency transactions in listed and OTC equity securities and sales of mutual funds, futures, insurance products and options. Commissions and fees revenues decreased 4% from 2013 to $2,127 million in 2014, primarily due to lower equity, insurance and mutual fund activity.

Asset Management.

Asset Management, Distribution and Administration Fees. See "Business Segments—Net Revenues" herein for information about the composition of Asset management, distribution and administration fees.

Asset management, distribution and administration fees increased 10% from 2013 to $8,345 million in 2014, primarily due to higher fee-based revenues partially offset by lower revenues from referral fees from the bank deposit program. The referral fees for deposits placed with Citi-affiliated depository institutions declined to $81 million in 2014 from $240 million in 2013, reflecting the ongoing transfer of deposits to the Company from Citi.

Balances in the bank deposit program were $137 billion at December 31, 2014 and $134 billion at December 31, 2013, which included deposits held by the Company's U.S. Subsidiary Banks of $128 billion at December 31, 2014 and $104 billion at December 31, 2013.

Client assets in fee-based accounts increased to $785 billion and represented 39% of total client assets at December 31, 2014 compared with $697 billion and 37% at December 31, 2013, respectively. Total client asset balances increased to $2,025 billion at December 31, 2014 from $1,909 billion at December 31, 2013, primarily due to higher fee-based asset flows and the impact of market conditions. Fee-based client asset flows for 2014 were $58.8 billion compared with $51.9 billion in 2013.

Net Interest.

Interest income and Interest expense are a function of the level and mix of total assets and liabilities. Net interest is driven by securities-based lending, mortgage lending, margin loans, securities borrowed and securities loaned transactions and bank deposit program activity.

Net interest increased 25% from 2013 to $2,339 million in 2014, primarily due to higher lending balances and growth in loans and lending commitments in PLA securities-based lending products. Total client liability balances increased to $51 billion at December 31, 2014 from $39 billion at December 31, 2013, primarily due to higher growth from PLA securities-based lending products and residential mortgage loans. The loans and lending commitments in the Company's Wealth Management business segment have grown in 2014, and the Company expects this trend to continue. See "Other Matters—U.S. Subsidiary Banks Lending Activities" herein and "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk—Lending Activities" in Item 7A.

Other.

Other revenues were $320 million in 2014 compared with $390 million in 2013. The results in 2014 included a $40 million gain on sale of a retail property space. The decrease in 2014 primarily reflected a gain on sale of the U.K. operation of the Global Stock Plan Services business in the prior-year period and lower account fees.

Non-interest Expenses.

Non-interest expenses increased 3% in 2014 from 2013. Compensation and benefits expenses increased 7% in 2014 from 2013, primarily due to a higher formulaic payout to Wealth Management representatives linked to higher net revenues, and an increase in base salaries. Non-compensation expenses decreased 6% in 2014 from 2013, primarily driven by non-recurring technology write-offs and an impairment expense related to certain intangible assets (management contracts) associated with alternative investments funds in the prior-year period, lower intangible amortization and a lower FDIC assessment on deposits partially offset by a provision in the current year related to a rescission offer to Wealth Management clients who may not have received a prospectus for certain securities transactions as required.

2013 Compared with 2012.

Transactional.

Investment Banking. Investment banking revenues increased 11% from 2012 to $923 million in 2013, primarily due to higher levels of underwriting activity in closed-end funds and unit trusts.

Trading. Trading revenues increased 12% from 2012 to $1,161 million in 2013, primarily due to gains related to investments associated with certain employee deferred compensation plans and higher revenues from fixed income products.

Commissions and Fees. Commissions and fees revenues increased 6% from 2012 to $2,209 million in 2013, primarily due to higher equity, mutual fund and alternatives activity.

Asset Management.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 7% from 2012 to $7,571 million in 2013, primarily due to higher fee-based revenues, partially offset by lower revenues from referral fees from the bank deposit program. The referral fees for deposits placed with Citi-affiliated depository institutions declined to $240 million in 2013 from $383 million in 2012. Lower revenues from the bank deposit program and the decrease in referral fees were both due to the ongoing transfer of deposits to the Company from Citi.

Balances in the bank deposit program were $134 billion at December 31, 2013 from $131 billion at December 31, 2012, which included deposits held by the Company's U.S. Subsidiary Banks of $104 billion at December 31, 2013 and $72 billion at December 31, 2012.

Client assets in fee-based accounts increased to $697 billion and represented 37% of total client assets at December 31, 2013 compared with $554 billion and 33% at December 31, 2012, respectively. Total client asset balances increased to $1,909 billion at December 31, 2013 from $1,696 billion at December 31, 2012, primarily due to the impact of market conditions and higher fee-based client asset flows. Effective from the quarter ended March 31, 2013, client assets also include certain additional non-custodied assets as a result of the completion of the Wealth Management JV platform conversion. Fee-based client asset flows for 2013 were $51.9 billion compared with $26.9 billion in 2012.

Net Interest.

Net interest increased 20% from 2012 to $1,875 million in 2013, primarily due to higher lending balances and growth in loans and lending commitments in PLA securities-based lending products. In addition, interest expense declined in 2013 due to the Company's redemption of all the Class A Preferred Interests owned by Citi and its affiliates, in connection with the Company's acquisition of 100% ownership of the Wealth Management JV effective at the end of the second quarter of 2013. Total client liability balances increased to $39 billion at December 31, 2013 from $31 billion at December 31, 2012. See "Other Matters—U.S. Subsidiary Banks' Lending Activities" herein and "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Item 7A.

Other.

Other revenues increased 25% from 2012 to $390 million in 2013, primarily due to a gain on sale of the U.K. operation of the Global Stock Plan Services business and realized gains on AFS securities.

Non-interest Expenses.

Non-interest expenses increased 1% in 2013 from 2012. Compensation and benefits expenses increased 6% in 2013 from 2012, primarily due to a higher formulaic payout to Wealth Management representatives linked to higher net revenues. Non-compensation expenses decreased 9% in 2013 from 2012, primarily driven by the absence of platform integration costs and non-recurring technology write-offs, partially offset by an impairment expense related to certain intangible assets (management contracts) associated with alternative investments funds in 2013 (see Note 9 to the Company's consolidated financial statements in Item 8).

Income Tax Items.

In 2014, the Company recognized in Provision for (benefit from) income taxes a discrete tax benefit of $1,390 million, attributable to its Wealth Management business segment, due to the release of a deferred tax liability as a result of an internal restructuring to simplify the Company's legal entity organization. For a further discussion of the discrete tax benefit, see "Other Matters —Income Tax Matters" herein.

INVESTMENT MANAGEMENT

INCOME STATEMENT INFORMATION

	2014	2013(1)	2012(1)
	(dollars in millions)		
Revenues:			
Investment banking	$ 5	$ 11	$ 17
Trading	(19)	41	(44)
Investments	587	1,056	513
Commissions and fees	—	—	(6)
Asset management, distribution and administration fees	2,049	1,920	1,793
Other	106	32	51
Total non-interest revenues	2,728	3,060	2,324
Interest income	2	9	10
Interest expense	18	10	28
Net interest	(16)	(1)	(18)
Net revenues	2,712	3,059	2,306
Compensation and benefits	1,213	1,189	848
Non-compensation expenses	835	862	818
Total non-interest expenses	2,048	2,051	1,666
Income from continuing operations before income taxes	664	1,008	640
Provision for income taxes	207	307	286
Income from continuing operations	457	701	354
Discontinued operations:			
Income from discontinued operations before income taxes	7	9	13
Provision for income taxes	2	—	4
Income from discontinued operations	5	9	9
Net income	462	710	363
Net income applicable to nonredeemable noncontrolling interests	91	182	187
Net income applicable to Morgan Stanley	$ 371	$ 528	$ 176
Amounts applicable to Morgan Stanley:			
Income from continuing operations	$ 366	$ 519	$ 167
Income from discontinued operations	5	9	9
Net income applicable to Morgan Stanley	$ 371	$ 528	$ 176

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

Statistical Data.

The Company's Investment Management business segment's period-end and average assets under management or supervision were as follows:

	At December 31,		Average for		
	2014	2013(1)	2014	2013(1)	2012(1)
	(dollars in billions)				
Assets under management or supervision by asset class:					
Traditional Asset Management:					
Equity	$141	$140	$145	$130	$114
Fixed income	65	60	63	61	59
Liquidity	128	112	119	104	87
Alternatives(2)	36	31	34	29	26
Managed Futures(1)	3	4	3	5	6
Total Traditional Asset Management	373	347	364	329	292
Real Estate Investing	20	21	21	20	19
Merchant Banking	10	9	9	9	9
Total assets under management or supervision	$403	$377	$394	$358	$320
Share of minority stake assets(3)	$ 7	$ 6	$ 7	$ 6	$ 5

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(2) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.

(3) Amounts represent the Company's Investment Management business segment's proportional share of assets managed by entities in which it owns a minority stake.

Activity in the Company's Investment Management business segment's assets under management or supervision during 2014, 2013 and 2012 was as follows:

	2014	2013(1)	2012(1)
	(dollars in billions)		
Balance at beginning of period	$377	$343	$293
Net flows by asset class:			
Traditional Asset Management:			
Equity	(2)	(1)	(2)
Fixed income	5	—	(1)
Liquidity	17	12	26
Alternatives(2)	4	2	1
Managed Futures(1)	(1)	(1)	—
Total Traditional Asset Management	23	12	24
Real Estate Investing	(2)	(1)	1
Merchant Banking	3	1	—
Total net flows	24	12	25
Net market appreciation	2	22	25
Total net increase	26	34	50
Balance at end of period	$403	$377	$343

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(2) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.

2014 Compared with 2013.

Investment Banking. The Company's Investment Management business segment generates investment banking revenues primarily from the placement of investments in real estate and merchant banking funds.

Trading. See "Business Segments—Net Revenues" herein for information about the composition of Trading revenues.

The Company recognized a loss of $19 million in 2014 compared with a gain of $41 million in 2013, which primarily reflected losses and gains, respectively, related to certain consolidated real estate funds sponsored by the Company.

Investments. Real estate and private equity investments generally are held for long-term appreciation and generally subject to significant sales restrictions. Estimates of the fair value of the investments involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions.

The Company recorded net investment gains of $587 million in 2014 compared with gains of $1,056 million in 2013. The decrease in 2014 primarily related to lower net investment gains and the non-recurrence of carried interest in the Company's Merchant Banking and Real Estate Investing businesses and lower gains from investments in the Company's employee deferred compensation and co-investment plans. 2014 results were also negatively impacted by the deconsolidation in the second quarter of 2014 of certain legal entities associated with a real estate fund sponsored by the Company.

Asset Management, Distribution and Administration Fees. "See Business Segments—Net Revenues" herein for information about the composition of Asset management, distribution and administration fees.

Asset management, distribution and administration fees increased 7% from 2013 to $2,049 million in 2014. The increase primarily reflected higher management and administration revenues, as a result of higher average assets under management.

The Company's assets under management increased $26 billion from $377 billion at December 31, 2013 to $403 billion at December 31, 2014, reflecting positive net flows and market appreciation. The Company recorded net inflows of $24 billion in 2014, reflecting net customer inflows in liquidity, fixed income and alternatives funds, partially offset by outflows in equity and managed futures. The Company recorded net customer inflows of $12 billion in 2013, primarily in liquidity funds.

Other. Other revenues were $106 million in 2014 as compared with $32 million in 2013. The results in 2014 included higher revenues associated with the Company's minority investment in certain third-party investment managers and a $17 million gain on sale of a retail property space.

Non-interest Expenses. Non-interest expenses of $2,048 million in 2014 were essentially unchanged from 2013. Compensation and benefits expenses increased 2% in 2014 due to the reduction in deferral rates for incentive-based compensation, an increase in amortization due to accelerated vesting of certain awards and increases in salaries partially offset by a decrease in the fair value of deferred compensation plan referenced investments (see also "Business Segments— Compensation Expense—Discretionary Incentive Compensation" herein). Non-compensation expenses decreased 3% in 2014, primarily due to an impairment expense related to certain intangible assets (management contracts) associated with alternative investments funds in the prior-year period and the result of lower consumption taxes in the European Union.

2013 Compared with 2012.

Trading. The Company recognized gains of $41 million in 2013 compared with losses of $44 million in 2012. Trading results in 2013 primarily reflected gains related to certain consolidated real estate funds sponsored by the Company. Trading results in 2012 primarily reflected losses related to certain consolidated real estate funds sponsored by the Company as well as losses on hedges on certain investments.

Investments. The Company recorded net investment gains of $1,056 million in 2013 compared with gains of $513 million in 2012. The increase in 2013 was primarily related to higher net investment gains predominantly within the Company's Merchant Banking and Real Estate Investing businesses and higher gains on certain investments associated with the Company's employee deferred compensation and co-investment plans. Results in 2013 also included the benefit of carried interest.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 7% from 2012 to $1,920 million in 2013. The increase primarily reflected higher management and administration revenues, primarily due to higher average assets under management, as well as higher performance fees.

The Company's assets under management increased $34 billion from $343 billion at December 31, 2012 to $377 billion at December 31, 2013, reflecting market appreciation and positive net flows. The Company recorded $22 billion in market appreciation and net inflows of $12 billion in 2013, primarily reflecting net customer inflows in liquidity funds. In 2012, the Company recorded $25 billion in market appreciation and $25 billion in net customer inflows, primarily in liquidity funds.

Other. Other revenues were $32 million in 2013 as compared with $51 million in 2012. The results in 2013 included higher revenues associated with the Company's minority investment in certain third-party investment managers. The results in 2012 included gains associated with the expiration of a lending facility to a real estate fund sponsored by the Company.

Non-interest Expenses. Non-interest expenses were $2,051 million in 2013 as compared with $1,666 million in 2012. Compensation and benefits expenses increased 40% in 2013, primarily due to an increase in the fair value of deferred compensation plan referenced investments. Non-compensation expenses increased 5% in 2013, primarily due to higher brokerage and clearing, professional services expenses and an impairment expense related to certain intangible assets (management contracts) associated with alternative investments funds partially offset by lower information processing expenses.

Income Tax Items.

In 2012, the Company recognized in Provision for (benefit from) income taxes an out-of-period net tax provision of $107 million, attributable to its Investment Management business segment, primarily related to the overstatement of deferred tax assets associated with partnership investments in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests are primarily related to the consolidation of certain real estate funds sponsored by the Company. Investment gains associated with these consolidated funds were $104 million, $151 million and $225 million in 2014, 2013 and 2012, respectively. Nonredeemable noncontrolling interests decreased in 2014, primarily due to the deconsolidation in the second quarter of 2014 of certain legal entities associated with a real estate fund sponsored by the Company.

Accounting Development Updates.

Amendments to the Consolidation Analysis.

In February 2015, the Financial Accounting Standards Board (the “FASB”) issued an amendment update that changes the analysis that the Company must perform to determine whether it should consolidate certain types of legal entities. The Company is required to reevaluate its interests in legal entities in scope of the new guidance under the revised consolidation model. The guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. The Company is currently evaluating the potential impact of adopting this amendment update.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity.

In November 2014, the FASB issued an accounting update requiring entities to determine the nature of the host contract in a hybrid financial instrument issued in the form of a share by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract, when evaluating whether the host contract is more akin to debt or equity and whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. The guidance is effective for the Company beginning on January 1, 2016 and must be applied on a modified retrospective basis. The guidance may be applied on a full retrospective basis to all relevant prior periods and early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.

In August 2014, the FASB issued an accounting update that provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and the related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. The guidance is effective for the Company beginning January 1, 2017. Early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity.

In August 2014, the FASB issued an accounting update to clarify the measurement upon initial consolidation and subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity when the reporting entity has determined that it is the primary beneficiary of the collateralized financing entity. This guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.

In June 2014, the FASB issued an accounting update clarifying that entities should treat performance targets that could be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date) for an award where transfer to the employee is contingent upon satisfaction of the performance target until it becomes probable that the performance target will be met. The guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.

In June 2014, the FASB issued an accounting update requiring repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. This accounting update also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. This guidance is effective for the Company beginning January 1, 2015. In addition, new disclosures are required for sales of financial assets where the Company retains substantially all the exposure throughout the term and the collateral pledged and remaining maturity of repurchase and securities lending agreements, which are effective January 1, 2015, and April 1, 2015, respectively. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

Revenue from Contracts with Customers.

In May 2014, the FASB issued an accounting update to clarify the principles of revenue recognition, to develop a common revenue recognition standard across all industries for U.S. GAAP and International Financial Reporting Standards and to provide enhanced disclosures for users of the financial statements. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for the Company beginning January 1, 2017. The Company is currently evaluating the potential impact of adopting this accounting standard update.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.

In January 2014, the FASB issued an accounting update clarifying when an in-substance repossession or foreclosure occurs; that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. This guidance is effective for the Company beginning January 1, 2015. This guidance can be applied using either a modified retrospective transition method or a prospective transition method. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

Other Matters.

Legal.

On February 25, 2015, the Company reached an agreement in principle with the United States Department of Justice, Civil Division and the U.S. Attorney's Office for the Northern District of California, Civil Division (collectively, the "Civil Division") to pay $2,600 million to resolve certain claims that the Civil Division indicated it intended to bring against the Company related to legacy residential mortgage matters. This agreement in principle resulted from very rapidly evolving deliberations with the Civil Division, including meetings on February 18 and 19 and negotiations which continued through February 25, 2015.

In connection with the resolution of this matter, the Company has, subsequent to the announcement of the Company's 2014 earnings on January 20, 2015, increased previously established legal reserves for this settlement and other legacy residential mortgage matters by $2,798 million, which increased Other expenses within the Company's Institutional Securities business segment for the year ended December 31, 2014. This decreased income from continuing operations by $2,670 million and diluted EPS from continuing operations by $1.35 for the year ended December 31, 2014. The Civil Division legal matter was considered to be a recognizable subsequent event requiring adjustment to the Company's December 31, 2014 consolidated financial statements under U.S. GAAP.

While the Company and the Civil Division have reached an agreement in principle to resolve this matter, there can be no assurance that the Company and the Civil Division will agree on the final documentation of the settlement.

The Company incurred legal expenses of $3,411 million in 2014, $1,952 million in 2013 and $513 million in 2012. The legal expenses incurred in 2014 were primarily due to reserve additions related to the agreement reached in principle with the Civil Division mentioned above, as well as reserves related to certain claims that other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force have indicated they intend to bring against the Company. The legal expenses incurred in 2013 and 2012 were primarily due to reserve additions and settlements related to legacy residential mortgage-backed securities and credit crisis related matters (see "Contingencies—Legal" in Note 13 to the Company's consolidated financial statements in Item 8). Legal expenses are included in Other expenses in the Company's consolidated statements of income. The Company expects future legal expenses in general to continue to be elevated, and the changes in expenses from period to period may fluctuate significantly, given the current environment regarding financial crisis related government investigations and private litigation affecting global financial services firms, including the Company.

Return on Equity Goal.

The Company is aiming to improve its returns to shareholders with a goal of achieving a 10% or more return on average common equity excluding DVA ("Return on Equity"), subject to the successful execution of its strategic objectives.

The Company plans to progress toward achieving its Return on Equity goal through the following strategies. In the Wealth Management business, the Company plans to continue to improve profitability through cost discipline and revenue growth, as reflected in a pre-tax margin target of 22% to 25% by year-end 2015. In the Fixed Income and Commodities businesses, the Company plans to improve its Return on Equity to more than 10% over time by: optimizing the Commodities business through reducing exposure to physical commodities; pursuing in the Fixed Income business, a more centralized decision-making process with more strategic resource allocation and a focus on expenses, leveraging technology, capital and balance sheet optimization; and the continued reduction of RWAs. Across the entire organization, the Company plans to pursue the following: executing its overall expense reduction plan and improving both compensation and non-compensation expense ratios; growing earnings through Morgan Stanley-specific opportunities, particularly with respect to deposit growth in its U.S.

Subsidiary Banks and optimization of lending products and AFS securities; reducing funding costs due to the improvement in the Company's credit spreads and the refinancing of borrowings issued at higher interest rates; and prudently returning capital to shareholders, as appropriate, subject to regulatory approval.

The Company's Return on Equity goal and its related strategies are forward-looking statements that may be materially affected by many factors including, among other things: macroeconomic and market conditions; legislative and regulatory developments; industry trading and investment banking volumes; equity market levels; interest rate environment; and legal expenses. Given the uncertainties surrounding these and other factors, there are significant risks that the Company's Return on Equity goal may not be realized, and actual results may differ from the goal and the differences may be material and adverse. Accordingly, the Company cautions that undue reliance is not to be placed on any of these forward-looking statements. See "Forward-Looking Statements" immediately preceding Part I, Item 1, and "Risk Factors" in Part I, Item 1A for additional information regarding these forward-looking statements. Return on Equity is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance.

U.S. Subsidiary Banks' Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, primarily through the Company's U.S. Subsidiary Banks. The Company's lending activities in its Institutional Securities business segment primarily include corporate lending activities, in which the Company provides loans or lending commitments to certain corporate clients. In addition to corporate lending activities, the Institutional Securities business segment engages in other lending activities. The Company's lending activities in its Wealth Management business segment include securities-based lending that allows clients to borrow money against the value of qualifying securities in PLAs and residential mortgage lending. The Company expects its lending activities to continue to grow through further penetration of the Company's Institutional Securities and Wealth Management business segments' client base.

The following table presents the Company's U.S. Subsidiary Banks' lending activities included in its consolidated statements of financial condition:

	At December 31, 2014	At December 31, 2013
	(dollars in billions)	
Institutional Securities U.S. Subsidiary Banks data:		
Corporate lending	$ 9.6	$ 8.8
Other lending(1):		
Corporate loans	8.0	2.3
Wholesale real estate loans	8.6	1.8
Wealth Management U.S. Subsidiary Banks data:		
Securities-based lending and other loans	$21.9	$14.7
Residential real estate loans	15.8	10.1

[1] In addition to primary corporate lending activity, the Company's Institutional Securities business segment engages in other lending activities. These activities include commercial and residential mortgage lending, asset-backed lending, corporate loans purchased in the secondary market, financing extended to Institutional equities clients and loans to municipalities. The increase in other lending from 2013 primarily reflects growth in commercial mortgage and asset-backed loans.

For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Item 7A. Also see Notes 8 and 13 to the Company's consolidated financial statements in Item 8 for additional information about the Company's loans and lending commitments, respectively.

Investment Securities—Available for Sale and Held to Maturity.

During 2014, 2013 and 2012, the Company reported net unrealized gains (losses) of $209 million, $(433) million and $28 million, net of tax, respectively, on its AFS securities portfolio. Unrealized gains (losses) in the AFS securities portfolio are included in Accumulated other comprehensive income (loss) for all periods presented. The unrealized gains and losses for 2014, 2013 and 2012 were primarily due to changes in interest rates. The securities in the Company's AFS securities portfolio with an unrealized loss were not other-than-temporarily impaired at December 31, 2014, December 31, 2013 and December 31, 2012. In 2014, the Company purchased $100 million in HTM securities and expects to grow its HTM Investment securities portfolio. For more information, see Notes 2 and 5 to the Company's consolidated financial statements in Item 8.

Real Estate.

The Company acts as the general partner for various real estate funds and also invests in certain of these funds as a limited partner. The Company's real estate investments at December 31, 2014 and December 31, 2013 are described below. Such amounts exclude investments associated with certain employee deferred compensation and co-investment plans.

At December 31, 2014 and December 31, 2013, the Company's consolidated statements of financial condition included amounts representing real estate investment assets of consolidated subsidiaries of approximately $0.3 billion and $2.2 billion, respectively, including noncontrolling interests of approximately $0.2 billion and $1.8 billion, respectively, for a net amount of approximately $23 million and $451 million, respectively. The decrease was driven by the deconsolidation of certain legal entities associated with a real estate fund sponsored by the Company. The deconsolidation was due to the Volcker Rule regulations becoming effective on April 1, 2014, combined with an earlier expiration of a credit facility that was not renewed by the Company. This net presentation is a non-GAAP financial measure that the Company considers to be a useful measure for the Company and investors to use in assessing the Company's net exposure. In addition, the Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to real estate investments of $0.3 billion at December 31, 2014.

In addition to the Company's real estate investments, the Company engages in various real estate-related activities, including origination of loans secured by commercial and residential properties. The Company also securitizes and trades in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate. In connection with these activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties are breached. The Company continues to monitor its real estate-related activities in order to manage its exposures and potential liability from these markets and businesses. See "Legal Proceedings—Residential Mortgage and Credit Crisis Related Matters" in Part I, Item 3, and Note 13 to the Company's consolidated financial statements in Part II, Item 8, for further information.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest and MUFG holds a 60% voting interest in MUMSS. The Company accounts for its interest in MUMSS as an equity method investment within the Company's Institutional Securities business segment. During 2014, 2013 and 2012, the Company recorded income of $224 million, $570 million and $152 million, respectively, within Other revenues in the Company's consolidated statements of income, arising from the Company's 40% stake in MUMSS.

To the extent that losses incurred by MUMSS result in a requirement to restore its capital, MUFG is solely responsible for providing this additional capital to a minimum level, whereas the Company is not obligated to contribute additional capital to MUMSS. To the extent that MUMSS is required to increase its capital level due to factors other than losses, such as changes in regulatory requirements, both MUFG and the Company are required to contribute the necessary capital based upon their economic interest as set forth above.

In June 2014 and June 2013, MUMSS paid a dividend of approximately $594 million and $287 million, respectively, of which the Company received approximately $238 million and $115 million, respectively, for its proportionate share of MUMSS.

See Note 22 to the Company's consolidated financial statements in Item 8 for further information.

Income Tax Matters.

In 2014, the Company recognized an aggregate discrete net tax benefit of $2,226 million. This discrete net tax benefit consisted of: $1,380 million primarily due to the release of a deferred tax liability as a result of a legal entity restructuring, $609 million principally associated with remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination, and $237 million primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated. In addition, the Company's Provision for (benefit from) income taxes was impacted by approximately $900 million of tax provision as a result of non-deductible expenses related to litigation and regulatory matters.

On October 31, 2014, the Company completed an internal restructuring to simplify its legal entity organization that included a change in tax status of Morgan Stanley Smith Barney Holdings LLC from a partnership to a corporation. As a result of this change in tax status, the Company released a deferred tax liability which was previously established in 2009 as part of the acquisition of Smith Barney through a charge to Additional paid-in capital. This discrete net tax benefit of $1,390 million was included in Provision for (benefit from) income taxes in the Company's consolidated statements of income for 2014, and attributable to its Wealth Management business segment.

The income of certain foreign subsidiaries earned outside of the U.S. has previously been excluded from taxation in the U.S. as a result of a provision of U.S. tax law that defers the imposition of tax on certain active financial services income until such income is repatriated to the U.S. as a dividend. This provision as well as other provisions that allow for tax benefits from certain tax credits were retroactively extended for one year on December 19, 2014 as part of the Tax Increase Prevention Act of 2014, and the associated tax benefits were recognized in Provision for (benefit from) income taxes in the Company's consolidated statement of income for 2014. For 2015, the increase to the effective tax rate as a result of the expiration of the provisions is estimated to be immaterial on a quarterly and on an annual basis.

New York State corporate tax reform (the "tax reform") was signed into law on March 31, 2014. The tax reform, which is effective for tax years beginning on or after January 1, 2015, merges the existing bank franchise tax into a substantially amended general corporation franchise tax and adopts customer-based single receipts factor for all New York taxpayers. The tax reform mainly impacts the Company's banking subsidiaries and did not have a material impact on the Company's 2014 annual effective tax rate and consolidated statements of income for 2014.

In 2013, the Company recognized an aggregate discrete net tax benefit of $407 million. This included discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of certain tax authority examinations; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the retroactive effective date of the Relief Act. The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside the U.S. until such income is repatriated to the U.S. as a dividend.

In 2012, the Company recognized an aggregate net tax benefit of $142 million. This included a discrete tax benefit of $299 million related to the remeasurement of reserves and related interest associated with either the expiration of the applicable statute of limitations or new information regarding the status of certain Internal Revenue Service examinations and an aggregate out-of-period net tax provision of $157 million, to adjust the overstatement of deferred tax assets associated with partnership investments, principally in the Company's Investment Management business segment and repatriated earnings of foreign subsidiaries recorded in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Defined Benefit Pension and Other Postretirement Plans.

Expense. The Company recognizes the compensation cost of an employee's pension benefits (including prior-service cost) over the employee's estimated service period. This process involves making certain estimates and assumptions, including the discount rate and the expected long-term rate of return on plan assets. The defined benefit pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the "U.S. Qualified Plan") ceased future benefit accruals after December 31, 2010. Any benefits earned by participants under the U.S. Qualified Plan at December 31, 2010 were preserved and will be payable based on the U.S. Qualified Plan's provisions. Net periodic pension expense for U.S. and non-U.S. plans was $91 million, $97 million and $99 million for 2014, 2013 and 2012, respectively.

In 2014, the Morgan Stanley Supplemental Executive Retirement and Excess Plan (the "SEREP") was amended to cease accrual of benefits. Any benefits earned by participants under the SEREP prior to October 1, 2014 will be payable in the future based on the SEREP's provisions. The amendment did not have a material impact on the Company's consolidated financial statements.

Contributions. The Company made contributions of $244 million, $42 million and $42 million to its U.S. and non-U.S. defined benefit pension plans in 2014, 2013 and 2012, respectively. These contributions were funded with cash from operations.

The Company determines the amount of its pension contributions to its funded plans by considering several factors, including the level of plan assets relative to plan liabilities, the types of assets in which the plans are invested, expected plan liquidity needs and expected future contribution requirements. The Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax laws (for example, in the U.S., the minimum required contribution under the Employee Retirement Income Security Act of 1974, or "ERISA"). In December 2014, an elective $200 million contribution was made to the U.S. Qualified Plan, primarily to offset the increase in liability due to the Plan's adoption of new mortality tables. In 2014, 2013 and 2012, there were no minimum required ERISA contributions for the U.S. Qualified Plan. No contributions were made to the U.S. Qualified Plan for 2013 and 2012.

See Note 19 to the Company's consolidated financial statements in Item 8 for more information on the Company's defined benefit pension and postretirement plans.

Critical Accounting Policies.

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP, which require the Company to make estimates and assumptions (see Note 1 to the Company's consolidated financial statements in Item 8). The Company believes that of its significant accounting policies (see Note 2 to the Company's consolidated financial statements in Item 8), the following policies involve a higher degree of judgment and complexity.

Fair Value.

Financial Instruments Measured at Fair Value. A significant number of the Company's financial instruments are carried at fair value. The Company makes estimates regarding valuation of assets and liabilities measured at fair value in preparing the Company's consolidated financial statements. These assets and liabilities include, but are not limited to:

- Trading assets and Trading liabilities;
- AFS securities;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Securities purchased under agreements to resell;
- Certain Deposits;
- Certain Commercial paper and other short-term borrowings, primarily structured notes;
- Certain Securities sold under agreements to repurchase;
- Certain Other secured financings; and
- Certain Long-term borrowings, primarily structured notes.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the relevant observable inputs be used when available. The hierarchy is broken down into three levels, wherein Level 1 uses quoted prices in active markets, Level 2 uses valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, and Level 3 consists of valuation techniques that incorporate significant unobservable inputs and, therefore, require the greatest use of judgment. In periods of market disruption, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be recategorized from Level 1 to Level 2 or Level 2 to Level 3. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments. For further information on the valuation process, fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, and quantitative information about and sensitivity of significant unobservable inputs used in Level 3 fair value measurements, see Notes 2 and 4 to the Company's consolidated financial statements in Item 8.

During the fourth quarter of 2014, the Company incorporated FVA into the fair value measurements of OTC uncollateralized or partially collateralized derivatives, and in collateralized derivatives where the terms of the agreement do not permit the reuse of the collateral received. The Company's implementation of FVA reflects the inclusion of FVA in the pricing and valuations by the majority of market participants involved in the Company's principal exit market for these instruments. In general, FVA reflects a market funding risk premium inherent in the noted derivative instruments. The implementation of FVA required a number of important management judgments including:

- Determining when sufficient market evidence exists to indicate that FVA should be incorporated into the fair value measurements;

- Estimating the fair value of funding costs and benefits in the principal exit market; and
- Determining the interaction between Credit Valuation Adjustment ("CVA") and FVA, given that CVA already reflects credit spreads, which are related to and can impact funding spreads.

For a further discussion of valuation adjustments applied by the Company, see Note 2 to the Company's consolidated financial statements in Item 8.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. At December 31, 2014 and December 31, 2013, certain of the Company's assets and liabilities were measured at fair value on a non-recurring basis, primarily relating to loans, other investments, premises, equipment and software costs, intangible assets and other assets. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

See Note 4 to the Company's consolidated financial statements in Item 8 for further information on assets and liabilities that are measured at fair value on a non-recurring basis.

Fair Value Control Processes. The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

See Note 2 to the Company's consolidated financial statements in Item 8 for additional information regarding the Company's valuation policies, processes and procedures.

Goodwill and Intangible Assets.

Goodwill. The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. Goodwill no longer retains its association with a particular acquisition once it has been assigned to a reporting unit. As such, all the activities of a reporting unit, whether acquired or organically developed, are available to support the value of the goodwill. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair value of the reporting units is derived based on valuation techniques the Company believes market participants would use for each of the reporting units. The estimated fair value is generally determined by utilizing a discounted cash flow methodology or methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies. At each annual goodwill impairment testing date, each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

Intangible Assets. Amortizable intangible assets are amortized over their estimated useful lives and are reviewed for impairment on an interim basis when certain events or circumstances exist. An impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the expected undiscounted cash flows.

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

See Notes 2, 4 and 9 to the Company's consolidated financial statements in Item 8 for additional information about goodwill and intangible assets.

Legal and Regulatory Contingencies.

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, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Company, and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Accruals for litigation and regulatory proceedings are generally determined on a case-by-case basis. 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. For certain legal proceedings and investigations, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation.

Significant judgment is required in deciding when and if to make these accruals and the actual cost of a legal claim or regulatory fine/penalty may ultimately be materially different from the recorded accruals.

See Note 13 to the Company's consolidated financial statements in Item 8 for additional information on legal proceedings.

Income Taxes.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

The Company's provision for income taxes is composed of current and deferred taxes. Current income taxes approximate taxes to be paid or refunded for the current period. The Company's deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company's deferred tax balances also include deferred assets related to tax attribute carryforwards, such as net operating losses and tax credits that will be realized through reduction of future tax liabilities and, in some cases, are subject to expiration if not utilized within certain periods. The Company performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management's estimates and assumptions regarding future taxable income and incorporate various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. Once the deferred tax asset balances have been determined, the Company may record a valuation allowance against the deferred tax asset balances to reflect the amount of these balances (net of valuation allowance) that the Company estimates it is more likely than not to realize at a future date. Both current and deferred income taxes could reflect adjustments related to the Company's unrecognized tax benefits.

Significant judgment is required in estimating the consolidated provision for (benefit from) income taxes, current and deferred tax balances (including valuation allowance, if any), accrued interest or penalties and uncertain tax positions. Revisions in our estimates and/or the actual costs of a tax assessment may ultimately be materially different from the recorded accruals and unrecognized tax benefits, if any.

See Note 2 to the Company's consolidated financial statements in Item 8 for additional information on the Company's significant assumptions, judgments and interpretations associated with the accounting for income taxes and Note 20 to the Company's consolidated financial statements in Item 8 for additional information on the Company's tax examinations.

Liquidity and Capital Resources.

The Company's senior management establishes liquidity and capital policies. Through various risk and control committees, the Company's senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate and currency sensitivity of the Company's asset and liability position. The Company's Treasury Department, Firm Risk Committee, Asset and Liability Management Committee, and other committees and control groups assist in evaluating, monitoring and controlling the impact that the Company's business activities have on its consolidated statements of financial condition, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board's Risk Committee.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet on a regular basis. The Company's balance sheet management process includes quarterly planning, business-specific limits, monitoring of business-specific usage versus limits, key metrics and new business impact assessments.

The Company establishes balance sheet limits at the consolidated, business segment and business unit levels. The Company monitors balance sheet usage versus limits, and variances resulting from business activity or market fluctuations are reviewed. On a regular basis, the Company reviews current performance versus limits and assesses the need to re-allocate limits based on business unit needs. The Company also monitors key metrics, including asset and liability size, composition of the balance sheet, limit utilization and capital usage.

The tables below summarize total assets for the Company's business segments at December 31, 2014 and December 31, 2013:

	At December 31, 2014			
	Institutional Securities	Wealth Management	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 23,161	$ 23,363	$ 460	$ 46,984
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	37,841	2,766	—	40,607
Trading assets	252,021	1,300	3,480	256,801
Investment securities(3)	11,999	57,317	—	69,316
Securities received as collateral(2)	21,316	—	—	21,316
Securities purchased under agreements to resell(2)	73,299	9,989	—	83,288
Securities borrowed(2)	136,336	372	—	136,708
Customer and other receivables(2)	27,328	21,022	611	48,961
Loans, net of allowance(4)	28,755	37,822	—	66,577
Other assets(5)	18,285	11,196	1,471	30,952
Total assets(6)	$630,341	$165,147	$6,022	$801,510

[1] Cash and cash equivalents include Cash and due from banks and Interest bearing deposits with banks.

[2] Certain of these assets are included in secured financing assets (see "Secured Financing" herein).

[3] Investment securities include both AFS securities and HTM securities.

[4] Amounts include loans held for sale and loans held for investment but exclude loans at fair value, which are included in Trading assets in the Company's consolidated statements of financial condition (see Note 8 to the Company's consolidated financial statements in Item 8).

[5] Other assets include Other investments; Premises, equipment and software costs; Goodwill; Intangible assets; and Other assets.

[6] Total assets include Global Liquidity Reserve of $193 billion at December 31, 2014.

	At December 31, 2013			
	Institutional Securities	Wealth Management(1)	Investment Management(1)	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(2)	$ 30,169	$ 28,966	$ 748	$ 59,883
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(3)	36,422	2,781	—	39,203
Trading assets	273,959	2,104	4,681	280,744
Investment securities(4)	—	53,430	—	53,430
Securities received as collateral(3)	20,508	—	—	20,508
Securities purchased under agreements to resell(3)	106,812	11,318	—	118,130
Securities borrowed(3)	129,366	341	—	129,707
Customer and other receivables(3)	33,927	22,493	684	57,104
Loans, net of allowance(5)	17,890	24,984	—	42,874
Other assets(6)	19,543	10,086	1,490	31,119
Total assets(7)	$668,596	$156,503	$7,603	$832,702

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment.

(2) Cash and cash equivalents include Cash and due from banks and Interest bearing deposits with banks.

(3) Certain of these assets are included in secured financing assets (see "Secured Financing" herein).

(4) Investment securities include only AFS securities.

(5) Amounts include loans held for sale and loans held for investment but exclude loans at fair value, which are included in Trading assets in the Company's consolidated statements of financial condition (see Note 8 to the Company's consolidated financial statements in Item 8).

(6) Other assets include Other investments; Premises, equipment and software costs; Goodwill; Intangible assets; and Other assets.

(7) Total assets include Global Liquidity Reserve of $202 billion at December 31, 2013.

A substantial portion of the Company's total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Company's Institutional Securities business segment. The liquid nature of these assets provides the Company with flexibility in managing the size of its balance sheet. The Company's total assets decreased to $802 billion at December 31, 2014 from $833 billion at December 31, 2013. The decrease in total assets was primarily due to a decrease in Trading assets, primarily due to reductions in U.S. government and agency securities, interest bearing deposits with banks, and Securities purchased under agreements to resell partially offset by an increase in Loans, Investment securities and Securities borrowed.

The Company's assets and liabilities are primarily related to transactions attributable to sales and trading and securities financing activities. At December 31, 2014, securities financing assets and liabilities were $320 billion and $295 billion, respectively. At December 31, 2013, securities financing assets and liabilities were $352 billion and $353 billion, respectively. Securities financing transactions include Cash deposited with clearing organizations or segregated under federal and other regulations or requirements, repurchase and resale agreements, Securities borrowed and loaned transactions, Securities received as collateral and obligations to return securities received, and Customer and other receivables and payables. Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Notes 2 and 6 to the Company's consolidated financial statements in Item 8). Securities sold under agreements to repurchase and Securities loaned were $95 billion at December 31, 2014 and averaged $137 billion during 2014. Securities sold under agreements to repurchase and Securities loaned period-end balances were lower than the average balances during 2014 as the Company's assets decreased. Securities purchased under agreements to resell and Securities borrowed were $220 billion at December 31, 2014 and averaged $255 billion during 2014. Securities purchased under agreements to resell and Securities borrowed period-end balances were lower than the average balances during 2014 due to a reduction in client financing activity and an increase in financing balance sheet efficiencies.

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer-owned securities, and customer cash, which is segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company's prime brokerage customers. The Company's risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company's credit exposure to customers. Included within securities financing assets were $21 billion at December 31, 2014 and December 31, 2013, recorded in accordance with accounting guidance for the transfer of financial assets that represented offsetting assets and liabilities for fully collateralized non-cash loan transactions.

Liquidity Risk Management Framework.

The primary goal of the Company's liquidity risk management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfill its financial obligations and support the execution of the Company's business strategies.

The following principles guide the Company's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Contingency Funding Plan ("CFP") should anticipate, and account for, periods of limited access to funding.

The core components of the Company's liquidity risk management framework are the CFP, Liquidity Stress Tests and the Global Liquidity Reserve (as defined below), which support the Company's target liquidity profile.

Contingency Funding Plan.

The Company's CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the Company's liquidity stress testing, which identifies stress events of different severity and duration, assesses current funding sources, and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests.

The Company uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- No government support;
- No access to equity and unsecured debt markets;
- Repayment of all unsecured debt maturing within the stress horizon;
- Higher haircuts and significantly lower availability of secured funding;
- Additional collateral that would be required by trading counterparties, certain exchanges and clearing organizations related to credit rating downgrades;
- Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;

- Discretionary unsecured debt buybacks;
- Drawdowns on unfunded commitments provided to third parties;
- Client cash withdrawals and reduction in customer short positions that fund long positions;
- Limited access to the foreign exchange swap markets; and
- Maturity roll-off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for the Parent and major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability across the Company, including a limited number of asset sales in a stressed environment. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from the Parent. The Parent will support its subsidiaries and will not have access to subsidiaries' liquidity reserves. In addition to the assumptions underpinning the Liquidity Stress Tests, the Company takes into consideration the settlement risk related to intraday settlement and clearing of securities and financing activities.

At December 31, 2014 and December 31, 2013, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its Liquidity Stress Tests.

Global Liquidity Reserve.

The Company maintains sufficient liquidity reserves ("Global Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. In addition, the Company's Global Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Company's risk tolerance and is subject to change dependent on market and firm-specific events.

The Company's Global Liquidity Reserve is held within the Parent and its major operating subsidiaries. The Company's Global Liquidity Reserve is composed of diversified cash and cash equivalents and unencumbered highly liquid securities. Eligible unencumbered highly liquid securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage-backed securities, non-U.S. government securities and other highly liquid investment grade securities.

Global Liquidity Reserve by Type of Investment.

The table below summarizes the Company's Global Liquidity Reserve by type of investment:

	At December 31, 2014	At December 31, 2013
	(dollars in billions)	
Cash deposits with banks	$ 12	$ 18
Cash deposits with central banks	30	36
Unencumbered highly liquid securities:		
U.S. government obligations	76	84
U.S. agency and agency mortgage-backed securities	32	23
Non-U.S. sovereign obligations(1)	26	23
Investments in money market funds	1	1
Other investment grade securities	16	17
Global Liquidity Reserve	$193	$202

[1] Non-U.S. sovereign obligations are composed of unencumbered German, French, Dutch, U.K., Brazilian and Japanese government obligations.

The ability to monetize assets during a liquidity crisis is critical. The Company believes that the assets held in its Global Liquidity Reserve can be monetized within five business days in a stressed environment given the highly liquid and diversified nature of the reserves. The currency profile of the Company's Global Liquidity Reserve is consistent with the Company's CFP and Liquidity Stress Tests. In addition to its Global Liquidity Reserve, the Company has other cash and cash equivalents and other unencumbered assets that are available for monetization that are not included in the balances in the table above.

Global Liquidity Reserve Held by Bank and Non-Bank Legal Entities.

The table below summarizes period-end and average balances of the Company's Global Liquidity Reserve held by bank and non-bank legal entities:

	At December 31, 2014	At December 31, 2013	Average Balance(1) 2014	Average Balance(1) 2013
		(dollars in billions)		
Bank legal entities:				
Domestic	$ 83	$ 85	$ 82	$ 70
Foreign	5	4	5	5
Total Bank legal entities	88	89	87	75
Non-Bank legal entities:				
Domestic(2)	70	80	76	83
Foreign	35	33	32	34
Total Non-Bank legal entities	105	113	108	117
Total	$193	$202	$195	$192

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.

(2) The Parent held $55 billion and $58 billion at December 31, 2014 and December 31, 2013, respectively, which averaged $57 billion and $63 billion during 2014 and 2013, respectively.

Basel Liquidity Framework.

The Basel Committee has developed two standards intended for use in liquidity risk supervision: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

Liquidity Coverage Ratio. The LCR was developed to ensure banking organizations have sufficient high-quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard's objective is to promote the short-term resilience of the liquidity risk profile of banking organizations.

In September 2014, the U.S. bank regulators issued a final rule to implement the LCR in the U.S. ("U.S. LCR"). The U.S. LCR applies to the Company and the Company's U.S. Subsidiary Banks. The U.S. LCR is more stringent in certain respects than the Basel Committee's version of the LCR as it includes a generally narrower definition of debt and equity securities that qualify as high-quality liquid assets, different methodologies and assumptions for calculating net cash outflows during the 30-day stress period, a maturity mismatch add-on, and a phase-in period that ends on December 31, 2016. In addition, under the U.S. LCR, a banking organization must submit a liquidity compliance plan to its primary federal banking agency if it fails to maintain the minimum U.S. LCR requirement for three consecutive business days. As of January 1, 2015 the Company and the Company's U.S. Subsidiary Banks are required to maintain a minimum U.S. LCR of 80%. This minimum requirement will increase to 90% beginning on January 1, 2016 and will be fully phased in at 100% beginning on January 1, 2017. The Company and the Company's U.S. Subsidiary Banks must calculate their respective U.S. LCR on a monthly basis during the period between January 1, 2015 and June 30, 2015 and on each business day starting on July 1, 2015. The Company is compliant with the minimum required U.S. LCR based on current estimates and interpretation and continues to evaluate its potential impact on the Company's liquidity and funding requirements.

Net Stable Funding Ratio. The objective of the NSFR is to reduce funding risk over a one-year horizon by requiring banking organizations to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. In October 2014, the Basel Committee finalized revisions to the original December 2010 version of the NSFR. The U.S. banking regulators are expected to issue a proposal to implement the NSFR in the U.S. The Company continues to evaluate the NSFR and its potential impact on the Company's current liquidity and funding requirements.

Funding Management.

The Company manages its funding in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing.

A substantial portion of the Company's total assets consists of liquid marketable securities and arises principally from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Company with flexibility in funding these assets with secured financing. The Company's goal is to achieve an optimal mix of durable secured and unsecured financing. Secured financing investors principally focus on the quality of the eligible collateral posted. Accordingly, the Company actively manages its secured financing book based on the quality of the assets being funded.

The Company utilizes shorter-term secured financing only for highly liquid assets and has established longer tenor limits for less liquid asset classes, for which funding may be at risk in the event of a market disruption. The Company defines highly liquid assets as government-issued or government-guaranteed securities with a high degree of fundability and less liquid assets as those that do not meet this criteria. At December 31, 2014 and December 31, 2013, the weighted average maturity of the Company's secured financing against less liquid assets was greater than 120 days. To further minimize the refinancing risk of secured financing for less liquid assets, the Company has established concentration limits to diversify its investor base and reduce the amount of monthly maturities for secured financing of less liquid assets. Furthermore, the Company obtains term secured funding liabilities in excess of less liquid inventory, or "spare capacity", as an additional risk mitigant to replace maturing trades in the event that secured financing markets or the Company's ability to access them become limited. Finally, in addition to the above risk management framework, the Company holds a portion of its Global Liquidity Reserve against the potential disruption to its secured financing capabilities.

The Company also maintains a pool of liquid and easily fundable securities, which provide a valuable future source of liquidity. With the implementation of U.S. Basel III liquidity standards, the Company has also incorporated high quality liquid asset classifications that are consistent with the U.S. LCR definitions into its encumbrance reporting, which further substantiates the demonstrated liquidity characteristics of the unencumbered asset pool and the Company's ability to readily identify new funding sources for such assets.

Unsecured Financing.

The Company views long-term debt and deposits as stable sources of funding. Unencumbered securities and non-security assets are financed with a combination of long-term and short-term debt and deposits. The Company's unsecured financings include structured borrowings, whose payments and redemption values are based on the performance of certain underlying assets, including equity, credit, foreign exchange, interest rates and commodities. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to the Company's interest rate and structured borrowings risk profile (see Note 12 to the Company's consolidated financial statements in Item 8).

Short-Term Borrowings.

The Company's unsecured short-term borrowings may consist of commercial paper, bank loans, bank notes and structured notes with maturities of 12 months or less at issuance.

The table below summarizes the Company's short-term unsecured borrowings:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Commercial paper	$ —	$ 8
Other short-term borrowings	2,261	2,134
Total	$2,261	$2,142

Deposits.

The Company's bank subsidiaries' funding sources include time deposits, money market deposit accounts, demand deposit accounts, repurchase agreements, federal funds purchased, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in the Company's U.S. Subsidiary Banks are sourced from the Company's retail brokerage accounts and are considered to have stable, low-cost funding characteristics. Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. During 2014, $19 billion of deposits held by Citi relating to the Company's customer accounts were transferred to the Company's depository institutions. At December 31, 2014, approximately $9 billion of additional deposits are scheduled to be transferred to the Company's depository institutions on an agreed-upon basis through June 2015 (see Note 3 to the Company's consolidated financial statements in Item 8).

Deposits were as follows:

	At December 31, 2014(1)	At December 31, 2013(1)
	(dollars in millions)	
Savings and demand deposits	$132,159	$109,908
Time deposits(2)	1,385	2,471
Total(3)	$133,544	$112,379

(1) Total deposits subject to FDIC insurance at December 31, 2014 and December 31, 2013 were $99 billion and $84 billion, respectively.

(2) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4 to the Company's consolidated financial statements in Item 8).

(3) At December 31, 2014 and December 31, 2013, approximately $128 billion and $104 billion, respectively, were attributed to the Company's Wealth Management business segment. These total deposits exclude deposits held by Citi relating to the Company's customer accounts.

***Senior Indebtedness*.**

At December 31, 2014 and December 31, 2013, the aggregate outstanding carrying amount of the Company's senior indebtedness (including guaranteed obligations of the indebtedness of subsidiaries) was approximately $142 billion and $143 billion, respectively.

Long-Term Borrowings.

The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments (*e.g*., commercial paper and other unsecured short-term borrowings). Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company's credit ratings and the overall availability of credit.

The Company may engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Long-term borrowings by maturity profile at December 31, 2014 consisted of the following:

	Parent	Subsidiaries	Total
		(dollars in millions)	
Due in 2015	$ 17,781	$2,959	$ 20,740
Due in 2016	18,963	1,680	20,643
Due in 2017	22,643	1,357	24,000
Due in 2018	16,728	951	17,679
Due in 2019	16,660	911	17,571
Thereafter	50,292	1,847	52,139
Total	$143,067	$9,705	$152,772

Long-Term Borrowing Activity in 2014.

During 2014, the Company issued and reissued notes with a principal amount of approximately $36.7 billion. In connection with these note issuances, the Company generally enters into certain transactions to obtain floating interest rates. The weighted average maturity of the Company's long-term borrowings, based upon stated maturity dates, was approximately 5.9 years at December 31, 2014. During 2014, approximately $33.1 billion in aggregate long-term borrowings matured or were retired. Subsequent to December 31, 2014 and through January 31, 2015, the Company's long-term borrowings (net of repayments) increased by approximately $5.4 billion. This amount includes the Company's issuance of $5.5 billion in senior debt on January 27, 2015 and the issuance of $1.7 billion in senior debt on January 30, 2015. For a further discussion of the Company's long-term borrowings see Note 11 to the Company's consolidated financial statements in Item 8.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally are impacted by, among other variables, the Company's credit ratings. In addition, the Company's credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies consider company-specific factors; other industry factors such as regulatory or legislative changes; the macroeconomic environment; and perceived levels of government support, among other things.

Some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from external sources of potential support, as well as perceived government support of systemically important banks, including the credit ratings of the Company. Rating agencies continue to monitor the progress of U.S. financial reform legislation and regulations to assess whether the possibility of extraordinary government support for the financial system in any future financial crises is negatively impacted. Legislative and rulemaking outcomes may lead to reduced uplift assumptions for U.S. banks and, thereby, place downward pressure on credit ratings. At the same time, proposed and final U.S. financial reform legislation and attendant rulemaking, such as higher standards for capital and liquidity levels, also have positive implications for credit ratings. The net result on credit ratings and the timing of any change in rating agency views on changes in potential government support and financial reform efforts are currently uncertain.

At January 31, 2015, the Parent's and Morgan Stanley Bank, N.A.'s senior unsecured ratings were as set forth below:

	Parent			Morgan Stanley Bank, N.A.		
	Short-Term Debt	Long-Term Debt	Rating Outlook	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.(1)	R-1 (middle)	A (high)	Stable	—	—	—
Fitch Ratings, Inc.	F1	A	Stable	F1	A	Stable
Moody's Investors Service(2)	P-2	Baa2	Positive	P-2	A3	Positive
Rating and Investment Information, Inc.	a-1	A	Negative	—	—	—
Standard & Poor's Ratings Services(3)	A-2	A-	Negative	A-1	A	Stable

(1) On June 12, 2014, DBRS, Inc. confirmed the ratings for the Company, including its long-term debt rating of A (high) and short-term instruments rating of R-1 (middle). The rating outlook trend on all long-term ratings was revised to Stable from Negative, while the rating outlook trend on all short-term ratings remained Stable.

(2) On July 24, 2014, Moody's Investors Service ("Moody's") affirmed the Company's long-term debt rating as well as the ratings of its subsidiaries and revised its ratings outlook to Positive from Stable.

(3) On November 26, 2014, Standard & Poor's Ratings Services ("S&P") revised its rating outlook on the Company's operating subsidiaries, including Morgan Stanley Bank, N.A. to Stable from Negative and affirmed its rating on Morgan Stanley Bank, N.A. short-term and long-term debt of A-1 and A, respectively.

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Company's Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the Company is in a net asset or net liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and S&P. At December 31, 2014 and December 31, 2013, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody's or S&P ratings, based on the relevant contractual downgrade triggers were $1,856 million and $1,522 million, respectively, and an incremental $2,984 million and $3,321 million, respectively.

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Company's business and results of operation in future periods is inherently uncertain and will depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions the Company may take. The liquidity impact of additional collateral requirements is included in the Company's Liquidity Stress Tests.

Capital Management.

The Company's senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries' required equity.

In March 2014, the Company received no objection from the Federal Reserve to the Company's 2014 capital plan, which included a share repurchase of up to $1 billion of the Company's outstanding common stock beginning in the second quarter of 2014 through the end of the first quarter of 2015, as well as an increase in the Company's quarterly common stock dividend to $0.10 per share from $0.05 per share, beginning with the dividend declared on April 17, 2014. During 2014 and 2013, the Company repurchased approximately $900 million and $350 million, respectively, of the Company's outstanding common stock as part of its share repurchase program (see Note 15 to the Company's consolidated financial statements in Item 8).

At December 31, 2014, the Company had approximately $0.3 billion remaining under its current share repurchase program. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases under the Company's existing authorized program will be exercised from time to time at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time. Share repurchases by the Company are subject to regulatory approval (see also "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities in Part II, Item 5). The share repurchase program has no set expiration or termination date.

The Company's Board of Directors determines the declaration and payment of dividends on a quarterly basis. The cash dividends declared on the Company's outstanding preferred stock were $311 million, $271 million and $97 million in 2014, 2013 and 2012, respectively. On January 20, 2015, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.10. The dividend was paid on February 13, 2015 to common shareholders of record on January 30, 2015 (see Note 25 to the Company's consolidated financial statements in Item 8).

Issuances of Preferred Stock.

Series G Preferred Stock. On April 29, 2014, the Company issued 20,000,000 Depositary Shares for an aggregate price of $500 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual 6.625% Non-Cumulative Preferred Stock, Series G, $0.01 par value ("Series G Preferred Stock"). The Series G Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2019 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series G Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series G Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $494 million.

Series H Preferred Stock. On April 29, 2014, the Company issued 1,300,000 Depositary Shares for an aggregate price of $1,300 million. Each Depositary Share represents a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series H, $0.01 par value ("Series H Preferred Stock"). The Series H Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2019 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $1,000 per Depositary Share). The Series H Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series H Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $1,294 million.

Series I Preferred Stock. On September 18, 2014, the Company issued 40,000,000 Depositary Shares for an aggregate price of $1,000 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, $0.01 par value ("Series I Preferred Stock"). The Series I Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2024 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depository Share). The Series I Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series I Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $994 million.

On December 16, 2014, the Company announced that its Board of Directors declared, a quarterly or semi-annual dividend as appropriate, for preferred stock shareholders of record on December 31, 2014, that was paid on January 15, 2015 as follows:

Series	Preferred Stock Description	Quarterly Dividend Per Share(1)
A	Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.25556)	$255.56
C	10% Non-Cumulative Non-Voting Perpetual Preferred Stock	25.00
E	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.44531)	445.31
F	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.42969)	429.69
G	6.625% Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share and each having a dividend of $0.41406)	414.06
H	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/25th interest in a share of preferred stock and each having a dividend of $27.25)(1)	681.25
I	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by Depositary Shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.51797)	517.97

[1] Dividend on Series H is payable semi-annually until July 15, 2019.

Tangible Equity.

The following table sets forth tangible Morgan Stanley shareholders' equity and tangible common equity at December 31, 2014 and December 31, 2013 and average tangible Morgan Stanley shareholders' equity and average tangible common equity for 2014 and 2013:

	Balance at		Average Balance(1)	
	December 31, 2014	December 31, 2013	2014	2013
	(dollars in millions)			
Common equity	$64,880	$62,701	$65,284	$61,895
Preferred equity	6,020	3,220	4,774	1,839
Morgan Stanley shareholders' equity	70,900	65,921	70,058	63,734
Junior subordinated debentures issued to capital trusts	4,868	4,849	4,866	4,826
Less: Goodwill and net intangible assets(2)	(9,742)	(9,873)	(9,737)	(8,900)
Tangible Morgan Stanley shareholders' equity(3)	$66,026	$60,897	$65,187	$59,660
Common equity	$64,880	$62,701	$65,284	$61,895
Less: Goodwill and net intangible assets(2)	(9,742)	(9,873)	(9,737)	(8,900)
Tangible common equity(3)	$55,138	$52,828	$55,547	$52,995

(1) The Company calculates its average balances based upon month-end balances.

(2) The deduction for Goodwill and net intangible assets is partially offset by mortgage servicing rights ("MSR") (net of disallowable MSR) of $6 million and $7 million at December 31, 2014 and December 31, 2013, respectively.

(3) Tangible Morgan Stanley shareholders' equity, and tangible common equity, non-GAAP financial measures, equals Morgan Stanley shareholders' equity or common equity, respectively less goodwill and net intangible assets as defined above. The Company views tangible Morgan Stanley shareholders' equity and tangible common equity as a useful measure to the Company and investors to assess capital adequacy.

Capital Covenants.

In October 2006 and April 2007, the Company executed replacement capital covenants in connection with offerings by Morgan Stanley Capital Trust VII and Morgan Stanley Capital Trust VIII (the "Capital Securities"), which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenants, see the Company's Current Reports on Form 8-K dated October 12, 2006 and April 26, 2007.

Regulatory Requirements.

Regulatory Capital Framework.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Company's U.S. Subsidiary Banks.

Implementation of U.S. Basel III.

The U.S. banking regulators have comprehensively revised their risk-based and leverage capital framework to implement many aspects of the Basel III capital standards established by the Basel Committee. The U.S. banking regulators' revised capital framework is referred to herein as "U.S. Basel III." The Company and the Company's U.S. Subsidiary Banks became subject to U.S. Basel III on January 1, 2014. Aspects of U.S. Basel III, such as the minimum risk-based capital ratio requirements, new capital buffers, and certain deductions from and adjustments to capital, will be phased in over several years. Prior to January 1, 2014, the Company and the Company's U.S. Subsidiary Banks calculated regulatory capital ratios using the U.S. banking regulators' U.S. Basel I-based rules ("U.S. Basel I") as supplemented by rules that implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5."

Regulatory Capital. Under U.S. Basel III, new items (including certain investments in the capital instruments of unconsolidated financial institutions) are deducted from the respective tiers of regulatory capital, and certain existing regulatory deductions and adjustments are modified or are no longer applicable. The majority of these capital deductions are subject to a phase-in schedule and will be fully phased in by 2018. Unrealized gains and losses on AFS securities are reflected in Common Equity Tier 1 capital, subject to a phase in schedule. The percentage of the regulatory deductions and adjustments to Common Equity Tier 1 capital that applied to the Company in 2014 ranged from 20% to 100%, depending on the specific item.

U.S. Basel III, which is aimed at increasing the quality and amount of regulatory capital, establishes Common Equity Tier 1 capital as a new tier of capital, increases minimum required risk-based capital ratios, provides for capital buffers above those minimum ratios, provides for new regulatory capital deductions and adjustments, modifies methods for calculating RWAs—the denominator of risk-based capital ratios—by, among other things, increasing counterparty credit risk capital requirements, and introduces a supplementary leverage ratio.

In addition, U.S. Basel III narrows the eligibility criteria for regulatory capital instruments. As a result of these revisions, existing trust preferred securities will be fully phased-out of the Company's Tier 1 capital by January 1, 2016. Thereafter, existing trust preferred securities that do not satisfy U.S. Basel III's eligibility criteria for Tier 2 capital will be phased out of the Company's regulatory capital by January 1, 2022.

Risk-Weighted Assets. The Company is required to calculate and hold capital against credit, market and operational risk RWAs. RWAs reflect both on- and off-balance sheet risk of the Company. Credit risk RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. Market risk RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company's market and credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Item 7A. Operational risk RWAs reflect capital charges attributable to the risk of loss resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks or damage to physical assets). The Company may incur operational risks across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and control groups (*e.g.*, information technology and trade processing). In addition, given the evolving regulatory and litigation environment across the financial services industry and that operational risk RWAs incorporate the impact of such related matters, operational risk RWAs have increased and may continue to do so.

The Basel Committee is in the process of considering revisions to various provisions of the Basel III framework that, if adopted by the U.S. banking agencies, could result in substantial changes to U.S. Basel III. In particular, the Basel Committee has finalized a new methodology for calculating counterparty credit risk exposures, the standardized approach for measuring counterparty credit risk exposures ("SA-CCR"); has finalized a revised framework establishing capital requirements for securitizations; and has proposed revisions to various regulatory capital standards, including for trading and banking book exposures, the credit risk framework and capital floors. In each case, the impact of these revised standards on the Company and the Company's U.S. Subsidiary Banks is uncertain and depends on future rulemakings by the U.S. banking agencies.

Calculation of Risk-Based Capital Ratios. On February 21, 2014, the Federal Reserve and the OCC approved the Company's and its U.S. Subsidiary Banks' respective use of the U.S. Basel III advanced internal ratings-based approach for determining credit risk capital requirements and advanced measurement approaches for determining operational risk capital requirements to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014, subject to the "capital floor" discussed below (the "Advanced

Approach”). As an Advanced Approach banking organization, the Company is required to compute risk-based capital ratios using both (i) standardized approaches for calculating credit risk RWAs and market risk RWAs (the “Standardized Approach”); and (ii) an advanced internal ratings-based approach for calculating credit risk RWAs, an advanced measurement approach for calculating operational risk RWAs, and an advanced approach for calculating market risk RWAs under U.S. Basel III.

To implement a provision of the Dodd-Frank Act, U.S. Basel III subjects Advanced Approach banking organizations that have been approved by their regulators to exit the parallel run, such as the Company, to a permanent “capital floor.” In 2014, as a result of the capital floor, an Advanced Approach banking organization’s binding risk-based capital ratios were the lower of its ratios computed under the Advanced Approach and U.S. Basel I as supplemented by Basel 2.5. Beginning on January 1, 2015, the Company’s ratios for regulatory purposes are the lower of the capital ratios computed under the Advanced Approach or the Standardized Approach under U.S. Basel III. The U.S. Basel III Standardized Approach modifies certain U.S. Basel I-based methods for calculating RWAs and prescribes new standardized risk weights for certain types of assets and exposures. The capital floor applies to the calculation of the minimum risk-based capital requirements as well as the capital conservation buffer, the countercyclical capital buffer (if deployed by banking regulators), and, if adopted, the proposed global systemically important bank (“G-SIB”) buffer.

The methods for calculating each of the Company’s risk-based capital ratios will change through January 1, 2022 as U.S. Basel III’s revisions to the numerator and denominator are phased in and as the Company calculates RWAs using the Advanced Approach and the Standardized Approach. These ongoing methodological changes may result in differences in the Company’s reported capital ratios from one reporting period to the next that are independent of changes to the Company’s capital base, asset composition, off-balance sheet exposures or risk profile.

The basis for the calculation of the Company’s U.S. Basel III capital ratios, on a transitional and fully phased-in basis, are presented below:

		Transition Period			Fully Phased-In(1)
		First Quarter of 2014	Second to Fourth Quarter of 2014	2015 to 2017	2018 and onward
Regulatory Capital (Numerator of risk-based capital and leverage ratios)		U.S. Basel III Transitional(2)			U.S. Basel III
RWAs (Denominator of risk-based capital ratios)	Standardized Approach(3)	U.S. Basel I and Basel 2.5		U.S. Basel III Standardized Approach	
	Advanced Approach(4)		U.S. Basel III Advanced Approach		
Denominator of leverage ratios	Tier 1 Leverage Ratio	Adjusted Average On-Balance Sheet Assets(5)			
	Supplementary Leverage Ratio(6)			Adjusted Average On-Balance Sheet Assets(5) and Certain Off-Balance Sheet Exposures	

(1) By the beginning of 2018, U.S. Basel III rules defining capital (numerator of capital ratios) will be fully phased in, except for the exclusion of non-qualifying trust preferred securities from Tier 2 capital, which will be fully phased-in as of January 1, 2022. In addition, the Company will also be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer, a G-SIB capital surcharge (if adopted) and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer, all of which will be fully phased in by the beginning of 2019. The capital conservation buffer, the G-SIB capital surcharge and, if deployed, the countercyclical buffer apply in addition to each of the Company’s Common Equity Tier 1, Tier 1 and Total capital ratios. The requirements for these additional capital buffers will be phased in beginning in 2016.

(2) Beginning June 30, 2014, as a result of the Company’s and the Company’s U.S. Subsidiary Banks’ completion of the Advanced Approach parallel run, the amount of expected credit loss that exceeds eligible credit reserves must be deducted 20% from Common

Equity Tier 1 capital and 80% from Additional Tier 1 capital. Over the next several years, this deduction from Common Equity Tier 1 capital will incrementally increase and the amount deducted from Additional Tier 1 capital will correspondingly decrease, until fully phased in by the beginning of 2018. In addition, under the Advanced Approach framework, the allowance for loan losses cannot be included in Tier 2 capital. Instead, an Advanced Approach banking organization may include in Tier 2 capital any eligible credit reserves that exceed its total expected credit losses to the extent that the excess reserve amount does not exceed 0.6% of its Advanced Approach credit risk RWAs. The allowance for loan losses may continue to be included in Tier 2 capital for purposes of calculating capital ratios under U.S. Basel I as supplemented by Basel 2.5 and under the Standardized Approach, up to 1.25% of credit risk RWAs.

(3) Beginning in 2015, the Company is required to calculate credit risk RWAs and market risk RWAs under the U.S. Basel III Standardized Approach.

(4) Public reporting of Advanced Approach capital ratios began during the second quarter of 2014.

(5) In accordance with U.S. Basel III, adjusted average assets represent the Company's average total on-balance sheet assets minus certain amounts deducted from Tier 1 capital.

(6) Beginning in 2015, the Company is required to publicly disclose its supplementary leverage ratio, which will become effective as a capital standard on January 1, 2018.

Beginning in the first quarter of 2014, the Company calculated the numerator of its risk-based capital ratios using the amount of Common Equity Tier 1 capital, Tier 1 capital and total capital determined under U.S. Basel III, subject to transitional arrangements. In the first quarter of 2014, the Company calculated the denominator of its risk-based capital ratios using the existing U.S. Basel I-based rules as supplemented by Basel 2.5. Beginning in the second quarter of 2014, the Company's risk-based capital ratios for regulatory purposes were the lower of each ratio calculated under U.S. Basel I as supplemented by Basel 2.5 and the Advanced Approach.

Regulatory Capital Ratios. The following table presents the Company's regulatory capital ratios at December 31, 2014, as well as the minimum required regulatory capital ratios applicable under U.S. Basel III in 2014. At December 31, 2014, the Company's risk-based capital ratios (as a result of the capital floor) were based on the Advanced Approach transitional rules.

	At December 31, 2014		
	Actual Capital Ratio		Minimum Regulatory Capital Ratio(1)
	U.S. Basel III Transitional/ Advanced Approach	U.S. Basel III Transitional/ U.S. Basel I + Basel 2.5 Approach	2014
Common Equity Tier 1 capital ratio	12.6%	14.7%	4.0%
Tier 1 capital ratio	14.1%	16.5%	5.5%
Total capital ratio	16.4%	19.4%	8.0%
Tier 1 leverage ratio(2)	7.9%	7.9%	4.0%

(1) Percentages show minimum capital ratios for calendar year 2014 under U.S. Basel III transitional provisions.

(2) Tier 1 leverage ratio is defined as the ratio of Tier 1 capital to average total on-balance sheet assets minus certain amounts deducted from Tier 1 capital in accordance with U.S. Basel III rules.

Effective January 1, 2015, for the Company to remain a financial holding company, its U.S. Subsidiary Banks must qualify as "well-capitalized" under the higher capital requirements of U.S. Basel III by maintaining a total risk-based capital ratio (total capital to risk-weighted assets) of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a Common Equity Tier 1 risk-based capital ratio of at least 6.5%, and a Tier 1 leverage ratio (Tier 1 capital to average total consolidated assets) of at least 5%. The Federal Reserve has not yet revised the "well-capitalized" standard for financial holding companies to reflect the higher capital standards in U.S. Basel III. Assuming that the Federal Reserve would apply the same or very similar well-capitalized standards to financial holding companies, each of the Company's risk-based capital ratios and Tier 1 leverage ratio at December 31, 2014 would have exceeded the revised well-capitalized standard. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company's particular condition, risk profile and growth plans.

The following is a roll-forward of the Company's Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital calculated under U.S. Basel III on a transitional basis from December 31, 2013 to December 31, 2014.

	2014
	(dollars in millions)
Common Equity Tier 1 capital:	
Tier 1 Common capital under U.S. Basel I rules at December 31, 2013	$49,917
Change in the value of shareholders' common equity	2,179
New items subject to deduction and adjustments under U.S. Basel III Advanced Approach transitional rules:	
Credit spread premium over risk-free rate for derivative liabilities	(161)
Expected credit loss that exceeds eligible credit reserves(1)	(10)
Other new deductions and adjustments	(181)
Modification of existing deductions under U.S. Basel III Advanced Approach transitional rules:	
Net goodwill	(17)
Net intangible assets (other than goodwill and mortgage servicing assets)	2,647
Net deferred tax assets	2,299
Net after-tax debt valuation adjustment(2)	(1,117)
Adjustments related to accumulated other comprehensive income	184
U.S. Basel I deductions that are no longer applicable under U.S. Basel III Advanced Approach transitional rules	1,584
Common Equity Tier 1 capital under U.S. Basel III Advanced Approach transitional rules at December 31, 2014	$57,324
Additional Tier 1 capital:	
Additional Tier 1 capital under U.S. Basel I rules at December 31, 2013	$11,090
New issuance of qualifying preferred stock	2,800
Modification of treatment of Additional Tier 1 capital components under U.S. Basel III Advanced Approach transitional rules:	
Trust preferred securities	(2,327)
Nonredeemable noncontrolling interests	(2,105)
New items subject to deduction and adjustments under U.S. Basel III Advanced Approach transitional rules:	
Net deferred tax assets	(2,318)
Credit spread premium over risk-free rate for derivative liabilities	(644)
Net after-tax debt valuation adjustment(2)	630
Expected credit loss that exceeds eligible credit reserves	(39)
Other adjustments and deductions	(229)
Additional Tier 1 capital at December 31, 2014	$ 6,858
Tier 1 capital (Common Equity Tier 1 capital plus Additional Tier 1 capital) at December 31, 2014	$64,182
Tier 2 capital:	
Tier 2 capital under U.S. Basel I rules at December 31, 2013	$ 4,993
Change in subordinated debt	2,780
De-recognition of allowance for loan and lease losses under Basel III Advanced Approach transitional rules(3)	(284)
New capital components subject to recognition under U.S. Basel III Advanced Approach transitional rules:	
Trust preferred securities	2,434
Nonredeemable noncontrolling interests	27
New items subject to deduction and adjustments under U.S. Basel III Advanced Approach transitional rules	(10)
U.S. Basel I deductions that are no longer applicable under U.S. Basel III Advanced Approach transitional rules	850
Tier 2 capital at December 31, 2014	$10,790
Total capital at December 31, 2014	$74,972

[1] In 2014, as a result of the Company's and the Company's U.S. Subsidiary Banks' completion of the Advanced Approach parallel run, the amount of expected credit loss that exceeded eligible credit reserves was deducted 20% from Common Equity Tier 1 capital and 80%

from Additional Tier 1 capital. Over the next several years, this deduction from Common Equity Tier 1 capital will incrementally increase, and the amount deducted from Additional Tier 1 capital will correspondingly decrease, until fully phased-in by 2018.

(2) The aggregate balance of net after-tax debt valuation adjustment includes an approximate $69 million reconciling adjustment related to a prior period.

(3) For purposes of calculating capital ratios under the Advanced Approach, the allowance for loan losses cannot be included in Tier 2 capital. Instead, an Advanced Approach banking organization may include in Tier 2 capital any eligible credit reserves that exceed its total expected credit losses to the extent that the excess reserve amount does not exceed 0.6% of its Advanced Approach credit risk RWAs. The allowance for loan losses may continue to be included in Tier 2 capital for purposes of calculating capital ratios under U.S. Basel I and Basel 2.5 and under the Standardized Approach, up to 1.25% of credit risk RWAs.

The following represents a roll-forward of the Company's RWAs based on pro forma estimates of RWAs under the Advanced Approach from December 31, 2013 to December 31, 2014.

	2014(1)
	(dollars in millions)
Credit risk RWAs:	
Balance under U.S. Basel I rules at December 31, 2013	$256,606
Change related to U.S. Basel III Advanced Approach transitional rules(2)	(72,792)
Change related to the following items:	
Derivatives	250
Securities financing transactions	(6,090)
Other counterparty credit risk	(264)
Securitizations	(1,068)
Credit valuation adjustment	(4,158)
AFS debt securities	1,264
Loans	7,689
Cash	(2,245)
Equity investments	2,571
Other credit risk(3)	2,882
Total change in credit risk RWAs	(71,961)
Balance at December 31, 2014	$184,645
Market risk RWAs:	
Balance under U.S. Basel 2.5 rules at December 31, 2013	$133,760
Change related to U.S. Basel III Advanced Approach rules(2)	12,369
Change related to the following items:	
Regulatory VaR	(1,191)
Regulatory stressed VaR	(150)
Incremental risk charge	(5,289)
Comprehensive risk measure	(6,768)
Specific risk:	
Non-securitizations	(6,465)
Securitizations	(4,903)
Total change in market risk RWAs	(12,397)
Balance at December 31, 2014	$121,363
Operational risk RWAs:	
Balance under U.S. Basel I rules at December 31, 2013	$ N/A
Change related to U.S. Basel III Advanced Approach rules(2)	150,000
Balance at December 31, 2014	$150,000

N/A—Not Applicable.

VaR—Value-at-Risk.

(1) The RWAs for each category in the above table reflect both on- and off-balance sheet exposures, where appropriate.

(2) Represents the estimated impact of the change in methodology to present December 31, 2013 RWAs on a pro forma basis under the U.S. Basel III Advanced Approach transitional rules.

(3) Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions.

The Company is required to calculate capital ratios under both the Advanced Approach and the Standardized Approach, represented as U.S. Basel I as supplemented by Basel 2.5, as of December 31, 2014, in both cases subject to transitional provisions. The capital ratios calculated under the Advanced Approach were lower than those calculated under the Standardized Approach, represented as U.S. Basel I as supplemented by Basel 2.5, and therefore, are the binding ratios for the Company at December 31, 2014 as a result of the capital floor.

The following table summarizes the Company's Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital at December 31, 2014 and December 31, 2013:

	At December 31, 2014	At December 31, 2013
	U.S. Basel III Transitional/ Advanced Approach	U.S. Basel I(1)
	(dollars in millions)	
Common Equity Tier 1 capital:		
Common stock and surplus	$21,503	$21,622
Retained earnings	44,625	42,172
Accumulated other comprehensive (loss)	(1,248)	(1,093)
Regulatory adjustments and deductions:		
Less: Net goodwill	(6,612)	(6,595)
Less: Net intangible assets (other than goodwill and mortgage servicing assets)	(632)	(3,279)
Less: Credit spread premium over risk-free rate for derivative liabilities	(161)	N/A
Less: Net deferred tax assets	(580)	(2,879)
After-tax debt valuation adjustment(2)	158	1,275
Adjustments related to accumulated other comprehensive income	462	278
Expected credit loss over eligible credit reserves(3)	(10)	N/A
Other adjustments and deductions	(181)	(1,584)
Total Common Equity Tier 1 capital	$57,324	$49,917
Additional Tier 1 capital:		
Preferred stock	$ 6,020	$ 3,220
Trust preferred securities	2,434	4,761
Nonredeemable noncontrolling interests	1,004	3,109
Regulatory adjustments and deductions:		
Less: Net deferred tax assets	(2,318)	N/A
Less: Credit spread premium over risk-free rate for derivative liabilities	(644)	N/A
After-tax debt valuation adjustment(2)	630	N/A
Expected credit loss over eligible credit reserves	(39)	N/A
Other adjustments and deductions	(229)	N/A
Additional Tier 1 capital	$ 6,858	$11,090
Total Tier 1 capital	$64,182	$61,007
Tier 2 capital:		
Subordinated debt	$ 8,339	$ 5,559
Trust preferred securities	2,434	N/A
Other qualifying amounts(3)	27	284
Regulatory adjustments and deductions	(10)	(850)
Total Tier 2 capital	$10,790	$ 4,993
Total capital	$74,972	$66,000

N/A—Not Applicable.

(1) The standards applicable in 2013 included U.S. Basel I as supplemented by Basel 2.5.

(2) The aggregate balance of net after-tax debt valuation adjustment includes an approximate $69 million reconciling adjustment related to a prior period.

(3) For purposes of calculating capital ratios under the Advanced Approach, the allowance for loan losses cannot be included in Tier 2 capital. Instead, an Advanced Approach banking organization may include in Tier 2 capital any eligible credit reserves that exceed its total expected credit losses to the extent that the excess reserve amount does not exceed 0.6% of its Advanced Approach credit risk RWAs. The allowance for loan losses may continue to be included in Tier 2 capital for purposes of calculating capital ratios under U.S. Basel I and Basel 2.5 and under the Standardized Approach, up to 1.25% of credit risk RWAs.

The following table presents the Company's RWAs and regulatory capital ratios at December 31, 2014 and December 31, 2013:

	At December 31, 2014	At December 31, 2013
	U.S. Basel III Transitional/ Advanced Approach	U.S. Basel I(1)
	(dollars in millions)	
RWAs:		
Credit risk	$184,645	$256,606
Market risk	121,363	133,760
Operational risk	150,000	N/A
Total RWAs	$456,008	$390,366
Capital ratios:		
Common Equity Tier 1 ratio/Tier 1 common capital ratio	12.6%	12.8%
Tier 1 capital ratio	14.1%	15.6%
Total capital ratio	16.4%	16.9%
Tier 1 leverage ratio	7.9%	7.6%
Adjusted average assets	$810,524	$805,838

N/A—Not Applicable.

(1) The standards applicable in 2013 included U.S. Basel I as supplemented by Basel 2.5. The Company's Total capital, Tier 1 capital, Tier 1 common capital and Tier 1 leverage ratios and RWAs at December 31, 2013 were calculated under this framework.

The following table presents the Company's pro forma estimates under the fully phased-in Advanced Approach and the fully phased-in U.S. Basel III Standardized Approach at December 31, 2014:

	At December 31, 2014	
	Fully Phased-In Basis Pro Forma Estimates	
	U.S. Basel III Advanced Approach	U.S. Basel III Standardized Approach
	(dollars in millions)	
Common Equity Tier 1 capital	$ 49,433	$ 49,433
RWAs	463,099	454,968
Common Equity Tier 1 capital ratio	10.7%	10.9%

These fully phased-in basis pro forma estimates are based on the Company's current understanding of U.S. Basel III and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from the Federal Reserve relating to U.S. Basel III and as the interpretation of the regulation evolves over time. The fully phased-in basis pro forma Common Equity Tier 1 capital, RWAs and Common Equity Tier 1 risked-based capital ratio estimates are non-GAAP financial measures that the Company considers to be useful measures for evaluating compliance with new regulatory capital requirements that were not yet effective at December 31, 2014. These preliminary estimates are subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what the Company's capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, see "Risk Factors" in Part I, Item 1A.

On a fully phased-in basis, the Company will be subject to the following minimum capital ratios under U.S. Basel III: Common Equity Tier 1 capital ratio of 4.5%; Tier 1 capital ratio of 6.0%; Total capital ratio of 8.0%; Tier 1 leverage ratio of 4.0%; and supplementary leverage ratio of 3.0%. In addition, on a fully phased-in basis by 2019, the Company will be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer. The capital conservation buffer and countercyclical capital buffer, if any, apply over each of the Company's Common Equity Tier 1, Tier 1 and Total risk-based capital ratios. Failure to maintain such buffers will result in restrictions on the Company's ability to make capital distributions, including the payment of dividends and the repurchase of stock and to pay discretionary bonuses to executive officers. In addition, in December 2014, the Federal Reserve issued a proposed rule that would impose a risk-based capital surcharge on U.S. bank holding companies that are identified as G-SIBs. See "G-SIB Capital Surcharge" herein. Beginning in 2018, the Company will also be subject to enhanced supplementary leverage ratio standards (see "Supplementary Leverage Ratio" herein).

***Capital Plans and Stress Tests*.**

Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including the Company, which form part of the Federal Reserve's annual Comprehensive Capital Analysis and Review ("CCAR") framework. Under the Federal Reserve's capital plan rule, the Company must submit an annual capital plan to the Federal Reserve, taking into account the results of separate stress tests designed by the Company and the Federal Reserve, so that the Federal Reserve may assess the Company's systems and processes that incorporate forward-looking projections of revenues and losses to monitor and maintain its internal capital adequacy. The capital plan rule requires that such companies receive no objection from the Federal Reserve before making a capital distribution. In addition, even with an approved capital plan, a large bank holding company must seek the approval of the Federal Reserve before making a capital distribution if, among other reasons, it would not meet its regulatory capital requirements after making the proposed capital distribution. In addition, the Federal Reserve's final rule on stress testing under the Dodd-Frank Act requires the Company to conduct semi-annual company-run stress tests. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve. The Company received no objection to its 2014 capital plan (see "Capital Management" herein). The Company expects that, on March 11, 2015, the Federal Reserve will provide its response to the Company's 2015 capital plan, which was submitted to the Federal Reserve on January 5, 2015. On January 5, 2015, the Company submitted the results of its semi-annual stress test to the Federal Reserve. On March 5, 2015, the Federal Reserve will publish summary results of the supervisory stress tests of each large bank holding company, including the Company. In addition, the Company is required to disclose a summary of the results of its company-run stress tests within 15 days of the date the Federal Reserve discloses the results of the supervisory stress test.

In February 2014, the Federal Reserve issued a final rule specifying how large bank holding companies, including the Company, must incorporate U.S. Basel III into their capital plans and Dodd-Frank Act stress tests beginning with the October 1, 2014 cycle. Among other things, the final rule requires a large bank holding company to project its Tier 1 Common capital ratio using the methodology of U.S. Basel I as supplemented by Basel 2.5 and its Common Equity Tier 1 ratio using U.S. Basel III Standardized Approach after giving effect to transition provisions. The final rule also requires Advanced Approach banking organizations that have exited from the parallel run, including the Company, to incorporate the Advanced Approach into their capital planning and company-run stress tests beginning with the October 1, 2015 cycle. In October 2014, the Federal Reserve revised its capital planning and stress testing regulations to, among other things, generally limit a large bank holding company's ability to make capital distributions (other than scheduled payments on Additional Tier 1 and Tier 2 capital instruments) if the bank holding company's net capital issuances are less than the amount indicated in its capital plan, and to shift the start and submission dates of the capital plan and stress test cycles beginning with the 2016 cycle.

The Dodd-Frank Act also requires each of the Company's U.S. Subsidiary Banks to conduct an annual stress test. MSBNA submitted its 2015 annual company-run stress tests to the OCC on January 5, 2015 and will publish a summary of its stress test results between March 15 and March 31, 2015. MSPBNA will submit its annual company-run stress tests to the OCC in March 2015, and publish the summary results between June 15 and June 30, 2015. In June 2014, the OCC issued a proposed rule to, among other things, shift the timing of the annual stress testing cycle that applies to the Company's U.S. Subsidiary Banks beginning with the 2016 cycle.

G-SIB Capital Surcharge.

Although U.S. Basel III is in effect, the U.S. banking agencies and the Basel Committee have each proposed, or are considering proposing, revisions to the regulatory capital framework that would modify the regulatory capital standards governing the Company and the Company's U.S. Subsidiary Banks. In December 2014, the Federal Reserve issued a proposed rule that would impose risk-based capital surcharges on U.S. bank holding companies that are identified as G-SIBs. Although the Federal Reserve's proposal is based upon the Basel Committee's international G-SIB surcharge framework, the methodologies proposed by the Federal Reserve generally would result in G-SIB surcharges that are higher than the levels required by the Basel Committee framework and would directly take into account the extent of each U.S. G-SIB's reliance on short-term wholesale funding. Under the proposal, a bank holding company identified as a G-SIB would calculate its G-SIB surcharge under two methods. The first would consider the G-SIB's size, interconnectedness, cross-jurisdictional activity, substitutability and complexity, which is generally consistent with the methodology developed by the Basel Committee. The second method would use similar inputs, but would replace substitutability with use of short-term wholesale funding and generally would result in higher surcharges than the Basel Committee framework. A G-SIB's surcharge would be the higher of the surcharges determined under the two methods. Under the proposal, the G-SIB surcharge must be satisfied using Common Equity Tier 1 capital and would function as an extension of the capital conservation buffer. The Federal Reserve estimates that its proposal could result in G-SIB surcharges ranging from 1.0% to 4.5% of a G-SIB's RWAs. The surcharge proposal would be phased in between January 1, 2016 and January 1, 2019.

Supplementary Leverage Ratio.

U.S. Basel III requires the Company and the Company's U.S. Subsidiary Banks to comply with supplementary leverage ratio requirements, which the U.S. banking agencies increased in 2014 above standards established by the Basel Committee. Specifically, beginning in 2018, the Company must maintain a Tier 1 supplementary leverage capital buffer of greater than 2% in addition to the 3% minimum supplementary leverage ratio (for a total of greater than 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. In addition, beginning in 2018, the Company's U.S. Subsidiary Banks must maintain a supplementary leverage ratio of 6% to be considered "well-capitalized." The denominator of the supplementary leverage ratio, as revised by the U.S. banking agencies in 2014 to conform with revised leverage standards adopted by the Basel Committee, is calculated for each reporting quarter based on the average daily balance of consolidated on-balance sheet assets under U.S. GAAP less certain amounts deducted from Tier 1 capital at quarter-end and the average month-end balance of certain off-balance sheet exposures associated with derivatives (including centrally cleared derivatives and sold credit protection), repo-style transactions and other off-balance sheet items during the calendar quarter. The enhanced supplementary leverage ratio standards will become effective for both the Company and its U.S. Subsidiary Banks on January 1, 2018 with quarterly public disclosure beginning on January 1, 2015.

The Company estimates its pro forma supplementary leverage ratio to be approximately 4.7% at December 31, 2014. This estimate utilizes a fully phased-in U.S. Basel III Tier 1 capital numerator and a denominator of approximately $1.19 trillion. The denominator represents the Company's consolidated assets under U.S. GAAP as adjusted, among other items, by: (i) the addition of the potential future exposure for derivative contracts (including contracts cleared for clients), off-balance sheet exposures multiplied by their respective credit conversion factors, counterparty credit risk associated with repo-style transactions and the effective notional amount of sold credit protection reduced by certain qualifying purchased credit protection; and (ii) the subtraction of certain amounts deducted from Tier 1 capital under U.S. Basel III. The pro forma supplementary leverage ratio estimate is a non-GAAP financial measure that the Company considers to be a useful measure for evaluating compliance with new regulatory capital requirements that have not yet become effective. The Company expects to achieve a supplementary leverage ratio of greater than 5% in 2015 through accretion of capital and other actions which may include derivative portfolio compression and other balance sheet optimization.

The Company's estimated supplementary leverage ratio is based upon its current interpretation and expectations regarding the implementation of applicable regulations and remains subject to ongoing review and revision. The Company's expectations are subject to risks and uncertainties that may cause actual results to differ materially from estimates based on these regulations. Further, these expectations should not be taken as projections of what the Company's supplemental leverage ratios or earnings, assets or exposures will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, see "Risk Factors" in Part I, Item 1A.

Required Capital.

The Company's required capital ("Required Capital") estimation is based on the Required Capital framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the Company's regulatory capital to ensure that the Company maintains an amount of going concern capital after absorbing potential losses from extreme stress events, where applicable, at a point in time. The Company defines the difference between its regulatory capital and aggregate Required Capital as Parent capital. Average Common Equity Tier 1 capital, aggregate Required Capital and Parent capital for 2014 were approximately $57.6 billion, $38.4 billion and $19.2 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, including U.S. Basel III transitional deductions and adjustments expected to reduce the Company's capital through 2018. The increase in Parent capital from December 31, 2013 to December 31, 2014 was primarily driven by these transitional provisions. The Company also holds Parent capital for organic growth, acquisitions and other capital needs.

Common Equity Tier 1 capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital framework as well as each business segment's relative contribution to total Company Required Capital. Required Capital is assessed at each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis. The Required Capital framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

The following table presents the Company's business segments' and Parent's average Common Equity Tier 1 capital and average common equity for 2014 and average Tier 1 Common capital and average common equity for 2013:

	December 31, 2014 (U.S. Basel III)		December 31, 2013 (U.S. Basel I + Basel 2.5)	
	Average Common Equity Tier 1 Capital	Average Common Equity	Average Tier 1 Common Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities	$31.3	$32.2	$32.7	$37.9
Wealth Management	5.2	11.2	4.3	13.2
Investment Management	1.9	2.9	1.7	2.8
Parent capital	19.2	19.0	9.0	8.0
Total	$57.6	$65.3	$47.7	$61.9

Resolution and Recovery Planning.

Pursuant to the Dodd-Frank Act, the Company is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the Company. On August 5, 2014, the Federal Reserve and the FDIC notified the Company and 10 other large banking organizations that certain shortcomings in their 2013 resolution plans must be addressed in the 2015 resolution plans, which must be submitted on or before July 1, 2015. If the Federal Reserve and the FDIC were to determine that the Company's resolution plan is not credible or would not facilitate an orderly resolution and the Company does not cure the plan's deficiencies, the Company or any of its subsidiaries may be subjected to more stringent capital, leverage, or liquidity requirements or restrictions on its growth, activities, or operations, or the Company may be required to divest assets or operations.

In addition, MSBNA must submit to the FDIC an annual resolution plan that describes MSBNA's strategy for rapid and orderly resolution in the event of the material financial distress or failure of MSBNA. On December 17, 2014, the FDIC issued guidance regarding the resolution plans for insured depository institutions such as MSBNA, including requirements with respect to failure scenarios and the development and analysis of a range of realistic resolution strategies.

Further, the Company is required to submit an annual recovery plan to the Federal Reserve that outlines the steps that management could take over time to reduce risk, increase liquidity, and conserve capital in times of prolonged stress.

Certain of the Company's foreign subsidiaries are also subject to resolution and recovery planning requirements in the jurisdictions in which they operate.

Under the Dodd-Frank Act, certain financial companies, including bank holding companies such as the Company and certain covered subsidiaries, can be subjected to resolution under an orderly liquidation authority with the FDIC appointed as receiver with considerable powers. A financial company whose largest U.S. subsidiary is a broker or dealer could be resolved under this authority only upon the recommendation of two-thirds of the Federal Reserve Board and two-thirds of the SEC Commissioners, on their own initiative or at the request of the U.S. Treasury Secretary, and in consultation with the FDIC as well as a determination by the U.S. Treasury Secretary in consultation with the President of the U.S. In December 2013, the FDIC released its proposed single point of entry strategy for resolution of a systemically important financial institution under the orderly liquidation authority. The strategy involves placing the top-tier U.S. holding company in receivership and keeping its operating subsidiaries open and out of insolvency proceedings by transferring the operating subsidiaries to a new bridge holding company, recapitalizing the operating subsidiaries and imposing losses on the shareholders and creditors of the holding company in receivership according to their statutory order of priority.

The Federal Reserve has indicated that it may also introduce a requirement that certain large bank holding companies maintain a minimum amount of long-term debt at the holding company level to facilitate orderly resolution of those firms. In November 2014, the Financial Stability Board ("FSB") issued a policy proposal to establish a minimum international standard for total loss-absorbing capacity ("TLAC") for G-SIBs, in addition to regulatory capital requirements, in order to enhance the loss-absorbing and recapitalization capacity of such institutions in resolution. The FSB's proposed minimum TLAC requirement would be set within the range of 16% to 20% of RWAs (excluding any applicable regulatory capital buffers, which would continue to be required in addition to the minimum TLAC requirement) and at least twice the minimum Basel III Tier 1 leverage ratio requirement. Regulators may also impose an additional TLAC requirement taking into account the G-SIB's recovery and resolution plans, systemic footprint, business model, risk profile and organizational structure. The minimum TLAC requirement would apply to each entity to which resolution tools would be applied within a G-SIB. The FSB has proposed eligibility criteria for liabilities to qualify as TLAC and a requirement that TLAC-eligible liabilities be subordinated to non-TLAC-eligible liabilities. In addition, certain material entities that are not resolution entities would be subject to an internal TLAC requirement. According to the FSB, the conformance period for the TLAC requirement would not begin prior to January 1, 2019.

For further information on the Company's Resolution Planning, see "Business—Supervision and Regulation—Resolution and Recovery Planning" in Part I, Item 1.

Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entities, primarily in connection with its Institutional Securities and Investment Management business segments.

Institutional Securities Activities. The Company utilizes special purpose entities ("SPE") primarily in connection with securitization activities. The Company engages in securitization activities related to commercial and residential mortgage loans, U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bonds and other types of financial assets. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the Company's consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the Company's consolidated statements of income. Retained interests in securitized financial assets were approximately $2.7 billion and $2.5 billion at December 31, 2014 and December 31, 2013, respectively, substantially all of which were related to U.S. agency collateralized mortgage obligations, commercial mortgage loan and residential mortgage loan securitization transactions. For further information about the Company's securitization activities, see Note 7 to the Company's consolidated financial statements in Item 8.

The Company has entered into liquidity facilities with SPEs and other counterparties, whereby the Company is required to make certain payments if losses or defaults occur. The Company often may have recourse to the underlying assets held by the SPEs or require that such assets first be sold in the event payments are required under such liquidity facilities (see Notes 7 and 13 to the Company's consolidated financial statements in Item 8).

Investment Management Activities. As a general partner in certain private equity and real estate partnerships, the Company receives distributions from the partnerships according to the provisions of the partnership agreements. The Company may, from time to time, be required to return all or a portion of such distributions to the limited partners in the event the limited partners do not achieve a certain return as specified in various partnership agreements, subject to certain limitations. These amounts are noted in the table below under "General partner guarantees."

Guarantees. The Company discloses information about its obligations under certain guarantee arrangements. Guarantees are defined as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, a security or commodity price, an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Guarantees are also defined as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The table below summarizes certain information regarding the Company's obligations under guarantee arrangements at December 31, 2014:

	Maximum Potential Payout/Notional					Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	Years to Maturity						
Type of Guarantee	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total**		
			(dollars in millions)				
Credit derivative contracts(1)	$ 188,357	$438,999	$233,886	$ 46,820	$ 908,062	$ (6,611)	$—
Other credit contracts	51	539	1	620	1,211	(500)	—
Non-credit derivative contracts(1)	1,386,044	713,180	269,632	517,968	2,886,824	81,021	—
Standby letters of credit and other financial guarantees issued(2)	607	1,102	1,056	5,792	8,557	(223)	6,434
Market value guarantees	28	426	125	104	683	5	88
Liquidity facilities	2,507	—	—	—	2,507	(4)	3,779
Whole loan sales guarantees	—	—	—	23,605	23,605	9	—
Securitization representations and warranties	—	—	—	65,520	65,520	98	—
General partner guarantees	72	—	58	352	482	71	—

[1] Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 12 to the Company's consolidated financial statements in Item 8.

[2] Approximately $2.1 billion of standby letters of credit are also reflected in the "Commitments" table below in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Trading assets or Trading liabilities in the Company's consolidated statements of financial condition.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the Company's consolidated financial statements.

See Note 13 to the Company's consolidated financial statements in Item 8 for information on other guarantees and indemnities.

Commitments and Contractual Obligations.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, and mortgage lending at December 31, 2014 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total at December 31, 2014
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 457	$ 1	$ —	$ 2	$ 460
Investment activities	511	82	24	446	1,063
Primary lending commitments—investment grade(1)	8,507	14,874	35,850	1,437	60,668
Primary lending commitments—non-investment grade(1)	1,101	5,148	13,062	2,051	21,362
Secondary lending commitments(2)	1	32	38	116	187
Commitments for secured lending transactions	1,194	534	181	919	2,828
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	42,033	—	—	—	42,033
Commercial and residential mortgage-related commitments	7	444	528	329	1,308
Underwriting commitments	290	—	—	—	290
Other lending commitments	4,284	1,089	364	98	5,835
Total	$58,385	$22,204	$50,047	$5,398	$136,034

(1) Total amount includes $49.9 billion of investment grade and $13.0 billion of non-investment grade unfunded commitments accounted for as held for investment and $8.4 billion of investment grade and $7.4 billion of non-investment grade unfunded commitments accounted for as held for sale at December 31, 2014. The remainder of these lending commitments is carried at fair value.

(2) These commitments are recorded at fair value within Trading assets and Trading liabilities in the Company's consolidated statements of financial condition (see Note 4 to the Company's consolidated financial statements in Item 8).

(3) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to December 31, 2014 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days, and of the total amount at December 31, 2014, $41.2 billion settled within three business days.

(4) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $0.5 billion.

For a further description of these commitments, see Note 13 to the Company's consolidated financial statements in Item 8 and "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Item 7A.

In the normal course of business, the Company enters into various contractual obligations that may require future cash payments. Contractual obligations include long-term borrowings, other secured financings, contractual interest payments, contractual payments on time deposits, operating leases and purchase obligations.

The Company's future cash payments associated with certain of its obligations at December 31, 2014 are summarized below:

At December 31, 2014	Payments Due in:				
	2015	2016-2017	2018-2019	Thereafter	Total
	(dollars in millions)				
Long-term borrowings(1)	$20,740	$44,643	$35,250	$52,139	$152,772
Other secured financings(1)	3,341	5,586	980	439	10,346
Contractual interest payments(2)	5,384	8,615	5,759	21,025	40,783
Time deposits(3)	1,386	—	—	—	1,386
Operating leases—premises(4)	599	1,159	847	2,588	5,193
Operating leases—equipment(4)	204	200	145	61	610
Purchase obligations(5)	546	615	244	70	1,475
Total(6)	$32,200	$60,818	$43,225	$76,322	$212,565

(1) See Note 11 to the Company's consolidated financial statements in Item 8. Amounts presented for Other secured financings are financings with original maturities greater than one year.

(2) Amounts represent estimated future contractual interest payments related to unsecured long-term borrowings based on applicable interest rates at December 31, 2014. Amounts include stated coupon rates, if any, on structured or index-linked notes.

(3) Amounts represent contractual principal and interest payments related to time deposits primarily held at the Company's U.S. Subsidiary Banks.

(4) See Note 13 to the Company's consolidated financial statements in Item 8.

(5) Purchase obligations for goods and services include payments for, among other things, consulting, outsourcing, computer and telecommunications maintenance agreements, and certain transmission, transportation and storage contracts related to the commodities business. Purchase obligations at December 31, 2014 reflect the minimum contractual obligation under legally enforceable contracts with contract terms that are both fixed and determinable. These amounts exclude obligations for goods and services that already have been incurred and are reflected on the Company's consolidated statement of financial condition.

(6) Amounts exclude unrecognized tax benefits, as the timing and amount of future cash payments are not determinable at this time (see Note 20 to the Company's consolidated financial statements in Item 8 for further information).

Effects of Inflation and Changes in Foreign Exchange Rates.

To the extent that an increased inflation outlook results in rising interest rates or has negative impacts on the valuation of financial instruments that exceed the impact on the value of the Company's liabilities, it may adversely affect the Company's financial position and profitability. Rising inflation may also result in increases in the Company's non-interest expenses that may not be readily recoverable in higher prices of services offered.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar, therefore, can affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on the Company's financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Risk Management.

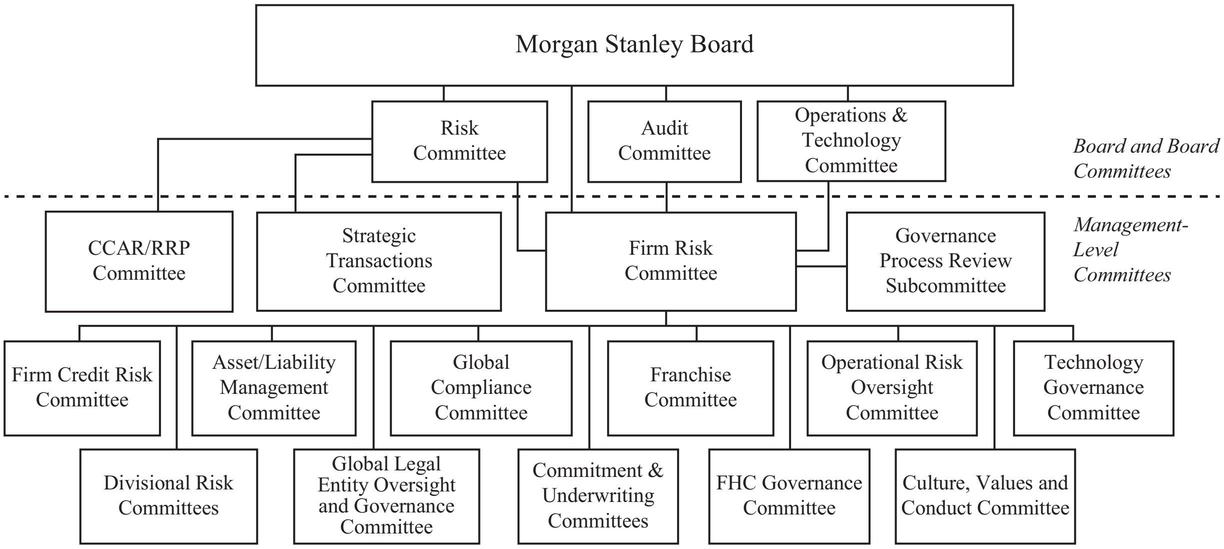
Overview.

Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company has established an enterprise risk management ("ERM") framework to integrate the diverse roles of risk management into a holistic enterprise structure and to facilitate the incorporation of risk assessment into decision-making processes across the Company. Risk is an inherent part of the Company's businesses and activities. The Company has policies and procedures in place to identify, measure, monitor, advise, challenge and control the principal risks involved in the activities of its Institutional Securities, Wealth Management and Investment Management business segments as well as at the holding company level. The principal risks involved in the Company's business activities include market (including non-trading interest rate risk), credit, operational, liquidity and funding, franchise and reputational risk. Strategic risk is integrated into the Company's business planning, embedded in the evaluation of all principal risks and overseen by the Company's Board of Directors (the "Board").

The cornerstone of the Company's risk management philosophy is the pursuit of risk-adjusted returns through prudent risk-taking that protects the Company's capital base and franchise, and is implemented through the ERM framework. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability and transparency. To help ensure the efficacy of risk management, which is an essential component of the Company's reputation, senior management requires thorough and frequent communication and the appropriate escalation of risk matters. The fast-paced, complex and constantly evolving nature of global financial markets requires that the Company maintain a risk management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement. In 2014, the Company established a formal Culture, Values and Conduct Program, which it will enhance in 2015.

Risk Governance Structure.

Risk management at the Company requires independent company-level oversight, accountability of the Company's business divisions, and effective communication of risk matters across the Company, to senior management and ultimately to the Board. The Company's risk governance structure is composed of the Board; the Risk Committee of the Board ("BRC"), the Audit Committee of the Board ("BAC"), and the Operations and Technology Committee of the Board ("BOTC"); the Firm Risk Committee ("FRC"); the functional risk and control committees; senior management oversight (including the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Legal Officer and Chief Compliance Officer); the Internal Audit Department and risk managers, committees, and groups within and across the Company's business segments. The Company's ERM framework composed of independent but complementary entities facilitates efficient and comprehensive supervision of the Company's risk exposures and processes.


Morgan Stanley Board
Risk Committee
Audit Committee
Operations & Technology Committee
Board and Board Committees
Management-Level Committees
CCAR/RRP Committee
Strategic Transactions Committee
Firm Risk Committee
Governance Process Review Subcommittee
Firm Credit Risk Committee
Asset/Liability Management Committee
Global Compliance Committee
Franchise Committee
Operational Risk Oversight Committee
Technology Governance Committee
Divisional Risk Committees
Global Legal Entity Oversight and Governance Committee
Commitment & Underwriting Committees
FHC Governance Committee
Culture, Values and Conduct Committee

Morgan Stanley Board of Directors. The Board has oversight for the Company's ERM framework is responsible for helping to ensure that the Company's risks are managed in a sound manner. The Board has authorized the committees within the ERM framework to help facilitate its risk oversight responsibilities. As set forth in the Company's Corporate Governance Policies, the Board also oversees, and receives reports on, the Company's practices and procedures relating to culture, values and conduct.

Risk Committee of the Board. The BRC is composed of non-management directors. The BRC is responsible for assisting the Board in the oversight of the Company's global ERM framework; the major risk exposures of the Company, including market, credit, operational, liquidity and funding, franchise and reputational risk; the Company's risk appetite statement, including risk limits and tolerances; risk management and risk assessment guidelines; and the performance of the Chief Risk Officer. The BRC reports to the entire Board on a regular basis and the entire Board attends quarterly BRC meetings.

Audit Committee of the Board. The BAC is composed of independent directors. The BAC is responsible for oversight of the integrity of the Company's consolidated financial statements, the Company's compliance with legal and regulatory requirements, the Company's system of internal controls, the qualifications and independence of the Company's independent auditor, and the performance of the Company's internal and independent auditors. In addition, the BAC assists the Board and the BRC in its oversight of certain aspects of risk management, including review of the major legal and compliance risk exposures of the Company and the steps management has taken to monitor and control such exposures, as well as guidelines and policies that govern the process for risk assessment and risk management. The BAC reports to the entire Board, including the BRC, on a regular basis.

Operations and Technology Committee of the Board. The BOTC is composed of non-management directors. The BOTC is responsible for reviewing the major operations and technology risk exposures of the Company, including cybersecurity risk, and the steps management has taken to monitor and control such exposures. Additionally, the BOTC is responsible for assisting the Board in its oversight of the Company's operations and technology strategy, including significant investments in support of such strategy. The BOTC is also responsible for the review and approval of operations and technology policies, as well as the review of the Company's risk management and risk assessment guidelines and policies regarding operations and technology risk. The BOTC reports to the entire Board, including the BRC, on a regular basis.

Firm Risk Committee. The Board has also authorized the FRC, a management committee appointed and chaired by the Chief Executive Officer, which includes the most senior officers of the Company, including the Chief Risk Officer, Chief Legal Officer and Chief Financial Officer, to oversee the Company's global ERM framework. The FRC's responsibilities include oversight of the Company's risk management principles, procedures and limits and the monitoring of capital levels and material market, credit, operational, liquidity and funding, franchise and reputational risk matters, and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. The FRC also establishes and communicates risk tolerance, including aggregate Company limits and tolerance, as appropriate. The FRC reports to the entire Board, the BAC, the BOTC and the BRC through the Company's Chief Risk Officer, Chief Financial Officer and Chief Legal Officer.

Functional Risk and Control Committees. Functional risk and control committees comprising the ERM framework, including the Firm Credit Risk Committee, the Operational Risk Oversight Committee, the Asset/Liability Management Committee, the Global Compliance Committee, the Technology Governance Committee and the Franchise Committee, facilitate efficient and comprehensive supervision of the Company's risk exposures and processes. The Strategic Transactions Committee reviews large strategic transactions and principal investments for the Company; the CCAR/RRP Committee oversees the Company's Comprehensive Capital Analysis and Review, Dodd-Frank Act Stress Testing and Title I Resolution Plan and Recovery Plan; the Global Legal Entity Oversight and Governance Committee monitors the governance framework that operates over the Company's consolidated legal entity population; the FHC Governance Committee oversees the Company's initiatives relating to its status as a financial holding company; and the Culture, Values and Conduct Committee, established in January 2015, is charged with developing Company-wide standards and overseeing initiatives relating to culture, values and conduct, including training and enhancements to performance and compensation processes.

In addition, each business segment has a risk committee that is responsible for helping to ensure that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies, procedures, controls and systems that are consistent with the risk framework established by the FRC; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management policies and procedures, and related controls.

Chief Risk Officer. The Chief Risk Officer, who is independent of business units, reports to the Chief Executive Officer and the BRC. The Chief Risk Officer oversees compliance with the Company's risk limits; approves exceptions to the Company's risk limits; independently reviews material market, credit and operational risks; and reviews results of risk management processes with the Board, the BRC and the BAC, as appropriate. The Chief Risk Officer also coordinates with the Chief Financial Officer regarding capital and liquidity management and works with the Compensation, Management Development and Succession Committee of the Board to help ensure that the structure and design of incentive compensation arrangements do not encourage unnecessary and excessive risk-taking.

Internal Audit Department. The Internal Audit Department provides independent risk and control assessment and reports to the BAC. The Internal Audit Department provides an independent assessment of the Company's control environment and risk management processes using a risk-based methodology developed from professional auditing standards. The Internal Audit Department also assists in assessing the Company's compliance with internal guidelines set for risk management and risk monitoring as well as external rules and regulations governing the industry. It affects these responsibilities through risk-based reviews of the Company's processes, activities, products or information systems; targeted reviews of specific controls and activities; pre-implementation audits of new or significantly changed processes, activities, products or information systems; and special investigations required as a result of internal factors or regulatory requests.

Independent Risk Management Functions. The independent risk management function (Market Risk, Credit Risk and Operational Risk Management Departments) are independent of the Company's business units. These functions assist senior management and the FRC in monitoring and controlling the Company's risk through a number of control processes. Each function maintains its own risk governance structure with specified individuals and committees responsible for aspects of managing risk. Further discussion about the responsibilities of the risk management functions may be found below under "Market Risk," "Credit Risk," and "Operational Risk."

Support and Control Groups. The Company's support and control groups include the Legal Department, the Compliance Department, the Finance Division, the Operations Division, the Technology and Data Division, and the Human Resources Department. The Company's support and control groups coordinate with the business segment control groups to review the risk monitoring and risk management policies and procedures relating to, among other things, controls over financial reporting and disclosure; the business segment's market, credit and operational risk profile; liquidity risks; sales practices; reputational, legal enforceability, compliance and regulatory risk; and operational and technological risks. Participation by the senior officers of the Company and business segment control groups helps ensure that risk policies and procedures, exceptions to risk limits, new products and business ventures, and transactions with risk elements undergo thorough review.

Culture, Values and Conduct of Employees. All of the Company's employees have accountability for risk management. The Company strives to establish a culture of effective risk management through its defined core values, governance framework, management oversight, training and development programs, policies, procedures, and defined roles and responsibilities within the Company. The actions and conduct of each employee are essential to risk management. The Company's Code of Conduct (the "Code") has been established to provide a framework and standards for employee conduct that further reinforces the Company's commitment to integrity and high ethical standards. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether the employee effectively managed and supervised the risk control practices of his/her employee reports during the performance year. The Company has several mutually reinforcing processes to identify incidents of employee conduct that may have an impact on the employment status, current year compensation or prior-year compensation. The Company's clawback and cancellation provisions permit recovery of deferred incentive compensation where, for example, an employee's act or omission (including with respect to direct supervisory responsibilities) causes a restatement of the Company's consolidated financial results, constitutes a violation of the Company's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Stress Value-at-Risk.

The Company frequently enhances its market and credit risk management framework to address severe stresses that are observed in global markets during economic downturns. During 2014, the Company expanded and improved its risk measurement processes, including stress tests and scenario analysis, and further refined its market and credit risk limit framework. Stress Value-at-Risk ("S-VaR"), a proprietary methodology that comprehensively measures the Company's market and credit risks, was further refined and continues to be an important metric used in establishing the Company's risk appetite and its capital allocation framework. S-VaR simulates many stress scenarios based on more than 25 years of historical data and attempts to capture the different liquidities of various types of general and specific risks. Additionally, S-VaR captures event and default risks that are particularly relevant for credit portfolios.

Risk Management Process.

The following is a discussion of the Company's risk management policies and procedures for its principal risks (capital and liquidity risk is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in Item 7). The discussion focuses on the Company's securities activities (primarily its institutional trading activities) and corporate lending and related activities. The Company believes that these activities generate a substantial portion of its principal risks. This discussion and the estimated amounts of the Company's risk exposure generated by the Company's statistical analyses are forward-looking statements. However, the analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in which the Company operates and certain other factors described below.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities, principally within the Company's Institutional Securities business segment where the substantial majority of the Company's Value-at-Risk ("VaR") for market risk exposures is generated. In addition, the Company incurs trading-related market risk within its Wealth Management business segment. The Company's Investment Management business segment incurs principally Non-trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles.

Sound market risk management is an integral part of the Company's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The control groups help ensure that these risks are measured and closely monitored and are made transparent to senior management. The Company's Market Risk Department is responsible for ensuring transparency of material market risks, monitoring compliance with established limits and escalating risk concentrations to appropriate senior management. To execute these responsibilities, the Company's Market Risk Department monitors the Company's risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains the Company's VaR and scenario analysis systems. These limits are designed to control price and market liquidity risk. Market risk is also monitored through various measures: by use of statistics (including VaR, S-VaR and related analytical measures); by measures of position sensitivity; and through routine stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, and scenario analyses conducted by the Company's Market Risk Department in collaboration with the business units. The material risks identified by these processes are summarized in reports produced by the Company's Market Risk Department that are circulated to and discussed with senior management, the FRC, the BRC and the Board.

The Chief Risk Officer, among other things, monitors market risk through the Company's Market Risk Department, which reports to the Chief Risk Officer and is independent of the business units, and has close interactions with senior management and the risk management control groups in the business units. The Chief Risk Officer is a member of the FRC, chaired by the Chief Executive Officer, which includes the most senior officers of the Company, and regularly reports on market risk matters to this committee, as well as to the BRC and the Board.

Sales and Trading and Related Activities.

Primary Market Risk Exposures and Market Risk Management. During 2014, the Company had exposures to a wide range of interest rates, equity prices, foreign exchange rates and commodity prices—and the associated implied volatilities and spreads—related to the global markets in which it conducts its trading activities.

The Company is exposed to interest rate and credit spread risk as a result of its market-making activities and other trading in interest rate-sensitive financial instruments (*e.g.*, risk arising from changes in the level or implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads).

The activities from which those exposures arise and the markets in which the Company is active include, but are not limited to, the following: corporate and government debt across both developed and emerging markets and asset-backed debt (including mortgage-related securities).

The Company is exposed to equity price and implied volatility risk as a result of making markets in equity securities and derivatives and maintaining other positions (including positions in non-public entities). Positions in non-public entities may include, but are not limited to, exposures to private equity, venture capital, private partnerships, real estate funds and other funds. Such positions are less liquid, have longer investment horizons and are more difficult to hedge than listed equities.

The Company is exposed to foreign exchange rate and implied volatility risk as a result of making markets in foreign currencies and foreign currency derivatives, from maintaining foreign exchange positions and from holding non-U.S. dollar-denominated financial instruments.

The Company is exposed to commodity price and implied volatility risk as a result of market-making activities and maintaining commodity positions in physical commodities (such as crude and refined oil products, natural gas, electricity, and precious and base metals) and related derivatives. Commodity exposures are subject to periods of high price volatility as a result of changes in supply and demand. These changes can be caused by weather conditions; physical production, transportation and storage issues; or geopolitical and other events that affect the available supply and level of demand for these commodities.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). Hedging activities may not always provide effective mitigation against trading losses due to differences in the terms, specific characteristics or other basis risks that may exist between the hedge instrument and the risk exposure that is being hedged. The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis. The Company manages and monitors its market risk exposures in such a way as to maintain a portfolio that the Company believes is well-diversified in the aggregate with respect to market risk factors and that reflects the Company's aggregate risk tolerance as established by the Company's senior management.

Aggregate market risk limits have been approved for the Company across all divisions worldwide. Additional market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers, traders and the Company's Market Risk Department monitor market risk measures against limits in accordance with policies set by senior management.

VaR. The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Company's Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. The Company estimates VaR using a model based on volatility-adjusted historical simulation for general market risk factors and Monte Carlo simulation for name-specific risk in corporate shares, bonds, loans and related derivatives. The model constructs a distribution of hypothetical daily changes in the value of trading portfolios based on the following: historical observation of daily changes in key market indices or other market risk factors; and information on the sensitivity of the portfolio values to these market risk factor changes. The Company's VaR model uses four years of historical data with a volatility adjustment to reflect current market conditions. The Company's VaR for risk management purposes ("Management VaR") is computed at a 95% level of confidence over a one-day time horizon, which is a useful indicator of possible trading losses resulting from adverse daily market moves. The Company's 95%/one-day VaR corresponds to the unrealized loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held constant for one day.

The Company's VaR model generally takes into account linear and non-linear exposures to equity and commodity price risk, interest rate risk, credit spread risk and foreign exchange rates. The model also takes into account linear exposures to implied volatility risks for all asset classes and non-linear exposures to implied volatility risks for equity, commodity and foreign exchange referenced products. The VaR model also captures certain implied correlation risks associated with portfolio credit derivatives as well as certain basis risks (*e.g.,* corporate debt and related credit derivatives).

The Company uses VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as periods of extreme illiquidity. The Company is aware of these and other limitations and, therefore, uses VaR as only one component in its risk management oversight process. This process also incorporates stress testing and scenario analyses and extensive risk monitoring, analysis and control at the trading desk, division and Company levels.

The Company's VaR model evolves over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of the Company's regular process improvements, additional systematic and name-specific risk factors may be added to improve the VaR model's ability to more accurately estimate risks to specific asset classes or industry sectors.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the Company's future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days for a 95%/one-day VaR. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

VaR statistics are not readily comparable across firms because of differences in the firms' portfolios, modeling assumptions and methodologies. These differences can result in materially different VaR estimates across firms for similar portfolios. The impact of such differences varies depending on the factor history assumptions, the frequency with which the factor history is updated and the confidence level. As a result, VaR statistics are more useful when interpreted as indicators of trends in a firm's risk profile rather than as an absolute measure of risk to be compared across firms.

The Company utilizes the same VaR model for risk management purposes as well as for regulatory capital calculations. The Company's VaR model has been approved by the Company's regulators for use in regulatory capital calculations.

The portfolio of positions used for the Company's Management VaR differs from that used for regulatory capital requirements ("Regulatory VaR"), as Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include counterparty credit valuation adjustments and related hedges, as well as loans that are carried at fair value and associated hedges. Additionally, the Company's Management VaR excludes certain risks contained in its Regulatory VaR, such as hedges to counterparty exposures related to the Company's own credit spread.

Table 1 below presents the Management VaR for the Company's Trading portfolio, on a period-end, annual average and annual high and low basis. The Credit Portfolio is disclosed as a separate category from the Primary Risk Categories, and includes counterparty credit valuation adjustments and related hedges, as well as loans that are carried at fair value and associated hedges.

Trading Risks.

The table below presents the Company's 95%/one-day Management VaR:

Table 1: 95% Management VaR

	95%/One-Day VaR for 2014				95%/One-Day VaR for 2013			
Market Risk Category	Period End	Average	High	Low	Period End	Average	High	Low
	(dollars in millions)							
Interest rate and credit spread	$ 31	$ 31	$ 44	$ 25	$ 41	$ 45	$76	$31
Equity price	18	18	26	15	22	19	43	15
Foreign exchange rate	10	11	17	6	15	14	22	7
Commodity price	15	17	24	12	15	21	31	15
Less: Diversification benefit(1)(2)	(30)	(34)	N/A	N/A	(44)	(46)	N/A	N/A
Primary Risk Categories	$ 44	$ 43	$ 53	$ 34	$ 49	$ 53	$78	$42
Credit Portfolio	15	11	15	9	12	14	18	12
Less: Diversification benefit(1)(2)	(14)	(7)	N/A	N/A	(8)	(8)	N/A	N/A
Total Management VaR	$ 45	$ 47	$ 58	$ 38	$ 53	$ 59	$85	$47

N/A—Not Applicable

(1) Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

(2) The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the year, and therefore, the diversification benefit is not an applicable measure.

The Company's average Management VaR for the Primary Risk Categories for 2014 was $43 million compared with $53 million for 2013. The decrease was primarily driven by reduced exposure to credit spread and commodity products.

The Company's average Total Management VaR for 2014 was $47 million compared with $59 million for 2013. This decrease was driven by the reduced risk in Primary Risk Categories.

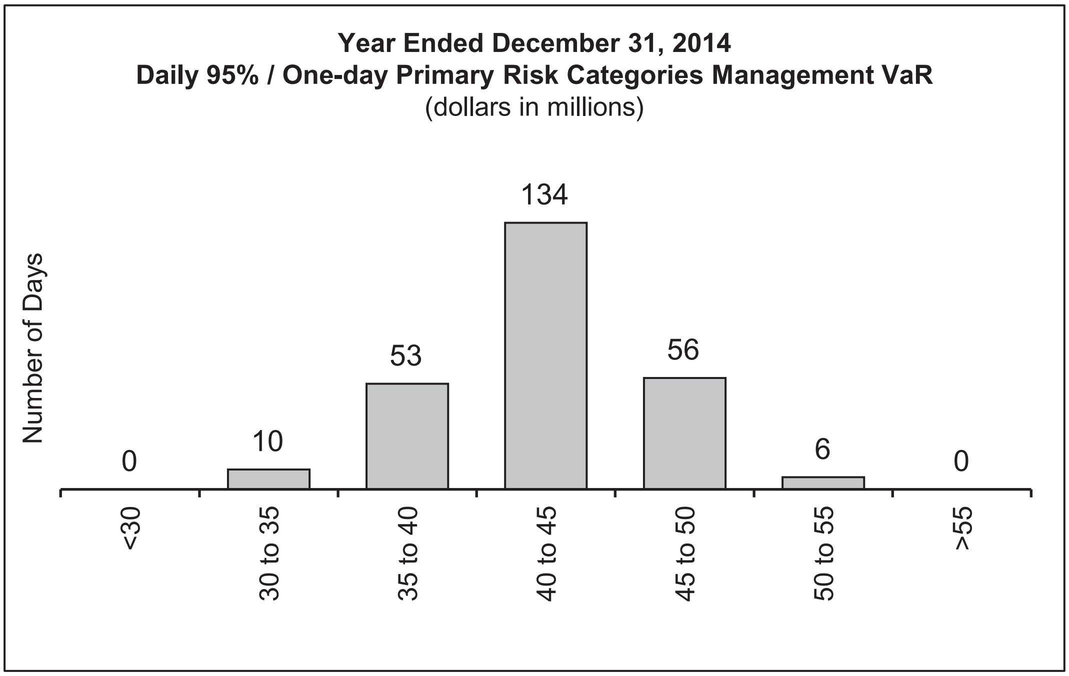
Distribution of VaR Statistics and Net Revenues for 2014.

One method of evaluating the reasonableness of the Company's VaR model as a measure of the Company's potential volatility of net revenues is to compare the VaR with actual trading revenues. Assuming no intraday trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model would be questioned. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Company, as well as individual business units. For days where losses exceed the VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results.

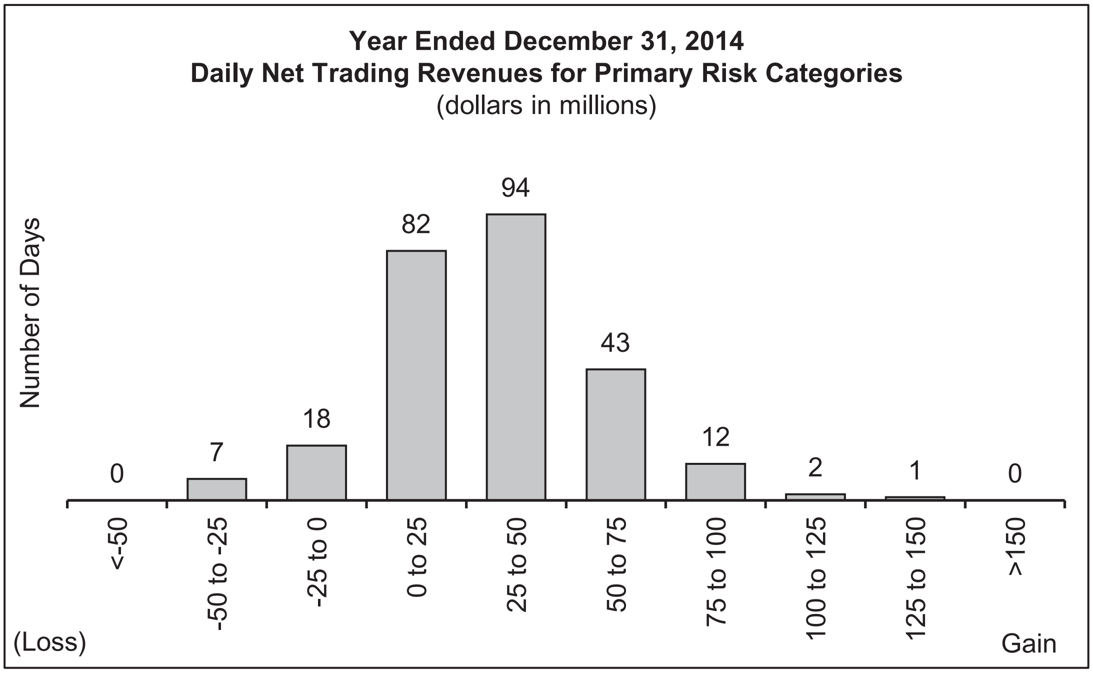
The distribution of VaR Statistics and Net Revenues is presented in the histograms below for both the Primary Risk Categories and the Total Trading populations.

Primary Risk Categories.

As shown in Table 1, the Company's average 95%/one-day Primary Risk Categories VaR for 2014 was $43 million. The histogram below presents the distribution of the Company's daily 95%/one-day Primary Risk Categories VaR for 2014, which was in a range between $35 million and $50 million for approximately 94% of the trading days during the year.

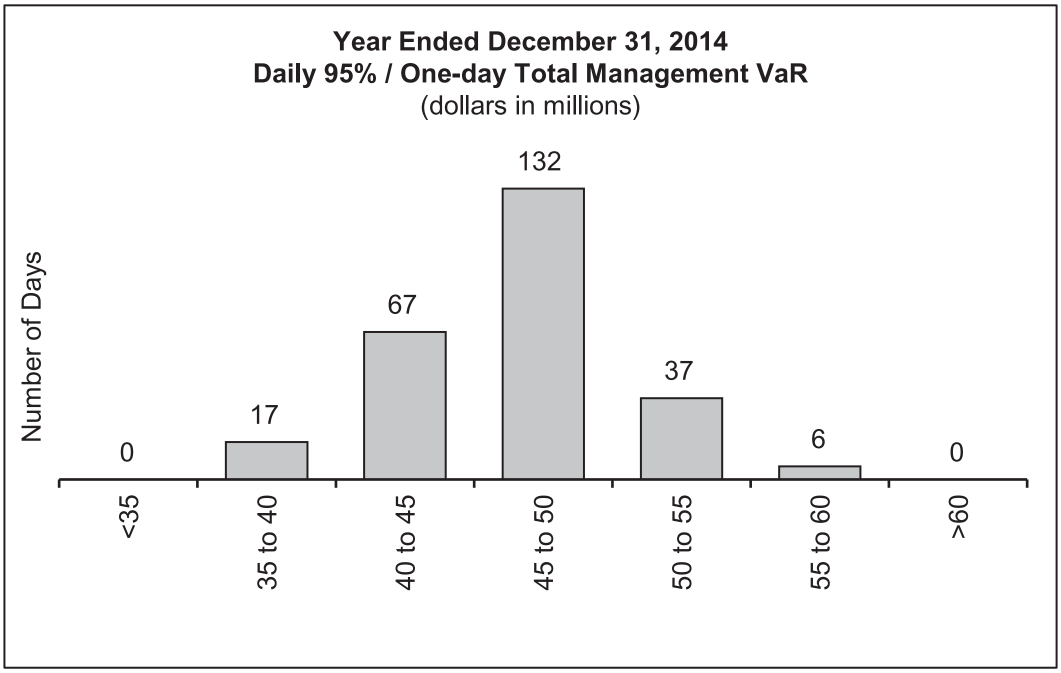


The histogram below shows the distribution for 2014 of daily net trading revenues, including profits and losses from positions included in VaR for the Company's businesses that comprise the Primary Risk Categories. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading. During 2014, the Company's businesses that comprise the Primary Risk Categories experienced net trading losses on 25 days, of which no day was in excess of the 95%/one-day Primary Risk Categories VaR.

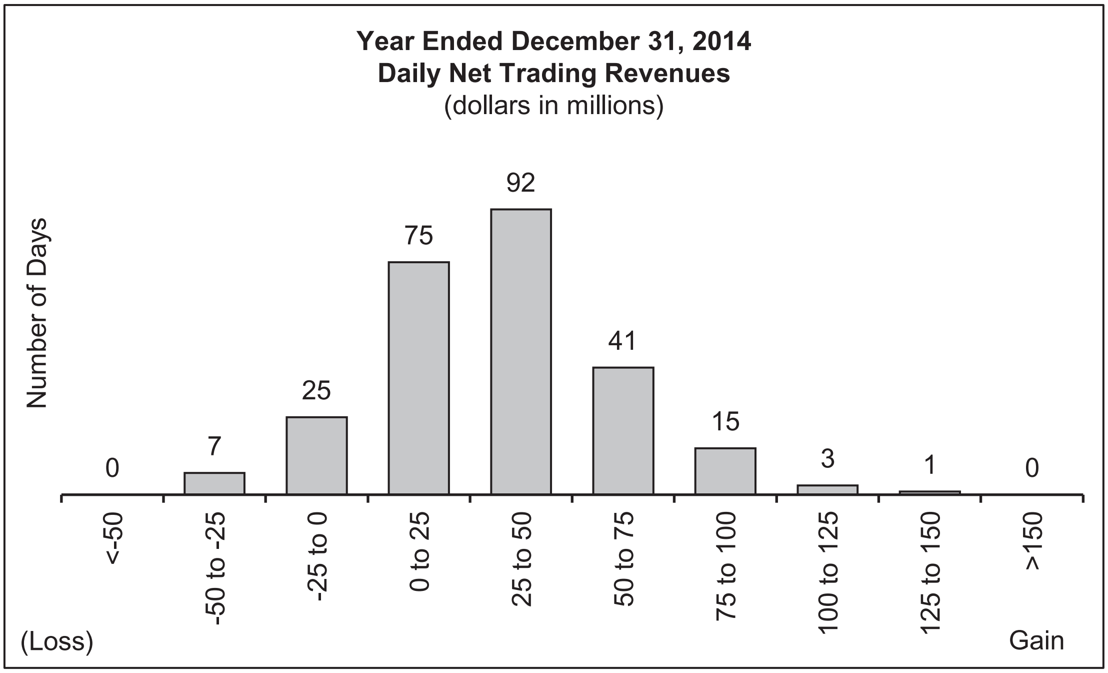


Total Trading—Including the Primary Risk Categories and the Credit Portfolio.

As shown in Table 1, the Company's average 95%/one-day Total Management VaR, which includes the Primary Risk Categories and the Credit Portfolio, for 2014 was $47 million. The histogram below presents the distribution of the Company's daily 95%/one-day Total Management VaR for 2014, which was in a range between $40 million and $55 million for approximately 91% of trading days during the year.



The histogram below shows the distribution for 2014 of daily net trading revenues, including profits and losses from Primary Risk Categories, Credit Portfolio positions and intraday trading activities, for the Company's Trading businesses. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading. During 2014, the Company experienced net trading losses on 32 days, of which no day was in excess of the 95%/one-day Total Management VaR.



Non-trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company's non-trading risks. Reflected below is this analysis covering substantially all of the non-trading risk in the Company's portfolio.

Counterparty Exposure Related to the Company's Own Credit Spread.

The credit spread risk relating to the Company's own mark-to-market derivative counterparty exposure is managed separately from VaR. The credit spread risk sensitivity of this exposure corresponds to an increase in value of approximately $6 million and $5 million for each 1 basis point widening in the Company's credit spread level for December 31, 2014 and December 31, 2013, respectively.

Funding Liabilities.

The credit spread risk sensitivity of the Company's mark-to-market funding liabilities corresponded to an increase in value of approximately $10 million and $11 million for each 1 basis point widening in the Company's credit spread level for December 31, 2014 and December 31, 2013, respectively.

Interest Rate Risk Sensitivity on Income from Continuing Operations.

The Company measures the interest rate risk of certain assets and liabilities by calculating the hypothetical sensitivity of net interest income to potential changes in the level of interest rates over the next 12 months. This sensitivity analysis includes positions that are mark-to-market, as well as positions that are accounted for on an accrual basis. For interest rate derivatives that are perfect economic hedges to non-mark-to-market assets or liabilities, the disclosed sensitivities include only the impact of the coupon accrual mismatch.

The hypothetical model does not assume any growth, change in business focus, asset pricing philosophy or asset/liability funding mix and does not capture how the Company would respond to significant changes in market conditions. Furthermore, the model does not reflect the Company's expectations regarding the movement of interest rates in the near term nor the actual effect on income from continuing operations before income taxes if such changes were to occur.

Given the current low interest rate environment, the Company uses the following interest rate scenarios to quantify the Company's interest rate risk sensitivity: instantaneous parallel shocks of 100 and 200 basis point increases and a 100 basis point decrease to all points on all yield curves simultaneously.

	+200 Basis Points	+100 Basis Points	-100 Basis Points(1)
	(dollars in millions)		
Impact on the Company's consolidated income from continuing operations before income taxes:			
December 31, 2014	$1,117	$635	N/M
December 31, 2013	1,102	642	N/M

(1) N/M—Not Meaningful given the current low interest rate environment.

Due to the non-trading nature of the assets and liabilities in the Company's U.S. Subsidiary Banks, net interest income sensitivity is computed and analyzed by management for both upward and downward movements in the yield curve. The Company uses the following interest rate scenarios to quantify the Company's U.S. Subsidiary Banks' interest rate risk sensitivity: instantaneous parallel shocks of 100 and 200 basis point increases and a 100 basis point decrease to all points on all yield curves simultaneously.

	+200 Basis Points	+100 Basis Points	-100 Basis Points
	(dollars in millions)		
Impact on the Company's U.S. Subsidiary Banks' income from continuing operations before income taxes:			
December 31, 2014	$256	$204	$(393)
December 31, 2013	503	342	(255)

Investments.

The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values.

	10% Sensitivity	
Investments	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Investments related to Investment Management activities:		
Hedge fund investments	$109	$104
Private equity and infrastructure funds	136	148
Real estate funds	150	158
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	142	161
Other Company investments	195	198

Equity Market Sensitivity.

In the Company's Wealth Management and Investment Management business segments, certain fee-based revenue streams are driven by the value of clients' equity holdings. The overall level of revenues for these streams also depends on multiple additional factors that include, but are not limited to, the level and duration of the equity market decline, price volatility, the geographic and industry mix of client assets, the rate and magnitude of client investments and redemptions, and the impact of such market decline and price volatility on client behavior. Therefore, overall revenues do not correlate completely with changes in the equity markets.

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfill their obligations. The Company primarily incurs credit risk exposure to institutions and individuals mainly through its Institutional Securities and Wealth Management business segments.

The Company may incur credit risk in its Institutional Securities business segment through a variety of activities, including, but not limited to, the following:

- entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Company;
- 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;
- posting margin and/or collateral to clearinghouses, clearing agencies, exchanges, banks, securities firms and other financial counterparties;
- placing funds on deposit at other financial institutions to support the Company's clearing and settlement obligations; and
- investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

The Company incurs credit risk in its Wealth Management business segment, primarily through lending to individuals and entities, including, but not limited to, the following:

- margin loans collateralized by securities;
- securities-based and other forms of secured loans; and
- single-family residential mortgage loans in conforming, non-conforming or home equity lines of credit ("HELOC") form, primarily to existing Wealth Management clients.

Monitoring and Control.

In order to help protect the Company from losses, the Company's Credit Risk Management Department establishes company-wide practices to evaluate, monitor and control credit risk exposure at the transaction, obligor and portfolio levels. The Company's Credit Risk Management Department approves extensions of credit, evaluates the creditworthiness of the Company's counterparties and borrowers on a regular basis, and ensures that credit exposure is actively monitored and managed. The evaluation of counterparties and borrowers includes an assessment of the probability that an obligor will default on its financial obligations and any losses that may occur when an obligor defaults. In addition, credit risk exposure is actively managed by credit professionals and committees within the Company's Credit Risk Management Department and through various risk committees, whose membership includes individuals from the Company's Credit Risk Management Department. A comprehensive and global Credit Limits Framework is utilized to manage credit risk levels across the Company. The Credit Limits Framework is calibrated within the Company's risk tolerance and includes single-name limits and portfolio concentration limits by country, industry and product type. The Company's Credit Risk Management Department ensures transparency of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. The Company's Credit Risk Management Department also works closely with the Company's Market Risk Department and applicable business units to monitor risk exposures and to perform stress tests to identify, analyze and control credit risk concentrations arising in the Company's lending and trading activities. The stress tests shock market factors (*e.g.*, interest rates, commodity prices, credit spreads), risk parameters *(e.g.*, default probabilities and loss given default), recovery rates and expected losses in order to assess the impact of stresses on exposures, profit and loss, and the Company's capital position. Stress and scenario tests are conducted in accordance with established Company policies and procedures.

Credit Evaluation. The evaluation of corporate and institutional counterparties and certain high net worth borrowers includes assigning obligor credit ratings, which reflect an assessment of an obligor's probability of default and loss given default. Credit evaluations typically involve the assessment of financial statements; leverage; liquidity; capital strength; asset composition and quality; market capitalization; access to capital markets; adequacy of collateral, if applicable; and in the case of certain loans, cash flow projections and debt service requirements. The Company's Credit Risk Management Department also evaluates strategy, market position, industry dynamics, management and other factors that could affect the obligor's risk profile. Additionally, the Company's Credit Risk Management Department evaluates the relative position of the Company's exposure in the borrower's capital structure and relative recovery prospects, as well as adequacy of collateral (if applicable) and other structural elements of the particular transaction.

The evaluation of consumer borrowers is tailored to the specific type of lending. Margin and securities-based loans are evaluated based on factors that include, but are not limited to, the amount of the loan, the degree of leverage and the quality, diversification, price volatility and liquidity of the collateral. The underwriting of residential real estate loans includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan-to-value ratio and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level, and for consumer loans, collateral values are monitored on an ongoing basis.

Credit risk metrics assigned to the Company's borrowers during the evaluation process are incorporated into the Company's Credit Risk Management Department's maintenance of the allowance for loan losses for the loans held for investment portfolio. Such allowance serves as a reserve for probable inherent losses as well as probable losses related to loans identified for impairment. For more information on the Company's allowance for loan losses, see Notes 2 and 8 to the Company's consolidated financial statements in Item 8.

Risk Mitigation. The Company may seek to mitigate credit risk from its lending and trading activities in multiple ways, including collateral provisions, guarantees and hedges. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The Company actively hedges its lending and derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. Additionally, the Company may sell, assign or syndicate funded loans and lending commitments to other financial institutions in the primary and secondary loan market. In connection with its derivatives trading activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of a counterparty default.

Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, the Company purchases loans in the secondary market. Loans held for investment and loans held for sale are classified in Loans, and loans held at fair value are classified in Trading assets in the Company's consolidated statements of financial condition. See Notes 4 and 8 to the Company's consolidated financial statements in Item 8 for further information.

The following tables present the Company's loan portfolio by loan type within its Institutional Securities and Wealth Management business segments at December 31, 2014 and December 31, 2013.

	At December 31, 2014			
	Institutional Securities Corporate Lending(1)	**Institutional Securities Other Lending(2)**	**Wealth Management Lending(3)**	**Total(4)**
	(dollars in millions)			
Corporate loans	$ 7,957	$ 6,161	$ 5,423	$19,541
Consumer loans	—	—	16,574	16,574
Residential real estate loans	—	—	15,727	15,727
Wholesale real estate loans	—	5,277	—	5,277
Loans held for investment, net of allowance	7,957	11,438	37,724	57,119
Corporate loans	7,801	399	—	8,200
Consumer loans	—	—	—	—
Residential real estate loans	—	16	98	114
Wholesale real estate loans	—	1,144	—	1,144
Loans held for sale	7,801	1,559	98	9,458
Corporate loans	483	6,610	—	7,093
Consumer loans	—	—	—	—
Residential real estate loans	—	1,682	—	1,682
Wholesale real estate loans	—	3,187	—	3,187
Loans held at fair value	483	11,479	—	11,962
Total loans	$16,241	$24,476	$37,822	$78,539

(1) In addition to loans, at December 31, 2014, $62.9 billion of unfunded lending commitments were accounted for as held for investment, $15.8 billion of unfunded lending commitments were accounted for as held for sale and $3.3 billion of unfunded lending commitments were accounted for at fair value.

(2) In addition to loans, at December 31, 2014, $2.3 billion of unfunded lending commitments were accounted for as held for investment, $0.8 billion of unfunded lending commitments were accounted for as held for sale and $2.1 billion of unfunded lending commitments were accounted for at fair value.

(3) In addition to loans, at December 31, 2014, $5.0 billion of unfunded lending commitments were accounted for as held for investment.

(4) Amounts exclude customer margin loans outstanding of $29.0 billion and employee loans outstanding of $5.1 billion at December 31, 2014. See Notes 6 and 8 to the Company's consolidated financial statements in Item 8 for further information.

	At December 31, 2013			
	Institutional Securities Corporate Lending(1)	Institutional Securities Other Lending(2)	Wealth Management Lending(3)	Total(4)
	(dollars in millions)			
Corporate loans	$ 7,837	$ 1,988	$ 3,301	$13,126
Consumer loans	—	—	11,576	11,576
Residential real estate loans	—	1	10,001	10,002
Wholesale real estate loans	—	1,835	6	1,841
Loans held for investment, net of allowance	7,837	3,824	24,884	36,545
Corporate loans	6,168	—	—	6,168
Consumer loans	—	—	—	—
Residential real estate loans	—	12	100	112
Wholesale real estate loans	—	49	—	49
Loans held for sale	6,168	61	100	6,329
Corporate loans	2,892	6,882	—	9,774
Consumer loans	—	—	—	—
Residential real estate loans	—	1,434	—	1,434
Wholesale real estate loans	—	1,404	—	1,404
Loans held at fair value	2,892	9,720	—	12,612
Total loans	$16,897	$13,605	$24,984	$55,486

(1) In addition to loans, at December 31, 2013, $61.4 billion of unfunded lending commitments were accounted for as held for investment, $8.1 billion of unfunded lending commitments were accounted for as held for sale and $9.1 billion of unfunded lending commitments were accounted for at fair value.

(2) In addition to loans, at December 31, 2013, $1.3 billion of unfunded lending commitments were accounted for as held for investment and $0.8 billion of unfunded lending commitments were accounted for at fair value.

(3) In addition to loans, at December 31, 2013, $4.5 billion of unfunded lending commitments were accounted for as held for investment.

(4) Amounts exclude customer margin loans outstanding of $29.2 billion and employee loans outstanding of $5.5 billion at December 31, 2013. See Notes 6 and 8 to the Company's consolidated financial statements in Item 8 for further information.

At December 31, 2014 and December 31, 2013, the allowance for loan losses related to funded loans that were accounted for as held for investment, was $149 million and $156 million, respectively, and the allowance for loan losses related to unfunded lending commitments that were accounted for as held for investment, was $149 million and $127 million, respectively. The aggregate allowance for loan losses for funded and unfunded loans increased slightly over the year due to the growth of the portfolio and reflected the high quality of the Company's lending portfolios resulting from strong credit risk management. See Note 8 to the Company's consolidated financial statements in Item 8 for further information.

Institutional Securities Corporate Lending Activities. In connection with certain of its Institutional Securities business segment activities, the Company provides loans or lending commitments to select corporate clients. These loans and lending commitments may have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by the Company.

The Company's corporate lending credit exposure is primarily from loans and lending commitments used for general corporate purposes, working capital and liquidity purposes and typically consists of revolving lines of credit, letter of credit facilities and term loans. In addition, the Company provides "event-driven" loans and lending commitments associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization activities. The Company's "event-driven" loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans.

Corporate lending commitments may not be indicative of the Company’s actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment or the Company’s portion of the commitment may be reduced through the syndication or sales process. Such syndications or sales may involve third-party institutional investors where the Company may have a custodial relationship, such as prime brokerage clients.

The Company may hedge and/or sell its exposures in connection with loans and lending commitments. Additionally, the Company may mitigate credit risk by requiring borrowers to pledge collateral and include financial covenants in lending commitments to such borrowers. In the Company’s consolidated statements of financial condition these loans are carried at either fair value with changes in fair value recorded in earnings; held for investment, which are recorded at amortized cost; or held for sale, which are recorded at lower of cost or fair value.

The Company’s credit exposure from its corporate lending positions and lending commitments is measured in accordance with the Company’s internal risk management standards. Lending commitments represent legally binding obligations to provide funding to clients for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.

The following tables present the Company’s Institutional Securities Corporate Lending Commitments and Funded Loans at December 31, 2014 and December 31, 2013.

	At December 31, 2014				
	Years to Maturity				
Credit Rating(1)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total(2)(3)**
	(dollars in millions)				
AAA	$ 275	$ 74	$ 37	$ —	$ 386
AA	3,760	2,764	4,580	—	11,104
A	2,135	4,534	12,029	173	18,871
BBB	3,350	9,303	22,424	1,503	36,580
Investment grade	9,520	16,675	39,070	1,676	66,941
Non-investment grade	2,034	7,222	17,755	4,050	31,061
Total	$11,554	$23,897	$56,825	$5,726	$98,002

(1) Obligor credit ratings are determined by the Company’s Credit Risk Management Department.

(2) For syndications led by the Company, lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that the Company participates in and does not lead, lending commitments accepted by the borrower but not yet closed include only the amount that the Company expects it will be allocated from the lead syndicate bank.

(3) Amounts include the fair value adjustment of ($0.3) billion related to the Company’s unfunded lending commitments.

	At December 31, 2013(1)				
	Years to Maturity				
Credit Rating(2)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total(3)(4)**
	(dollars in millions)				
AAA	$ 859	$ 114	$ 121	$ —	$ 1,094
AA	2,718	1,870	5,556	—	10,144
A	3,159	4,230	11,417	598	19,404
BBB	2,486	10,551	21,530	752	35,319
Investment grade	9,222	16,765	38,624	1,350	65,961
Non-investment grade	2,757	8,069	13,028	5,572	29,426
Total	$11,979	$24,834	$51,652	$6,922	$95,387

(1) All prior-year amounts have been recast to conform to the current year’s presentation.

(2) Obligor credit ratings are determined by the Company’s Credit Risk Management Department.

(3) For syndications led by the Company, lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that the Company participates in and does not lead, lending

commitments accepted by the borrower but not yet closed include only the amount that the Company expects it will be allocated from the lead syndicate bank.

(4) Amounts include the fair value adjustment of ($0.1) billion related to the Company's unfunded lending commitments.

At December 31, 2014 and December 31, 2013, the aggregate amount of investment grade funded loans was $6.3 billion and $6.7 billion, respectively, and the aggregate amount of non-investment grade funded loans was $9.9 billion and $10.2 billion, respectively. In connection with these corporate lending activities (which include both corporate funded and unfunded lending commitments), the Company had hedges (which included "single name," "sector" and "index" hedges) with a notional amount of $12.9 billion related to the total corporate lending exposure of $98.0 billion at December 31, 2014 and with a notional amount of $9.0 billion related to the total corporate lending exposure of $95.4 billion at December 31, 2013. At December 31, 2014 and December 31, 2013, all Corporate lending activities held for investment were current.

"Event-Driven" Loans and Lending Commitments at December 31, 2014.

Included in the total corporate lending exposure amounts in the table above at December 31, 2014 were "event-driven" exposures of $15.2 billion composed of funded loans of $5.7 billion and lending commitments of $9.5 billion. Included in the "event-driven" exposure at December 31, 2014 were $11.6 billion of loans and lending commitments to non-investment grade borrowers. The maturity profile of these "event-driven" loans and lending commitments at December 31, 2014 were as follows: 18% will mature in less than 1 year, 14% will mature within 1 to 3 years, 37% will mature within 3 to 5 years and 31% will mature in over 5 years.

Industry Exposure—Corporate Lending. The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed below.

The following table presents the Company's Institutional Securities credit exposure from its primary Corporate Lending Commitments and Funded Loans by industry:

Industry	At December 31, 2014	At December 31, 2013(1)
	(dollars in millions)	
Energy	$14,056	$12,240
Utilities	11,717	10,404
Consumer discretionary	10,214	10,332
Healthcare	9,707	10,096
Funds, exchanges and other financial services(2)	9,277	9,297
Industrials	9,134	10,976
Information technology	7,572	6,882
Consumer staples	7,320	6,964
Materials	5,259	4,895
Real Estate	4,616	4,161
Telecommunications services	4,335	5,684
Other	4,795	3,456
Total	$98,002	$95,387

(1) All prior-year amounts have been recast to conform to the current year's presentation.

(2) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.

Institutional Securities Other Lending Activities. In addition to the primary corporate lending activities described above, the Company's Institutional Securities business segment engages in other lending activities. These activities include commercial and residential mortgage lending, asset-backed lending, corporate loans purchased in the secondary market, financing extended to institutional equities clients and loans to municipalities. In 2014, loans and lending commitments associated with these activities increased by approximately 89%, mainly due to growth in corporate and wholesale real estate loans. At December 31, 2014 and December 31, 2013, approximately 99.9% and 99.6%, respectively, of Institutional Securities other lending activities held for investment were current and approximately 0.1% and 0.4%, respectively, were on non-accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

The following tables present the Company's Institutional Securities business segment's other lending activities by remaining contract maturity:

	At December 31, 2014				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Corporate loans	$4,231	$4,826	$1,884	$2,229	$13,170
Residential real estate loans	—	43	—	1,655	1,698
Wholesale real estate loans	100	5,060	2,112	2,336	9,608
Total	$4,331	$9,929	$3,996	$6,220	$24,476

	At December 31, 2013				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Corporate loans	$3,957	$1,236	$2,455	$1,222	$ 8,870
Residential real estate loans	8	16	91	1,332	1,447
Wholesale real estate loans	174	909	885	1,320	3,288
Total	$4,139	$2,161	$3,431	$3,874	$13,605

In addition, Institutional Securities other lending activities include margin lending, which allows the client to borrow against the value of qualifying securities. At December 31, 2014 and December 31, 2013, Institutional Securities margin lending of $15.3 billion and $15.2 billion, respectively, were classified within Customer and other receivables in the Company's consolidated statements of financial condition.

Wealth Management Lending Activities. The principal Wealth Management lending activities include securities-based lending and residential real estate loans. The following tables present the Company's Wealth Management business segment lending activities by remaining contract maturity:

	At December 31, 2014				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Securities-based lending and other loans	$19,408	$1,071	$750	$ 768	$21,997
Residential real estate loans	—	—	—	15,825	15,825
Total	$19,408	$1,071	$750	$16,593	$37,822

	At December 31, 2013				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Securities-based lending and other loans	$13,241	$509	$539	$ 594	$14,883
Residential real estate loans	—	—	—	10,101	10,101
Total	$13,241	$509	$539	$10,695	$24,984

Securities-based lending provided to the Company's retail clients is primarily conducted through the Company's PLA platform which had an outstanding funded loan balance of $19.1 billion within the $22.0 billion at December 31, 2014 and $13.2 billion within the $14.9 billion at December 31, 2013. These loans allow the client to borrow money against the value of qualifying securities for any purpose other than purchasing securities. The Company establishes approved credit lines against qualifying securities and monitors limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce debt positions, when necessary. These credit lines are primarily uncommitted loan facilities, as the Company reserves the right to not make any advances, or may terminate these credit lines at any time. Factors considered in the review of these loans include but are not limited to the loan amount, the degree of leverage and the quality of diversification, price volatility and liquidity of the collateral.

Residential real estate loans consist of first and second lien mortgages, including HELOC loans. For these loans, a loan evaluation process is adopted within a framework of credit underwriting policies and collateral valuation. The Company's underwriting policy is designed to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysis of applicable industry standard credit scoring models (e.g., Fair Isaac Corporation ("FICO") scores), debt ratios and assets of the borrower. Loan-to-value ratios are determined based on independent third-party property appraisal/valuations, and security lien position is established through title/ownership reports. The vast majority of mortgage and HELOC loans are held for investment in the Company's Wealth Management business segment's loan portfolio.

In 2014, loans and lending commitments associated with the Company's Wealth Management business segment lending activities increased by approximately 45%, mainly due to growth in PLA and residential real estate loans. At December 31, 2014 and December 31, 2013, approximately 99.9% of the Company's Wealth Management business segment lending activities held for investment were current; while approximately 0.1% were on non-accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

The Company's Wealth Management business segment also provides margin lending to retail clients and had an outstanding balance of $13.7 billion and $14.0 billion at December 31, 2014 and December 31, 2013, respectively, which were classified within Customer and other receivables in the Company's consolidated statements of financial condition.

In addition, the Company's Wealth Management business segment has employee loans that are granted primarily in conjunction with a program established by the Company to recruit and retain certain employees. These loans, recorded in Customer and other receivables in the Company's consolidated statements of financial condition, are full recourse, require periodic payments and have repayment terms ranging from two to 12 years. The Company establishes an allowance for loan amounts it does not consider recoverable from terminated employees, which is recorded in Compensation and benefits expense.

Credit Exposure—Derivatives.

The Company incurs credit risk as a dealer in over-the-counter ("OTC") derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. In connection with its OTC derivative activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to demand collateral as well as to liquidate collateral and offset receivables and payables covered under the same master netting agreement in the event of counterparty default. The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). For credit exposure information on the Company's OTC derivative products, see Note 12 to the Company's consolidated financial statements in Item 8.

Credit Derivatives. A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on one or more debt obligations issued by a specified reference entity. The beneficiary typically pays a periodic premium over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events, as defined in the contract, may be one or more of the following defined events: bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation, payment moratorium and restructurings.

The Company trades in a variety of credit derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. In transactions referencing a portfolio of entities or securities, protection may be limited to a tranche of exposure or a single name within the portfolio. The Company is an active market maker in the credit derivatives markets. As a market maker, the Company works to earn a bid-offer spread on client flow business and manages any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented. The effectiveness of the Company's credit default swap ("CDS") protection as a hedge of the Company's exposures may vary depending upon a number of factors, including the contractual terms of the CDS.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company's counterparties are composed of banks, broker-dealers, insurance and other financial institutions. Contracts with these counterparties may include provisions related to counterparty rating downgrades, which may result in additional collateral being required by the Company. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate within Trading revenues in the Company's consolidated statements of income.

The following tables summarize the key characteristics of the Company's credit derivative portfolio by counterparty type at December 31, 2014 and December 31, 2013. The fair values shown are before the application of contractual netting or collateral. For additional credit exposure information on the Company's credit derivative portfolio, see Note 12 to the Company's consolidated financial statements in Item 8.

	At December 31, 2014				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$25,452	$25,323	$129	$712,466	$687,155
Insurance and other financial institutions	6,639	6,697	(58)	216,489	217,201
Non-financial entities	91	89	2	5,049	3,706
Total	$32,182	$32,109	$ 73	$934,004	$908,062

(1) The Company's CDS are classified in either Level 2 or Level 3 of the fair value hierarchy. Approximately 4% of receivable fair values and 7% of payable fair values represent Level 3 amounts (see Note 4 to the Company's consolidated financial statements in Item 8).

	At December 31, 2013				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$60,728	$57,399	$3,329	$1,620,774	$1,573,217
Insurance and other financial institutions	7,313	6,908	405	278,705	313,897
Non-financial entities	226	187	39	7,922	6,078
Total	$68,267	$64,494	$3,773	$1,907,401	$1,893,192

(1) The Company's CDS are classified in either Level 2 or Level 3 of the fair value hierarchy. Approximately 7% of receivable fair values and 5% of payable fair values represent Level 3 amounts (see Note 4 to the consolidated financial statements in Item 8).

Industry Exposure—OTC Derivative Products. The Company also monitors its credit exposure to individual industries for current exposure arising from the Company's OTC derivative contracts.

The following table shows the Company's OTC derivative products at fair value by industry:

Industry	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Utilities	$ 3,797	$ 3,142
Banks and securities firms	3,297	2,358
Funds, exchanges and other financial services(1)	2,321	2,433
Industrials	2,278	914
Regional governments	1,603	1,597
Healthcare	1,365	1,089
Special purpose vehicles	1,089	1,908
Not-for-profit organizations	905	672
Sovereign governments	889	816
Real Estate	761	503
Consumer staples	650	487
Other	3,272	1,695
Total(2)	$22,227	$17,614

(1) Amounts include mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.

(2) For further information on derivative instruments and hedging activities, see Note 12 to the Company's consolidated financial statements in Item 8.

Other.

In addition to the activities noted above, there are other credit risks managed by the Company's Credit Risk Management Department and various business areas within the Company's Institutional Securities business segment. The Company participates in securitization activities whereby it extends short-term or long-term funding to clients through loans and lending commitments that are secured by the assets of the borrower and generally provide for over-collateralization, including commercial real estate loans, loans secured by loan pools, commercial company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value. See Note 7 to the Company's consolidated financial statements in Item 8 for information about the Company's securitization activities. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 6 to the Company's consolidated financial statements in Item 8 for additional information about the Company's collateralized transactions.

Country Risk Exposure.

Country risk exposure is the risk that uncertainties arising from the economic, social, security and political conditions within a foreign country (any country other than the U.S.) will adversely affect the ability of the sovereign government and/or obligors within the country to honor their obligations to the Company. Country risk exposure is measured in accordance with the Company's internal risk management standards and includes obligations from sovereign governments, corporations, clearinghouses and financial institutions. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Company to effectively identify, monitor and limit country risk. Country risk exposure before and after hedges is monitored and managed.

The Company's obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country risk.

The Company conducts periodic stress testing that seeks to measure the impact on the Company's credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by the Company's risk managers, the stress test scenarios include possible contagion effects. Second order risks such as the impact for core European banks of their peripheral exposures may also be considered. This analysis, and results of the stress tests, may result in the amendment of limits or exposure mitigation.

In addition to the Company's country risk exposure, the Company discloses its cross-border risk exposure in "Financial Statements and Supplementary Data—Financial Data Supplement (Unaudited)" in Item 8. It is based on the Federal Financial Institutions Examination Council's regulatory guidelines for reporting cross-border information and represents the amounts that the Company may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

There can be substantial differences between the Company's country risk exposure and cross-border risk exposure. For instance, unlike the cross-border risk exposure, the Company's country risk exposure includes the effect of certain risk mitigants. In addition, the basis for determining the domicile of the country risk exposure is different from the basis for determining the cross-border risk exposure. Cross-border risk exposure is reported based on the country of jurisdiction for the obligor or guarantor. Besides country of jurisdiction, the Company considers factors such as physical location of operations or assets, location and source of cash flows/revenues and location of collateral (if applicable) in order to determine the basis for country risk exposure. Furthermore, cross-border risk exposure incorporates CDS only where protection is purchased while country risk exposure incorporates CDS where protection is both purchased and sold.

The Company's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The following table shows the Company's ten largest non-U.S. country risk net exposures at December 31, 2014. Index credit derivatives are included in the Company's country risk exposure tables. Each reference entity within an index is allocated to that reference entity's country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)	Increase/ (Decrease) in Net Exposure from December 31, 2013
	(dollars in millions)							
United Kingdom:								
Sovereigns	$ (547)	$ 110	$ —	$ —	$ (437)	$ (36)	$ (473)	$ (805)
Non-sovereigns	1,977	13,005	1,703	6,888	23,573	(2,106)	21,467	3,816
Subtotal	$ 1,430	$13,115	$1,703	$6,888	$23,136	$(2,142)	$20,994	$ 3,011
Germany:								
Sovereigns	$ 1,488	$ 286	$ —	$ —	$ 1,774	$(1,765)	$ 9	$ 1,365
Non-sovereigns	682	2,655	533	3,786	7,656	(1,813)	5,843	(932)
Subtotal	$ 2,170	$ 2,941	$ 533	$3,786	$ 9,430	$(3,578)	$ 5,852	$ 433
Brazil:								
Sovereigns	$ 3,222	$ —	$ —	$ —	$ 3,222	$ —	$ 3,222	$ (238)
Non-sovereigns	10	219	949	150	1,328	(684)	644	(552)
Subtotal	$ 3,232	$ 219	$ 949	$ 150	$ 4,550	$ (684)	$ 3,866	$ (790)
France:								
Sovereigns	$(1,293)	$ —	$ —	$ —	$(1,293)	$ —	$(1,293)	$ (591)
Non-sovereigns	482	2,221	195	2,890	5,788	(707)	5,081	395
Subtotal	$ (811)	$ 2,221	$ 195	$2,890	$ 4,495	$ (707)	$ 3,788	$ (196)
China:								
Sovereigns	$ 484	$ 130	$ —	$ —	$ 614	$ —	$ 614	$ 147
Non-sovereigns	1,657	364	548	396	2,965	(44)	2,921	989
Subtotal	$ 2,141	$ 494	$ 548	$ 396	$ 3,579	$ (44)	$ 3,535	$ 1,136
Singapore:								
Sovereigns	$ 2,394	$ 207	$ —	$ —	$ 2,601	$ —	$ 2,601	$ 244
Non-sovereigns	172	513	59	122	866	—	866	(33)
Subtotal	$ 2,566	$ 720	$ 59	$ 122	$ 3,467	$ —	$ 3,467	$ 211
Canada:								
Sovereigns	$ (169)	$ 78	$ —	$ —	$ (91)	$ —	$ (91)	$(1,102)
Non-sovereigns	(230)	1,837	188	1,354	3,149	(86)	3,063	(288)
Subtotal	$ (399)	$ 1,915	$ 188	$1,354	$ 3,058	$ (86)	$ 2,972	$(1,390)
Australia:								
Sovereigns	$ (25)	$ 14	$ —	$ —	$ (11)	$ —	$ (11)	$ 44
Non-sovereigns	892	799	320	1,139	3,150	(392)	2,758	65
Subtotal	$ 867	$ 813	$ 320	$1,139	$ 3,139	$ (392)	$ 2,747	$ 109
Italy:								
Sovereigns	$ 1,119	$ 12	$ —	$ —	$ 1,131	$ (101)	$ 1,030	$ 281
Non-sovereigns	613	519	—	683	1,815	(153)	1,662	168
Subtotal	$ 1,732	$ 531	$ —	$ 683	$ 2,946	$ (254)	$ 2,692	$ 449
Netherlands:								
Sovereigns	$ (180)	$ 2	$ —	$ —	$ (178)	$ (23)	$ (201)	$ 67
Non-sovereigns	477	859	114	1,299	2,749	(307)	2,442	(452)
Subtotal	$ 297	$ 861	$ 114	$1,299	$ 2,571	$ (330)	$ 2,241	$ (385)

[1] Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At December 31, 2014, gross purchased protection, gross written protection and net exposures related to single-name and index credit derivatives for those countries were $(261.7) billion, $259.6 billion and $(0.2) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company's hedges, see "Credit Exposure—Derivatives" herein.

[2] Net counterparty exposure (*i.e*., repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.

[3] At December 31, 2014, the benefit of collateral received against counterparty credit exposure was $11.9 billion in the U.K., with 98% of collateral consisting of cash, U.S. and U.K. government obligations, and $14.1 billion in Germany with 98% of collateral consisting of cash and government obligations of Germany, France, Belgium and Netherlands. The benefit of collateral received against counterparty credit exposure in the other countries totaled approximately $15.4 billion, with collateral primarily consisting of cash, U.S. and Japanese government obligations. These amounts do not include collateral received on secured financing transactions.

[4] Amounts represent CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

[5] In addition, at December 31, 2014, the Company had exposure to these countries for overnight deposits with banks of approximately $5.1 billion.

Operational Risk.

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people, and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks or damage to physical assets). Operational risk includes legal and compliance risk. Operational risk relates to the following risk event categories as defined by Basel II: internal fraud; external fraud, employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal and Compliance Risk."

The Company has established an operational risk framework to identify, measure, monitor and control risk across the Company. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to account for changes in the Company and respond to the changing regulatory and business environment. The Company has implemented operational risk data and assessment systems to monitor and analyze internal and external operational risk events, business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment internal control factors and metrics are evaluated as part of the scenario analysis process.

Primary responsibility for the management of operational risk is with the Company's business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the Company's business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Company's Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganization; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Company's Operational Risk Department is independent of the Company's divisions and reports to the Company's Chief Risk Officer. The Company's Operational Risk Department provides oversight of operational risk management and independently assesses, measures and monitors operational risk. The Company's Operational Risk Department works with the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company. The Company's Operational Risk Department scope includes the information and technology risk oversight program (*e.g.*, cybersecurity) and supplier management (vendor risk oversight and assessment) program. Furthermore, the Company's Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for operational risk capital.

Business Continuity Management is responsible for identifying key risks and threats to the Company's resiliency and planning to ensure that a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a company-wide basis, and redundancies are built into the systems as deemed appropriate. The key components of the Company's disaster recovery plans include: crisis management; business recovery plans; applications/data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Company maintains an information security program that coordinates the management of information security risks and satisfies regulatory requirements. Information security policies are designed to protect the Company's information assets against unauthorized disclosure, modification or misuse. These policies cover a broad range of areas, including: application entitlements, data protection, incident response, Internet and electronic communications, remote access and portable devices. The Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorized access.

In connection with its ongoing operations, the Company utilizes the services of external vendors, which it anticipates will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company manages its exposures to these services through a variety of means such as the performance of due diligence, consideration of operational risk, implementation of service level and other contractual agreements, and ongoing monitoring of the vendors' performance. The Company maintains a supplier risk management program with policies, procedures, organization, governance and supporting technology. The programs are designed to ensure adequate risk management controls over the services exist, including but not limited to information security, operational failure, financial stability, disaster recoverability, reputational risk, safeguards against corruption, and termination.

Legal and Compliance Risk.

Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation that the Company may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its business activities. This risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business (see also "Business—Supervision and Regulation" in Part I, Item 1 and "Risk Factors" in Part I, Item 1A). The Company has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements. The Company, principally through its Legal and Compliance Division, also has established procedures that are designed to require that the Company's policies relating to business conduct, ethics and practices are followed globally. In connection with its businesses, for example, the Company has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, information security, privacy and recordkeeping. In addition, the

Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services and banking industry presents a continuing business challenge for the Company.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley and subsidiaries (the "Company") as of December 31, 2014 and 2013 and the consolidated statements of income, comprehensive income, cash flows, and changes in total equity for the years ended December 31, 2014, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years ended December 31, 2014, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
March 2, 2015

MORGAN STANLEY

Consolidated Statements of Financial Condition
(dollars in millions, except share data)

	December 31, 2014	December 31, 2013
Assets		
Cash and due from banks ($45 and $544 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	$ 21,381	$ 16,602
Interest bearing deposits with banks	25,603	43,281
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements ($149 and $117 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	40,607	39,203
Trading assets, at fair value ($127,342 and $151,078 were pledged to various parties at December 31, 2014 and December 31, 2013, respectively) ($966 and $2,825 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	256,801	280,744
Investment securities (includes $69,216 and $53,430 at fair value at December 31, 2014 and December 31, 2013, respectively)	69,316	53,430
Securities received as collateral, at fair value	21,316	20,508
Securities purchased under agreements to resell (includes $1,113 and $866 at fair value at December 31, 2014 and December 31, 2013, respectively)	83,288	118,130
Securities borrowed	136,708	129,707
Customer and other receivables	48,961	57,104
Loans:		
Held for investment (net of allowances of $149 and $156 at December 31, 2014 and December 31, 2013, respectively)	57,119	36,545
Held for sale	9,458	6,329
Other investments ($467 and $561 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	4,355	5,086
Premises, equipment and software costs (net of accumulated depreciation of $6,219 and $6,420 at December 31, 2014 and December 31, 2013, respectively) ($191 and $201 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,108	6,019
Goodwill	6,588	6,595
Intangible assets (net of accumulated amortization of $1,824 and $1,527 at December 31, 2014 and December 31, 2013, respectively) (includes $6 and $8 at fair value at December 31, 2014 and December 31, 2013, respectively)	3,159	3,286
Other assets ($59 and $11 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	10,742	10,133
Total assets	$801,510	$832,702
Liabilities		
Deposits (includes $0 and $185 at fair value at December 31, 2014 and December 31, 2013, respectively).	$133,544	$112,379
Commercial paper and other short-term borrowings (includes $1,765 and $1,347 at fair value at December 31, 2014 and December 31, 2013, respectively)	2,261	2,142
Trading liabilities, at fair value ($1 and $33 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	107,381	104,521
Obligation to return securities received as collateral, at fair value	25,685	24,568
Securities sold under agreements to repurchase (includes $612 and $561 at fair value at December 31, 2014 and December 31, 2013, respectively)	69,949	145,676
Securities loaned	25,219	32,799
Other secured financings (includes $4,504 and $5,206 at fair value at December 31, 2014 and December 31, 2013, respectively) ($348 and $543 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	12,085	14,215
Customer and other payables	181,069	157,125
Other liabilities and accrued expenses ($72 and $76 at December 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	19,441	16,672
Long-term borrowings (includes $31,774 and $35,637 at fair value at December 31, 2014 and December 31, 2013, respectively)	152,772	153,575
Total liabilities	729,406	763,672
Commitments and contingent liabilities (see Note 13)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock (see Note 15)	6,020	3,220
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at December 31, 2014 and December 31, 2013; Shares issued: 2,038,893,979 at December 31, 2014 and December 31, 2013; Shares outstanding: 1,950,980,142 and 1,944,868,751 at December 31, 2014 and December 31, 2013, respectively	20	20
Additional paid-in capital	24,249	24,570
Retained earnings	44,625	42,172
Employee stock trusts	2,127	1,718
Accumulated other comprehensive loss	(1,248)	(1,093)
Common stock held in treasury, at cost, $0.01 par value:		
Shares outstanding: 87,913,837 and 94,025,228 at December 31, 2014 and December 31, 2013, respectively	(2,766)	(2,968)
Common stock issued to employee stock trusts	(2,127)	(1,718)
Total Morgan Stanley shareholders' equity	70,900	65,921
Nonredeemable noncontrolling interests	1,204	3,109
Total equity	72,104	69,030
Total liabilities and equity	$801,510	$832,702

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Income
(dollars in millions, except share and per share data)

	2014	2013	2012
Revenues:			
Investment banking	$ 5,948	$ 5,246	$ 4,758
Trading	9,377	9,359	6,990
Investments	836	1,777	742
Commissions and fees	4,713	4,629	4,253
Asset management, distribution and administration fees	10,570	9,638	9,008
Other	1,096	1,066	632
Total non-interest revenues	32,540	31,715	26,383
Interest income	5,413	5,209	5,692
Interest expense	3,678	4,431	5,897
Net interest	1,735	778	(205)
Net revenues	34,275	32,493	26,178
Non-interest expenses:			
Compensation and benefits	17,824	16,277	15,615
Occupancy and equipment	1,433	1,499	1,543
Brokerage, clearing and exchange fees	1,806	1,711	1,535
Information processing and communications	1,635	1,768	1,912
Marketing and business development	658	638	601
Professional services	2,117	1,894	1,922
Other	5,211	4,148	2,454
Total non-interest expenses	30,684	27,935	25,582
Income from continuing operations before income taxes	3,591	4,558	596
Provision for (benefit from) income taxes	(90)	902	(161)
Income from continuing operations	3,681	3,656	757
Discontinued operations:			
Income (loss) from discontinued operations before income taxes	(19)	(72)	(48)
Provision for (benefit from) income taxes	(5)	(29)	(7)
Income (loss) from discontinued operations	(14)	(43)	(41)
Net income	$ 3,667	$ 3,613	$ 716
Net income applicable to redeemable noncontrolling interests	—	222	124
Net income applicable to nonredeemable noncontrolling interests	200	459	524
Net income applicable to Morgan Stanley	$ 3,467	$ 2,932	$ 68
Preferred stock dividends and other	315	277	98
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 3,152	$ 2,655	$ (30)
Amounts applicable to Morgan Stanley:			
Income from continuing operations	$ 3,481	$ 2,975	$ 138
Income (loss) from discontinued operations	(14)	(43)	(70)
Net income applicable to Morgan Stanley	$ 3,467	$ 2,932	$ 68
Earnings (loss) per basic common share:			
Income from continuing operations	$ 1.65	$ 1.42	$ 0.02
Income (loss) from discontinued operations	(0.01)	(0.03)	(0.04)
Earnings (loss) per basic common share	$ 1.64	$ 1.39	$ (0.02)
Earnings (loss) per diluted common share:			
Income from continuing operations	$ 1.61	$ 1.38	$ 0.02
Income (loss) from discontinued operations	(0.01)	(0.02)	(0.04)
Earnings (loss) per diluted common share	$ 1.60	$ 1.36	$ (0.02)
Dividends declared per common share	$ 0.35	$ 0.20	$ 0.20
Average common shares outstanding:			
Basic	1,923,805,397	1,905,823,882	1,885,774,276
Diluted	1,970,535,560	1,956,519,738	1,918,811,270

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Comprehensive Income
(dollars in millions)

	2014	2013	2012
Net income	$3,667	$3,613	$ 716
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments(1)	$ (491)	$ (348)	$(255)
Amortization of cash flow hedges(2)	4	4	6
Change in net unrealized gains (losses) on available for sale securities(3)	209	(433)	28
Pension, postretirement and other related adjustments(4)	29	(5)	(260)
Total other comprehensive income (loss)	$ (249)	$ (782)	$(481)
Comprehensive income (loss)	$3,418	$2,831	$ 235
Net income applicable to redeemable noncontrolling interests	—	222	124
Net income applicable to nonredeemable noncontrolling interests	200	459	524
Other comprehensive income (loss) applicable to redeemable noncontrolling interests	—	—	(2)
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	(94)	(205)	(120)
Comprehensive income (loss) applicable to Morgan Stanley	$3,312	$2,355	$(291)

(1) Amounts include provision for income taxes of $352 million, $351 million and $120 million for 2014, 2013 and 2012, respectively.

(2) Amounts include provision for income taxes of $2 million, $3 million and $3 million for 2014, 2013 and 2012, respectively.

(3) Amounts include provision for (benefit from) income taxes of $142 million, $(296) million and $16 million for 2014, 2013 and 2012, respectively.

(4) Amounts include provision for (benefit from) income taxes of $18 million, $8 million and $(156) million for 2014, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Cash Flows
(dollars in millions)

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,667	$ 3,613	$ 716
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Deferred income taxes	(231)	(117)	(639)
Income from equity method investments	(156)	(451)	(52)
Compensation payable in common stock and options	1,260	1,180	891
Depreciation and amortization	1,161	1,511	1,581
Net gain on sale of available for sale securities	(40)	(45)	(78)
Impairment charges	111	198	271
Provision for credit losses on lending activities	23	110	155
Other operating activities	(72)	142	(69)
Changes in assets and liabilities:			
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(1,404)	(8,233)	(1,516)
Trading assets, net of Trading liabilities	20,664	(23,054)	6,389
Securities borrowed	(7,001)	(8,006)	5,373
Securities loaned	(7,580)	(4,050)	6,387
Customer and other receivables and other assets	3,608	6,774	(10,030)
Customer and other payables and other liabilities	27,971	26,697	(1,283)
Securities purchased under agreements to resell	34,842	16,282	(4,257)
Securities sold under agreements to repurchase	(75,692)	23,002	20,920
Net cash provided by (used for) operating activities	1,131	35,553	24,759
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payments for):			
Premises, equipment and software, net	(992)	(1,316)	(1,312)
Business dispositions, net of cash disposed	989	1,147	1,725
Loans	(20,116)	(10,057)	(3,486)
Investment securities:			
Purchases	(32,623)	(30,557)	(24,477)
Proceeds from sales	12,980	11,425	10,398
Proceeds from paydowns and maturities	4,651	4,757	4,738
Other investing activities	(213)	140	(211)
Net cash provided by (used for) investing activities	(35,324)	(24,461)	(12,625)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for):			
Commercial paper and other short-term borrowings	119	4	(705)
Noncontrolling interests	(189)	(557)	(296)
Other secured financings	(2,189)	(10,726)	(6,628)
Deposits	21,165	29,113	17,604
Proceeds from:			
Excess tax benefits associated with stock-based awards	101	10	42
Derivatives financing activities	855	1,003	243
Issuance of preferred stock, net of issuance costs	2,782	1,696	—
Issuance of long-term borrowings	36,740	27,939	23,646
Payments for:			
Long-term borrowings	(33,103)	(38,742)	(43,092)
Derivatives financing activities	(776)	(1,216)	(125)
Repurchases of common stock and employee tax withholdings	(1,458)	(691)	(227)
Purchase of additional stake in Wealth Management JV	—	(4,725)	(1,890)
Cash dividends	(904)	(475)	(469)
Net cash provided by (used for) financing activities	23,143	2,633	(11,897)
Effect of exchange rate changes on cash and cash equivalents	(1,804)	(202)	(119)
Effect of cash and cash equivalents related to variable interest entities	(45)	(544)	(526)
Net increase (decrease) in cash and cash equivalents	(12,899)	12,979	(408)
Cash and cash equivalents, at beginning of period	59,883	46,904	47,312
Cash and cash equivalents, at end of period	$ 46,984	$ 59,883	$ 46,904
Cash and cash equivalents include:			
Cash and due from banks	$ 21,381	$ 16,602	$ 20,878
Interest bearing deposits with banks	25,603	43,281	26,026
Cash and cash equivalents, at end of period	$ 46,984	$ 59,883	$ 46,904

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash payments for interest were $3,575 million, $4,793 million and $5,213 million for 2014, 2013 and 2012, respectively.
Cash payments for income taxes were $886 million, $930 million and $388 million for 2014, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Changes in Total Equity (dollars in millions)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non-redeemable Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2011	$1,508	$ 20	$22,836	$40,341	$ 3,166	$ (157)	$(2,499)	$(3,166)	$8,029	$70,078
Net income applicable to Morgan Stanley	—	—	—	68	—	—	—	—	—	68
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	524	524
Dividends	—	—	—	(497)	—	—	—	—	—	(497)
Shares issued under employee plans and related tax effects	—	—	662	—	(234)	—	485	234	—	1,147
Repurchases of common stock and employee tax withholdings	—	—	—	—	—	—	(227)	—	—	(227)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(359)	—	—	(120)	(479)
Purchase of additional stake in Wealth Management JV	—	—	(107)	—	—	—	—	—	(1,718)	(1,825)
Reclassification to redeemable noncontrolling interests	—	—	—	—	—	—	—	—	(4,288)	(4,288)
Other net increases	—	—	35	—	—	—	—	—	892	927
BALANCE AT DECEMBER 31, 2012	1,508	20	23,426	39,912	2,932	(516)	(2,241)	(2,932)	3,319	65,428
Net income applicable to Morgan Stanley	—	—	—	2,932	—	—	—	—	—	2,932
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	459	459
Dividends	—	—	—	(521)	—	—	—	—	—	(521)
Shares issued under employee plans and related tax effects	—	—	1,160	—	(1,214)	—	(36)	1,214	—	1,124
Repurchases of common stock and employee tax withholdings	—	—	—	—	—	—	(691)	—	—	(691)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(577)	—	—	(205)	(782)
Issuance of preferred stock	1,712	—	(16)	—	—	—	—	—	—	1,696
Wealth Management JV redemption value adjustment	—	—	—	(151)	—	—	—	—	—	(151)
Other net decreases	—	—	—	—	—	—	—	—	(464)	(464)
BALANCE AT DECEMBER 31, 2013	3,220	20	24,570	42,172	1,718	(1,093)	(2,968)	(1,718)	3,109	69,030
Net income applicable to Morgan Stanley	—	—	—	3,467	—	—	—	—	—	3,467
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	200	200
Dividends	—	—	—	(1,014)	—	—	—	—	—	(1,014)
Shares issued under employee plans and related tax effects	—	—	(294)	—	409	—	1,660	(409)	—	1,366
Repurchases of common stock and employee tax withholdings	—	—	—	—	—	—	(1,458)	—	—	(1,458)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(155)	—	—	(94)	(249)
Issuance of preferred stock	2,800	—	(18)	—	—	—	—	—	—	2,782
Deconsolidation of certain legal entities associated with a real estate fund	—	—	—	—	—	—	—	—	(1,606)	(1,606)
Other net decreases	—	—	(9)	—	—	—	—	—	(405)	(414)
BALANCE AT DECEMBER 31, 2014	$6,020	$ 20	$24,249	$44,625	$ 2,127	$(1,248)	$(2,766)	$(2,127)	$1,204	$72,104

See Notes to Consolidated Financial Statements.

1. Introduction and Basis of Presentation.

The Company. 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, Wealth Management and Investment 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" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries.

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

> *Institutional Securities* provides financial advisory and capital raising 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.
>
> *Wealth Management* 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; and retirement services; and engages in fixed income trading, which primarily facilitates clients' trading or investments in such securities.
>
> *Investment 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.

Global Oil Merchanting Business, CanTerm and TransMontaigne.

On December 20, 2013, the Company and a subsidiary of Rosneft Oil Company ("Rosneft") entered into a Purchase Agreement pursuant to which the Company would sell the global oil merchanting unit of its commodities division (the "global oil merchanting business") to Rosneft. On December 22, 2014, the Company announced the termination of the sale due to the expiration of the Purchase Agreement on December 20, 2014.

On March 27, 2014, the Company completed the sale of Canterm Canadian Terminals Inc. ("CanTerm"), a public storage terminal operator for refined products with two distribution terminals in Canada. As a result of the Company's level of continuing involvement with CanTerm, the results of CanTerm are reported as a component of continuing operations within the Company's Institutional Securities business segment for all periods presented. The gain on sale was approximately $45 million.

On July 1, 2014, the Company completed the sale of its ownership stake in TransMontaigne Inc., a U.S.-based oil storage, marketing and transportation company, as well as related physical inventory and the assumption of the Company's obligations under certain terminal storage contracts, to NGL Energy Partners LP. The gain on sale, which was included in continuing operations within the Company's Institutional Securities business segment, was approximately $112 million for 2014.

Discontinued Operations.

Quilter. On April 2, 2012, the Company completed the sale of Quilter & Co. Ltd. ("Quilter"), its retail wealth management business in the United Kingdom ("U.K."). Net revenues for Quilter were $148 million for 2012. Net pre-tax gains (losses) were $(1) million and $97 million for 2013 and 2012, respectively, and included a gain of approximately $108 million in 2012 in connection with the sale. The results of Quilter are reported as discontinued operations within the Company's Wealth Management business segment for all periods presented.

Saxon. On October 24, 2011, the Company announced that it had reached an agreement to sell Saxon, a provider of servicing and subservicing of residential mortgage loans, to Ocwen Financial Corporation. The transaction, which was restructured as a sale of Saxon's assets was substantially completed in 2012. Net revenues for Saxon were $79 million for 2012, and pre-tax losses were $35 million, $64 million and $187 million for 2014, 2013 and 2012, respectively. Pre-tax results for 2012 included a gain of approximately $51 million primarily resulting from an increase in the fair value of Saxon and a provision of approximately $115 million related to a settlement with the Board of Governors of the Federal Reserve System (the "Federal Reserve") concerning the independent foreclosure review related to Saxon. The results of Saxon are reported as discontinued operations within the Company's Institutional Securities business segment for all periods presented.

Remaining pre-tax gain (loss) amounts of $16 million, $(7) million and $42 million for 2014, 2013 and 2012, respectively, are included in discontinued operations, primarily related to the prior sale of the Company's retail asset management business and a principal investment.

Prior-period amounts have been recast for discontinued operations.

Basis of Financial Information. The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of legal and tax matters, allowance for credit losses and other matters that affect its consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of its consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates. Intercompany balances and transactions have been eliminated.

Consolidation. The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest, including certain variable interest entities ("VIE") (see Note 7). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The portion of net income attributable to noncontrolling interests for such subsidiaries is presented as either Net income (loss) applicable to redeemable noncontrolling interests or Net income (loss) applicable to nonredeemable noncontrolling interests in the Company's consolidated statements of income. The portion of shareholders' equity of such subsidiaries that is nonredeemable is presented as Nonredeemable noncontrolling interests, a component of total equity, in the Company's consolidated statements of financial condition.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional subordinated financial support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Company consolidates those entities it controls either through a majority voting interest or otherwise. For VIEs (*i.e.*, entities that do not meet these criteria), the Company consolidates those entities where the Company has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that are money market funds, are investment companies or are entities qualifying for accounting purposes as investment companies. Generally, the Company consolidates those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For investments in entities in which the Company does not have a controlling financial interest but has significant influence over operating and financial decisions, the Company generally applies the equity method of accounting with net gains and losses recorded within Other revenues (see Note 22). Where the Company has elected to measure certain eligible investments at fair value in accordance with the fair value option, net gains and losses are recorded within Investments revenues (see Note 4).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies are carried at fair value.

The Company's significant regulated U.S. and international subsidiaries include Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Smith Barney LLC ("MSSB LLC"), Morgan Stanley & Co. International plc ("MSIP"), Morgan Stanley MUFG Securities Co., Ltd. ("MSMS"), Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA").

Income Statement Presentation. 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. In connection with the delivery of the various products and services to clients, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in its Institutional Securities business segment, the Company considers its trading, investment banking, commissions and fees, and interest income, along with the associated interest expense, as one integrated activity.

2. Significant Accounting Policies.

Revenue Recognition.

Investment Banking. Underwriting revenues and advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are determined to be substantially completed, generally as set forth under the terms of the engagement. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenues. Underwriting revenues are presented net of related expenses. Non-reimbursed expenses associated with advisory transactions are recorded within Non-interest expenses.

Commissions and fees. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities; services related to sales and trading activities; and sales of mutual funds, futures, insurance products and options. Commission and fee revenues are recognized in the accounts on the trade date.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees are recognized over the relevant contract period. Sales commissions paid by the Company in connection with the sale of certain classes of shares of its open-end mutual fund products are accounted for as deferred commission assets. The Company periodically tests the deferred commission assets for recoverability based on cash flows expected to be received in future periods. In certain management fee arrangements, the Company is entitled to receive performance-based fees (also referred to as incentive fees) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenues are accrued (or reversed) quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement. Performance-based fees are recorded within Investments or Asset management, distribution and administration fees depending on the nature of the arrangement. The amount of performance-based fee revenue at risk of reversing if fund performance falls below stated investment management agreement benchmarks was approximately $634 million and $489 million at December 31, 2014 and December 31, 2013, respectively.

Trading and Investments. See "Financial Instruments and Fair Value" below for Trading and Investments revenue recognition discussions.

Financial Instruments and Fair Value.

A significant portion of the Company's financial instruments is carried at fair value with changes in fair value recognized in earnings each period. A description of the Company's policies regarding fair value measurement and its application to these financial instruments follows.

Financial Instruments Measured at Fair Value. All of the instruments within Trading assets and Trading liabilities are measured at fair value, either through the fair value option election (discussed below) or as required by other accounting guidance. These financial instruments primarily represent the Company's trading and investment positions and include both cash and derivative products. In addition, debt securities classified as available for sale ("AFS") securities are measured at fair value in accordance with accounting guidance for certain investments in debt securities. Furthermore, Securities received as collateral and Obligation to return securities received as collateral are measured at fair value as required by other accounting guidance. Additionally, certain Deposits, certain Commercial paper and other short-term borrowings (structured notes), certain Other secured financings, certain Securities sold under agreements to repurchase and certain Long-term borrowings (primarily structured notes) are measured at fair value through the fair value option election.

Gains and losses on all of these instruments carried at fair value are reflected in Trading revenues, Investments revenues or Investment banking revenues in the Company's consolidated statements of income, except for AFS securities (see "Investment Securities—Available for Sale and Held to Maturity" section herein and Note 5) and derivatives accounted for as hedges (see "Hedge Accounting" section herein and Note 12). Interest income and interest expense are recorded within the Company's consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instruments' fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense. Dividend income is recorded in Trading revenues or Investments revenues depending on the business activity. The fair value of OTC financial instruments, including derivative contracts related to financial instruments and commodities, is presented in the accompanying consolidated statements of financial condition on a net-by-counterparty basis, when appropriate. Additionally, the Company nets the fair value of cash collateral paid or received against the fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting agreement.

Fair Value Option. The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company applies the fair value option for eligible instruments, including certain securities purchased under agreements to resell, certain loans and lending commitments, certain equity method investments, certain securities sold under agreements to repurchase, certain structured notes, certain time deposits and certain other secured financings.

Fair Value Measurement—Definition and Hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions other market participants would use in pricing the asset or liability that are developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy (see Note 4). In addition, a downturn in market conditions could lead to declines in the valuation of many instruments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Valuation Techniques. Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company does not require that the fair value estimate always be a predetermined point in the bid-ask range. The Company's policy is to allow for mid-market pricing and to adjust to the point within the bid-ask range that meets the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions. The Company applies credit-related valuation adjustments to its short-term and long-term borrowings (primarily structured notes) for which the fair value option was elected and to OTC derivatives. The Company considers the impact of changes in its own credit spreads based upon observations of the Company's secondary bond market spreads when measuring the fair value for short-term and long-term borrowings. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure, the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilized. The Company also considers collateral held and legally enforceable master netting agreements that mitigate the Company's exposure to each counterparty. Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter. The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information, but in many instances, significant judgment is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

During the fourth quarter of 2014, the Company incorporated funding valuation adjustments ("FVA") into the fair value measurements of OTC uncollateralized or partially collateralized derivatives, and in collateralized derivatives where the terms of the agreement do not permit the reuse of the collateral received. The Company's implementation of FVA reflects the inclusion of FVA in the pricing and valuations by the majority of market participants involved in the Company's principal exit market for these instruments. In general, FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Company's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

See Note 4 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis. Certain of the Company's assets and liabilities are measured at fair value on a non-recurring basis. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy for inputs as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

Valuation Process. The Valuation Review Group ("VRG") within the Company's Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value, including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

The Company's control processes apply to financial instruments categorized in Level 1, Level 2 or Level 3 of the fair value hierarchy, unless otherwise noted. These control processes include:

> *Model Review.* VRG, in conjunction with the Company's Market Risk Department ("MRD") and, where appropriate, the Company's Credit Risk Management Department, both of which report to the Chief Risk Officer, independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. Before trades are executed using new valuation models, those models are required to be independently reviewed. All of the Company's valuation models are subject to an independent annual VRG review.
>
> *Independent Price Verification.* The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.
>
> VRG uses recently executed transactions, other observable market data such as exchange data, broker-dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analyzing the methodology and assumptions used by the external source to generate a price and/or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments categorized within Level 3 of the fair value hierarchy, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Company's three business segments (*i.e.*, Institutional Securities, Wealth Management and Investment Management), the CFO and the Chief Risk Officer on a regular basis.

Review of New Level 3 Transactions. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions, and both FCG and MRD management must approve the fair value of the trade that is initially recognized.

For further information on financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis, see Note 4.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments to hedge interest rate and foreign exchange risk arising from assets and liabilities not held at fair value as part of asset/liability and currency management. These financial instruments are included within Trading assets—Derivative and other contracts or Trading liabilities—Derivative and other contracts in the Company's consolidated statements of financial condition.

The Company's hedges are designated and qualify for accounting purposes as one of the following types of hedges: hedges of changes in fair value of assets and liabilities due to the risk being hedged (fair value hedges); and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges).

For further information on derivative instruments and hedging activities, see Note 12.

Consolidated Statements of Cash Flows.

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks, which are highly liquid investments with original maturities of three months or less, held for investment purposes, and readily convertible to known amounts of cash.

In the second quarter of 2014, the Company deconsolidated approximately $1.6 billion in total assets that were related to certain legal entities associated with a real estate fund sponsored by the Company. The deconsolidation resulted in a non-cash reduction of assets of $1.3 billion.

The Company's significant non-cash activities in 2013 included assets and liabilities of approximately $3.6 billion and $3.1 billion, respectively, disposed of in connection with business dispositions.

The Company's significant non-cash activities in 2012 included assets and liabilities of approximately $2.6 billion and $1.0 billion, respectively, disposed of in connection with business dispositions, and approximately $1.1 billion of net assets received from Citigroup Inc. ("Citi") related to Citi's required equity contribution in connection with the retail securities joint venture between the Company and Citi (the "Wealth Management JV") platform integration (see Notes 3 and 15).

Transfers of Financial Assets.

Transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. Any related gain or loss on sale is recorded in Net revenues. Transfers that are not accounted for as sales are treated as a collateralized financing, in certain cases referred to as "failed sales." Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Note 6). Securities purchased under agreements to resell ("reverse repurchase agreements") and Securities sold under agreements to repurchase ("repurchase agreements") are carried on the Company's consolidated statements of financial condition at the amounts of cash paid or received, plus accrued interest, except for certain repurchase agreements for which the Company has elected the fair value option (see Note 4). Where appropriate, repurchase agreements and reverse repurchase agreements with the same counterparty are reported on a net basis. Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received.

Premises, Equipment and Software Costs.

Premises and equipment consist of buildings, leasehold improvements, furniture, fixtures, computer and communications equipment, power generation assets, terminals, pipelines and software (externally purchased and developed for internal use). Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided by the straight-line method over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings—39 years; furniture and fixtures—7 years; computer and communications equipment—3 to 9 years; power generation assets—15 to 29 years; and terminals, pipelines and equipment—3 to 25 years. Estimated useful lives for software costs are generally 3 to 10 years.

As a result of an analysis completed by the Company, effective April 1, 2014, the Company revised the estimated useful lives for software costs from generally 3 to 5 years to generally 3 to 10 years. The adoption of these revised estimated useful lives for software costs resulted in lower amortization expense of approximately $86 million in 2014.

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or, where applicable, the remaining term of the lease, but generally not exceeding: 25 years for building structural improvements and 15 years for other improvements.

Premises, equipment and software costs are tested for impairment whenever events or changes in circumstances suggest that an asset's carrying value may not be fully recoverable in accordance with current accounting guidance.

Income Taxes.

The Company accounts for income tax expense (benefit) using the asset and liability method, under which recognition of deferred tax assets and related valuation allowance (recorded in Other assets) and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income tax expense (benefit) in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority. Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes.

Earnings per Common Share.

Basic earnings per common share ("EPS") is computed by dividing income available to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Income available to Morgan Stanley common shareholders represents net income applicable to Morgan Stanley reduced by preferred stock dividends and allocations of earnings to participating securities. Common shares outstanding include common stock and vested restricted stock units ("RSUs") where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of EPS pursuant to the two-class method. Share-based payment awards that pay dividend equivalents subject to vesting are not deemed participating securities and are included in diluted shares outstanding (if dilutive) under the treasury stock method.

The Company has granted performance-based stock units ("PSUs") that vest and convert to shares of common stock only if the Company satisfies predetermined performance and market goals. Since the issuance of the shares is contingent upon the satisfaction of certain conditions, the PSUs are included in diluted EPS based on the number of shares (if any) that would be issuable if the end of the reporting period was the end of the contingency period.

Deferred Compensation.

Stock-Based Compensation. The Company measures compensation cost for stock-based awards at fair value and recognizes compensation cost over the service period, net of estimated forfeitures. The Company determines the fair value of RSUs (including RSUs with non-market performance conditions) based on the grant-date fair value of the Company's common stock, measured as the volume-weighted average price on the date of grant. RSUs with market-based conditions are valued using a Monte Carlo valuation model. The fair value of stock options is determined using the Black-Scholes valuation model and the single grant life method. Under the single grant life method, option awards with graded vesting are valued using a single weighted average expected option life.

Compensation expense for stock-based compensation awards is recognized using the graded vesting attribution method. Compensation expense for awards with performance conditions is recognized based on the probable outcome of the performance condition at each reporting date. At the end of the contingency period, the total compensation cost recognized will be the grant-date fair value of all units that actually vest based on the outcome of the performance conditions. Compensation expense for awards with market-based conditions is recognized irrespective of the probability of the market condition being achieved and is not reversed if the market condition is not met.

The Company recognizes the expense for stock-based awards over the requisite service period. These awards generally contain clawback and cancellation provisions. Certain awards provide the Company discretion to cancel all or a portion of the award under specified circumstances. Compensation expense for those awards is adjusted to fair value based upon changes in the share price of the Company's common stock until conversion. For anticipated year-end stock-based awards granted to employees expected to be retirement-eligible under award terms that do not contain a future service requirement, the Company accrues the estimated cost of these awards over the course of the calendar year preceding the grant date. The Company believes that this method of recognition for retirement-eligible employees is preferable because it better reflects the period over which the compensation is earned.

Employee Stock Trusts. The Company maintains and utilizes at its discretion, trusts, referred to as the "Employee Stock Trusts", in connection with certain stock-based compensation plans. The assets of the Employee Stock Trusts are consolidated, and as such, are accounted for in a manner similar to treasury stock, where the shares of common stock outstanding are offset by an equal amount in Common stock issued to Employee Stock Trusts. The Company uses the grant-date fair value of stock-based compensation as the basis for recognition of the assets in the Employee Stock Trusts. Subsequent changes in the fair value are not recognized as the Company's stock-based compensation plans do not permit diversification and must be settled by the delivery of a fixed number of shares of the Company's common stock.

Deferred Cash-Based Compensation. The Company also maintains various deferred cash-based compensation plans for the benefit of certain current and former employees that provide a return to the participating employees based upon the performance of various referenced investments. The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred cash-based compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues.

Compensation expense for deferred cash-based compensation plans is calculated based on the notional value of the award granted, adjusted for upward and downward changes in the fair value of the referenced investments. For unvested awards, the expense is recognized over the service period using the graded vesting attribution method. Changes in compensation expense resulting from changes in the fair value of the referenced investments will generally be offset by changes in the fair value of investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period. For vested awards with only notional earnings on the referenced investments, the expense is fully recognized in the current period.

Translation of Foreign Currencies.

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end rates of exchange, and amounts recognized in the income statement are translated at the rate of exchange on the respective date of recognition for each amount. Gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in Accumulated other comprehensive income (loss), a separate component of Morgan Stanley Shareholders' equity on the Company's consolidated statements of financial condition. Gains or losses resulting from remeasurement of foreign currency transactions are included in net income.

Goodwill and Intangible Assets.

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques the Company believes market participants would use for each of the reporting units.

The estimated fair values are generally determined by utilizing a discounted cash flow methodology or methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies.

Goodwill is not amortized and is reviewed annually (or more frequently when certain events or circumstances exist) for impairment. Other intangible assets are amortized over their estimated useful lives and reviewed for impairment. Impairment losses are recorded within Other expenses in the Company's consolidated statements of income. There are no indefinite-lived intangible assets for years 2014 and 2013.

Investment Securities—Available for Sale and Held to Maturity.

AFS securities are reported at fair value in the Company's consolidated statements of financial condition with unrealized gains and losses reported in Accumulated other comprehensive income (loss) ("AOCI"), net of tax. Interest and dividend income, including amortization of premiums and accretion of discounts, is included in Interest income in the Company's consolidated statements of income. Realized gains and losses on AFS securities are reported in the Company's consolidated statements of income (see Note 5). The Company utilizes the "first-in, first-out" method as the basis for determining the cost of AFS securities.

Held to maturity ("HTM") securities are reported at amortized cost in the Company's consolidated statements of financial condition. Interest income, including amortization of premiums and accretion of discounts on HTM securities, is included in Interest income in the Company's consolidated statements of income.

Other-than-temporary impairment. AFS debt securities and HTM securities with a current fair value less than their amortized cost are analyzed as part of the Company's periodic assessment of temporary versus other-than-temporary impairment ("OTTI") at the individual security level. A temporary impairment is recognized in AOCI. OTTI is recognized in the Company's consolidated statements of income with the exception of the non-credit portion related to a debt security that the Company does not intend to sell and is not likely to be required to sell, which is recognized in AOCI.

For AFS debt securities that the Company either has the intent to sell or that the Company is likely to be required to sell before recovery of its amortized cost basis, the impairment is considered other-than-temporary.

For those AFS debt securities that the Company does not have the intent to sell or is not likely to be required to sell, and for all HTM securities, the Company evaluates whether it expects to recover the entire amortized cost basis of the debt security. If the Company does not expect to recover the entire amortized cost of those AFS debt securities or HTM securities, the impairment is considered other-than-temporary and the Company determines what portion of the impairment relates to a credit loss and what portion relates to non-credit factors.

A credit loss exists if the present value of cash flows expected to be collected (discounted at the implicit interest rate at acquisition of the security or discounted at the effective yield for securities that incorporate changes in prepayment assumptions) is less than the amortized cost basis of the security. Changes in prepayment assumptions alone are not considered to result in a credit loss. When determining if a credit loss exists, the Company considers relevant information including the length of time and the extent to which the fair value has been less than the amortized cost basis; adverse conditions specifically related to the security, an industry, or geographic area; changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors; the historical and implied volatility of the fair value of the security; the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; failure of the issuer of the security to make scheduled interest or principal payments; any changes to the rating of the security by a rating agency and recoveries or additional declines in fair value after the balance sheet date. When estimating the present value of expected cash flows, information includes the remaining payment terms of the security, prepayment speeds, financial condition of the issuer(s), expected defaults and the value of any underlying collateral.

For AFS equity securities, the Company considers various factors including the intent and ability to hold the equity security for a period of time sufficient to allow for any anticipated recovery in market value in evaluating whether an OTTI exists. If the equity security is considered other-than-temporarily impaired, the entire OTTI (*i.e.*, the difference between the fair value recorded on the balance sheet and the cost basis) will be recognized in the Company's consolidated statement of income.

Loans.

The Company accounts for loans based on the following categories: loans held for investment; loans held for sale; and loans at fair value.

Loans Held for Investment

Loans held for investment are reported as outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs for originated loans, and any unamortized premiums or discounts for purchased loans.

Interest Income. Interest income on performing loans held for investment is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the life of the loan to produce a level rate of return.

Allowance for Loan Losses. The allowance for loan losses estimates probable losses related to loans specifically identified for impairment in addition to the probable losses inherent in the held for investment loan portfolio.

The Company utilizes the U.S. banking regulators' definition of criticized exposures, which consist of the special mention substandard and doubtful and loss categories as credit quality indicators. For further information on the credit indicators, see Note 8. Substandard loans are regularly reviewed for impairment. Factors considered by management when determining impairment include payment status, fair value of collateral, and probability of collecting scheduled principal and interest payments when due. The impairment analysis required depends on the nature and type of loans. Loans classified as Doubtful or Loss are considered impaired. When a loan is impaired, the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient, the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. If the present value of the expected future cash flows (or alternatively, the observable market price of the loan or the fair value of the collateral) is less than the recorded investment in the loan, then the Company recognizes an allowance and a charge to the provision for loan losses within Other revenues.

Generally, inherent losses in the portfolio for non-impaired loans are estimated using statistical analysis and judgment around the exposure at default, the probability of default and the loss given default. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered in the calculations.

Troubled Debt Restructurings. The Company may modify the terms of certain loans for economic or legal reasons related to a borrower's financial difficulties by granting one or more concessions that the Company would not otherwise consider. Such modifications are accounted for and reported as troubled debt restructurings ("TDRs"). A loan that has been modified in a TDR is generally considered to be impaired and is evaluated for the extent of impairment using the Company's specific allowance methodology.

Nonaccrual Loans. The Company places loans on nonaccrual status if principal or interest is past due for a period of 90 days or more or payment of principal or interest is in doubt unless the obligation is well-secured and in the process of collection. A loan is considered past due when a payment due according to the contractual terms of the loan agreement has not been remitted by the borrower. Substandard loans, if identified as impaired, are categorized as nonaccrual. Loans classified as Doubtful or Loss are categorized as nonaccrual.

Payments received on nonaccrual loans held for investment are applied to principal if there is doubt regarding the ultimate collectability of principal (*i.e*., cost recovery method). If collection of the principal of nonaccrual loans held for investment is not in doubt, interest income is recognized on a cash basis. If neither principal nor interest collection is in doubt, loans are on accrual status and interest income is recognized using the effective interest method. Loans that are on nonaccrual status may not be restored to accrual status until all delinquent principal and/or interest has been brought current, after a reasonable period of performance, typically a minimum of six months.

Charge-offs. The Company charges off a loan in the period that it is deemed uncollectible and records a reduction in the allowance for loan losses and the balance of the loan. In general, any portion of the recorded investment in a collateral dependent loan (including any capitalized accrued interest, net deferred loan fees or costs and unamortized premium or discount) in excess of the fair value of the collateral that can be identified as uncollectible, and is therefore deemed a confirmed loss, is charged off against the allowance for loan losses. A loan is collateral-dependent if the repayment of the loan is expected to be provided solely by the sale or operation of the underlying collateral. A loan that is charged off is recorded as a reduction in the allowance for loan losses and the balance of the loan. In addition, for loan transfers from loans held for investment to loans held for sale, at the time of transfer, any reduction in the loan value is reflected as a charge-off of the recorded investment, resulting in a new cost basis.

Loan Commitments. The Company records the liability and related expense for the credit exposure related to commitments to fund loans that will be held for investment in a manner similar to outstanding loans disclosed above. The analysis also incorporates a credit conversion factor, which is the expected utilization of the undrawn commitment. The liability is recorded in Other liabilities and accrued expenses in the Company's consolidated statements of financial condition, and the expense is recorded in Other non-interest expenses in the Company's consolidated statements of income. For more information regarding loan commitments, standby letters of credit and financial guarantees, see Note 13.

Loans Held for Sale

Loans held for sale are measured at the lower of cost or fair value, with valuation changes recorded in Other revenues. The Company determines the valuation allowance on an individual loan basis, except for residential mortgage loans for which the valuation allowance is determined at the loan product level. Any decreases in fair value below the initial carrying amount and any recoveries in fair value up to the initial carrying amount are recorded in Other revenues. However, increases in fair value above initial carrying value are not recognized.

Interest income on loans held for sale is accrued and recognized based on the contractual rate of interest. Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees and discounts or premiums are an adjustment to the basis of the loan and, therefore, are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale.

Loans held for sale are subject to the nonaccrual policies described above. Because loans held for sale are recognized at the lower of cost or fair value, the allowance for loan losses and charge-off policies does not apply to these loans.

Loans at Fair Value

Loans for which the fair value option is elected are carried at fair value, with changes in fair value recognized in earnings. Loans carried at fair value are not evaluated for purposes of recording an allowance for loan losses. For further information on loans carried at fair value and classified as Trading assets and Trading liabilities*,* see Note 4.

For further information on loans, see Note 8.

Noncontrolling Interests.

For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. Nonredeemable noncontrolling interests are presented as a component of total equity in the Company's consolidated statements of financial condition.

Accounting Standards Adopted.

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. In February 2013, the Financial Accounting Standards Board (the "FASB") issued an accounting update that requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This update also requires additional disclosures about those obligations. This guidance became effective for the Company retrospectively beginning on January 1, 2014. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. In March 2013, the FASB issued an accounting update requiring the parent entity to release any related cumulative translation adjustment into net income when the parent ceases to have a controlling financial interest in a subsidiary that is a foreign entity. When the parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the related cumulative translation adjustment would be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance became effective for the Company prospectively beginning on January 1, 2014. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

Amendments to the Scope, Measurement, and Disclosure Requirements of an Investment Company. In June 2013, the FASB issued an accounting update that modifies the criteria used in defining an investment company under U.S. GAAP and sets forth certain measurement and disclosure requirements. This update requires an investment company to measure noncontrolling interests in another investment company at fair value and requires an entity to disclose the fact that it is an investment company, and provide information about changes, if any, in its status as an investment company. An entity will also need to include disclosures around financial support that has been provided or is contractually required to be provided to any of its investees. This guidance became effective for the Company prospectively beginning January 1, 2014. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. In July 2013, the FASB issued an accounting update providing guidance on the financial statement presentation of an unrecognized tax benefit when a deferred tax asset from a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. This guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to such deferred tax asset if a settlement in such manner is expected in the event the uncertain tax position is disallowed. This guidance became effective for the Company beginning January 1, 2014. This guidance was applied prospectively to unrecognized tax benefits that existed at the effective date. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

Accounting for Investments in Qualified Affordable Housing Projects. In January 2014, the FASB issued an accounting update providing guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The Company adopted this guidance on April 1, 2014, as early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. For further information on the adoption of this guidance, see Note 20.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the FASB issued an accounting update that changes the requirements and disclosure for reporting discontinued operations. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Individually significant components that have been disposed of or are held for sale that do not meet the definition of a discontinued operation require new disclosures. The Company adopted this guidance on April 1, 2014, as early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

3. Wealth Management JV.

In 2009, the Company and Citi consummated the combination of each institution's respective wealth management business. The combined businesses operated as the "Wealth Management JV" through June 2013. Prior to September 2012, the Company owned 51% and Citi owned 49% of the Wealth Management JV. In September 2012, the Company purchased an additional 14% stake in the Wealth Management JV from Citi for $1.89 billion, increasing the Company's interest from 51% to 65%. The Company recorded a negative adjustment to Paid-in-capital of approximately $107 million (net of tax) to reflect the difference between the purchase price for the 14% interest in the Wealth Management JV and its carrying value. In addition, in September 2012, the terms of the Wealth Management JV agreement regarding the purchase of the remaining 35% interest were amended, which resulted in a reclassification of approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests.

In June 2013, the Company purchased the remaining 35% stake in the Wealth Management JV for $4.725 billion, increasing the Company's interest from 65% to 100%. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) to reflect the difference between the purchase price for the remaining 35% interest in the Wealth Management JV and its carrying value. This adjustment negatively impacted the calculation of basic and diluted EPS in 2013 (see Note 16). Additionally, in conjunction with the purchase of the remaining 35% interest, in June 2013, the Company redeemed all of the Class A Preferred Interests in the Wealth Management JV owned by Citi and its affiliates for approximately $2.028 billion and repaid to Citi $880 million in senior debt.

Subsequent to June 2013, no results were attributed to Citi since the Company owned 100% of the Wealth Management JV. Prior to June 2013 and subsequent to September 2012, Citi's results related to its 35% interest were reported in net income (loss) applicable to redeemable noncontrolling interests in the Company's consolidated statement of income. Prior to September 2012, Citi's results related to its 49% interest were reported in net income (loss) applicable to nonredeemable noncontrolling interests in the consolidated statements of income.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV in June 2013, the deposit sweep agreement between Citi and the Company was terminated. During 2014 and 2013, $19 billion and $26 billion, respectively, of deposits held by Citi relating to the Company's customer accounts were transferred to the Company's depository institutions. At December 31, 2014, approximately $9 billion of additional deposits are scheduled to be transferred to the Company's depository institutions on an agreed-upon basis through June 2015.

4. Fair Value Disclosures.

Fair Value Measurements.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Trading Assets and Trading Liabilities.

U.S. Government and Agency Securities.

- U.S. Treasury Securities. U.S. Treasury securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy.

- U.S. Agency Securities. U.S. agency securities are composed of three main categories consisting of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations. Non-callable agency-issued debt securities are generally valued using quoted market prices. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of the comparable To-be-announced security. Collateralized mortgage obligations are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities. Actively traded non-callable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through pool securities and collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy.

Other Sovereign Government Obligations.

- Foreign sovereign government obligations are valued using quoted prices in active markets when available. These bonds are generally categorized in Level 1 of the fair value hierarchy. If the market is less active or prices are dispersed, these bonds are categorized in Level 2 of the fair value hierarchy. In instances where the inputs are unobservable, these bonds are categorized in Level 3 of the fair value hierarchy.

Corporate and Other Debt.

- State and Municipal Securities. The fair value of state and municipal securities is determined using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.
- Residential Mortgage-Backed Securities (“RMBS”), Commercial Mortgage-Backed Securities (“CMBS”) and other Asset-Backed Securities (“ABS”). RMBS, CMBS and other ABS may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers. When position-specific external price data are not observable, the fair value determination may require benchmarking to similar instruments, and/or analyzing expected credit losses, default and recovery rates, and/or applying discounted cash flow techniques. In evaluating the fair value of each security, the Company considers security collateral-specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity. In addition, for RMBS borrowers, Fair Isaac Corporation (“FICO”) scores and the level of documentation for the loan are considered. Market standard models, such as Intex, Trepp or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, and default and prepayment rates for each asset category. Valuation levels of RMBS and CMBS indices are used as an additional data point for benchmarking purposes or to price outright index positions.

  RMBS, CMBS and other ABS are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs, then RMBS, CMBS and other ABS are categorized in Level 3 of the fair value hierarchy.
- Corporate Bonds. The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers

adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates as significant inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where prices, spreads or any of the other aforementioned key inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

- Collateralized Debt and Loan Obligations. The Company holds cash collateralized debt obligations ("CDOs")/collateralized loan obligations ("CLOs") that typically reference a tranche of an underlying synthetic portfolio of single name credit default swaps collateralized by corporate bonds ("credit-linked notes") or cash portfolio of asset-backed securities/loans ("asset-backed CDOs/CLOs"). Credit correlation, a primary input used to determine the fair value of credit-linked notes, is usually unobservable and derived using a benchmarking technique. The other credit-linked note model inputs such as credit spreads, including collateral spreads, and interest rates are typically observable. Asset-backed CDOs/CLOs are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each asset-backed CDO/CLO position is evaluated independently taking into consideration available comparable market levels, underlying collateral performance and pricing, deal structures, and liquidity. Cash CDOs/CLOs are categorized in Level 2 of the fair value hierarchy when either the credit correlation input is insignificant or comparable market transactions are observable. In instances where the credit correlation input is deemed to be significant or comparable market transactions are unobservable, cash CDOs/CLOs are categorized in Level 3 of the fair value hierarchy.

- Corporate Loans and Lending Commitments. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Corporate loans and lending commitments are categorized in Level 2 of the fair value hierarchy except in instances where prices or significant spread inputs are unobservable, in which case they are categorized in Level 3 of the fair value hierarchy.

- Mortgage Loans. Mortgage loans are valued using observable prices based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, the Company estimates fair value based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions. Mortgage loans valued based on observable market data for identical or comparable instruments are categorized in Level 2 of the fair value hierarchy. Where observable prices are not available, due to the subjectivity involved in the comparability assessment related to mortgage loan vintage, geographical concentration, prepayment speed and projected loss assumptions, mortgage loans are categorized in Level 3 of the fair value hierarchy. Mortgage loans are presented within Loans and lending commitments in the fair value hierarchy table.

- Auction Rate Securities (“ARS”). The Company primarily holds investments in Student Loan Auction Rate Securities (“SLARS”) and Municipal Auction Rate Securities (“MARS”), which are floating rate instruments for which the rates reset through periodic auctions. SLARS are ABS backed by pools of student loans. MARS are municipal bonds often wrapped by municipal bond insurance. The fair value of ARS is primarily determined using recently executed transactions and market price quotations, obtained from independent external parties such as vendors and brokers, where available. The Company uses an internally developed methodology to discount for the lack of liquidity and non-performance risk where independent external market data are not available.

  Inputs that impact the valuation of SLARS are independent external market data, recently executed transactions of comparable ARS, the underlying collateral types, level of seniority in the capital structure, amount of leverage in each structure, credit rating and liquidity considerations. Inputs that impact the valuation of MARS are recently executed transactions, the maximum rate, quality of underlying issuers/insurers and evidence of issuer calls/prepayment. ARS are generally categorized in Level 2 of the fair value hierarchy as the valuation technique relies on observable external data. SLARS and MARS are presented within Asset-backed securities and State and municipal securities, respectively, in the fair value hierarchy table.

Corporate Equities.

- Exchange-Traded Equity Securities. Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy; otherwise, they are categorized in Level 2 or Level 3 of the fair value hierarchy.
- Unlisted Equity Securities. Unlisted equity securities are valued based on an assessment of each underlying security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. These securities are generally categorized in Level 3 of the fair value hierarchy.
- Fund Units. Listed fund units are generally marked to the exchange-traded price or net asset value (“NAV”) and are categorized in Level 1 of the fair value hierarchy if actively traded on an exchange or in Level 2 of the fair value hierarchy if trading is not active. Unlisted fund units are generally marked to NAV and categorized as Level 2; however, positions that are not redeemable at the measurement date or in the near future are categorized in Level 3 of the fair value hierarchy.

Derivative and Other Contracts.

- Listed Derivative Contracts. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives; they are generally categorized in Level 2 of the fair value hierarchy.
- OTC Derivative Contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

  Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy.

Other derivative products, including complex products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. This includes certain types of interest rate derivatives with both volatility and correlation exposure and credit derivatives, including credit default swaps on certain mortgage-backed or asset-backed securities and basket credit default swaps, where direct trading activity or quotes are unobservable. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy.

Derivative interests in credit default swaps on certain mortgage-backed or asset-backed securities, for which observability of external price data is limited, are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each position is evaluated independently taking into consideration available comparable market levels as well as a cash synthetic basis or the underlying collateral performance and pricing, behavior of the tranche under various cumulative loss and prepayment scenarios, deal structures (*e.g*., non-amortizing reference obligations, call features, etc.) and liquidity. While these factors may be supported by historical and actual external observations, the determination of their value as it relates to specific positions nevertheless requires significant judgment.

For basket credit default swaps, the correlation input between reference credits is unobservable for each specific swap or position and is benchmarked to standardized proxy baskets for which correlation data are available. The other model inputs such as credit spread, interest rates and recovery rates are observable. In instances where the correlation input is deemed to be significant, these instruments are categorized in Level 3 of the fair value hierarchy; otherwise, these instruments are categorized in Level 2 of the fair value hierarchy.

The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier price curves, implied volatility of the underlying commodities and, in some cases, the implied correlation between these inputs. The fair value of these products is determined using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and data points, based on historic and/or implied observations, are employed as a technique to estimate the model input values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

For further information on the valuation techniques for OTC derivative products, see Note 2.

For further information on derivative instruments and hedging activities, see Note 12.

Investments.

- The Company's investments include direct investments in equity securities as well as investments in private equity funds, real estate funds and hedge funds, which include investments made in connection with certain employee deferred compensation plans. Direct investments are presented in the fair value hierarchy table as Principal investments and Other. Initially, the transaction price is generally considered by the Company as the exit price and is the Company's best estimate of fair value.

After initial recognition, in determining the fair value of non-exchange-traded internally and externally managed funds, the Company generally considers the NAV of the fund provided by the fund manager to be the best estimate of fair value. For non-exchange-traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Exchange-traded direct equity investments are generally valued based on quoted prices from the exchange.

Exchange-traded direct equity investments that are actively traded are categorized in Level 1 of the fair value hierarchy. Non-exchange-traded direct equity investments and investments in private equity and real estate funds are generally categorized in Level 3 of the fair value hierarchy. Investments in hedge funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

Physical Commodities.

- The Company trades various physical commodities, including crude oil and refined products, natural gas, base and precious metals, and agricultural products. Fair value for physical commodities is determined using observable inputs, including broker quotations and published indices. Physical commodities are categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Investment Securities.

- AFS Securities. The Company's AFS securities are composed of U.S. government and agency securities (*e.g.*, U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and collateralized mortgage obligations), CMBS, Federal Family Education Loan Program ("FFELP") student loan asset-backed securities, auto loan asset-backed securities, corporate bonds, collateralized loan obligations and actively traded equity securities. Actively traded U.S. Treasury securities, non-callable agency-issued debt securities and equity securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through securities, collateralized mortgage obligations, CMBS, FFELP student loan asset-backed securities, auto loan asset-backed securities, corporate bonds and collateralized loan obligations are generally categorized in Level 2 of the fair value hierarchy. For further information on AFS securities, see Note 5.

Deposits.

- Time Deposits. The fair value of certificates of deposit is determined using third-party quotations. These deposits are generally categorized in Level 2 of the fair value hierarchy.

Commercial Paper and Other Short-Term Borrowings/Long-Term Borrowings.

- Structured Notes. The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency, and commodity or equity prices. Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit spreads is also included based on the Company's observed secondary bond market spreads. Most structured notes are categorized in Level 2 of the fair value hierarchy.

Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase.

- The fair value of a reverse repurchase agreement or repurchase agreement is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities. In instances where the unobservable inputs are deemed significant, reverse repurchase agreements and repurchase agreements are categorized in Level 3 of the fair value hierarchy; otherwise, they are categorized in Level 2 of the fair value hierarchy.

The following fair value hierarchy tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2014 and December 31, 2013.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2014.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2014
	(dollars in millions)				
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 16,961	$ —	$ —	$ —	$ 16,961
U.S. agency securities	850	18,193	—	—	19,043
Total U.S. government and agency securities	17,811	18,193	—	—	36,004
Other sovereign government obligations	15,149	7,888	41	—	23,078
Corporate and other debt:					
State and municipal securities	—	2,049	—	—	2,049
Residential mortgage-backed securities	—	1,991	175	—	2,166
Commercial mortgage-backed securities	—	1,484	96	—	1,580
Asset-backed securities	—	583	76	—	659
Corporate bonds	—	15,800	386	—	16,186
Collateralized debt and loan obligations	—	741	1,152	—	1,893
Loans and lending commitments	—	6,088	5,874	—	11,962
Other debt	—	2,167	285	—	2,452
Total corporate and other debt	—	30,903	8,044	—	38,947
Corporate equities(1)	112,490	1,357	272	—	114,119
Derivative and other contracts:					
Interest rate contracts	663	495,026	2,484	—	498,173
Credit contracts	—	30,813	1,369	—	32,182
Foreign exchange contracts	83	72,769	249	—	73,101
Equity contracts	571	46,024	1,529	—	48,124
Commodity contracts	4,105	18,042	2,268	—	24,415
Other	—	376	—	—	376
Netting(2)	(4,910)	(564,127)	(4,220)	(66,720)	(639,977)
Total derivative and other contracts	512	98,923	3,679	(66,720)	36,394
Investments:					
Private equity funds	—	—	2,569	—	2,569
Real estate funds	—	7	1,746	—	1,753
Hedge funds	—	344	343	—	687
Principal investments	58	3	835	—	896
Other	225	198	323	—	746
Total investments	283	552	5,816	—	6,651
Physical commodities	—	1,608	—	—	1,608
Total trading assets	146,245	159,424	17,852	(66,720)	256,801
AFS securities	37,200	32,016	—	—	69,216
Securities received as collateral	21,265	51	—	—	21,316
Securities purchased under agreements to resell	—	1,113	—	—	1,113
Intangible assets(3)	—	—	6	—	6
Total assets measured at fair value	$204,710	$ 192,604	$17,858	$(66,720)	$ 348,452

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2014
		(dollars in millions)			
Liabilities at Fair Value					
Commercial paper and other short-term borrowings	$ —	$ 1,765	$ —	$ —	$ 1,765
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	14,199	—	—	—	14,199
U.S. agency securities	1,274	85	—	—	1,359
Total U.S. government and agency securities	15,473	85	—	—	15,558
Other sovereign government obligations	11,653	2,109	—	—	13,762
Corporate and other debt:					
State and municipal securities	—	1	—	—	1
Corporate bonds	—	5,943	78	—	6,021
Unfunded lending commitments	—	10	5	—	15
Other debt	—	63	38	—	101
Total corporate and other debt	—	6,017	121	—	6,138
Corporate equities(1)	31,340	326	45	—	31,711
Derivative and other contracts:					
Interest rate contracts	602	469,319	2,657	—	472,578
Credit contracts	—	29,997	2,112	—	32,109
Foreign exchange contracts	21	72,233	98	—	72,352
Equity contracts	416	52,247	2,909	—	55,572
Commodity contracts	4,817	15,584	1,122	—	21,523
Other	—	172	—	—	172
Netting(2)	(4,910)	(564,127)	(4,220)	(40,837)	(614,094)
Total derivative and other contracts	946	75,425	4,678	(40,837)	40,212
Total trading liabilities	59,412	83,962	4,844	(40,837)	107,381
Obligation to return securities received as collateral	25,629	56	—	—	25,685
Securities sold under agreements to repurchase	—	459	153	—	612
Other secured financings	—	4,355	149	—	4,504
Long-term borrowings	—	29,840	1,934	—	31,774
Total liabilities measured at fair value	$85,041	$ 120,437	$ 7,080	$(40,837)	$ 171,721

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.

(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Counterparty and Cash Collateral Netting." For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 12.

(3) Amount represents mortgage servicing rights ("MSRs") accounted for at fair value.

Transfers Between Level 1 and Level 2 During 2014.

For assets and liabilities that were transferred between Level 1 and Level 2 during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

In 2014, there were no material transfers between Level 1 and Level 2.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2013.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2013
		(dollars in millions)			
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 32,083	$ —	$ —	$ —	$ 32,083
U.S. agency securities	1,216	17,720	—	—	18,936
Total U.S. government and agency securities	33,299	17,720	—	—	51,019
Other sovereign government obligations	25,363	6,610	27	—	32,000
Corporate and other debt:					
State and municipal securities	—	1,615	—	—	1,615
Residential mortgage-backed securities	—	2,029	47	—	2,076
Commercial mortgage-backed securities	—	1,534	108	—	1,642
Asset-backed securities	—	878	103	—	981
Corporate bonds	—	16,592	522	—	17,114
Collateralized debt and loan obligations	—	802	1,468	—	2,270
Loans and lending commitments	—	7,483	5,129	—	12,612
Other debt	—	6,365	27	—	6,392
Total corporate and other debt	—	37,298	7,404	—	44,702
Corporate equities(1)	107,818	1,206	190	—	109,214
Derivative and other contracts:					
Interest rate contracts	750	526,127	2,475	—	529,352
Credit contracts	—	42,258	2,088	—	44,346
Foreign exchange contracts	52	61,570	179	—	61,801
Equity contracts	1,215	51,656	1,234	—	54,105
Commodity contracts	2,396	8,595	2,380	—	13,371
Other	—	43	—	—	43
Netting(2)	(3,836)	(606,878)	(4,931)	(54,906)	(670,551)
Total derivative and other contracts	577	83,371	3,425	(54,906)	32,467
Investments:					
Private equity funds	—	—	2,531	—	2,531
Real estate funds	—	6	1,637	—	1,643
Hedge funds	—	377	432	—	809
Principal investments	43	42	2,160	—	2,245
Other	202	45	538	—	785
Total investments	245	470	7,298	—	8,013
Physical commodities	—	3,329	—	—	3,329
Total trading assets	167,302	150,004	18,344	(54,906)	280,744
AFS securities	24,412	29,018	—	—	53,430
Securities received as collateral	20,497	11	—	—	20,508
Securities purchased under agreements to resell	—	866	—	—	866
Intangible assets(3)	—	—	8	—	8
Total assets measured at fair value	$212,211	$ 179,899	$18,352	$(54,906)	$ 355,556

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2013
		(dollars in millions)			
Liabilities at Fair Value					
Deposits	$ —	$ 185	$ —	$ —	$ 185
Commercial paper and other short-term borrowings	—	1,346	1	—	1,347
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	15,963	—	—	—	15,963
U.S. agency securities	2,593	116	—	—	2,709
Total U.S. government and agency securities	18,556	116	—	—	18,672
Other sovereign government obligations	14,717	2,473	—	—	17,190
Corporate and other debt:					
State and municipal securities	—	15	—	—	15
Corporate bonds	—	5,033	22	—	5,055
Collateralized debt and loan obligations	—	3	—	—	3
Unfunded lending commitments	—	127	2	—	129
Other debt	—	1,144	48	—	1,192
Total corporate and other debt	—	6,322	72	—	6,394
Corporate equities(1)	27,983	513	8	—	28,504
Derivative and other contracts:					
Interest rate contracts	675	504,292	2,362	—	507,329
Credit contracts	—	40,391	2,235	—	42,626
Foreign exchange contracts	23	61,925	111	—	62,059
Equity contracts	1,033	57,797	2,065	—	60,895
Commodity contracts	2,637	8,749	1,500	—	12,886
Other	—	72	4	—	76
Netting(2)	(3,836)	(606,878)	(4,931)	(36,465)	(652,110)
Total derivative and other contracts	532	66,348	3,346	(36,465)	33,761
Total trading liabilities	61,788	75,772	3,426	(36,465)	104,521
Obligation to return securities received as collateral	24,549	19	—	—	24,568
Securities sold under agreements to repurchase	—	407	154	—	561
Other secured financings	—	4,928	278	—	5,206
Long-term borrowings	—	33,750	1,887	—	35,637
Total liabilities measured at fair value	$86,337	$ 116,407	$ 5,746	$(36,465)	$ 172,025

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.

(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Counterparty and Cash Collateral Netting." For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 12.

(3) Amount represents MSRs accounted for at fair value.

Transfers Between Level 1 and Level 2 During 2013.

For assets and liabilities that were transferred between Level 1 and Level 2 during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

In 2013, there were no material transfers between Level 1 and Level 2.

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis.

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for 2014, 2013 and 2012, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (*e.g.*, changes in market interest rates) and unobservable (*e.g.*, changes in unobservable long-dated volatilities) inputs.

For assets and liabilities that were transferred into Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the period; similarly, for assets and liabilities that were transferred out of Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred out at the beginning of the period.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2014.

	Beginning Balance at December 31, 2013	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2014	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2014(2)
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 27	$ 1	$ 48	$ (34)	$ —	$ —	$ (1)	$ 41	$—
Corporate and other debt:									
Residential mortgage-backed securities	47	9	105	(14)	—	—	28	175	4
Commercial mortgage-backed securities	108	65	16	(102)	—	—	9	96	45
Asset-backed securities	103	3	66	(96)	—	—	—	76	9
Corporate bonds	522	86	106	(306)	—	—	(22)	386	66
Collateralized debt and loan obligations	1,468	142	644	(964)	—	(143)	5	1,152	27
Loans and lending commitments	5,129	(87)	3,784	(415)	—	(2,552)	15	5,874	(191)
Other debt	27	21	274	(35)	—	(2)	—	285	20
Total corporate and other debt	7,404	239	4,995	(1,932)	—	(2,697)	35	8,044	(20)
Corporate equities	190	20	146	(102)	—	—	18	272	(3)
Net derivative and other contracts(3)(4):									
Interest rate contracts	113	(258)	18	—	(14)	(43)	11	(173)	(349)
Credit contracts	(147)	(408)	68	—	(179)	(15)	(62)	(743)	(474)
Foreign exchange contracts	68	(13)	7	—	—	108	(19)	151	(17)
Equity contracts	(831)	(367)	339	(2)	(562)	(46)	89	(1,380)	(440)
Commodity contracts	880	158	287	—	(52)	(127)	—	1,146	72
Other	(4)	—	—	—	—	4	—	—	—
Total net derivative and other contracts	79	(888)	719	(2)	(807)	(119)	19	(999)	(1,208)
Investments:									
Private equity funds	2,531	414	231	(608)	—	—	1	2,569	343
Real estate funds	1,637	228	174	(293)	—	—	—	1,746	293
Hedge funds	432	23	38	(69)	—	—	(81)	343	16
Principal investments	2,160	53	36	(181)	—	(1,258)	25	835	49
Other	538	17	17	(29)	—	—	(220)	323	24
Total investments	7,298	735	496	(1,180)	—	(1,258)	(275)	5,816	725
Intangible assets	8	—	—	—	—	(2)	—	6	(1)
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 1	$ —	$ —	$ —	$ —	$ (1)	$—	$—	$—
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	22	1	(46)	117	—	—	(14)	78	2
Unfunded lending commitments	2	(3)	—	—	—	—	—	5	(3)
Other debt	48	7	(8)	—	—	—	5	38	(2)
Total corporate and other debt	72	5	(54)	117	—	—	(9)	121	(3)
Corporate equities	8	—	(3)	39	—	—	1	45	—
Securities sold under agreements to repurchase	154	1	—	—	—	—	—	153	1
Other secured financings	278	(9)	—	—	21	(201)	42	149	(6)
Long-term borrowings	1,887	109	—	—	791	(391)	(244)	1,934	102

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the Company's consolidated statements of income except for $735 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for 2014 related to assets and liabilities still outstanding at December 31, 2014.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 12.

(4) During the fourth quarter of 2014, the Company incurred a charge of approximately $468 million related to the implementation of FVA, which was recognized in Trading revenues (see Note 2).

In 2014, there were no material transfers into or out of Level 3.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2013.

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 6	$ (18)	$ 41	$ (7)	$ —	$ —	$ 5	$27	$ (18)
Corporate and other debt:									
Residential mortgage-backed securities	45	25	54	(51)	—	—	(26)	47	(6)
Commercial mortgage-backed securities	232	13	57	(187)	—	(7)	—	108	4
Asset-backed securities	109	—	6	(12)	—	—	—	103	—
Corporate bonds	660	(20)	324	(371)	—	(19)	(52)	522	(55)
Collateralized debt and loan obligations	1,951	363	742	(960)	—	(626)	(2)	1,468	131
Loans and lending commitments	4,694	(130)	3,744	(448)	—	(3,096)	365	5,129	(199)
Other debt	45	(1)	20	(36)	—	—	(1)	27	(2)
Total corporate and other debt	7,736	250	4,947	(2,065)	—	(3,748)	284	7,404	(127)
Corporate equities	288	(63)	113	(127)	—	—	(21)	190	(72)
Net derivative and other contracts(3):									
Interest rate contracts	(82)	28	6	—	(34)	135	60	113	36
Credit contracts	1,822	(1,674)	266	—	(703)	(295)	437	(147)	(1,723)
Foreign exchange contracts	(359)	130	—	—	—	281	16	68	124
Equity contracts	(1,144)	463	170	(74)	(318)	(11)	83	(831)	61
Commodity contracts	709	200	41	—	(36)	(29)	(5)	880	174
Other	(7)	(6)	—	—	—	9	—	(4)	(7)
Total net derivative and other contracts	939	(859)	483	(74)	(1,091)	90	591	79	(1,335)
Investments:									
Private equity funds	2,179	704	212	(564)	—	—	—	2,531	657
Real estate funds	1,370	413	103	(249)	—	—	—	1,637	625
Hedge funds	552	10	62	(163)	—	—	(29)	432	10
Principal investments	2,833	110	111	(445)	—	—	(449)	2,160	3
Other	486	76	13	(36)	—	—	(1)	538	77
Total investments	7,420	1,313	501	(1,457)	—	—	(479)	7,298	1,372
Intangible assets	7	9	—	—	—	(8)	—	8	3
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 19	$ —	$ —	$ —	$ —	$ (1)	$(17)	$ 1	$—
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4	4	—	—	—	—	—	—	4
Corporate bonds	177	28	(64)	43	—	—	(106)	22	28
Unfunded lending commitments	46	44	—	—	—	—	—	2	44
Other debt	49	2	—	5	—	(6)	2	48	2
Total corporate and other debt	276	78	(64)	48	—	(6)	(104)	72	78
Corporate equities	5	1	(26)	29	—	—	1	8	3
Securities sold under agreements to repurchase	151	(3)	—	—	—	—	—	154	(3)
Other secured financings	406	11	—	—	19	(136)	—	278	4
Long-term borrowings	2,789	(162)	—	—	877	(606)	(1,335)	1,887	(138)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the Company's consolidated statements of income except for $1,313 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for 2013 related to assets and liabilities still outstanding at December 31, 2013.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts, net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 12.

Long-term borrowings. During 2013, the Company reclassified approximately $1.3 billion of certain long-term borrowings, primarily structured notes, from Level 3 to Level 2. The Company reclassified the structured notes as the unobservable embedded derivative component became insignificant to the overall valuation.

In 2013, there were no material transfers from Level 2 to Level 3.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2012.

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2012(2)
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 8	$ —	$ —	$ (7)	$ —	$ —	$ (1)	$ —	$ —
Other sovereign government obligations	119	—	12	(125)	—	—	—	6	(9)
Corporate and other debt:									
Residential mortgage-backed securities	494	(9)	32	(285)	—	—	(187)	45	(26)
Commercial mortgage-backed securities	134	32	218	(49)	—	(100)	(3)	232	28
Asset-backed securities	31	1	109	(32)	—	—	—	109	(1)
Corporate bonds	675	22	447	(450)	—	—	(34)	660	(7)
Collateralized debt and loan obligations	980	216	1,178	(384)	—	—	(39)	1,951	142
Loans and lending commitments	9,590	37	2,648	(2,095)	—	(4,316)	(1,170)	4,694	(91)
Other debt	128	2	—	(95)	—	—	10	45	(6)
Total corporate and other debt	12,032	301	4,632	(3,390)	—	(4,416)	(1,423)	7,736	39
Corporate equities	417	(59)	134	(172)	—	—	(32)	288	(83)
Net derivative and other contracts(3):									
Interest rate contracts	420	(275)	28	—	(7)	(217)	(31)	(82)	297
Credit contracts	5,814	(2,799)	112	—	(502)	(961)	158	1,822	(3,216)
Foreign exchange contracts	43	(279)	—	—	—	19	(142)	(359)	(225)
Equity contracts	(1,234)	390	202	(9)	(112)	(210)	(171)	(1,144)	241
Commodity contracts	570	114	16	—	(41)	(20)	70	709	222
Other	(1,090)	57	—	—	—	236	790	(7)	53
Total net derivative and other contracts	4,523	(2,792)	358	(9)	(662)	(1,153)	674	939	(2,628)
Investments:									
Private equity funds	1,936	228	308	(294)	—	—	1	2,179	147
Real estate funds	1,213	149	143	(136)	—	—	1	1,370	229
Hedge funds	696	61	81	(151)	—	—	(135)	552	51
Principal investments	2,937	130	160	(419)	—	—	25	2,833	93
Other	501	(45)	158	(70)	—	—	(58)	486	(48)
Total investments	7,283	523	850	(1,070)	—	—	(166)	7,420	472
Physical commodities	46	—	—	—	—	(46)	—	—	—
Intangible assets	133	(39)	—	(83)	—	(4)	—	7	(7)
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 2	$ (5)	$ —	$ —	$ 3	$ (3)	$ 12	$ 19	$ (4)
Trading liabilities:									
Other sovereign government obligations	8	—	(8)	—	—	—	—	—	—
Corporate and other debt:									
Residential mortgage-backed securities	355	(4)	(355)	—	—	—	—	4	(4)
Corporate bonds	219	(15)	(129)	110	—	—	(38)	177	(23)
Unfunded lending commitments	85	39	—	—	—	—	—	46	39
Other debt	73	9	(1)	36	—	(55)	5	49	11
Total corporate and other debt	732	29	(485)	146	—	(55)	(33)	276	23
Corporate equities	1	(1)	(21)	22	—	—	2	5	(3)
Securities sold under agreements to repurchase	340	(14)	—	—	—	—	(203)	151	(14)
Other secured financings	570	(69)	—	—	21	(232)	(22)	406	(67)
Long-term borrowings	1,603	(651)	—	—	1,050	(279)	(236)	2,789	(652)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the Company's consolidated statements of income except for $523 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for 2012 related to assets and liabilities still outstanding at December 31, 2012.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts, net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 12.

Trading assets—Corporate and other debt. During 2012, the Company reclassified approximately $1.9 billion of certain Corporate and other debt, primarily corporate loans, from Level 3 to Level 2. The Company reclassified these corporate loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $0.5 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Trading assets—Net derivative and other contracts. During 2012, the Company reclassified approximately $1.4 billion of certain credit derivative assets and approximately $1.2 billion of certain credit derivative liabilities from Level 3 to Level 2. These reclassifications were primarily related to single name credit default swaps and basket credit default swaps for which certain unobservable inputs became insignificant to the overall measurement.

The Company also reclassified approximately $0.6 billion of certain credit derivative assets and approximately $0.3 billion of certain credit derivative liabilities from Level 2 to Level 3. The reclassifications were primarily related to basket credit default swaps for which certain unobservable inputs became significant to the overall measurement.

Quantitative Information about and Sensitivity of Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements at December 31, 2014 and December 31, 2013.

The disclosures below provide information on the valuation techniques, significant unobservable inputs, and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

At December 31, 2014.

	Balance at December 31, 2014 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets					
Trading assets:					
Corporate and other debt:					
Residential mortgage-backed securities	$ 175	Comparable pricing	Comparable bond price / (A)	3 to 90 points	15 points
Commercial mortgage-backed securities	96	Comparable pricing	Comparable bond price / (A)	0 to 7 points	1 points
Asset-backed securities	76	Comparable pricing	Comparable bond price / (A)	0 to 62 points	23 points
Corporate bonds	386	Comparable pricing	Comparable bond price / (A)	1 to 160 points	90 points
Collateralized debt and loan obligations	1,152	Comparable pricing(3)	Comparable bond price / (A)	20 to 100 points	66 points
		Correlation model	Credit correlation / (B)	47 to 65%	56%
Loans and lending commitments	5,874	Corporate loan model	Credit spread / (C)	36 to 753 basis points	373 basis points
		Margin loan model	Credit spread / (C)(D)	150 to 451 basis points	216 basis points
			Volatility skew / (C)(D)	3 to 37%	21%
			Discount rate / (C)(D)	2 to 3%	3%
		Option model	Volatility skew / (C)	-1%	-1%
		Comparable pricing(3)	Comparable loan price / (A)	15 to 105 points	89 points
Other debt	285	Comparable pricing(3)	Comparable loan price / (A)	0 to 75 points	39 points
		Comparable pricing	Comparable bond price / (A)	15 points	15 points
		Option model	At the money volatility / (A)	15 to 54%	15%
Corporate equities(4)	272	Net asset value	Discount to net asset value / (C)	0 to 71%	36%
		Comparable pricing	Comparable price / (A)	83 to 96%	85%
		Comparable pricing(3)	Comparable equity price / (A)	100%	100%
		Market approach	EBITDA multiple / (A)(D)	6 to 9 times	8 times
			Price / Book ratio / (A)(D)	0 times	0 times
Net derivative and other contracts(5):					
Interest rate contracts	(173)	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 3 times	2 times
			Interest rate—Foreign exchange correlation / (A)(D)	28 to 62%	44% / 42%(6)
			Interest rate volatility skew / (A)(D)	38 to 104%	86% / 60%(6)
			Interest rate quanto correlation / (A)(D)	-9 to 35%	6% / -6%(6)
			Interest rate curve correlation / (A)(D)	44 to 87%	73% / 80%(6)
			Inflation volatility / (A)(D)	69 to 71%	70% / 71%(6)
			Interest rate—Inflation correlation / (A)(D)	-44 to -40%	-42% / -43%(6)
Credit contracts	(743)	Comparable pricing	Cash synthetic basis / (C)(D)	5 to 13 points	9 points
			Comparable bond price / (C)(D)	0 to 55 points	18 points
		Correlation model(3)	Credit correlation / (B)	42 to 95%	63%

	Balance at December 31, 2014 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Foreign exchange contracts(7)	151	Option model	Interest rate quanto correlation / (A)(D)	-9 to 35%	6% / -6%(6)
			Interest rate—Credit spread correlation / (A)(D)	-54 to -2%	-17% / -11%(6)
			Interest rate curve correlation / (A)(D)	44 to 87%	73% / 80%(6)
			Interest rate—Foreign exchange correlation / (A)(D)	28 to 62%	44% / 42%(6)
			Interest rate curve / (A)(D)	0 to 2%	1% / 1%(6)
Equity contracts(7)	(1,380)	Option model	At the money volatility / (A)(D)	14 to 51%	29%
			Volatility skew / (A)(D)	-2 to 0%	-1%
			Equity—Equity correlation / (C)(D)	40 to 99%	72%
			Equity—Foreign exchange correlation / (C)(D)	-50 to 10%	-16%
			Equity—Interest rate correlation / (C)(D)	-18 to 81%	26% / 11%(6)
Commodity contracts	1,146	Option model	Forward power price / (C)(D)	$5 to $106 per Megawatt hour	$ 38 per Megawatt hour
			Commodity volatility / (A)(D)	11 to 90%	19%
			Cross commodity correlation / (C)(D)	33 to 100%	93%
Investments(4):					
Principal investments	835	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	11%	11%
			Exit multiple / (A)(D)	10 times	10 times
		Discounted cash flow	Equity discount rate / (C)	25%	25%
		Market approach(3)	EBITDA multiple / (A)(D)	4 to 14 times	10 times
			Price / Earnings ratio / (A)(D)	23 times	23 times
			Forward capacity price / (A)(D)	$5 to $7	$7
		Comparable pricing	Comparable equity price / (A)	64 to 100%	95%
Other	323	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	10 to 13%	11%
			Exit multiple / (A)(D)	6 to 9 times	9 times
		Market approach	EBITDA multiple / (A)(D)	9 to 13 times	10 times
		Comparable pricing(3)	Comparable equity price / (A)	100%	100%
Liabilities					
Corporate and other debt:					
Corporate bonds	$ 78	Option model	Volatility skew / (C)(D)	-1%	-1%
			At the money volatility / (C)(D)	10%	10%
Securities sold under agreements to repurchase	153	Discounted cash flow	Funding spread / (A)	75 to 91 basis points	86 basis points
Other secured financings	149	Comparable pricing	Comparable bond price / (A)	99 to 101 points	100 points
		Discounted cash flow(3)	Funding spread / (A)	82 to 98 basis points	95 basis points
Long-term borrowings	1,934	Option model(3)	At the money volatility / (C)(D)	18 to 32%	27%
			Volatility skew / (A)(D)	-1 to 0%	0%
			Equity—Equity correlation / (A)(D)	40 to 90%	68%
			Equity—Foreign exchange correlation / (C)(D)	-73 to 30%	-32%
		Option model	Equity alpha / (A)	0 to 94%	67%
		Correlation model	Credit correlation / (B)	48 to 65%	51%

EBITDA—Earnings before interest, taxes, depreciation and amortization

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 90 points would be 90% of par. A basis point equals 1/100th of 1%; for example, 753 basis points would equal 7.53%.

(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 6 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for collateralized debt and loan obligations, principal investments, other debt, corporate bonds, long-term borrowings and derivative instruments where some or all inputs are weighted by risk.

(3) This is the predominant valuation technique for this major asset or liability class.

(4) Investments in funds measured using an unadjusted NAV are excluded.

(5) Credit Valuation Adjustment ("CVA") and FVA are included in the balance, but excluded from the Valuation Technique(s) and Significant Unobservable Input(s) in the table above. CVA is deemed to be a Level 3 input when the underlying counterparty credit curve is unobservable. FVA is deemed to be a Level 3 input in its entirety given the lack of observability of funding spreads in the principal market.

(6) The data structure of the significant unobservable inputs used in valuing Interest rate contracts, Foreign exchange contracts and certain Equity contracts may be in a multi-dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.

(7) Includes derivative contracts with multiple risks (*i.e.,* hybrid products).

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

At December 31, 2013.

	Balance at December 31, 2013 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets					
Trading assets:					
Corporate and other debt:					
Commercial mortgage-backed securities	$ 108	Comparable pricing	Comparable bond price / (A)	40 to 93 points	78 points
Asset-backed securities	103	Discounted cash flow	Discount rate / (C)	18%	18%
Corporate bonds	522	Comparable pricing	Comparable bond price / (A)	1 to 159 points	85 points
Collateralized debt and loan obligations	1,468	Comparable pricing(3)	Comparable bond price / (A)	18 to 99 points	73 points
		Correlation model	Credit correlation / (B)	29 to 59%	43%
Loans and lending commitments	5,129	Corporate loan model	Credit spread / (C)	28 to 487 basis points	249 basis points
		Margin loan model	Credit spread / (C)(D)	10 to 265 basis points	135 basis points
			Volatility skew / (C)(D)	3 to 40%	14%
			Comparable bond price / (A)(D)	80 to 120 points	100 points
		Option model	Volatility skew / (C)	-1 to 0%	0%
		Comparable pricing(3)	Comparable loan price / (A)	10 to 100 points	76 points
Corporate equities(4)	190	Net asset value(3)	Discount to net asset value / (C)	0 to 85%	43%
		Comparable pricing	Comparable equity price / (A)	100%	100%
		Comparable pricing	Comparable price / (A)	100%	100%
		Market approach	EBITDA multiple / (A)(D)	5 to 9 times	6 times
			Price / Book ratio / (A)(D)	0 to 1 times	1 times
Net derivative and other contracts(5):					
Interest rate contracts	113	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 6 times	2 times
			Comparable bond price / (A)(D)	5 to 100 points	58 points / 65 points(6)
			Interest rate—Foreign exchange correlation / (A)(D)	3 to 63%	43% / 48 %(6)
			Interest rate volatility skew / (A)(D)	24 to 50%	33% / 28%(6)
			Interest rate quanto correlation / (A)(D)	-11 to 34%	8% / 5%(6)
			Interest rate curve correlation / (A)(D)	46 to 92%	74% / 80%(6)
			Inflation volatility / (A)(D)	77 to 86%	81% / 80%(6)
Credit contracts	(147)	Comparable pricing	Cash synthetic basis / (C)(D)	2 to 5 points	4 points
			Comparable bond price / (C)(D)	0 to 75 points	27 points
		Correlation model(3)	Credit correlation / (B)	19 to 96%	56%
Foreign exchange contracts(7)	68	Option model	Comparable bond price / (A)(D)	5 to 100 points	58 points / 65 points(6)
			Interest rate quanto correlation / (A)(D)	-11 to 34%	8% / 5%(6)
			Interest rate curve correlation / (A)(D)	46 to 92%	74% / 80%(6)
			Interest rate—Foreign exchange correlation / (A)(D)	3 to 63%	43% / 48%(6)
			Interest rate volatility skew / (A)(D)	24 to 50%	33% / 28%(6)
			Interest rate curve / (A)(D)	0 to 1%	1% / 0%(6)
Equity contracts(7)	(831)	Option model	At the money volatility / (A)(D)	20 to 53%	31%
			Volatility skew / (A)(D)	-3 to 0%	-1%
			Equity—Equity correlation / (C)(D)	40 to 99%	69%
			Equity—Foreign exchange correlation / (C)(D)	-50 to 9%	-20%
			Equity—Interest rate correlation / (C)(D)	-4 to 70%	39% / 40%(6)
Commodity contracts	880	Option model	Forward power price / (C)(D)	$14 to $91 per Megawatt hour	$40 per Megawatt hour
			Commodity volatility / (A)(D)	11 to 30%	14%
			Cross commodity correlation / (C)(D)	34 to 99%	93%

	Balance at December 31, 2013 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Investments(4):					
Principal investments	2,160	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	12%	12%
			Exit multiple / (A)(D)	9 times	9 times
		Discounted cash flow(3)	Capitalization rate / (C)(D)	5 to 13%	7%
			Equity discount rate / (C)(D)	10 to 30%	21%
		Market approach	EBITDA multiple / (A)	5 to 6 times	5 times
Other	538	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	7 to 10%	8%
			Exit multiple / (A)(D)	7 to 9 times	9 times
		Market approach(3)	EBITDA multiple / (A)	8 to 14 times	10 times
Liabilities					
Securities sold under agreements to repurchase	$ 154	Discounted cash flow	Funding spread / (A)	92 to 97 basis points	95 basis points
Other secured financings	278	Comparable pricing(3)	Comparable bond price / (A)	99 to 102 points	101 points
		Discounted cash flow	Funding spread / (A)	97 basis points	97 basis points
Long-term borrowings	1,887	Option model	At the money volatility / (C)(D)	20 to 33%	26%
			Volatility skew / (A)(D)	-2 to 0%	0%
			Equity—Equity correlation / (A)(D)	50 to 70%	69%
			Equity—Foreign exchange correlation / (C)(D)	-60 to 0%	-23%

[1] The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 93 points would be 93% of par. A basis point equals 1/100th of 1%; for example, 487 basis points would equal 4.87%.

[2] Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 6 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for long-term borrowings and derivative instruments where inputs are weighted by risk.

[3] This is the predominant valuation technique for this major asset or liability class.

[4] Investments in funds measured using an unadjusted NAV are excluded.

[5] CVA is included in the balance, but excluded from the Valuation Technique(s) and Significant Unobservable Input(s) in the table above. CVA is deemed to be a Level 3 input when the underlying counterparty credit curve is unobservable.

[6] The data structure of the significant unobservable inputs used in valuing Interest rate contracts, Foreign exchange contracts and certain Equity contracts may be in a multi-dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.

[7] Includes derivative contracts with multiple risks (*i.e.,* hybrid products).

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

The following provides a description of significant unobservable inputs included in the December 31, 2014 and December 31, 2013 tables above for all major categories of assets and liabilities:

- *Capitalization* rate—the ratio between net operating income produced by an asset and its market value at the projected disposition date.
- *Cash synthetic basis*—the measure of the price differential between cash financial instruments ("cash instruments") and their synthetic derivative-based equivalents ("synthetic instruments"). The range disclosed in the table above signifies the number of points by which the synthetic bond equivalent price is higher than the quoted price of the underlying cash bonds.

- *Comparable bond price*—a pricing input used when prices for the identical instrument are not available. Significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable bond, then adjusting that yield (or spread) to derive a value for the bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond. Additionally, as the probability of default increases for a given bond (*i.e.*, as the bond becomes more distressed), the valuation of that bond will increasingly reflect its expected recovery level assuming default. The decision to use price-to-price or yield/spread comparisons largely reflects trading market convention for the financial instruments in question. Price-to-price comparisons are primarily employed for RMBS, CMBS, ABS, CDOs, CLOs, Other debt, interest rate contracts, foreign exchange contracts, Other secured financings and distressed corporate bonds. Implied yield (or spread over a liquid benchmark) is utilized predominately for non-distressed corporate bonds, loans and credit contracts.

- *Comparable equity price*—a price derived from equity raises, share buybacks and external bid levels, etc. A discount or premium may be included in the fair value estimate.

- *Correlation*—a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (*i.e*., how the change in one variable influences a change in the other variable). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.

- *Credit spread*—the difference in yield between different securities due to differences in credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate, typically either U.S. Treasury or London Interbank Offered Rate ("LIBOR").

- *EBITDA multiple/Exit multiple*—the ratio of the Enterprise Value to EBITDA, where the Enterprise Value is the aggregate value of equity and debt minus cash and cash equivalents. The EBITDA multiple reflects the value of the company in terms of its full-year EBITDA, whereas the exit multiple reflects the value of the company in terms of its full-year expected EBITDA at exit. Either multiple allows comparison between companies from an operational perspective as the effect of capital structure, taxation and depreciation/amortization is excluded.

- *Equity alpha*—a parameter used in the modeling of equity hybrid prices.

- *Funding spread*—the difference between the general collateral rate (which refers to the rate applicable to a broad class of U.S. Treasury issuances) and the specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral, such as a municipal bond). Repurchase agreements and certain other secured financings are discounted based on collateral curves. The curves are constructed as spreads over the corresponding overnight indexed swap ("OIS") or LIBOR curves, with the short end of the curve representing spreads over the corresponding OIS curves and the long end of the curve representing spreads over LIBOR.

- *Implied weighted average cost of capital ("WACC")*—the WACC implied by the current value of equity in a discounted cash flow model. The model assumes that the cash flow assumptions, including projections, are fully reflected in the current equity value, while the debt to equity ratio is held constant. The WACC theoretically represents the required rate of return to debt and equity investors.

- *Interest rate curve*—the term structure of interest rates (relationship between interest rates and the time to maturity) and a market's measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate and foreign exchange derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.
- *Price / Book ratio*—the ratio used to compare a stock's market value with its book value. The ratio is calculated by dividing the current closing price of the stock by the latest book value per share. This multiple allows comparison between companies from an operational perspective.
- *Price / Earnings ratio*—the ratio used to measure a company's equity value in relation to its earnings. The ratio is calculated by dividing the equity value per share by the latest historical or forward-looking earnings per share. The ratio results in a standardized metric that allows comparison between companies, after also considering the effects of different leverage ratios and taxation rates.
- *Volatility*—the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (*e.g.*, the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.
- *Volatility* skew—the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.

Fair Value of Investments That Calculate Net Asset Value.

The Company's Investments measured at fair value were $6,651 million and $8,013 million at December 31, 2014 and December 31, 2013, respectively. The following table presents information solely about the Company's investments in private equity funds, real estate funds and hedge funds measured at fair value based on NAV at December 31, 2014 and December 31, 2013, respectively:

	At December 31, 2014		At December 31, 2013	
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
	(dollars in millions)			
Private equity funds	$2,569	$613	$2,531	$559
Real estate funds	1,753	112	1,643	124
Hedge funds(1):				
Long-short equity hedge funds	433	—	469	—
Fixed income/credit-related hedge funds	76	—	82	—
Event-driven hedge funds	39	—	38	—
Multi-strategy hedge funds	139	3	220	3
Total	$5,009	$728	$4,983	$686

(1) Fixed income/credit-related hedge funds, event-driven hedge funds and multi-strategy hedge funds are redeemable at least on a three-month period basis, primarily with a notice period of 90 days or less. At December 31, 2014, approximately 36% of the fair value amount of long-short equity hedge funds was redeemable at least quarterly, 47% is redeemable every six months and 17% of these funds have a redemption frequency of greater than six months. At December 31, 2013, approximately 42% of the fair value amount of long-short equity hedge funds was redeemable at least quarterly, 42% is redeemable every six months and 16% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at December 31, 2014 and December 31, 2013 was primarily greater than six months.

Private Equity Funds. Amount includes several private equity funds that pursue multiple strategies, including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments and mezzanine capital. In addition, the funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are generally not redeemable with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. At December 31, 2014, it was estimated that 5% of the fair value of the funds will be liquidated in the next five years, another 61% of the fair value of the funds will be liquidated between five to 10 years and the remaining 34% of the fair value of the funds will have a remaining life of greater than 10 years.

Real Estate Funds. Amount includes several real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. At December 31, 2014, it was estimated that 5% of the fair value of the funds will be liquidated within the next five years, another 59% of the fair value of the funds will be liquidated between five to 10 years and the remaining 36% of the fair value of the funds will have a remaining life of greater than 10 years.

Hedge Funds. Investments in hedge funds may be subject to initial period lock-up restrictions or gates. A hedge fund lock-up provision is a provision that provides that, during a certain initial period, an investor may not make a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

- *Long-Short Equity Hedge Funds.* Amount includes investments in hedge funds that invest, long or short, in equities. Equity value and growth hedge funds purchase stocks perceived to be undervalued and sell stocks perceived to be overvalued. Investments representing approximately 10% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily less than one year at December 31, 2014. Investments representing approximately 21% of the fair value of the investments in long-short equity hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was primarily indefinite at December 31, 2014.

- *Fixed Income/Credit-Related Hedge Funds.* Amount includes investments in hedge funds that employ long-short, distressed or relative value strategies in order to benefit from investments in undervalued or overvalued securities that are primarily debt or credit related. Investments representing approximately 10% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily over three years at December 31, 2014.

- *Event-Driven Hedge Funds.* Amount includes investments in hedge funds that invest in event-driven situations such as mergers, hostile takeovers, reorganizations or leveraged buyouts. This may involve the simultaneous purchase of stock in companies being acquired and the sale of stock in its acquirer, with the expectation to profit from the spread between the current market price and the ultimate purchase price of the target company. At December 31, 2014, there were no restrictions on redemptions.

- *Multi-strategy Hedge Funds.* Amount includes investments in hedge funds that pursue multiple strategies to realize short- and long-term gains. Management of the hedge funds has the ability to overweight or underweight different strategies to best capitalize on current investment opportunities. At

December 31, 2014, investments representing approximately 28% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily over three years at December 31, 2014. Investments representing approximately 27% of the fair value of the investments in multi-strategy hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at December 31, 2014.

Fair Value Option.

The Company elected the fair value option for certain eligible instruments that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models. The following table presents net gains (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for 2014, 2013 and 2012, respectively:

	Trading Revenues	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
	(dollars in millions)		
Year Ended December 31, 2014			
Securities purchased under agreements to resell	$ (4)	$ 9	$ 5
Commercial paper and other short-term borrowings(1)	(136)	1	(135)
Securities sold under agreements to repurchase	(5)	(6)	(11)
Long-term borrowings(1)	1,867	(638)	1,229
Year Ended December 31, 2013			
Securities purchased under agreements to resell	$ (1)	$ 6	$ 5
Deposits	52	(60)	(8)
Commercial paper and other short-term borrowings(1)	181	(8)	173
Securities sold under agreements to repurchase	(3)	(6)	(9)
Long-term borrowings(1)	664	(971)	(307)
Year Ended December 31, 2012			
Securities purchased under agreements to resell	$ 8	$ 5	$ 13
Deposits	57	(86)	(29)
Commercial paper and other short-term borrowings(1)	(31)	—	(31)
Securities sold under agreements to repurchase	(15)	(4)	(19)
Long-term borrowings(1)	(5,687)	(1,321)	(7,008)

(1) Of the total gains (losses) recorded in Trading revenues for short-term and long-term borrowings for 2014, 2013 and 2012, $651 million, $(681) million and $(4,402) million, respectively, are attributable to changes in the credit quality of the Company and other credit factors, and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for structured notes before the impact of related hedges.

In addition to the amounts in the above table, as discussed in Note 2, all of the instruments within Trading assets or Trading liabilities are measured at fair value, either through the election of the fair value option or as required by other accounting guidance. The amounts in the above table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any.

The Company hedges the economics of market risk for short-term and long-term borrowings (*i.e.*, risks other than that related to the credit quality of the Company) as part of its overall trading strategy and manages the market risks embedded within the issuance by the related business unit as part of the business unit's portfolio. The gains and losses on related economic hedges are recorded in Trading revenues and largely offset the gains and losses on short-term and long-term borrowings attributable to market risk.

At December 31, 2014 and December 31, 2013, a breakdown of the short-term and long-term borrowings measured at fair value on a recurring basis by business unit responsible for risk-managing each borrowing is shown in the table below:

	Short-Term and Long-Term Borrowings	
Business Unit	**At December 31, 2014**	**At December 31, 2013**
	(dollars in millions)	
Equity	$17,253	$17,945
Interest rates	13,545	15,933
Credit and foreign exchange	2,105	2,561
Commodities	636	545
Total	$33,539	$36,984

The following tables present information on the Company's short-term and long-term borrowings (primarily structured notes), loans and unfunded lending commitments for which the fair value option was elected:

Gains (Losses) due to Changes in Instrument-Specific Credit Risk.

	2014	2013	2012
	(dollars in millions)		
Short-term and long-term borrowings(1)	$651	$(681)	$(4,402)
Loans and other debt(2)	179	137	340
Unfunded lending commitments(3)	30	255	1,026

[1] The change in the fair value of short-term and long-term borrowings (primarily structured notes) includes an adjustment to reflect the change in credit quality of the Company based upon observations of the Company's secondary bond market spreads and changes in other credit factors.

[2] Loans and other debt instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.

[3] Gains (losses) on unfunded lending commitments were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period-end.

Net Difference between Contractual Principal Amount and Fair Value.

	Contractual Principal Amount Exceeds Fair Value	
	At December 31, 2014	**At December 31, 2013**
	(dollars in millions)	
Short-term and long-term borrowings(1)	$ (670)	$ (2,409)
Loans and other debt(2)	14,990	17,248
Loans 90 or more days past due and/or on nonaccrual status(2)(3)	12,916	15,113

[1] Short-term and long-term borrowings do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.

[2] The majority of the difference between principal and fair value amounts for loans and other debt emanates from the Company's distressed debt trading business, which purchases distressed debt at amounts well below par.

[3] The aggregate fair value of loans that were in nonaccrual status, which includes all loans 90 or more days past due, was $1,367 million and $1,205 million at December 31, 2014 and December 31, 2013, respectively. The aggregate fair value of loans that were 90 or more days past due was $643 million and $655 million at December 31, 2014 and December 31, 2013, respectively.

The tables above exclude non-recourse debt from consolidated VIEs, liabilities related to failed sales of financial assets, pledged commodities and other liabilities that have specified assets attributable to them.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis.

Certain assets and liabilities were measured at fair value on a non-recurring basis and are not included in the tables above. These assets and liabilities may include loans, other investments, premises, equipment and software costs, intangible assets and unfunded lending commitments.

The following tables present, by caption on the Company's consolidated statements of financial condition, the fair value hierarchy for those assets measured at fair value on a non-recurring basis for which the Company recognized a non-recurring fair value adjustment for 2014, 2013 and 2012, respectively.

2014.

		Fair Value Measurements Using:			
	Carrying Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2014(1)
		(dollars in millions)			
Loans(2)	$3,336	$—	$2,386	$ 950	$(165)
Other investments(3)	46	—	—	46	(38)
Premises, equipment and software costs(4)	—	—	—	—	(58)
Intangible assets(3)	46	—	—	46	(6)
Other assets(4)	—	—	—	—	(9)
Total	$3,428	$—	$2,386	$1,042	$(276)

[1] Changes in the fair value of Loans and losses related to Other investments are recorded within Other revenues, whereas losses related to Premises, equipment and software costs, Intangible assets and Other assets are recorded within Other expenses in the Company's consolidated statements of income.

[2] Non-recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.

[3] Losses related to Other investments and Intangible assets were determined primarily using discounted cash flow models and methodologies that incorporate multiples of certain comparable companies.

[4] Losses related to Premises, equipment and software costs and Other assets were determined primarily using a default recovery analysis.

The Company also recognized a non-recurring fair value adjustment for certain unfunded lending commitments designated as held for sale within Other liabilities and accrued expenses in the Company's consolidated statements of financial condition. The fair value of those unfunded lending commitments on non-recurring basis at December 31, 2014 was $219 million, of which $178 million and $41 million were categorized in Level 2 and

Level 3 of the fair value hierarchy, respectively. During 2014, the Company recorded additional losses of $165 million within Other revenues in the Company's consolidated statement of income related to a non-recurring fair value adjustment for those unfunded lending commitments.

2013.

	Carrying Value at December 31, 2013	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2013(1)
		(dollars in millions)			
Loans(2)	$1,822	$—	$1,616	$206	$ (71)
Other investments(3)	46	—	—	46	(38)
Premises, equipment and software costs(4)	8	—	—	8	(133)
Intangible assets(3)	92	—	—	92	(44)
Total	$1,968	$—	$1,616	$352	$(286)

(1) Change in the fair value of Loans and losses related to Other investments are recorded within Other revenues, whereas losses related to Premises, equipment and software costs and Intangible assets are recorded within Other expenses in the Company's consolidated statements of income.

(2) Non-recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.

(3) Losses related to Other investments and Intangible assets were determined primarily using discounted cash flow models.

(4) Losses related to Premises, equipment and software costs were determined primarily using discounted cash flow models or a default recovery analysis.

There were no significant liabilities measured at fair value on a non-recurring basis during 2013.

2012.

	Carrying Value at December 31, 2012	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2012(1)
		(dollars in millions)			
Loans(2)	$1,821	$—	$277	$1,544	$ (60)
Other investments(3)	90	—	—	90	(37)
Premises, equipment and software costs(4)	33	—	—	33	(170)
Intangible assets(3)	—	—	—	—	(4)
Total	$1,944	$—	$277	$1,667	$(271)

(1) Changes in the fair value of Loans and losses related to Other investments are recorded within Other revenues, whereas losses related to Premises, equipment and software costs and Intangible assets are recorded within Other expenses in the Company's consolidated statements of income.

(2) Non-recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt

prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.

(3) Losses related to Other investments and Intangible assets were determined primarily using discounted cash flow models.

(4) Losses related to Premises, equipment and software coats were determined using discounted cash flow models and primarily represented the write-off of the carrying value of certain premises and software that were abandoned during 2012 in association with the Wealth Management JV integration.

In addition to the losses included in the table above, there was a pre-tax gain of approximately $51 million (related to Other assets) included in discontinued operations in 2012 in connection with the disposition of Saxon (see Note 1). The fair value of Saxon was determined based on the revised purchase price agreed upon with the buyer.

There were no liabilities measured at fair value on a non-recurring basis during 2012.

Financial Instruments Not Measured at Fair Value.

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the Company's consolidated statements of financial condition. The tables below exclude certain financial instruments such as equity method investments and all non-financial assets and liabilities such as the value of the long-term relationships with our deposit customers.

The carrying value of cash and cash equivalents, including Interest bearing deposits with banks, and other short-term financial instruments such as Securities purchased under agreements to resell; Securities borrowed; Securities sold under agreements to repurchase; Securities loaned; certain Customer and other receivables and Customer and other payables arising in the ordinary course of business; certain Deposits; Commercial paper and other short-term borrowings; and Other secured financings approximate fair value because of the relatively short period of time between their origination and expected maturity.

For longer-dated Securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned and Other secured financings, fair value is determined using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks and interest rate yield curves.

For HTM securities, fair value is determined using quoted market prices.

For consumer and residential real estate loans and lending commitments where position-specific external price data are not observable, the fair value is based on the credit risks of the borrower using a probability of default and loss given default method, discounted at the estimated external cost of funding level. The fair value of corporate loans and lending commitments is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.

The fair value of long-term borrowings is generally determined based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, fair value is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturity.

Financial Instruments Not Measured at Fair Value at December 31, 2014 and December 31, 2013.

At December 31, 2014.

	At December 31, 2014		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 21,381	$ 21,381	$21,381	$ —	$ —
Interest bearing deposits with banks	25,603	25,603	25,603	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	40,607	40,607	40,607	—	—
Investment securities—HTM securities	100	100	100	—	—
Securities purchased under agreements to resell	82,175	82,165	—	81,981	184
Securities borrowed	136,708	136,708	—	136,696	12
Customer and other receivables(1)	45,116	45,028	—	39,945	5,083
Loans(2)	66,577	67,800	—	18,212	49,588
Financial Liabilities:					
Deposits	$133,544	$133,572	$ —	$133,572	$ —
Commercial paper and other short-term borrowings	496	496	—	496	—
Securities sold under agreements to repurchase	69,337	69,433	—	63,921	5,512
Securities loaned	25,219	25,244	—	24,740	504
Other secured financings	7,581	7,881	—	5,465	2,416
Customer and other payables(1)	178,373	178,373	—	178,373	—
Long-term borrowings	120,998	124,961	—	124,150	811

(1) Accrued interest, fees, and dividend receivables and payables where carrying value approximates fair value have been excluded.

(2) Amounts include all loans measured at fair value on a non-recurring basis.

The fair value of the Company's unfunded lending commitments, primarily related to corporate lending in the Company's Institutional Securities business segment, that are not carried at fair value at December 31, 2014 was $1,178 million, of which $928 million and $250 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $86.8 billion.

At December 31, 2013.

	At December 31, 2013		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 16,602	$ 16,602	$16,602	$ —	$ —
Interest bearing deposits with banks	43,281	43,281	43,281	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	39,203	39,203	39,203	—	—
Securities purchased under agreements to resell	117,264	117,263	—	116,584	679
Securities borrowed	129,707	129,705	—	129,374	331
Customer and other receivables(1)	53,112	53,031	—	47,525	5,506
Loans(2)	42,874	42,765	—	11,288	31,477
Financial Liabilities:					
Deposits	$112,194	$112,273	$ —	$112,273	$ —
Commercial paper and other short-term borrowings	795	795	—	787	8
Securities sold under agreements to repurchase	145,115	145,157	—	138,161	6,996
Securities loaned	32,799	32,826	—	31,731	1,095
Other secured financings	9,009	9,034	—	5,845	3,189
Customer and other payables(1)	154,654	154,654	—	154,654	—
Long-term borrowings	117,938	123,133	—	122,099	1,034

[1] Accrued interest, fees, and dividend receivables and payables where carrying value approximates fair value have been excluded.

[2] Amounts include all loans measured at fair value on a non-recurring basis.

The fair value of the Company’s unfunded lending commitments, primarily related to corporate lending in the Company’s Institutional Securities business segment, that are not carried at fair value at December 31, 2013 was $853 million, of which $669 million and $184 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $75.4 billion.

5. Investment Securities.

The following tables present information about the Company's AFS securities, which are carried at fair value, and HTM securities, which are carried at amortized cost. The net unrealized gains (losses) on AFS securities are reported on an after-tax basis as a component of AOCI.

	At December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
AFS debt securities:					
U.S. government and agency securities:					
U.S. Treasury securities	$35,855	$ 42	$ 67	$—	$35,830
U.S. agency securities(1)	18,030	77	72	—	18,035
Total U.S. government and agency securities	53,885	119	139	—	53,865
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,288	1	76	—	2,213
Non-agency	1,820	11	6	—	1,825
Auto loan asset-backed securities	2,433	—	5	—	2,428
Corporate bonds	3,640	10	22	—	3,628
Collateralized loan obligations	1,087	—	20	—	1,067
FFELP student loan asset-backed securities(2)	4,169	18	8	—	4,179
Total corporate and other debt	15,437	40	137	—	15,340
Total AFS debt securities	69,322	159	276	—	69,205
AFS equity securities	15	—	4	—	11
Total AFS securities	69,337	159	280	—	69,216
HTM securities:					
U.S. government securities:					
U.S. Treasury securities	100	—	—	—	100
Total HTM securities	100	—	—	—	100
Total Investment securities	$69,437	$159	$280	$—	$69,316

	At December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
AFS debt securities:					
U.S. government and agency securities:					
U.S. Treasury securities	$24,486	$ 51	$139	$—	$24,398
U.S. agency securities(1)	15,813	26	234	—	15,605
Total U.S. government and agency securities	40,299	77	373	—	40,003
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,482	—	84	—	2,398
Non-agency	1,333	1	18	—	1,316
Auto loan asset-backed securities	2,041	2	1	—	2,042
Corporate bonds	3,415	3	61	—	3,357
Collateralized loan obligations	1,087	—	20	—	1,067
FFELP student loan asset-backed securities(2)	3,230	12	8	—	3,234
Total corporate and other debt	13,588	18	192	—	13,414
Total AFS debt securities	53,887	95	565	—	53,417
AFS equity securities	15	—	2	—	13
Total Investment securities	$53,902	$ 95	$567	$—	$53,430

[1] U.S. agency securities are composed of three main categories consisting of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations.

[2] Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

The tables below present the fair value of Investment securities that are in an unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
At December 31, 2014	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(dollars in millions)			
AFS debt securities:						
U.S. government and agency securities:						
U.S. Treasury securities	$11,410	$ 14	$ 5,924	$ 53	$17,334	$ 67
U.S. agency securities	2,739	6	4,133	66	6,872	72
Total U.S. government and agency securities	14,149	20	10,057	119	24,206	139
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	42	—	1,822	76	1,864	76
Non-agency	706	3	346	3	1,052	6
Auto loan asset-backed securities	2,034	5	—	—	2,034	5
Corporate bonds	905	6	1,299	16	2,204	22
Collateralized loan obligations	—	—	1,067	20	1,067	20
FFELP student loan asset-backed securities	1,523	6	393	2	1,916	8
Total corporate and other debt	5,210	20	4,927	117	10,137	137
Total AFS debt securities	19,359	40	14,984	236	34,343	276
AFS equity securities	11	4	—	—	11	4
Total Investment securities	$19,370	$ 44	$14,984	$236	$34,354	$280

	Less than 12 Months		12 Months or Longer		Total	
At December 31, 2013	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(dollars in millions)			
AFS debt securities:						
U.S. government and agency securities:						
U.S. Treasury securities	$13,266	$139	$ —	$—	$13,266	$139
U.S. agency securities	8,438	211	651	23	9,089	234
Total U.S. government and agency securities	21,704	350	651	23	22,355	373
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	958	15	1,270	69	2,228	84
Non-agency	841	16	86	2	927	18
Auto loan asset-backed securities	557	1	85	—	642	1
Corporate bonds	2,350	52	383	9	2,733	61
Collateralized loan obligations	1,067	20	—	—	1,067	20
FFELP student loan asset-backed securities	1,388	7	76	1	1,464	8
Total corporate and other debt	7,161	111	1,900	81	9,061	192
Total AFS debt securities	28,865	461	2,551	104	31,416	565
AFS equity securities	13	2	—	—	13	2
Total Investment securities	$28,878	$463	$2,551	$104	$31,429	$567

As discussed in Note 2, AFS securities and HTM securities with a current fair value less than their amortized cost are analyzed as part of the Company's ongoing assessment of temporary versus other-than-temporarily impaired at the individual security level. The unrealized losses on AFS debt securities reported above are primarily due to rising long-term interest rates since those securities were purchased. While the securities in an unrealized loss position greater than twelve months have increased in 2014, the risk of credit loss is considered minimal because all of the Company's agency securities as well as the Company's ABS, CMBS and CLOs are highly rated and because the Company's corporate bonds are all investment grade. The Company does not intend to sell and is not likely to be required to sell its AFS debt securities prior to recovery of its amortized cost basis. The Company does not expect to experience a credit loss on its AFS debt securities or HTM securities based on consideration of the relevant information (as discussed in Note 2), including for U.S. government and agency securities, the existence of the explicit and implicit guarantee provided by the U.S. government. The Company believes that its AFS debt securities with an unrealized loss position were not other-than-temporarily impaired at December 31, 2014 and December 31, 2013.

For AFS equity securities in an unrealized loss position, the Company does not intend to sell these securities or expect to be required to sell these securities prior to the recovery of the amortized cost basis. The Company believes that the equity securities with an unrealized loss in AOCI were not other-than-temporarily impaired at December 31, 2014 and December 31, 2013.

The following table presents the amortized cost and fair value of Investment securities by contractual maturity dates at December 31, 2014:

At December 31, 2014	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
AFS debt securities:			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 1,254	$ 1,255	0.4%
After 1 year through 5 years	33,218	33,197	0.8%
After 5 years through 10 years	1,383	1,378	1.7%
Total	35,855	35,830	
U.S. agency securities:			
After 1 year through 5 years	1,457	1,458	0.9%
After 5 years through 10 years	1,797	1,803	1.3%
After 10 years	14,776	14,774	1.6%
Total	18,030	18,035	
Total U.S. government and agency securities	53,885	53,865	1.1%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
Due within 1 year	59	59	0.5%
After 1 year through 5 years	609	606	1.0%
After 5 years through 10 years	400	396	1.1%
After 10 years	1,220	1,152	1.5%
Total	2,288	2,213	
Non-agency:			
After 10 years	1,820	1,825	1.6%
Total	1,820	1,825	
Auto loan asset-backed securities:			
Due within 1 year	17	17	0.7%
After 1 year through 5 years	2,319	2,314	0.9%
After 5 years through 10 years	97	97	1.4%
Total	2,433	2,428	
Corporate bonds:			
Due within 1 year	224	224	0.8%
After 1 year through 5 years	2,911	2,898	1.4%
After 5 years through 10 years	505	506	2.7%
Total	3,640	3,628	
Collateralized loan obligations:			
After 10 years	1,087	1,067	1.4%
Total	1,087	1,067	

At December 31, 2014	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
FFELP student loan asset-backed securities:			
After 1 year through 5 years	116	116	0.7%
After 5 years through 10 years	609	609	0.8%
After 10 years	3,444	3,454	0.9%
Total	4,169	4,179	
Total corporate and other debt	15,437	15,340	1.2%
Total AFS debt securities	69,322	69,205	1.1%
AFS equity securities	15	11	0.0%
Total AFS securities	69,337	69,216	1.1%
HTM securities:			
U.S. government securities:			
U.S. Treasury securities:			
After 1 year through 5 years	100	100	1.7%
Total HTM securities	100	100	1.7%
Total Investment securities	$69,437	$69,316	1.1%

See Note 7 for additional information on securities issued by VIEs, including U.S. agency mortgage-backed securities, non-agency CMBS, auto loan asset-backed securities, CLO and FFELP student loan asset-backed securities.

The following table presents information pertaining to sales of AFS securities primarily within the Company's Investment securities portfolio during 2014, 2013 and 2012:

	2014	2013	2012
	(dollars in millions)		
Gross realized gains	$41	$49	$88
Gross realized losses	$ 1	$ 4	$10

Gross realized gains and losses are recognized in Other revenues in the Company's consolidated statements of income.

6. Collateralized Transactions.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), with the right to net a counterparty's rights and obligations under such agreement and liquidate and set off collateral held by the Company against the net amount owed by the counterparty. The Company's policy is generally to take possession of securities purchased under agreements to resell and securities borrowed, and to receive securities and cash posted as collateral (with rights of rehypothecation), although in certain cases, the Company may agree for such collateral to be posted to a third-party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized.

The following tables present information about the offsetting of these instruments and related collateral amounts. For information related to offsetting of derivatives, see Note 12.

	At December 31, 2014				
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Securities purchased under agreements to resell	$148,234	$(64,946)	$ 83,288	$ (79,343)	$ 3,945
Securities borrowed	145,556	(8,848)	136,708	(128,282)	8,426
Liabilities					
Securities sold under agreements to repurchase	$134,895	$(64,946)	$ 69,949	$ (56,454)	$13,495
Securities loaned	34,067	(8,848)	25,219	(24,252)	967

(1) Amounts include $3.9 billion of Securities purchased under agreements to resell, $4.2 billion of Securities borrowed, $15.6 billion of Securities sold under agreements to repurchase and $0.7 billion of Securities loaned, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

	At December 31, 2013				
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Securities purchased under agreements to resell	$183,015	$(64,885)	$118,130	$(106,828)	$11,302
Securities borrowed	137,082	(7,375)	129,707	(113,339)	16,368
Liabilities					
Securities sold under agreements to repurchase	$210,561	$(64,885)	$145,676	$(111,599)	$34,077
Securities loaned	40,174	(7,375)	32,799	(32,543)	256

(1) Amounts include $11.1 billion of Securities purchased under agreements to resell, $13.2 billion of Securities borrowed and $33.3 billion of Securities sold under agreements to repurchase, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

The Company also engages in margin lending to clients that allows the client to borrow against the value of qualifying securities and is included within Customer and other receivables in the Company's consolidated statement of financial condition. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activities are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company's collateral policies significantly limits the Company's credit exposure in the event of a customer default. The Company may request additional margin collateral from customers, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At December 31, 2014 and December 31, 2013, there were approximately $29.0 billion and $29.2 billion, respectively, of customer margin loans outstanding.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, and certain equity-linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets (see Notes 7 and 11).

The Company pledges its trading assets to collateralize repurchase agreements and other secured financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the Company's consolidated statements of financial condition. The carrying value and classification of Trading assets by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Trading assets:		
U.S. government and agency securities	$11,769	$16,292
Other sovereign government obligations	6,084	5,748
Corporate and other debt	6,061	7,388
Corporate equities	7,421	8,713
Total	$31,335	$38,141

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed and derivative transactions, customer margin loans and securities-based lending. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and the related obligation to return the collateral in its consolidated statements of financial condition. At December 31, 2014 and December 31, 2013, the total fair value of financial instruments received as collateral where the Company is permitted to sell or repledge the securities was $546 billion and $533 billion, respectively, and the fair value of the portion that had been sold or repledged was $403 billion and $381 billion, respectively.

The Company is subject to concentration risk by holding large positions in certain types of securities, loans or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Trading assets owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments (principally the U.K., Japan, Brazil and Hong Kong), which, in the aggregate, represented approximately 7% and 10% of the Company's total assets at December 31, 2014 and December 31, 2013, respectively. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 17% and 20% of the Company's total assets at December 31, 2014 and December 31, 2013, respectively, consists of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity, principal investment and lending activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. In addition, the Company may originate or purchase certain residential and commercial mortgage loans that could contain certain terms and features that may result in additional credit risk as compared with more traditional types of mortgages. Such terms and features may include loans made to borrowers subject to payment increases or loans with high loan-to-value ratios.

At December 31, 2014 and December 31, 2013, cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements were as follows:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	$40,607	$39,203
Securities(1)	14,630	15,586
Total	$55,237	$54,789

[1] Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Securities purchased under agreements to resell and Trading assets in the Company's consolidated statements of financial condition.

7. Variable Interest Entities and Securitization Activities.

The Company is involved with various special purpose entities ("SPE") in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Company applies accounting guidance for consolidation of VIEs to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Except for certain asset management entities, the primary beneficiary of a VIE is the party that both (1) has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (2) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates entities of which it is the primary beneficiary.

The Company's variable interests in VIEs include debt and equity interests, commitments, guarantees, derivative instruments and certain fees. The Company's involvement with VIEs arises primarily from:

- Interests purchased in connection with market-making activities, securities held in its AFS securities portfolio and retained interests held as a result of securitization activities, including re-securitization transactions.
- Guarantees issued and residual interests retained in connection with municipal bond securitizations.
- Servicing of residential and commercial mortgage loans held by VIEs.
- Loans made to and investments in VIEs that hold debt, equity, real estate or other assets.
- Derivatives entered into with VIEs.
- Structuring of credit-linked notes ("CLN") or other asset-repackaged notes designed to meet the investment objectives of clients.
- Other structured transactions designed to provide tax-efficient yields to the Company or its clients.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE. This determination is based upon an analysis of the design of the VIE, including the VIE's structure and activities, the power to make significant economic decisions held by the Company and by other parties, and the variable interests owned by the Company and other parties.

The power to make the most significant economic decisions may take a number of different forms in different types of VIEs. The Company considers servicing or collateral management decisions as representing the power to make the most significant economic decisions in transactions such as securitizations or CDOs. As a result, the Company does not consolidate securitizations or CDOs for which it does not act as the servicer or collateral manager unless it holds certain other rights to replace the servicer or collateral manager or to require the liquidation of the entity. If the Company serves as servicer or collateral manager, or has certain other rights described in the previous sentence, the Company analyzes the interests in the VIE that it holds and consolidates only those VIEs for which it holds a potentially significant interest of the VIE.

The structure of securitization vehicles and CDOs is driven by several parties, including loan seller(s) in securitization transactions, the collateral manager in a CDO, one or more rating agencies, a financial guarantor in some transactions and the underwriter(s) of the transactions, who serve to reflect specific investor demand. In addition, subordinate investors, such as the "B-piece" buyer (*i.e.,* investors in most subordinated bond classes) in commercial mortgage-backed securitizations or equity investors in CDOs, can influence whether specific loans are excluded from a CMBS transaction or investment criteria in a CDO.

For many transactions, such as re-securitization transactions, CLNs and other asset-repackaged notes, there are no significant economic decisions made on an ongoing basis. In these cases, the Company focuses its analysis on decisions made prior to the initial closing of the transaction and at the termination of the transaction. Based upon factors, which include an analysis of the nature of the assets, including whether the assets were issued in a transaction sponsored by the Company and the extent of the information available to the Company and to investors, the number, nature and involvement of investors, other rights held by the Company and investors, the standardization of the legal documentation and the level of continuing involvement by the Company, including the amount and type of interests owned by the Company and by other investors, the Company concluded in most of these transactions that decisions made prior to the initial closing were shared between the Company and the initial investors. The Company focused its control decision on any right held by the Company or investors related to the termination of the VIE. Most re-securitization transactions, CLNs and other asset-repackaged notes have no such termination rights.

Except for consolidated VIEs included in other structured financings and managed real estate partnerships in the tables below, the Company accounts for the assets held by the entities primarily in Trading assets and the liabilities of the entities as Other secured financings in its consolidated statements of financial condition. For consolidated VIEs included in other structured financings, the Company accounts for the assets held by the entities primarily in Premises, equipment and software costs, and Other assets in its consolidated statements of financial condition. For consolidated VIEs included in managed real estate partnerships, the Company accounts for the assets held by the entities primarily in Trading assets in its consolidated statements of financial condition. Except for consolidated VIEs included in other structured financings, the assets and liabilities are measured at fair value, with changes in fair value reflected in earnings.

The assets owned by many consolidated VIEs cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many consolidated VIEs are non-recourse to the Company. In certain other consolidated VIEs, the Company either has the unilateral right to remove assets or provides additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Company's Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 13).

The following tables present information at December 31, 2014 and December 31, 2013 about VIEs that the Company consolidates. Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a non-recourse basis:

	At December 31, 2014			
	Mortgage- and Asset-Backed Securitizations	Managed Real Estate Partnerships(1)	Other Structured Financings	Other
	(dollars in millions)			
VIE assets	$563	$288	$928	$1,199
VIE liabilities	$337	$ 4	$ 80	$ —

(1) On April 1, 2014, the Company deconsolidated approximately $1.6 billion in total assets that were related to certain legal entities associated with a real estate fund sponsored by the Company.

	At December 31, 2013			
	Mortgage- and Asset-Backed Securitizations	Managed Real Estate Partnerships	Other Structured Financings	Other
	(dollars in millions)			
VIE assets	$643	$2,313	$1,202	$1,294
VIE liabilities	$368	$ 42	$ 67	$ 175

In general, the Company's exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE's assets recognized in its financial statements, net of losses absorbed by third-party holders of the VIE's liabilities. At December 31, 2014 and December 31, 2013, managed real estate partnerships reflected nonredeemable noncontrolling interests in the Company's consolidated financial statements of $240 million and $1,771 million, respectively. The Company also had additional maximum exposure to losses of approximately $105 million and $101 million at December 31, 2014 and December 31, 2013, respectively. This additional exposure relates primarily to certain derivatives (*e.g.*, instead of purchasing senior securities, the Company has sold credit protection to synthetic CDOs through credit derivatives that are typically related to the most senior tranche of the CDO) and commitments, guarantees and other forms of involvement.

The following tables present information about certain non-consolidated VIEs in which the Company had variable interests at December 31, 2014 and December 31, 2013. The tables include all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria. Most of the VIEs included in the tables below are sponsored by unrelated parties; the Company's involvement generally is the result of the Company's secondary market-making activities and securities held in its AFS securities portfolio (see Note 5):

	At December 31, 2014				
	Mortgage- and Asset-Backed Securitizations	**Collateralized Debt Obligations**	**Municipal Tender Option Bonds**	**Other Structured Financings**	**Other**
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$174,548	$26,567	$3,449	$2,040	$19,237
Maximum exposure to loss:					
Debt and equity interests(2)	$ 15,028	$ 3,062	$ 13	$1,158	$ 3,884
Derivative and other contracts	15	2	2,212	—	164
Commitments, guarantees and other	1,054	432	—	617	429
Total maximum exposure to loss	$ 16,097	$ 3,496	$2,225	$1,775	$ 4,477
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 15,028	$ 3,062	$ 13	$ 741	$ 3,884
Derivative and other contracts	15	2	4	—	74
Total carrying value of exposure to loss—Assets	$ 15,043	$ 3,064	$ 17	$ 741	$ 3,958
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ —	$ —	$ —	$ —	$ 57
Commitments, guarantees and other	—	—	—	5	—
Total carrying value of exposure to loss—Liabilities	$ —	$ —	$ —	$ 5	$ 57

[1] Mortgage- and asset-backed securitizations include VIE assets as follows: $30.8 billion of residential mortgages; $71.9 billion of commercial mortgages; $20.6 billion of U.S. agency collateralized mortgage obligations; and $51.2 billion of other consumer or commercial loans.

[2] Mortgage- and asset-backed securitizations include VIE debt and equity interests as follows: $1.9 billion of residential mortgages; $2.4 billion of commercial mortgages; $4.0 billion of U.S. agency collateralized mortgage obligations; and $6.8 billion of other consumer or commercial loans.

	At December 31, 2013				
	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$177,153	$29,513	$3,079	$1,874	$10,119
Maximum exposure to loss:					
Debt and equity interests(2)	$ 13,514	$ 2,498	$ 31	$1,142	$ 3,693
Derivative and other contracts	15	23	1,935	—	146
Commitments, guarantees and other	—	272	—	649	527
Total maximum exposure to loss	$ 13,529	$ 2,793	$1,966	$1,791	$ 4,366
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 13,514	$ 2,498	$ 31	$ 731	$ 3,693
Derivative and other contracts	15	3	4	—	53
Total carrying value of exposure to loss—Assets	$ 13,529	$ 2,501	$ 35	$ 731	$ 3,746
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ —	$ 2	$ —	$ —	$ 57
Commitments, guarantees and other	—	—	—	7	—
Total carrying value of exposure to loss—Liabilities	$ —	$ 2	$ —	$ 7	$ 57

(1) Mortgage- and asset-backed securitizations include VIE assets as follows: $16.9 billion of residential mortgages; $78.4 billion of commercial mortgages; $31.5 billion of U.S. agency collateralized mortgage obligations; and $50.4 billion of other consumer or commercial loans.

(2) Mortgage- and asset-backed securitizations include VIE debt and equity interests as follows: $1.3 billion of residential mortgages; $2.0 billion of commercial mortgages; $5.3 billion of U.S. agency collateralized mortgage obligations; and $4.9 billion of other consumer or commercial loans.

The Company's maximum exposure to loss often differs from the carrying value of the variable interests held by the Company. The maximum exposure to loss is dependent on the nature of the Company's variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Company has made in the VIEs. Liabilities issued by VIEs generally are non-recourse to the Company. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value write-downs already recorded by the Company.

The Company's maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Company may utilize to hedge these risks associated with the Company's variable interests. In addition, the Company's maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Company owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities totaled $14.0 billion and $12.5 billion at December 31, 2014 and December 31, 2013, respectively. These securities were either retained in connection with transfers of assets by the Company, acquired in connection with secondary market-making activities or held in the Company's AFS securities within its Investment securities portfolio (see Note 5). In 2014, securities issued by securitization SPEs consisted of $1.0 billion of securities backed primarily by residential mortgage loans, $8.5 billion of securities backed by U.S. agency collateralized mortgage obligations, $1.2 billion of securities backed by commercial mortgage loans, $0.5 billion of securities backed by CDOs or CLOs and $2.7 billion backed by other consumer loans, such as credit card receivables, automobile loans and student loans. In 2013, securities issued by securitization SPEs consisted of $1.1 billion of securities backed primarily by residential mortgage loans, $8.4 billion of securities backed by U.S. agency collateralized mortgage obligations, $1.3 billion of securities backed by commercial mortgage loans, $0.7 billion of securities backed by CDOs or CLOs and $1.0 billion backed by other consumer loans, such as credit card receivables, automobile loans and student loans. The Company's primary risk exposure is to the securities issued by the SPE owned by the Company, with the risk highest on the most subordinate class of beneficial interests. These securities generally are included in Trading assets—Corporate and other debt or AFS securities within the Company's Investment securities portfolio and are measured at fair value (see Note 4). The Company does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Company's maximum exposure to loss generally equals the fair value of the securities owned.

The Company's transactions with VIEs primarily include securitizations, municipal tender option bond trusts, credit protection purchased through CLNs, other structured financings, collateralized loan and debt obligations, equity-linked notes, managed real estate partnerships and asset management investment funds. The Company's continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Company-sponsored transactions, interests purchased in the secondary market (both for Company-sponsored transactions and transactions sponsored by third parties), derivatives with securitization SPEs (primarily interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Company has purchased protection in synthetic CDOs). Such activities are further described below.

Securitization Activities. In a securitization transaction, the Company transfers assets (generally commercial or residential mortgage loans or U.S. agency securities) to an SPE, sells to investors most of the beneficial interests, such as notes or certificates, issued by the SPE, and in many cases, retains other beneficial interests. In many securitization transactions involving commercial mortgage loans, the Company transfers a portion of the assets to the SPE with unrelated parties transferring the remaining assets.

The purchase of the transferred assets by the SPE is financed through the sale of these interests. In some of these transactions, primarily involving residential mortgage loans in the U.S., the Company serves as servicer for some or all of the transferred loans. In many securitizations, particularly involving residential mortgage loans, the Company also enters into derivative transactions, primarily interest rate swaps or interest rate caps, with the SPE.

Although not obligated, the Company generally makes a market in the securities issued by SPEs in these transactions. As a market maker, the Company offers to buy these securities from, and sell these securities to, investors. Securities purchased through these market-making activities are not considered to be retained interests, although these beneficial interests generally are included in Trading assets—Corporate and other debt and are measured at fair value.

The Company enters into derivatives, generally interest rate swaps and interest rate caps with a senior payment priority in many securitization transactions. The risks associated with these and similar derivatives with SPEs are essentially the same as similar derivatives with non-SPE counterparties and are managed as part of the Company's overall exposure. See Note 12 for further information on derivative instruments and hedging activities.

Available for Sale Securities. In its AFS securities within its Investment securities portfolio, the Company holds securities issued by VIEs not sponsored by the Company. These securities include government guaranteed securities issued in transactions sponsored by the federal mortgage agencies and the most senior securities issued by VIEs in which the securities are backed by student loans, automobile loans, commercial mortgage loans or CLOs (see Note 5).

Municipal Tender Option Bond Trusts. In a municipal tender option bond transaction, the Company, generally on behalf of a client, transfers a municipal bond to a trust. The trust issues short-term securities that the Company, as the remarketing agent, sells to investors. The client retains a residual interest. The short-term securities are supported by a liquidity facility pursuant to which the investors may put their short-term interests. In some programs, the Company provides this liquidity facility; in most programs, a third-party provider will provide such liquidity facility. The Company may purchase short-term securities in its role either as remarketing agent or liquidity provider. The client can generally terminate the transaction at any time. The liquidity provider can generally terminate the transaction upon the occurrence of certain events. When the transaction is terminated, the municipal bond is generally sold or returned to the client. Any losses suffered by the liquidity provider upon the sale of the bond are the responsibility of the client. This obligation generally is collateralized. Liquidity facilities provided to municipal tender option bond trusts are classified as derivatives. The Company consolidates any municipal tender option bond trusts in which it holds the residual interest.

Credit Protection Purchased through CLNs. In a CLN transaction, the Company transfers assets (generally high-quality securities or money market investments) to an SPE, enters into a derivative transaction in which the SPE writes protection on an unrelated reference asset or group of assets, through a credit default swap, a total return swap or similar instrument, and sells to investors the securities issued by the SPE. In some transactions, the Company may also enter into interest rate or currency swaps with the SPE. Upon the occurrence of a credit event related to the reference asset, the SPE will deliver collateral securities as the payment to the Company. The Company is generally exposed to price changes on the collateral securities in the event of a credit event and subsequent sale. These transactions are designed to provide investors with exposure to certain credit risk on the reference asset. In some transactions, the assets and liabilities of the SPE are recognized in the Company's consolidated statement of financial condition. In other transactions, the transfer of the collateral securities is accounted for as a sale of assets, and the SPE is not consolidated. The structure of the transaction determines the accounting treatment. CLNs are included in Other in the above VIE tables.

The derivatives in CLN transactions consist of total return swaps, credit default swaps or similar contracts in which the Company has purchased protection on a reference asset or group of assets. Payments by the SPE are collateralized. The risks associated with these and similar derivatives with SPEs are essentially the same as similar derivatives with non-SPE counterparties and are managed as part of the Company's overall exposure.

Other Structured Financings. The Company primarily invests in equity interests issued by entities that develop and own low-income communities (including low-income housing projects) and entities that construct and own facilities that will generate energy from renewable resources. The equity interests entitle the Company to its share of tax credits and tax losses generated by these projects. In addition, the Company has issued guarantees to investors in certain low-income housing funds. The guarantees are designed to return an investor's contribution to a fund and the investor's share of tax losses and tax credits expected to be generated by the fund. The Company is also involved with entities designed to provide tax-efficient yields to the Company or its clients.

Collateralized Loan and Debt Obligations. A CLO or a CDO is an SPE that purchases a pool of assets, consisting of corporate loans, corporate bonds, asset-backed securities or synthetic exposures on similar assets through derivatives, and issues multiple tranches of debt and equity securities to investors. The Company underwrites the securities issued in CLO transactions on behalf of unaffiliated sponsors and provides advisory services to these unaffiliated sponsors. The Company sells corporate loans to many of these SPEs, in some cases representing a significant portion of the total assets purchased. If necessary, the Company may retain unsold securities issued in these transactions. Although not obligated, the Company generally makes a market in the securities issued by SPEs in these transactions. These beneficial interests are included in Trading assets and are measured at fair value.

Equity-Linked Notes. In an equity-linked note transaction included in Other in the tables above, the Company typically transfers to an SPE either (1) a note issued by the Company, the payments on which are linked to the performance of a specific equity security, equity index or other index or (2) debt securities issued by other companies and a derivative contract, the terms of which will relate to the performance of a specific equity security, equity index or other index. These transactions are designed to provide investors with exposure to certain risks related to the specific equity security, equity index or other index.

Managed Real Estate Partnerships. The Company sponsors funds that invest in real estate assets. Certain of these funds are classified as VIEs, primarily because the Company has provided financial support through lending facilities and other means. The Company also serves as the general partner for these funds and owns limited partnership interests in them. These funds were consolidated at December 31, 2014 and December 31, 2013.

Investment Management Investment Funds. The tables above do not include certain investments made by the Company held by entities qualifying for accounting purposes as investment companies.

Transfers of Assets with Continuing Involvement.

The following tables present information at December 31, 2014 regarding transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment:

	At December 31, 2014			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other(1)
	(dollars in millions)			
SPE assets (unpaid principal balance)(2)	$26,549	$58,660	$20,826	$24,011
Retained interests (fair value):				
Investment grade	$ 10	$ 117	$ 1,019	$ 57
Non-investment grade	98	120	—	1,264
Total retained interests (fair value)	$ 108	$ 237	$ 1,019	$ 1,321
Interests purchased in the secondary market (fair value):				
Investment grade	$ 32	$ 129	$ 61	$ 423
Non-investment grade	32	72	—	59
Total interests purchased in the secondary market (fair value)	$ 64	$ 201	$ 61	$ 482
Derivative assets (fair value)	$ —	$ 495	$ —	$ 138
Derivative liabilities (fair value)	$ —	$ —	$ —	$ 86

(1) Amounts include CLO transactions managed by unrelated third parties.

(2) Amounts include assets transferred by unrelated transferors.

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$ —	$1,166	$ 37	$1,203
Non-investment grade	—	123	1,359	1,482
Total retained interests (fair value)	$ —	$1,289	$1,396	$2,685
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$ 644	$ 1	$ 645
Non-investment grade	—	129	34	163
Total interests purchased in the secondary market (fair value)	$ —	$ 773	$ 35	$ 808
Derivative assets (fair value)	$ —	$ 559	$ 74	$ 633
Derivative liabilities (fair value)	$ —	$ 82	$ 4	$ 86

The following tables present information at December 31, 2013 regarding transactions with SPEs in which the Company, acting as principal, transferred assets with continuing involvement and received sales treatment:

	At December 31, 2013			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other(1)
	(dollars in millions)			
SPE assets (unpaid principal balance)(2)	$29,723	$60,698	$19,155	$19,921
Retained interests (fair value):				
Investment grade	$ 1	$ 102	$ 524	$ 178
Non-investment grade	136	95	—	1,436
Total retained interests (fair value)	$ 137	$ 197	$ 524	$ 1,614
Interests purchased in the secondary market (fair value):				
Investment grade	$ 14	$ 170	$ 21	$ 405
Non-investment grade	41	97	—	82
Total interests purchased in the secondary market (fair value)	$ 55	$ 267	$ 21	$ 487
Derivative assets (fair value)	$ 1	$ 672	$ —	$ 121
Derivative liabilities (fair value)	$ —	$ 1	$ —	$ 120

(1) Amounts include CLO transactions managed by unrelated third parties.

(2) Amounts include assets transferred by unrelated transferors.

	At December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$ —	$637	$ 168	$ 805
Non-investment grade	—	164	1,503	1,667
Total retained interests (fair value)	$ —	$801	$1,671	$2,472
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$602	$ 8	$ 610
Non-investment grade	—	182	38	220
Total interests purchased in the secondary market (fair value)	$ —	$784	$ 46	$ 830
Derivative assets (fair value)	$ —	$615	$ 179	$ 794
Derivative liabilities (fair value)	$ —	$110	$ 11	$ 121

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the Company's consolidated statements of income. The Company may act as underwriter of the beneficial interests issued by these securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these transactions. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the Company's consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the Company's consolidated statements of income.

Net gains on sale of assets in securitization transactions at the time of the sale were not material in 2014, 2013 and 2012.

During 2014, 2013 and 2012, the Company received proceeds from new securitization transactions of $20.6 billion, $24.9 billion and $17.0 billion, respectively. During 2014, 2013 and 2012, the Company received proceeds from cash flows from retained interests in securitization transactions of $3.0 billion, $4.6 billion and $4.3 billion, respectively.

The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 13).

In addition, in connection with its underwriting of CLO transactions for unaffiliated sponsors, in 2014 and 2013, the Company received proceeds from sale of corporate loans sold to those SPEs of $2.4 billion each, in both years. The Company did not sell corporate loans to SPEs in 2012. Net gains on sale of corporate loans to CLO transactions at the time of sale were not material in 2014, 2013 and 2012.

Failed Sales.

In order to be treated as a sale of assets for accounting purposes, a transaction must meet all of the criteria stipulated in the accounting guidance for the transfer of financial assets. A transfer that fails to meet these criteria, is treated as a failed sale. In such cases, the Company continues to recognize the assets in Trading assets, and the Company recognizes the associated liabilities in Other secured financings in its consolidated statements of financial condition (see Note 11).

The assets transferred to unconsolidated VIEs in transactions accounted for as failed sales cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities are non-recourse to the Company. In certain other failed sale transactions, the Company has the right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

The following table presents information about the carrying value (equal to fair value) of assets and liabilities resulting from transfers of financial assets treated by the Company as secured financings:

	At December 31, 2014		At December 31, 2013	
	Carrying Value of		Carrying Value of	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Credit-linked notes	$ 47	$ 39	$ 48	$ 41
Equity-linked transactions	16	16	40	35
Other	289	289	157	156

Mortgage Servicing Activities.

The Company services residential mortgage loans in the U.S. owned by SPEs consolidated by the Company. As of December 31, 2014, the Company no longer services residential and commercial mortgage loans in Europe.

The Company provides no credit support as part of its servicing activities. The Company is required to make servicing advances to the extent that it believes that such advances will be reimbursed. Reimbursement of servicing advances is a senior obligation of the SPE, senior to the most senior beneficial interests outstanding. Outstanding advances are included in Other assets and are recorded at cost, net of allowances. There were no allowances at December 31, 2014 and December 31, 2013. Advances at December 31, 2014 and December 31, 2013 totaled approximately $17 million and $110 million, respectively.

The following tables present information about the Company's mortgage servicing activities for SPEs to which the Company transferred loans at December 31, 2014 and December 31, 2013:

	At December 31, 2014		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
	(dollars in millions)		
Assets serviced (unpaid principal balance)	$ —	$431	$ —
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ —	$ 29	$ —
Percentage of amounts past due 90 days or greater(1)	—	6.7%	—
Credit losses	$ —	$ 4	$ —

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

	At December 31, 2013		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
	(dollars in millions)		
Assets serviced (unpaid principal balance)	$785	$775	$4,114
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 66	$ 44	$ —
Percentage of amounts past due 90 days or greater(1)	8.5%	5.6%	—
Credit losses	$ 1	$ 17	$ —

[1] Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

8. Loans and Allowance for Loan Losses.

Loans.

The Company's loans held for investment are recorded at amortized cost, and its loans held for sale are recorded at lower of cost or fair value in the Company's consolidated statements of financial condition.

- Corporate. Corporate loans primarily include commercial and industrial lending used for general corporate purposes, working capital and liquidity, "event-driven" loans and asset-backed lending products. "Event-driven" loans support client merger, acquisition or recapitalization activities. Corporate lending is structured as revolving lines of credit, letter of credit facilities, term loans and bridge loans. Risk factors considered in determining the allowance for corporate loans include the borrower's financial strength, seniority of the loan, collateral type, volatility of collateral value, debt cushion, covenants and counterparty type.

- Consumer. Consumer loans include unsecured loans and securities-based lending that allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of consumer loans are structured as revolving lines of credit and letter of credit facilities and are primarily offered through the Company's Portfolio Loan Account ("PLA") program. The allowance methodology for unsecured loans considers the specific attributes of the loan as well as the borrower's source of repayment. The allowance methodology for securities-based lending considers the collateral type underlying the loan (*e.g.*, diversified securities, concentrated securities or restricted stock).

- Residential Real Estate. Residential real estate loans mainly include non-conforming loans and home equity lines of credit. The allowance methodology for non-conforming residential mortgage loans considers several factors, including, but not limited to, loan-to-value ratio, FICO score, home price index, and delinquency status. The methodology for home equity lines of credit considers credit limits and utilization rates in addition to the factors considered for non-conforming residential mortgages.

- Wholesale Real Estate. Wholesale real estate loans include owner-occupied loans and income-producing loans. The principal risk factors for determining the allowance for wholesale real estate loans are the underlying collateral type, loan-to-value ratio and debt service ratio.

The Company's outstanding loans at December 31, 2014 and December 31, 2013 included the following:

	December 31, 2014			December 31, 2013		
Loans by Product Type	**Loans Held for Investment**	**Loans Held for Sale**	**Total Loans(1)(2)**	**Loans Held for Investment**	**Loans Held for Sale**	**Total Loans(1)(2)**
			(dollars in millions)			
Corporate loans	$19,659	$8,200	$27,859	$13,263	$6,168	$19,431
Consumer loans	16,576	—	16,576	11,577	—	11,577
Residential real estate loans	15,735	114	15,849	10,006	112	10,118
Wholesale real estate loans	5,298	1,144	6,442	1,855	49	1,904
Total loans, gross of allowance for loan losses	57,268	9,458	66,726	36,701	6,329	43,030
Allowance for loan losses	(149)	—	(149)	(156)	—	(156)
Total loans, net of allowance for loan losses	$57,119	$9,458	$66,577	$36,545	$6,329	$42,874

(1) Amounts include loans that are made to non-U.S. borrowers of $7,017 million and $4,729 million at December 31, 2014 and December 31, 2013, respectively.

(2) At December 31, 2014, loans at fixed interest rates and floating or adjustable interest rates were $6,663 million and $59,914 million, respectively. At December 31, 2013, loans at fixed interest rates and floating or adjustable interest rates were $6,318 million and $36,556 million, respectively.

The above table does not include loans and loan commitments held at fair value of $11,962 million and $12,612 million that were recorded as Trading assets in the Company's consolidated statement of financial condition at December 31, 2014 and December 31, 2013, respectively. At December 31, 2014, loans held at fair value consisted of $7,093 million of Corporate loans, $1,682 million of Residential real estate loans and $3,187 million of Wholesale real estate loans. At December 31, 2013, loans held at fair value consisted of $9,774 million of Corporate loans, $1,434 million of Residential real estate loans and $1,404 million of Wholesale real estate loans. See Note 4 for further information regarding loans held at fair value.

Credit Quality.

The Company's Credit Risk Management Department evaluates new obligors before credit transactions are initially approved, and at least annually thereafter for corporate and wholesale real estate loans. For corporate loans, credit evaluations typically involve the evaluation of financial statements, assessment of leverage, liquidity, capital strength, asset composition and quality, market capitalization and access to capital markets, cash flow projections and debt service requirements, and the adequacy of collateral, if applicable. The Company's Credit Risk Management Department also evaluates strategy, market position, industry dynamics, obligor's management and other factors that could affect an obligor's risk profile. For wholesale real estate loans, the credit evaluation is focused on property and transaction metrics including property type, loan-to-value ratio, occupancy levels, debt service ratio, prevailing capitalization rates, and market dynamics. For residential real estate and consumer loans, the initial credit evaluation typically includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan-to-value ratio, and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level. Consumer loan collateral values are monitored on an ongoing basis.

The Company utilizes the following credit quality indicators which are consistent with U.S. banking regulators' definitions of criticized exposures, in its credit monitoring process for loans held for investment.

- Pass. A credit exposure rated pass has a continued expectation of timely repayment, all obligations of the borrower are current, and the obligor complies with material terms and conditions of the lending agreement.
- Special Mention. Extensions of credit that have potential weakness that deserve management's close attention, and if left uncorrected may, at some future date, result in the deterioration of the repayment prospects or collateral position.
- Substandard. Obligor has a well-defined weakness that jeopardizes the repayment of the debt and has a high probability of payment default with the distinct possibility that the Company will sustain some loss if noted deficiencies are not corrected.
- Doubtful. Inherent weakness in the exposure makes the collection or repayment in full, based on existing facts, conditions and circumstances, highly improbable, and the amount of loss is uncertain.
- Loss. Extensions of credit classified as loss are considered uncollectible and are charged off.

Loans considered as doubtful or loss are considered impaired. Substandard loans are regularly reviewed for impairment. When a loan is impaired the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. For further information, see Note 2.

The following tables present credit quality indicators for the Company's loans held for investment, gross of allowance for loan losses, by product type, at December 31, 2014 and December 31, 2013.

	December 31, 2014				
Loans by Credit Quality Indicators	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Pass	$17,847	$16,576	$15,688	$5,298	$55,409
Special mention	1,683	—	—	—	1,683
Substandard	127	—	47	—	174
Doubtful	2	—	—	—	2
Loss	—	—	—	—	—
Total loans	$19,659	$16,576	$15,735	$5,298	$57,268

	December 31, 2013				
Loans by Credit Quality Indicators	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Pass	$12,893	$11,577	$ 9,992	$1,829	$36,291
Special mention	189	—	—	16	205
Substandard	174	—	14	—	188
Doubtful	7	—	—	10	17
Loss	—	—	—	—	—
Total loans	$13,263	$11,577	$10,006	$1,855	$36,701

Allowance for Loan Losses and Impaired Loans.

The allowance for loan losses estimates probable losses related to loans specifically identified for impairment in addition to the probable losses inherent in the held for investment loan portfolio.

There are two components of the allowance for loan losses: the inherent allowance component and the specific allowance component.

The inherent allowance component of the allowance for loan losses is used to estimate the probable losses inherent in the loan portfolio and includes non-homogeneous loans that have not been identified as impaired and portfolios of smaller balance homogeneous loans. The Company maintains methodologies by loan product for calculating an allowance for loan losses that estimates the inherent losses in the loan portfolio. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered in the calculations. The allowance for loan losses is maintained at a level reasonable to ensure that it can adequately absorb the estimated probable losses inherent in the portfolio.

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures, including loans modified in a Troubled Debt Restructuring ("TDR"), which have been specifically identified for impairment analysis by the Company and determined to be impaired. At December 31, 2014 and December 31, 2013, the Company's TDRs were not significant. For further information on allowance for loan losses, see Note 2.

The tables below provide details on impaired loans, past due loans and allowances for the Company's held for investment loans:

	December 31, 2014				
Loans by Product Type	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Impaired loans with allowance	$—	$—	$—	$—	$—
Impaired loans without allowance(1)	2	—	17	—	19
Impaired loans unpaid principal balance	2	—	17	—	19
Past due 90 days loans and on nonaccrual	2	—	25	—	27

	December 31, 2013				
Loans by Product Type	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Impaired loans with allowance	$63	$—	$—	$ 10	$73
Impaired loans without allowance(1)	6	—	11	—	17
Impaired loans unpaid principal balance	69	—	11	10	90
Past due 90 days loans and on nonaccrual	7	—	11	10	28

	December 31, 2014			
Loans by Region	Americas	EMEA	Asia-Pacific	Total
	(dollars in millions)			
Impaired loans	$ 19	$—	$—	$ 19
Past due 90 days loans and on nonaccrual	27	—	—	27
Allowance for loan losses	121	20	8	149

	December 31, 2013			
Loans by Region	Americas	EMEA	Asia-Pacific	Total
	(dollars in millions)			
Impaired loans	$ 90	$—	$—	$ 90
Past due 90 days loans and on nonaccrual	28	—	—	28
Allowance for loan losses	123	28	5	156

EMEA—Europe, Middle East and Africa.

(1) At December 31, 2014 and December 31, 2013, no allowance was outstanding for these loans as the fair value of the collateral held exceeded or equaled the carrying value.

The table below summarizes information about the allowance for loan losses, loans by impairment methodology, the allowance for lending-related commitments and lending-related commitments by impairment methodology.

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2013	$ 137	$ 1	$ 4	$ 14	$ 156
Gross charge-offs	(3)	—	—	(3)	(6)
Gross recoveries	—	—	—	1	1
Net charge-offs	(3)	—	—	(2)	(5)
Provision (release) for loan losses(1)	(13)	1	4	9	1
Other	(3)	—	—	—	(3)
Balance at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Allowance for loan losses by impairment methodology:					
Inherent	$ 118	$ 2	$ 8	$ 21	$ 149
Specific	—	—	—	—	—
Total allowance for loan losses at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Loans evaluated by impairment methodology(2):					
Inherent	$19,657	$16,576	$15,718	$5,298	$57,249
Specific	2	—	17	—	19
Total loans evaluated at December 31, 2014	$19,659	$16,576	$15,735	$5,298	$57,268
Allowance for lending-related commitments:					
Balance at December 31, 2013	$ 125	$ —	$ —	$ 2	$ 127
Provision for lending-related commitments(3)	22	—	—	—	22
Balance at December 31, 2014	$ 147	$ —	$ —	$ 2	$ 149
Allowance for lending-related commitments by impairment methodology:					
Inherent	$ 147	$ —	$ —	$ 2	$ 149
Specific	—	—	—	—	—
Total allowance for lending-related commitments at December 31, 2014	$ 147	$ —	$ —	$ 2	$ 149
Lending-related commitments evaluated by impairment methodology(2):					
Inherent	$65,987	$ 3,484	$ 283	$ 367	$70,121
Specific	26	—	—	—	26
Total lending-related commitments evaluated at December 31, 2014	$66,013	$ 3,484	$ 283	$ 367	$70,147

[1] The Company recorded a provision of $1 million for loan losses within Other revenues in 2014.

[2] Balances are gross of the allowance for loan losses.

[3] The Company recorded a provision of $22 million for lending-related commitments within Other non-interest expenses in 2014.

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Gross charge-offs	(13)	—	(2)	—	(15)
Gross recoveries	—	—	—	—	—
Net charge-offs	(13)	—	(2)	—	(15)
Provision (release) for loan losses(1)	54	(2)	1	12	65
Balance at December 31, 2013	$ 137	$ 1	$ 4	$ 14	$ 156
Allowance for loan losses by impairment methodology:					
Inherent	$ 126	$ 1	$ 4	$ 10	$ 141
Specific	11	—	—	4	15
Total allowance for loan losses at December 31, 2013	$ 137	$ 1	$ 4	$ 14	$ 156
Loans evaluated by impairment methodology(2):					
Inherent	$13,194	$11,577	$ 9,995	$1,845	$36,611
Specific	69	—	11	10	90
Total loan evaluated at December 31, 2013	$13,263	$11,577	$10,006	$1,855	$36,701
Allowance for lending-related commitments:					
Balance at December 31, 2012	$ 91	$ —	$ —	$ 1	$ 92
Provision for lending-related commitments(3)	44	—	—	1	45
Other	(10)	—	—	—	(10)
Balance at December 31, 2013	$ 125	$ —	$ —	$ 2	$ 127
Allowance for lending-related commitments by impairment methodology:					
Inherent	$ 125	$ —	$ —	$ 2	$ 127
Specific	—	—	—	—	—
Total allowance for lending-related commitments at December 31, 2013	$ 125	$ —	$ —	$ 2	$ 127
Lending-related commitments evaluated by impairment methodology(2):					
Inherent	$63,427	$ 2,151	$ 1,423	$ 207	$67,208
Specific	—	—	—	—	—
Total lending-related commitments evaluated at December 31, 2013	$63,427	$ 2,151	$ 1,423	$ 207	$67,208

(1) The Company recorded a provision of $65 million for loan losses within Other revenues in 2013.

(2) Balances are gross of the allowance for loan losses.

(3) The Company recorded a provision of $45 million for lending-related commitments within Other non-interest expenses in 2013.

Employee Loans.

Employee loans are granted primarily in conjunction with a program established in the Company's Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the Company's consolidated statements of financial condition. These loans are full recourse, generally require periodic payments and have repayment terms ranging from one to 12 years. The Company establishes a reserve for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At December 31, 2014, the Company had $5,130 million of employee loans, net of an allowance of approximately $116 million. At December 31, 2013, the Company had $5,487 million of employee loans, net of an allowance of approximately $109 million.

The Company has also granted loans to other employees primarily in conjunction with certain after-tax leveraged investment arrangements. At December 31, 2014, the balance of these loans was $40 million, net of an allowance of approximately $42 million. At December 31, 2013, the balance of these loans was $100 million, net of an allowance of approximately $51 million. The Company establishes a reserve for non-recourse loan amounts not recoverable from employees, which is recorded in Other expense.

9. Goodwill and Net Intangible Assets.

The Company completed its annual goodwill impairment testing on July 1, 2014 and July 1, 2013. The Company's impairment testing for each period did not indicate any goodwill impairment as each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value. Adverse market or economic events could result in impairment charges in future periods.

Goodwill.

Changes in the carrying amount of the Company's goodwill, net of accumulated impairment losses for 2014 and 2013, were as follows:

	Institutional Securities	Wealth Management(1)	Investment Management(1)	Total
		(dollars in millions)		
Goodwill at December 31, 2012(2)	$337	$5,544	$769	$6,650
Foreign currency translation adjustments and other	(27)	—	—	(27)
Goodwill disposed of during the period(3)(4)	(17)	(11)	—	(28)
Goodwill at December 31, 2013(2)	$293	$5,533	$769	$6,595
Foreign currency translation adjustments and other	(14)	—	—	(14)
Goodwill acquired during the period(5)	7	—	—	7
Goodwill at December 31, 2014(2)	$286	$5,533	$769	$6,588

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(2) The amount of the Company's goodwill before accumulated impairments of $700 million, which included $673 million related to the Company's Institutional Securities business segment and $27 million related to the Company's Investment Management business segment, was $7,288 million and $7,295 million at December 31, 2014 and December 31, 2013, respectively.

(3) In 2011, the Company announced that it had reached an agreement with the employees of its in-house quantitative proprietary trading unit, Process Driven Trading ("PDT"), within the Company's Institutional Securities business segment, whereby PDT employees acquired certain assets from the Company and launched an independent advisory firm. This transaction closed on January 1, 2013.

(4) The Company's Wealth Management business segment sold the U.K. operations of the Global Stock Plan Services business on May 31, 2013.

(5) On October 1, 2014, the Company completed the acquisition of NaturEner USA, LLC ("NaturEner"), a developer and operator of wind power generation projects, in exchange for the forgiveness of a loan, which resulted in the recognition of goodwill of approximately $7 million. The Company is still finalizing the fair value of the intangible assets and goodwill. When finalized, the amount of intangible assets and acquisition-related goodwill could change.

Net Intangible Assets.

Changes in the carrying amount of the Company's intangible assets for 2014 and 2013 were as follows:

	Institutional Securities	Wealth Management(1)	Investment Management(1)	Total
		(dollars in millions)		
Amortizable net intangible assets at December 31, 2012	$ 175	$3,531	$ 70	$3,776
Mortgage servicing rights	—	7	—	7
Net intangible assets at December 31, 2012	$ 175	$3,538	$ 70	$3,783
Amortizable net intangible assets at December 31, 2012	$ 175	$3,531	$ 70	$3,776
Foreign currency translation adjustments and other	—	(1)	—	(1)
Amortization expense(2)	(117)	(322)	(14)	(453)
Impairment losses(3)(4)	(2)	(26)	(16)	(44)
Amortizable net intangible assets at December 31, 2013	56	3,182	40	3,278
Mortgage servicing rights	—	8	—	8
Net intangible assets at December 31, 2013	$ 56	$3,190	$ 40	$3,286
Amortizable net intangible assets at December 31, 2013	$ 56	$3,182	$ 40	$3,278
Disposal	(4)	—	—	(4)
Intangible assets acquired during the period(5)	182	—	—	182
Amortization expense	(13)	(274)	(10)	(297)
Impairment losses(3)	—	(3)	(3)	(6)
Amortizable net intangible assets at December 31, 2014	221	2,905	27	3,153
Mortgage servicing rights	—	6	—	6
Net intangible assets at December 31, 2014	$ 221	$2,911	$ 27	$3,159

(1) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(2) The Company's Institutional Securities business segment activity primarily represents accelerated recovery of related intangible costs.

(3) Impairment losses are recorded within Other expenses in the Company's consolidated statements of income.

(4) The Company's Wealth Management business segment activity primarily represents an impairment charge related to management contracts associated with alternative investment funds.

(5) On October 1, 2014, the Company completed the acquisition of NaturEner in exchange for the forgiveness of a loan, which resulted in the recognition of intangible assets of approximately $182 million. The Company is still finalizing the fair value of the intangible assets and goodwill. When finalized, the amount of intangible assets and acquisition-related goodwill could change.

	At December 31, 2014		At December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(dollars in millions)			
Amortizable intangible assets:				
Trademarks	$ 7	$ 6	$ 7	$ 3
Tradename	280	21	280	12
Customer relationships	4,048	1,430	4,058	1,177
Management contracts	268	170	268	146
Other(1)	374	197	192	189
Total amortizable intangible assets	$4,977	$1,824	$4,805	$1,527

(1) Amounts include intangible assets related to the acquisition of NaturEner on October 1, 2014.

Amortization expense associated with intangible assets is estimated to be approximately $294 million per year over the next five years.

10. Deposits.

Deposits were as follows:

	At December 31, 2014(1)	At December 31, 2013(1)
	(dollars in millions)	
Savings and demand deposits(2)	$132,159	$109,908
Time deposits(3)(4)	1,385	2,471
Total	$133,544	$112,379

(1) Total deposits subject to the Federal Deposit Insurance Corporation (the "FDIC") insurance at December 31, 2014 and December 31, 2013 were $99 billion and $84 billion, respectively.

(2) There were no non-interest bearing deposits at December 31, 2014 and December 31, 2013.

(3) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4).

(4) The amount of U.S. time deposits that met or exceeded the FDIC insurance limit was not significant at December 31, 2014 and December 31, 2013.

The weighted average interest rates of interest bearing deposits outstanding during 2014, 2013 and 2012 were 0.1%, 0.2% and 0.3%, respectively.

Interest-bearing deposits maturing over the next five years total: $133,544 million in 2015, with no other deposits maturing after 2015. The amount for 2015 includes $132,159 million of saving deposits, which have no stated maturity, and $1,385 million of time deposits.

11. Borrowings and Other Secured Financings.

Commercial Paper and Other Short-Term Borrowings.

The table below summarizes certain information regarding commercial paper and other short-term borrowings:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Commercial paper(1)	$ —	$ 8
Other short-term borrowings(2)(3)(4)	2,261	2,134
Total	$2,261	$2,142

[1] Average weekly balance for Commercial paper was $1 million and $155 million at December 31, 2014 and December 31, 2013, respectively.

[2] Average weekly balance for Other short-term borrowings was $1,923 million and $1,872 million at December 31, 2014 and December 31, 2013, respectively.

[3] These borrowings included bank loans, bank notes and structured notes with original maturities of 12 months or less.

[4] Certain structured short-term borrowings are carried at fair value under the fair value option (see Note 4).

Long-Term Borrowings.

Maturities and Terms. Long-term borrowings consisted of the following (dollars in millions):

	Parent Company		Subsidiaries		At December 31, 2014(3)(4)	At December 31, 2013
	Fixed Rate	Variable Rate(1)(2)	Fixed Rate	Variable Rate(1)(2)		
Due in 2014	$ —	$ —	$—	$ —	$ —	$ 24,193
Due in 2015	12,331	5,450	16	2,943	20,740	21,090
Due in 2016	10,648	8,315	35	1,645	20,643	23,144
Due in 2017	15,348	7,295	16	1,341	24,000	26,295
Due in 2018	12,998	3,730	16	935	17,679	15,308
Due in 2019	11,350	5,310	17	894	17,571	8,744
Thereafter	43,765	6,527	385	1,462	52,139	34,801
Total	$106,440	$36,627	$485	$9,220	$152,772	$153,575
Weighted average coupon at period-end(5)	4.7%	1.0%	6.5%	0.7%	4.2%	4.4%

[1] Variable rate borrowings bear interest based on a variety of money market indices, including LIBOR and Federal Funds rates.

[2] Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.

[3] Amounts include an increase of approximately $3.3 billion at December 31, 2014 to the carrying amount of certain of the Company's long-term borrowings associated with fair value hedges. The increase to the carrying value associated with fair value hedges by year due was approximately $0.1 billion due in 2015, $0.3 billion due in 2016, $0.7 billion due in 2017, $0.4 billion due in 2018, $0.5 billion due in 2019 and $1.3 billion due thereafter.

[4] Amounts include an increase of approximately $0.7 billion at December 31, 2014 to the carrying amounts of certain of the Company's long-term borrowings for which the fair value option was elected (see Note 4).

[5] Weighted average coupon was calculated utilizing U.S. and non-U.S. dollar interest rates and excludes financial instruments for which the fair value option was elected.

The Company's long-term borrowings included the following components:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Senior debt	$139,565	$139,451
Subordinated debt	8,339	9,275
Junior subordinated debentures	4,868	4,849
Total	$152,772	$153,575

During 2014, the Company issued and reissued notes with a principal amount of approximately $36.7 billion and approximately $33.1 billion of notes matured or were retired. During 2013, the Company issued and reissued notes with a principal amount of approximately $27.9 billion and approximately $38.7 billion of notes matured or were retired.

Senior debt securities often are denominated in various non-U.S. dollar currencies and may be structured to provide a return that is equity-linked, credit-linked, commodity-linked or linked to some other index (*e.g.*, the consumer price index). Senior debt also may be structured to be callable by the Company or extendible at the option of holders of the senior debt securities. Debt containing provisions that effectively allow the holders to put or extend the notes aggregated $2,175 million at December 31, 2014 and $1,175 million at December 31, 2013. In addition, separate agreements are entered into by the Company's subsidiaries that effectively allow the holders to put the notes aggregated $551 million at December 31, 2014 and $353 million at December 31, 2013. Subordinated debt and junior subordinated debentures generally are issued to meet the capital requirements of the Company or its regulated subsidiaries and primarily are U.S. dollar denominated.

Senior Debt—Structured Borrowings. The Company's index-linked, equity-linked or credit-linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (*e.g.,* Standard & Poor's 500), a basket of stocks, a specific equity security, a credit exposure or basket of credit exposures. To minimize the exposure resulting from movements in the underlying index, equity, credit or other position, the Company has entered into various swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. These instruments are included in the preceding table at their redemption values based on the performance of the underlying indices, baskets of stocks, or specific equity securities, credit or other position or index. The Company carries either the entire structured borrowing at fair value or bifurcates the embedded derivative and carries it at fair value. The swaps and purchased options used to economically hedge the embedded features are derivatives and also are carried at fair value. Changes in fair value related to the notes and economic hedges are reported in Trading revenues. See Note 4 for further information on structured borrowings.

Subordinated Debt and Junior Subordinated Debentures. Included in the Company's long-term borrowings are subordinated notes of $8,339 million having a contractual weighted average coupon of 4.57% at December 31, 2014 and $9,275 million having a contractual weighted average coupon of 4.69% at December 31, 2013. Junior subordinated debentures outstanding by the Company were $4,868 million at December 31, 2014 and $4,849 million at December 31, 2013 having a contractual weighted average coupon of 6.37% at both December 31, 2014 and December 31, 2013. Maturities of the subordinated and junior subordinated notes range from 2022 to 2067, while maturities of certain junior subordinated debentures can be extended to 2052 at the Company's option.

Asset and Liability Management. In general, securities inventories that are not financed by secured funding sources and the majority of the Company's assets are financed with a combination of deposits, short-term funding, floating rate long-term debt or fixed rate long-term debt swapped to a floating rate. Fixed assets are generally financed with fixed rate long-term debt. The Company uses interest rate swaps to more closely match these borrowings to the duration, holding period and interest rate characteristics of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Company's fixed rate borrowings into floating rate obligations. In addition, for non-U.S. dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered into currency swaps that effectively convert the borrowings into U.S. dollar obligations. The Company's use of swaps for asset and liability management affected its effective average borrowing rate as follows:

	2014	2013	2012
Weighted average coupon of long-term borrowings at period-end(1)	4.2%	4.4%	4.4%
Effective average borrowing rate for long-term borrowings after swaps at period-end(1)	2.3%	2.2%	2.3%

(1) Included in the weighted average and effective average calculations are U.S. and non-U.S. dollar interest rates.

Other. The Company, through several of its subsidiaries, maintains funded and unfunded committed credit facilities to support various businesses, including the collateralized commercial and residential mortgage whole loan, derivative contracts, warehouse lending, emerging market loan, structured product, corporate loan, investment banking and prime brokerage businesses.

Other Secured Financings.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, pledged commodities, certain equity-linked notes and other secured borrowings. See Note 7 for further information on other secured financings related to VIEs and securitization activities.

The Company's Other secured financings consisted of the following:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Secured financings with original maturities greater than one year	$10,346	$ 9,750
Secured financings with original maturities one year or less(1)	1,395	4,233
Failed sales(2)	344	232
Total(3)	$12,085	$14,215

(1) Amounts include approximately $1,299 million of variable rate financings and approximately $96 million in fixed rate financings at December 31, 2014 and approximately $3,899 million of variable rate financings and approximately $334 million in fixed rate financings at December 31, 2013.

(2) For more information on failed sales, see Note 7.

(3) Amounts include $4,504 million and $5,206 million at fair value at December 31, 2014 and December 31, 2013, respectively.

Maturities and Terms: Secured financings with original maturities greater than one year consisted of the following:

	Fixed Rate	Variable Rate(1)(2)	At December 31, 2014	At December 31, 2013
		(dollars in millions)		
Due in 2014	$—	$ —	$ —	$3,500
Due in 2015	27	3,314	3,341	1,906
Due in 2016	—	4,705	4,705	2,942
Due in 2017	263	618	881	160
Due in 2018	—	786	786	675
Due in 2019	118	76	194	—
Thereafter	123	316	439	567
Total	$531	$9,815	$10,346	$9,750
Weighted average coupon rate at period-end(3)	3.4%	0.6%	0.8%	1.4%

(1) Variable rate borrowings bear interest based on a variety of indices, including LIBOR.

(2) Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.

(3) Weighted average coupon was calculated utilizing U.S. and non-U.S. dollar interest rates and excludes secured financings that are linked to non-interest indices.

Maturities and Terms: Failed sales consisted of the following:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Due in 2014	$—	$100
Due in 2015	32	57
Due in 2016	90	36
Due in 2017	148	24
Due in 2018	14	—
Due in 2019	10	3
Thereafter	50	12
Total	$344	$232

For more information on failed sales, see Note 7.

12. Derivative Instruments and Hedging Activities.

The Company trades, makes markets and takes proprietary positions globally in listed futures, 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 indices, asset-backed security indices, property indices, mortgage-related and other asset-backed securities, and real estate loan products. The Company uses these instruments for trading, foreign currency exposure management, and asset and liability management.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis.

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty. However, in certain circumstances: The Company may not have such an agreement in place; the relevant insolvency regime (which is based on the type of counterparty entity and the jurisdiction of organization of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures below. The Company's policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases, the Company may agree for such collateral to be posted to a third-party custodian under a control agreement that enables the Company to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits. The following tables present information about the offsetting of derivative instruments and related collateral amounts. See information related to offsetting of certain collateralized transactions in Note 6.

	At December 31, 2014					
				Amounts Not Offset in the Consolidated Statements of Financial Condition(3)		
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$427,079	$(396,582)	$30,497	$ (9,844)	$ (19)	$20,634
Cleared OTC(4)	217,169	(215,576)	1,593	—	—	1,593
Exchange traded	32,123	(27,819)	4,304	—	—	4,304
Total derivative assets	$676,371	$(639,977)	$36,394	$ (9,844)	$ (19)	$26,531
Derivative liabilities						
Bilateral OTC	$410,003	$(375,095)	$34,908	$(11,192)	$(179)	$23,537
Cleared OTC(4)	211,695	(211,180)	515	—	(6)	509
Exchange traded	32,608	(27,819)	4,789	(726)	—	4,063
Total derivative liabilities	$654,306	$(614,094)	$40,212	$(11,918)	$(185)	$28,109

[1] Amounts include $6.5 billion of derivative assets and $6.9 billion of derivative liabilities, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also "Fair Value and Notional of Derivative Instruments" for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

[2] Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

[3] Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

[4] Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

	At December 31, 2013					
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Consolidated Statements of Financial Condition	Amounts Not Offset in the Consolidated Statements of Financial Condition(3)		Net Exposure
				Financial Instruments Collateral	Other Cash Collateral	
			(dollars in millions)			
Derivative assets						
Bilateral OTC	$404,352	$(378,459)	$25,893	$(8,785)	$(132)	$16,976
Cleared OTC(4)	267,057	(266,419)	638	—	—	638
Exchange traded	31,609	(25,673)	5,936	—	—	5,936
Total derivative assets	$703,018	$(670,551)	$32,467	$(8,785)	$(132)	$23,550
Derivative liabilities						
Bilateral OTC	$386,199	$(361,059)	$25,140	$(5,365)	$(136)	$19,639
Cleared OTC(4)	266,559	(265,378)	1,181	—	(372)	809
Exchange traded	33,113	(25,673)	7,440	(651)	—	6,789
Total derivative liabilities	$685,871	$(652,110)	$33,761	$(6,016)	$(508)	$27,237

[1] Amounts include $8.7 billion of derivative assets and $7.3 billion of derivative liabilities, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also “Fair Value and Notional of Derivative Instruments” for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

[2] Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

[3] Amounts relate to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

[4] Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company’s exposure to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets. The fair value of a derivative represents the amount at which the derivative could be exchanged in an orderly transaction between market participants and is further described in Notes 2 and 4.

The tables below present a summary by counterparty credit rating and remaining contract maturity of the fair value of OTC derivatives in a gain position at December 31, 2014 and December 31, 2013. Fair value is presented in the final column, net of collateral received (principally cash and U.S. government and agency securities):

OTC Derivative Products—Trading Assets at December 31, 2014(1)

Credit Rating(2)	Years to Maturity: Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-cash Collateral	Net Exposure Post-collateral
				(dollars in millions)			
AAA	$ 499	$ 246	$ 1,313	$ 4,281	$ (5,009)	$ 1,330	$ 1,035
AA	2,679	2,811	2,704	14,137	(15,415)	6,916	4,719
A	11,733	10,833	7,585	23,968	(43,644)	10,475	6,520
BBB	5,119	3,753	2,592	13,132	(15,844)	8,752	6,035
Non-investment grade	3,196	3,089	1,541	2,499	(5,727)	4,598	3,918
Total	$23,226	$20,732	$15,735	$58,017	$(85,639)	$32,071	$22,227

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange-traded derivatives and the effect of any related hedges utilized by the Company.

(2) Obligor credit ratings are determined by the Company's Credit Risk Management Department.

(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

OTC Derivative Products—Trading Assets at December 31, 2013(1)

Credit Rating(2)	Years to Maturity: Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-cash Collateral	Net Exposure Post-collateral
				(dollars in millions)			
AAA	$ 300	$ 752	$ 1,073	$ 3,664	$ (3,721)	$ 2,068	$ 1,673
AA	2,687	3,145	3,377	9,791	(13,515)	5,485	3,927
A	7,382	8,428	9,643	17,184	(35,644)	6,993	4,970
BBB	2,617	3,916	3,228	13,693	(16,191)	7,263	4,870
Non-investment grade	2,053	2,980	1,372	2,922	(4,737)	4,590	2,174
Total	$15,039	$19,221	$18,693	$47,254	$(73,808)	$26,399	$17,614

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange-traded derivatives and the effect of any related hedges utilized by the Company.

(2) Obligor credit ratings are determined by the Company's Credit Risk Management Department.

(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments to hedge interest rate and foreign exchange risk arising from assets and liabilities not held at fair value as part of asset and liability management and foreign currency exposure management.

The Company's hedges are designated and qualify for accounting purposes as one of the following types of hedges: hedges of exposure to changes in fair value of assets and liabilities being hedged (fair value hedges) and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges).

For all hedges where hedge accounting is being applied, effectiveness testing and other procedures to ensure the ongoing validity of the hedges are performed at least monthly.

Fair Value Hedges—Interest Rate Risk. The Company's designated fair value hedges consisted primarily of interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long-term borrowings. The Company uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships (*i.e.*, the Company applies the "long-haul" method of hedge accounting). A hedging relationship is deemed effective if the fair values of the hedging instrument (derivative) and the hedged item (debt liability) change inversely within a range of 80% to 125%. The Company considers the impact of valuation adjustments related to the Company's own credit spreads and counterparty credit spreads to determine whether they would cause the hedging relationship to be ineffective.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative and the changes in the fair value of the hedged liability provide offset of one another and, together with any resulting ineffectiveness, are recorded in Interest expense. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged liability is amortized to Interest expense over the remaining life of the liability using the effective interest method.

Net Investment Hedges. The Company may utilize forward foreign exchange contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency operations. To the extent that the notional amounts of the hedging instruments equal the portion of the investments being hedged and the underlying exchange rate of the derivative hedging instrument relates to the exchange rate between the functional currency of the investee and the parent's functional currency, no hedge ineffectiveness is recognized in earnings. If these exchange rates are not the same, the Company uses regression analysis to assess the prospective and retrospective effectiveness of the hedge relationships and any ineffectiveness is recognized in Interest income. The gain or loss from revaluing hedges of net investments in foreign operations at the spot rate is deferred and reported within AOCI. The forward points on the hedging instruments are excluded from hedge effectiveness testing and are recorded in Interest income.

During 2012, the Company recognized an out-of-period pre-tax gain of approximately $109 million in its Institutional Securities business segment's Other sales and trading net revenues related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts previously designated as net investment hedges of certain non-U.S. dollar-denominated subsidiaries. The Company evaluated the effects of the incorrect application of hedge accounting, both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Subsequent to the identification of the incorrect application of net investment hedge accounting, the Company appropriately redesignated the forward foreign exchange contracts and reapplied hedge accounting.

Fair Value and Notional of Derivative Instruments. The following tables summarize the fair value of derivative instruments designated as accounting hedges and the fair value of derivative instruments not designated as accounting hedges by type of derivative contract and the platform on which these instruments are traded or cleared on a gross basis. Fair values of derivative contracts in an asset position are included in Trading assets, and fair values of derivative contracts in a liability position are reflected in Trading liabilities in the Company's consolidated statements of financial condition (see Note 4):

Derivative Assets at December 31, 2014

	Fair Value				Notional			
	Bilateral OTC	**Cleared OTC(1)**	**Exchange Traded**	**Total**	**Bilateral OTC**	**Cleared OTC(1)**	**Exchange Traded**	**Total**
					(dollars in millions)			
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 3,947	$ 1,053	$ —	$ 5,000	$ 44,324	$ 27,692	$ —	$ 72,016
Foreign exchange contracts	498	6	—	504	9,362	261	—	9,623
Total derivatives designated as accounting hedges	4,445	1,059	—	5,504	53,686	27,953	—	81,639
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	281,214	211,552	407	493,173	4,854,953	9,187,454	1,467,056	15,509,463
Credit contracts	27,776	4,406	—	32,182	806,441	167,390	—	973,831
Foreign exchange contracts	72,362	152	83	72,597	1,955,343	11,538	9,663	1,976,544
Equity contracts	23,208	—	24,916	48,124	299,363	—	271,164	570,527
Commodity contracts	17,698	—	6,717	24,415	115,792	—	156,440	272,232
Other	376	—	—	376	5,179	—	—	5,179
Total derivatives not designated as accounting hedges	422,634	216,110	32,123	670,867	8,037,071	9,366,382	1,904,323	19,307,776
Total derivatives	$ 427,079	$ 217,169	$ 32,123	$ 676,371	$8,090,757	$9,394,335	$1,904,323	$19,389,415
Cash collateral netting	(58,541)	(4,654)	—	(63,195)	—	—	—	—
Counterparty netting	(338,041)	(210,922)	(27,819)	(576,782)	—	—	—	—
Total derivative assets	$ 30,497	$ 1,593	$ 4,304	$ 36,394	$8,090,757	$9,394,335	$1,904,323	$19,389,415

	Derivative Liabilities at December 31, 2014							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 125	$ 99	$ —	$ 224	$ 2,024	$ 7,588	$ —	$ 9,612
Foreign exchange contracts	5	1	—	6	1,491	121	—	1,612
Total derivatives designated as accounting hedges	130	100	—	230	3,515	7,709	—	11,224
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	264,579	207,482	293	472,354	4,615,886	9,138,417	1,714,021	15,468,324
Credit contracts	28,165	3,944	—	32,109	714,181	154,054	—	868,235
Foreign exchange contracts	72,156	169	21	72,346	1,947,178	11,477	1,761	1,960,416
Equity contracts	30,061	—	25,511	55,572	339,884	—	302,205	642,089
Commodity contracts	14,740	—	6,783	21,523	93,019	—	132,136	225,155
Other	172	—	—	172	5,478	—	—	5,478
Total derivatives not designated as accounting hedges	409,873	211,595	32,608	654,076	7,715,626	9,303,948	2,150,123	19,169,697
Total derivatives	$ 410,003	$ 211,695	$ 32,608	$ 654,306	$7,719,141	$9,311,657	$2,150,123	$19,180,921
Cash collateral netting	(37,054)	(258)	—	(37,312)	—	—	—	—
Counterparty netting	(338,041)	(210,922)	(27,819)	(576,782)	—	—	—	—
Total derivative liabilities	$ 34,908	$ 515	$ 4,789	$ 40,212	$7,719,141	$9,311,657	$2,150,123	$19,180,921

(1) Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

(2) Notional amounts include gross notionals related to open long and short futures contracts of $685 billion and $1,122 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $472 million and $21 million is included in Customer and other receivables and Customer and other payables, respectively, in the Company's consolidated statements of financial condition.

	Derivative Assets at December 31, 2013							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 4,729	$ 287	$ —	$ 5,016	$ 54,696	$ 14,685	$ —	$ 69,381
Foreign exchange contracts	236	—	—	236	6,694	—	—	6,694
Total derivatives designated as accounting hedges	4,965	287	—	5,252	61,390	14,685	—	76,075
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	262,697	261,348	291	524,336	6,206,450	11,854,610	856,137	18,917,197
Credit contracts	39,054	5,292	—	44,346	1,244,004	240,781	—	1,484,785
Foreign exchange contracts	61,383	130	52	61,565	1,818,429	9,634	9,783	1,837,846
Equity contracts	26,104	—	28,001	54,105	294,524	—	437,842	732,366
Commodity contracts	10,106	—	3,265	13,371	144,981	—	139,433	284,414
Other	43	—	—	43	3,198	—	—	3,198
Total derivatives not designated as accounting hedges	399,387	266,770	31,609	697,766	9,711,586	12,105,025	1,443,195	23,259,806
Total derivatives	$ 404,352	$ 267,057	$ 31,609	$ 703,018	$9,772,976	$12,119,710	$1,443,195	$23,335,881
Cash collateral netting	(48,540)	(3,462)	—	(52,002)	—	—	—	—
Counterparty netting	(329,919)	(262,957)	(25,673)	(618,549)	—	—	—	—
Total derivative assets	$ 25,893	$ 638	$ 5,936	$ 32,467	$9,772,976	$12,119,710	$1,443,195	$23,335,881

	Derivative Liabilities at December 31, 2013							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(1)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 570	$ 614	$ —	$ 1,184	$ 2,642	$ 12,667	$ —	$ 15,309
Foreign exchange contracts	258	5	—	263	5,970	503	—	6,473
Total derivatives designated as accounting hedges	828	619	—	1,447	8,612	13,170	—	21,782
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	244,906	261,011	228	506,145	6,035,757	11,954,325	1,067,894	19,057,976
Credit contracts	37,835	4,791	—	42,626	1,099,483	213,900	—	1,313,383
Foreign exchange contracts	61,635	138	23	61,796	1,897,400	10,505	3,106	1,911,011
Equity contracts	31,483	—	29,412	60,895	341,232	—	464,622	805,854
Commodity contracts	9,436	—	3,450	12,886	138,784	—	120,556	259,340
Other	76	—	—	76	4,659	—	—	4,659
Total derivatives not designated as accounting hedges	385,371	265,940	33,113	684,424	9,517,315	12,178,730	1,656,178	23,352,223
Total derivatives	$ 386,199	$ 266,559	$ 33,113	$ 685,871	$9,525,927	$12,191,900	$1,656,178	$23,374,005
Cash collateral netting	(31,139)	(2,422)	—	(33,561)	—	—	—	—
Counterparty netting	(329,920)	(262,956)	(25,673)	(618,549)	—	—	—	—
Total derivative liabilities	$ 25,140	$ 1,181	$ 7,440	$ 33,761	$9,525,927	$12,191,900	$1,656,178	$23,374,005

[1] Amounts include OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

[2] Notional amounts include gross notionals related to open long and short futures contracts of $426 billion and $729 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $879 million and $27 million is included in Customer and other receivables and Customer and other payables, respectively, in the Company's consolidated statements of financial condition.

The following tables summarize the gains or losses reported on derivative instruments designated and qualifying as accounting hedges for 2014, 2013 and 2012.

Derivatives Designated as Fair Value Hedges.

The following table presents gains (losses) reported on derivative instruments and the related hedge item as well as the hedge ineffectiveness included in Interest expense in the Company's consolidated statements of income from interest rate contracts:

	Gains (Losses) Recognized		
Product Type	**2014**	**2013**	**2012**
	(dollars in millions)		
Derivatives	$1,462	$(4,332)	$ 29
Borrowings	(173)	5,604	703
Total	$1,289	$ 1,272	$732

Derivatives Designated as Net Investment Hedges.

	Gains (Losses) Recognized in OCI (effective portion)		
Product Type	**2014**	**2013**	**2012(1)**
	(dollars in millions)		
Foreign exchange contracts(2)	$606	$448	$102
Total	$606	$448	$102

[1] A gain of $77 million, net of tax, related to net investment hedges was reclassified from other comprehensive income ("OCI") into income during 2012. The amount primarily related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts (see above for further information).

[2] Losses of $186 million, $154 million and $235 million related to the forward points on the hedging instruments were excluded from hedge effectiveness testing and recognized in interest income during 2014, 2013 and 2012, respectively.

The table below summarizes gains (losses) on derivative instruments not designated as accounting hedges for 2014, 2013 and 2012:

	Gains (Losses) Recognized in Income(1)(2)		
Product Type	**2014**	**2013**	**2012**
	(dollars in millions)		
Interest rate contracts	$(1,549)	$ (608)	$ 2,930
Credit contracts	(142)	74	(722)
Foreign exchange contracts	1,597	4,546	(340)
Equity contracts	(3,027)	(9,193)	(1,794)
Commodity contracts	1,816	772	387
Other contracts	123	(90)	1
Total derivative instruments	$(1,182)	$(4,499)	$ 462

(1) Gains (losses) on derivative contracts not designated as hedges are primarily included in Trading revenues in the Company's consolidated statements of income.

(2) Gains (losses) associated with certain derivative contracts that have physically settled are excluded from the table above. Gains (losses) on these contracts are reflected with the associated cash instruments, which are also included in Trading revenues in the Company's consolidated statements of income.

The Company also has certain embedded derivatives that have been bifurcated from the related structured borrowings. Such derivatives are classified in Long-term borrowings and had a net fair value of $10 million and $32 million at December 31, 2014 and December 31, 2013, respectively, and a notional value of $2,069 million and $2,140 million at December 31, 2014 and December 31, 2013, respectively. The Company recognized losses of $22 million, losses of $27 million and gains of $12 million related to changes in the fair value of its bifurcated embedded derivatives for 2014, 2013 and 2012, respectively.

At December 31, 2014 and December 31, 2013, the amount of payables associated with cash collateral received that was netted against derivative assets was $63.2 billion and $52.0 billion, respectively, and the amount of receivables in respect of cash collateral paid that was netted against derivative liabilities was $37.3 billion and $33.6 billion, respectively. Cash collateral receivables and payables of $21 million and $30 million, respectively, at December 31, 2014 and $10 million and $13 million, respectively, at December 31, 2013, were not offset against certain contracts that did not meet the definition of a derivative.

Credit Risk-Related Contingencies.

In connection with certain OTC trading agreements, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties in the event of a credit rating downgrade. At December 31, 2014, the aggregate fair value of OTC derivative contracts that contain credit risk-related contingent features that are in a net liability position totaled $29,543 million, for which the Company has posted collateral of $24,802 million, in the normal course of business. The additional collateral or termination payments which may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P"). At December 31, 2014, for such OTC trading agreements, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers were $1,708 million and an incremental $2,758 million, respectively. Of these amounts, $3,195 million at December 31, 2014 related to bilateral arrangements between the Company and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are a risk management tool used extensively by the Company as credit exposures are reduced if counterparties are downgraded.

Credit Derivatives and Other Credit Contracts.

The Company enters into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. A majority of the Company's counterparties are banks, broker-dealers, insurance and other financial institutions, and monoline insurers.

The tables below summarize the notional and fair value of protection sold and protection purchased through credit default swaps at December 31, 2014 and December 31, 2013:

	At December 31, 2014			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 535,415	$ (2,479)	$ 509,872	$ 1,641
Index and basket credit default swaps	276,465	(1,777)	229,789	1,563
Tranched index and basket credit default swaps	96,182	(2,355)	194,343	3,334
Total	$ 908,062	$ (6,611)	$ 934,004	$ 6,538

	At December 31, 2013			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 799,838	$ (9,349)	$ 758,536	$ 8,564
Index and basket credit default swaps	454,355	(3,756)	361,961	2,827
Tranched index and basket credit default swaps	146,597	(3,889)	276,881	3,883
Total	$1,400,790	$(16,994)	$1,397,378	$15,274

The tables below summarize the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at December 31, 2014 and December 31, 2013:

	At December 31, 2014					
	Maximum Potential Payout/Notional					Fair Value (Asset)/ Liability(1)(2)
	Years to Maturity					
Credit Ratings of the Reference Obligation	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total**	
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 2,385	$ 9,400	$ 6,147	$ 692	$ 18,624	$ (113)
AA	9,080	23,701	14,769	3,318	50,868	(688)
A	22,861	52,291	22,083	2,944	100,179	(1,962)
BBB	48,547	114,384	60,629	13,536	237,096	(1,489)
Non-investment grade	29,857	66,066	29,011	3,714	128,648	1,773
Total	112,730	265,842	132,639	24,204	535,415	(2,479)
Index and basket credit default swaps(3):						
AAA	17,625	31,124	7,265	1,883	57,897	(985)
AA	704	6,512	716	2,864	10,796	(270)
A	1,283	6,841	10,154	30	18,308	(465)
BBB	30,265	40,575	60,141	7,730	138,711	(2,904)
Non-investment grade	25,750	88,105	22,971	10,109	146,935	492
Total	75,627	173,157	101,247	22,616	372,647	(4,132)
Total credit default swaps sold	$188,357	$438,999	$233,886	$46,820	$908,062	$(6,611)
Other credit contracts(4)(5)	$ 51	$ 539	$ 1	$ 620	$ 1,211	$ (500)
Total credit derivatives and other credit contracts	$188,408	$439,538	$233,887	$47,440	$909,273	$(7,111)

[1] Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.

[2] Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the term of the contracts.

[3] Credit ratings are calculated internally.

[4] Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.

[5] Fair value amounts shown represent the fair value of the hybrid instruments.

	At December 31, 2013					
	Maximum Potential Payout/Notional					Fair Value
	Years to Maturity					(Asset)/
Credit Ratings of the Reference Obligation	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total**	**Liability(1)(2)**
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 1,546	$ 8,661	$ 12,128	$ 1,282	$ 23,617	$ (145)
AA	9,443	24,158	25,310	4,317	63,228	(845)
A	45,663	53,755	44,428	4,666	148,512	(2,704)
BBB	103,143	122,382	112,950	20,491	358,966	(4,294)
Non-investment grade	60,254	77,393	61,088	6,780	205,515	(1,361)
Total	220,049	286,349	255,904	37,536	799,838	(9,349)
Index and basket credit default swaps(3):						
AAA	14,890	40,522	30,613	2,184	88,209	(1,679)
AA	3,751	4,127	4,593	6,006	18,477	(275)
A	2,064	2,263	11,633	36	15,996	(418)
BBB	5,974	29,709	74,982	3,847	114,512	(2,220)
Non-investment grade	67,108	157,149	122,516	16,985	363,758	(3,053)
Total	93,787	233,770	244,337	29,058	600,952	(7,645)
Total credit default swaps sold	$313,836	$520,119	$500,241	$66,594	$1,400,790	$(16,994)
Other credit contracts(4)(5)	$ 75	$ 441	$ 529	$ 816	$ 1,861	$ (457)
Total credit derivatives and other credit contracts	$313,911	$520,560	$500,770	$67,410	$1,402,651	$(17,451)

(1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.

(2) Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the term of the contracts.

(3) Credit ratings are calculated internally.

(4) Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.

(5) Fair value amounts shown represent the fair value of the hybrid instruments.

Single Name Credit Default Swaps. A credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium (generally quarterly) over the life of the contract and is protected for the period. The Company in turn will have to perform under a credit default swap if a credit event as defined under the contract occurs. Typical credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay and restructuring of the obligations of the referenced entity. In order to provide an indication of the current payment status or performance risk of the credit default swaps, the external credit ratings of the underlying reference entity of the credit default swaps are disclosed.

Index and Basket Credit Default Swaps. Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. Generally, in the event of a default on one of the underlying names, the Company will have to pay a pro rata portion of the total notional amount of the credit default index or basket contract. In order to provide an indication of the current payment status or performance risk of these credit default swaps, the weighted average external credit ratings of the underlying reference entities comprising the basket or index were calculated and disclosed.

The Company also enters into index and basket credit default swaps where the credit protection provided is based upon the application of tranching techniques. In tranched transactions, the credit risk of an index or basket is separated into various portions of the capital structure, with different levels of subordination. The most junior tranches cover initial defaults, and once losses exceed the notional of the tranche, they are passed on to the next most senior tranche in the capital structure.

When external credit ratings are not available, credit ratings are determined based upon an internal methodology.

Credit Protection Sold through CLNs and CDOs. The Company has invested in CLNs and CDOs, which are hybrid instruments containing embedded derivatives, in which credit protection has been sold to the issuer of the note. If there is a credit event of a reference entity underlying the instrument, the principal balance of the note may not be repaid in full to the Company.

Purchased Credit Protection with Identical Underlying Reference Obligations. For single name credit default swaps and non-tranched index and basket credit default swaps, the Company has purchased protection with a notional amount of approximately $731 billion and $1,116 billion at December 31, 2014 and December 31, 2013, respectively, compared with a notional amount of approximately $805 billion and $1,252 billion at December 31, 2014 and December 31, 2013, respectively, of credit protection sold with identical underlying reference obligations. In order to identify purchased protection with the same underlying reference obligations, the notional amount for individual reference obligations within non-tranched indices and baskets was determined on a pro rata basis and matched off against single name and non-tranched index and basket credit default swaps where credit protection was sold with identical underlying reference obligations.

The purchase of credit protection does not represent the sole manner in which the Company risk manages its exposure to credit derivatives. The Company manages its exposure to these derivative contracts through a variety of risk mitigation strategies, which include managing the credit and correlation risk across single name, non-tranched indices and baskets, tranched indices and baskets, and cash positions. Aggregate market risk limits have been established for credit derivatives, and market risk measures are routinely monitored against these limits. The Company may also recover amounts on the underlying reference obligation delivered to the Company under credit default swaps where credit protection was sold.

13. Commitments, Guarantees and Contingencies.

Commitments.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, and mortgage lending at December 31, 2014 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				Total at December 31, 2014
	Less than 1	1-3	3-5	Over 5	
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 457	$ 1	$ —	$ 2	$ 460
Investment activities	511	82	24	446	1,063
Primary lending commitments—investment grade(1)	8,507	14,874	35,850	1,437	60,668
Primary lending commitments—non-investment grade(1)	1,101	5,148	13,062	2,051	21,362
Secondary lending commitments(2)	1	32	38	116	187
Commitments for secured lending transactions	1,194	534	181	919	2,828
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	42,033	—	—	—	42,033
Commercial and residential mortgage-related commitments	7	444	528	329	1,308
Underwriting commitments	290	—	—	—	290
Other lending commitments	4,284	1,089	364	98	5,835
Total	$58,385	$22,204	$50,047	$5,398	$136,034

[1] Total amount includes $49.9 billion of investment grade and $13.0 billion of non-investment grade unfunded commitments accounted for as held for investment and $8.4 billion of investment grade and $7.4 billion of non-investment grade unfunded commitments accounted for as held for sale at December 31, 2014. The remainder of these lending commitments is carried at fair value.

[2] These commitments are recorded at fair value within Trading assets and Trading liabilities in the Company's consolidated statements of financial condition (see Note 4).

[3] The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to December 31, 2014 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days, and of the total amount at December 31, 2014, $41.2 billion settled within three business days.

[4] The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $0.5 billion.

Letters of Credit and Other Financial Guarantees Obtained to Satisfy Collateral Requirements. The Company has outstanding letters of credit and other financial guarantees issued by third-party banks to certain of the Company's counterparties. The Company is contingently liable for these letters of credit and other financial guarantees, which are primarily used to provide collateral for securities and commodities borrowed and to satisfy various margin requirements in lieu of depositing cash or securities with these counterparties.

Investment Activities. The Company enters into commitments associated with its real estate, private equity and principal investment activities, which include alternative products.

Lending Commitments. Primary lending commitments are those that are originated by the Company, whereas secondary lending commitments are purchased from third parties in the market. The commitments include lending commitments that are made to investment grade and non-investment grade companies in connection with corporate lending and other business activities.

Commitments for Secured Lending Transactions. Secured lending commitments are extended by the Company to companies and are secured by real estate or other physical assets of the borrower. Loans made under these arrangements typically are at variable rates and generally provide for over-collateralization based upon the creditworthiness of the borrower.

Forward Starting Reverse Repurchase Agreements. The Company has entered into forward starting securities purchased under agreements to resell (agreements that have a trade date at or prior to December 31, 2014 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations.

Commercial and Residential Mortgage-Related Commitments. The Company enters into forward purchase contracts involving residential mortgage loans, residential mortgage lending commitments to individuals and residential home equity lines of credit. In addition, the Company enters into commitments to originate commercial and residential mortgage loans.

Underwriting Commitments. The Company provides underwriting commitments in connection with its capital raising sources to a diverse group of corporate and other institutional clients.

Other Lending Commitments. Other commitments generally include commercial lending commitments to small businesses and commitments related to securities-based lending activities in connection with the Company's Wealth Management business segment.

The Company sponsors several non-consolidated investment funds for third-party investors where the Company typically acts as general partner of, and investment advisor to, these funds and typically commits to invest a minority of the capital of such funds, with subscribing third-party investors contributing the majority. The Company's employees, including its senior officers, as well as the Company's Directors, may participate on the same terms and conditions as other investors in certain of these funds that the Company forms primarily for client investment, except that the Company may waive or lower applicable fees and charges for its employees. The Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to these investment funds.

Premises and Equipment. The Company has non-cancelable operating leases covering premises and equipment (excluding commodity operating leases, shown separately). At December 31, 2014, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

Year Ended	**Operating Premises Leases**
	(dollars in millions)
2015	$ 599
2016	601
2017	558
2018	465
2019	382
Thereafter	2,588

The total of minimum rentals to be received in the future under non-cancelable operating subleases at December 31, 2014 was $76 million.

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges. Total rent expense, net of sublease rental income, was $715 million, $742 million and $765 million in 2014, 2013 and 2012, respectively.

In connection with its commodities business, the Company enters into operating leases for both crude oil and refined products storage and for vessel charters. At December 31, 2014, future minimum rental commitments under such leases were as follows:

Year Ended	Operating Equipment Leases
	(dollars in millions)
2015	$204
2016	104
2017	96
2018	90
2019	55
Thereafter	61

Guarantees.

The table below summarizes certain information regarding the Company's obligations under guarantee arrangements at December 31, 2014:

	Maximum Potential Payout/Notional					Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	Years to Maturity						
Type of Guarantee	Less than 1	1-3	3-5	Over 5	Total		
			(dollars in millions)				
Credit derivative contracts(1)	$ 188,357	$438,999	$233,886	$ 46,820	$ 908,062	$ (6,611)	$—
Other credit contracts	51	539	1	620	1,211	(500)	—
Non-credit derivative contracts(1)	1,386,044	713,180	269,632	517,968	2,886,824	81,021	—
Standby letters of credit and other financial guarantees issued(2)	607	1,102	1,056	5,792	8,557	(223)	6,434
Market value guarantees	28	426	125	104	683	5	88
Liquidity facilities	2,507	—	—	—	2,507	(4)	3,779
Whole loan sales guarantees	—	—	—	23,605	23,605	9	—
Securitization representations and warranties	—	—	—	65,520	65,520	98	—
General partner guarantees	72	—	58	352	482	71	—

(1) Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 12.

(2) Approximately $2.1 billion of standby letters of credit are also reflected in the "Commitments" table above in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Trading assets or Trading liabilities in the Company's consolidated statements of financial condition.

The Company has obligations under certain guarantee arrangements, including contracts and indemnification agreements, that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others. The Company's use of guarantees is described below by type of guarantee:

Derivative Contracts. Certain derivative contracts meet the accounting definition of a guarantee, including certain written options, contingent forward contracts and credit default swaps (see Note 12 regarding credit derivatives in which the Company has sold credit protection to the counterparty). Although the Company's derivative arrangements do not specifically identify whether the derivative counterparty retains the underlying asset, liability or equity security, the Company has disclosed information regarding all derivative contracts that could meet the accounting definition of a guarantee. The maximum potential payout for certain derivative contracts, such as written interest rate caps and written foreign currency options, cannot be estimated, as increases in interest or foreign exchange rates in the future could possibly be unlimited. Therefore, in order to provide information regarding the maximum potential amount of future payments that the Company could be required to make under certain derivative contracts, the notional amount of the contracts has been disclosed. In certain situations, collateral may be held by the Company for those contracts that meet the definition of a guarantee. Generally, the Company sets collateral requirements by counterparty so that the collateral covers various transactions and products and is not allocated specifically to individual contracts. Also, the Company may recover amounts related to the underlying asset delivered to the Company under the derivative contract.

The Company records all derivative contracts at fair value. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company also manages its exposure to these derivative contracts through a variety of risk mitigation strategies, including, but not limited to, entering into offsetting economic hedge positions. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure.

Standby Letters of Credit and Other Financial Guarantees Issued. In connection with its corporate lending business and other corporate activities, the Company provides standby letters of credit and other financial guarantees to counterparties. Such arrangements represent obligations to make payments to third parties if the counterparty fails to fulfill its obligation under a borrowing arrangement or other contractual obligation. A majority of the Company's standby letters of credit are provided on behalf of counterparties that are investment grade.

Market Value Guarantees. Market value guarantees are issued to guarantee timely payment of a specified return to investors in certain affordable housing tax credit funds. These guarantees are designed to return an investor's contribution to a fund and the investor's share of tax losses and tax credits expected to be generated by a fund. From time to time, the Company may also guarantee return of principal invested, potentially including a specified rate of return, to fund investors.

Liquidity Facilities. The Company has entered into liquidity facilities with SPEs and other counterparties, whereby the Company is required to make certain payments if losses or defaults occur. Primarily, the Company acts as liquidity provider to municipal bond securitization SPEs and for standalone municipal bonds in which the holders of beneficial interests issued by these SPEs or the holders of the individual bonds, respectively, have the right to tender their interests for purchase by the Company on specified dates at a specified price. The Company often may have recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity facilities as well as make-whole or recourse provisions with the trust sponsors. Primarily all of the underlying assets in the SPEs are investment grade. Liquidity facilities provided to municipal tender option bond trusts are classified as derivatives.

Whole Loan Sale Guarantees. The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain whole loan sales. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. The Company's maximum potential payout related to such representations and warranties is equal to the current unpaid principal balance ("UPB") of such loans. The Company has information on the current UPB only when it services the loans. The amount included in the above table for the maximum potential payout of $23.6 billion includes the current UPB where known of $4.7 billion and the UPB at the time of sale of $18.9 billion when the current UPB is not known. The UPB at the time of the sale of all loans covered by these representations and warranties was approximately $44.9 billion. The related liability primarily relates to sales of loans to the federal mortgage agencies.

Securitization Representations and Warranties. As part of the Company's Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company. The extent and nature of the representations and warranties, if any, vary among different securitizations. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties are breached. The maximum potential amount of future payments the Company could be required to make would be equal to the current outstanding balances of, or losses associated with, the assets subject to breaches of such representations and warranties. The amount included in the above table for the maximum potential payout includes the current UPB where known and the UPB at the time of sale when the current UPB is not known.

Between 2004 and 2014, the Company sponsored approximately $148 billion of RMBS primarily containing U.S. residential loans that were outstanding at December 31, 2014. Of that amount, the Company made representations and warranties relating to approximately $47.0 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, 2014, the Company had recorded $98 million in the Company's consolidated financial statements for payments owed as a result of breach of representations and warranties made in connection with these residential mortgages. At December 31, 2014, the current UPB for all the residential assets subject to such representations and warranties was approximately $15.5 billion, and the cumulative losses associated with U.S. RMBS were approximately $14.1 billion. The Company did not make, or otherwise agree to be responsible for, the representations and warranties made by third-party sellers on approximately $79.9 billion of residential loans that it securitized during that time period.

The Company also made representations and warranties in connection with its role as an originator of certain commercial mortgage loans that it securitized in CMBS. Between 2004 and 2014, the Company originated approximately $56 billion and $7 billion of U.S. and non-U.S. commercial mortgage loans, respectively, that were placed into CMBS sponsored by the Company that were outstanding at December 31, 2014. At December 31, 2014, the Company had not accrued any amounts in the Company's consolidated financial statements for payments owed as a result of breach of representations and warranties made in connection with these commercial mortgages. At December 31, 2014, the current UPB for all U.S. commercial mortgage loans subject to such representations and warranties was $33.7 billion. For the non-U.S. commercial mortgage loans, the amount included in the above table for the maximum potential payout includes the current UPB when known of $1.8 billion and the UPB at the time of sale when the current UPB is not known of $0.4 billion.

General Partner Guarantees. As a general partner in certain private equity and real estate partnerships, the Company receives certain distributions from the partnerships related to achieving certain return hurdles according to the provisions of the partnership agreements. The Company, from time to time, may be required to return all or a portion of such distributions to the limited partners in the event the limited partners do not achieve a certain return as specified in the various partnership agreements, subject to certain limitations.

Other Guarantees and Indemnities.

In the normal course of business, the Company provides guarantees and indemnifications in a variety of commercial transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications are described below.

- Trust Preferred Securities. The Company has established Morgan Stanley Capital Trusts for the limited purpose of issuing trust preferred securities to third parties and lending such proceeds to the Company in exchange for junior subordinated debentures. The Morgan Stanley Capital Trusts are special purpose entities and only the Parent provides a guarantee for the trust preferred securities. The Company has directly guaranteed the repayment of the trust preferred securities to the holders in accordance with the terms thereof. See Note 11 for details on the Company's junior subordinated debentures.
- Indemnities. The Company provides standard indemnities to counterparties for certain contingent exposures and taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, certain annuity products and other financial arrangements. These indemnity payments could be required based on a change in the tax laws, a change in interpretation of applicable tax rulings or a change in factual circumstances. Certain contracts contain provisions that enable the Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated.
- Exchange/Clearinghouse Member Guarantees. The Company is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or derivative contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's obligations under these rules would arise only if the exchange or clearinghouse had previously exhausted its resources. In addition, some clearinghouse rules require members to assume a proportionate share of losses resulting from the clearinghouse's investment of guarantee fund contributions and initial margin, and of other losses unrelated to the default of a clearing member, if such losses exceed the specified resources allocated for such purpose by the clearinghouse. The maximum potential payout under these rules cannot be estimated. The Company has not recorded any contingent liability in its consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.
- Merger and Acquisition Guarantees. The Company may, from time to time, in its role as investment banking advisor be required to provide guarantees in connection with certain European merger and acquisition transactions. If required by the regulating authorities, the Company provides a guarantee that the acquirer in the merger and acquisition transaction has or will have sufficient funds to complete the transaction and would then be required to make the acquisition payments in the event the acquirer's funds are insufficient at the completion date of the transaction. These arrangements generally cover the time frame from the transaction offer date to its closing date and, therefore, are generally short term in nature. The maximum potential amount of future payments that the Company could be required to make cannot be estimated. The Company believes the likelihood of any payment by the Company under these arrangements is remote given the level of the Company's due diligence associated with its role as investment banking advisor.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the Company's subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the Company's consolidated financial statements.

Contingencies.

Legal. 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 are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis related matters. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by governmental and self-regulatory agencies 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 and, while the Company has identified below any individual proceedings where the Company believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be probable or possible and reasonably estimable losses.

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. The Company expects future litigation accruals in general to continue to be elevated and the changes in accruals from period to period may fluctuate significantly, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

The Company incurred legal expenses of $3,411 million in 2014, $1,952 million in 2013 and $513 million in 2012. The legal expenses incurred in 2014 were primarily due to reserve additions related to an agreement reached in principle with the United States Department of Justice, Civil Division and the U.S. Attorney's Office for the Northern District of California, Civil Division (collectively, the "Civil Division") to pay $2,600 million to resolve certain claims that the Civil Division indicated it intended to bring against the Company, as well as reserves related to certain claims that other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force have indicated they intend to bring against the Company. The legal expenses incurred in 2013 were primarily due to settlements and reserve additions related to various matters, including the Company's February 7, 2014 agreement to settle the *Federal Housing Finance Agency as Conservator v. Morgan Stanley et al.* litigation for $1,250 million and the Company's January 30, 2014 agreement in principle with the Staff of the Enforcement Division of the U.S. Securities and Exchange Commission (the "SEC") to resolve an investigation related to certain subprime RMBS transactions for $275 million.

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation.

For certain other legal proceedings and investigations, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's consolidated financial statements as a whole, other than the matters referred to in the following paragraphs.

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 filed on June 10, 2010 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 August 11, 2011, plaintiff's federal securities law claims were dismissed with prejudice. The defendants filed answers to the amended complaints on October 7, 2011. On February 9, 2012, defendants' demurrers with respect to all other claims were overruled. On December 20, 2013, plaintiff's negligent misrepresentation claims were dismissed with prejudice. A bellwether trial was scheduled to begin in January 2015. The Company was not a defendant in connection with the securitizations at issue in that trial. On May 23, 2014, plaintiff and the defendants in the bellwether trial filed motions for summary adjudication. On October 15, 2014, these motions were denied. On December 29, 2014 and January 13, 2015, the defendants in the bellwether trial informed the court that they had reached a settlement in principle with plaintiff. At December 25, 2014, the current unpaid balance of the mortgage pass-through certificates at issue in these cases was approximately $283 million, and the certificates had incurred actual losses of approximately $7 million. Based on currently available information, the Company believes it could incur a loss for this action up to the difference between the $283 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, or upon sale, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Company, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"). 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 February 28, 2011, the court denied the Company's motion to dismiss the complaint. Based on currently available information, the Company believes it could incur a loss of up to approximately $240 million plus pre- and post-judgment interest, fees and costs.

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*. An amended complaint was filed on April 2, 2012 and 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 amended 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 May 21, 2012, the Morgan Stanley defendants filed a motion to dismiss the amended complaint, which was denied on August 3, 2012. The Company filed its answer on August 17, 2012. The Company filed a motion for summary judgment on January 20, 2015. Trial is currently scheduled to begin in July 2015. At December 25, 2014, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $110 million, and the certificates had incurred actual losses of approximately $2 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $110 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, or upon sale, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to an offset for interest received by the plaintiff prior to a judgment.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey, styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* On October 16, 2012, plaintiffs filed an amended complaint. The amended complaint alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company is approximately $1.073 billion. The amended complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud, fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On March 15, 2013, the court denied the defendants' motion to dismiss the amended complaint. On April 26, 2013, the defendants filed an answer to the amended complaint. On January 2, 2015, the court denied defendants' renewed motion to dismiss the amended complaint. At December 25, 2014, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $605 million, and the certificates had not yet incurred actual losses. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $605 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On August 7, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL (together, the "Trust") against the Company. The matter is styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v. Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the Trust, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On August 8, 2014, the court granted in part and denied in part the Company's motion to dismiss. On September 3, 2014, the Company filed its answer to the complaint. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $149 million, plus pre- and post-judgment interest, fees and costs.

On August 8, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*. and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. On October 9, 2012, the Company filed a motion to dismiss the complaint. On August 16, 2013, the court granted in part and denied in part the Company's motion to dismiss the complaint. On September 17, 2013, the Company filed its answer to the complaint. On September 26, 2013, and October 7, 2013, the Company and the plaintiffs, respectively, filed notices of appeal with respect to the court's August 16, 2013 decision. The plaintiff is seeking, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $527 million, plus pre- and post-interest, fees and costs.

On September 28, 2012, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.,* pending in the Supreme Court of NY. U.S. Bank filed an amended complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. On September 25, 2014, the court granted in part and denied in part the Company's motion to dismiss. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $173 million, plus pre- and post-judgment interest, fees and costs.

On January 10, 2013, U.S. Bank, in its capacity as Trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-10SL and Mortgage Pass-Through Certificates, Series 2006-10SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $300 million, breached various representations and warranties. The complaint seeks, among other relief, an order requiring the Company to comply with the loan breach remedy procedures in the transaction documents, unspecified damages, and interest. On August 8, 2014, the court granted in part and denied in part the Company's motion to dismiss. On September 3, 2014, the Company filed its answer to the complaint. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $197 million, plus pre- and post-judgment interest, fees and costs.

On May 3, 2013, plaintiffs in *Deutsche Zentral-Genossenschaftsbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $694 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On June 10, 2014, the court denied defendants' motion to dismiss. On July 10, 2014, the Company filed a renewed motion to dismiss with respect to two certificates at issue in the case. On August 4, 2014, claims regarding two certificates were dismissed by stipulation. After these dismissals, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $644 million. On October 13, 2014, the Company filed its answer to the complaint. At December 25, 2014, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $294 million, and the certificates had incurred actual losses of approximately $79 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $294 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, or upon sale, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses.

On September 23, 2013, the plaintiff in *National Credit Union Administration Board v. Morgan Stanley & Co. Inc., et al.* filed a complaint against the Company and certain affiliates in the United States District Court for the Southern District of New York. The complaint alleges that defendants made untrue statements of material fact or omitted to state material facts in the sale to the plaintiff of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $417 million. The complaint alleges causes of action against the Company for violations of Section 11 and Section 12(a)(2) of the Securities Act of 1933, violations of the Texas Securities Act, and violations of the Illinois Securities Law of 1953 and seeks, among other things, rescissory and compensatory damages. The defendants filed a motion to dismiss the complaint on November 13, 2013. On January 22, 2014 the court granted defendants' motion to dismiss with respect to claims arising under the Securities Act of 1933 and denied defendants' motion to dismiss with respect to claims arising under Texas Securities Act and the Illinois Securities Law of 1953. On November 17, 2014, the plaintiff filed an amended complaint. On December 15, 2014, defendants answered the amended complaint. At December 25, 2014, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $208 million, and the certificates had incurred actual losses of $27 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $208 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, or upon sale, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

14. Regulatory Requirements.

Regulatory Capital Framework. The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Company's U.S. bank operating subsidiaries MSBNA and MSPBNA ("U.S. Subsidiary Banks"). The U.S. banking regulators have comprehensively revised their risk-based and leverage capital framework to implement many aspects of the Basel III capital standards established by the Basel Committee. The U.S. banking regulators' revised capital framework is referred to herein as "U.S. Basel III." The Company and the Company's U.S. Subsidiary Banks became subject to U.S. Basel III on January 1, 2014.

Calculation of Risk-Based Capital Ratios. The Company is required to calculate and hold capital against credit, market and operational risk-weighted assets ("RWAs"). RWAs reflect both on- and off-balance sheet risk of the Company. Credit risk RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. Market risk RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. Operational risk RWAs reflect capital charges attributable to the risk of loss resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks or damage to physical assets).

On February 21, 2014, the Federal Reserve and the OCC approved the Company's and its U.S. Subsidiary Banks' respective use of the U.S. Basel III advanced internal ratings-based approach for determining credit risk capital requirements and advanced measurement approaches for determining operational risk capital requirements to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014, subject to the "capital floor" discussed below (the "Advanced Approach"). As an Advanced Approach banking organization, the Company is required to compute risk-based capital ratios using both (i) standardized approaches for calculating credit risk RWAs and market risk RWAs (the "Standardized Approach"); and (ii) an advanced internal ratings-based approach for calculating credit risk RWAs, an advanced measurement approach for calculating operational risk RWAs, and an advanced approach for calculating market risk RWAs under U.S. Basel III.

To implement a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act, U.S. Basel III subjects Advanced Approach banking organizations that have been approved by their regulators to exit the parallel run, such as the Company, to a permanent "capital floor." In 2014, as a result of the capital floor, an Advanced Approach banking organization's binding risk-based capital ratios were the lower of its ratios computed under the Advanced Approach and U.S. Basel I as supplemented by Basel 2.5. Beginning on January 1, 2015, the Company's ratios for regulatory purposes are the lower of the capital ratios computed under the Advanced Approach or the Standardized Approach under U.S. Basel III. The U.S. Basel III Standardized Approach modifies certain U.S. Basel I-based methods for calculating RWAs and prescribes new standardized risk weights for certain types of assets and exposures. The capital floor applies to the calculation of the minimum risk-based capital requirements as well as the capital conservation buffer and, if deployed by banking regulators, the countercyclical capital buffer.

The methods for calculating each of the Company's risk-based capital ratios will change through January 1, 2022 as U.S. Basel III's revisions to the numerator and denominator are phased in and as the Company calculates RWAs using the Advanced Approach and the Standardized Approach. These ongoing methodological changes may result in differences in the Company's reported capital ratios from one reporting period to the next that are independent of changes to the Company's capital base, asset composition, off-balance sheet exposures or risk profile.

The Company's Regulatory Capital and Capital Ratios. Beginning with the second quarter of 2014, the Company and its U.S. Subsidiary Banks' risk-based capital ratios for regulatory purposes are the lower of each ratio calculated using RWAs under U.S. Basel I as supplemented by Basel 2.5 and the Advanced Approach. At December 31, 2014, the Company's risk-based capital ratios were lower under the Advanced Approach transitional rules; however, the risk-based capital ratios for the Company's U.S. Subsidiary Banks were lower under U.S. Basel I as supplemented by Basel 2.5.

The following table presents the Company's capital measures under the respective regulatory capital framework, including the minimum regulatory capital ratios at December 31, 2014 and December 31, 2013.

	At December 31, 2014			At December 31, 2013		
	U.S. Basel III Transitional/ Advanced Approach		Minimum Regulatory Capital Ratio(1)	U.S. Basel I(2)		Minimum Regulatory Capital Ratio(3)
	Amount	Ratio		Amount	Ratio	
	(dollars in millions)					
Regulatory capital and capital ratios:						
Common Equity Tier 1 capital/Tier 1 common capital	$ 57,324	12.6%	4.0%	$ 49,917	12.8%	N/A
Tier 1 capital	64,182	14.1%	5.5%	61,007	15.6%	4.0%
Total capital	74,972	16.4%	8.0%	66,000	16.9%	8.0%
Tier 1 leverage	—	7.9%	4.0%	—	7.6%	4.0%
Assets:						
RWAs	$456,008	—	N/A	$390,366	—	N/A
Adjusted average assets	810,524	—	N/A	805,838	—	N/A

N/A—Not Applicable.

(1) Percentages represent minimum regulatory capital ratios under U.S. Basel III.

(2) The standards applicable in 2013 included U.S. Basel I as supplemented by Basel 2.5. The Company's Tier 1 and total risk-based capital ratios, Tier 1 leverage ratio and RWAs at December 31, 2013 were calculated under this framework.

(3) Percentages represent minimum regulatory capital ratios under U.S. Basel I as supplemented by Basel 2.5.

The Company's U.S. Subsidiary Banks. The Company's U.S. Subsidiary Banks are subject to similar regulatory capital requirements as the Company. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's U.S. Subsidiary Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company's U.S. Subsidiary Banks must meet specific capital guidelines that involve quantitative measures of the Company's U.S. Subsidiary Banks' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The table below sets forth the capital information for MSBNA at December 31, 2014 and December 31, 2013:

	At December 31, 2014			At December 31, 2013		
	U.S. Basel III Transitional/ Basel I + Basel 2.5 Approach		Required Capital Ratio(1)	U.S. Basel I(2)(3)		Required Capital Ratio(1)
	Amount	Ratio		Amount	Ratio	
	(dollars in millions)					
Common Equity Tier 1 capital	$12,355	12.2%	6.5%	N/A	N/A	N/A
Tier 1 capital	$12,355	12.2%	8.0%	$11,086	14.6%	6.0%
Total capital	$14,040	13.9%	10.0%	$12,749	16.8%	10.0%
Tier 1 leverage	$12,355	10.2%	5.0%	$11,086	10.8%	5.0%

N/A—Not Applicable.

(1) Capital ratios required to be considered well-capitalized for U.S. regulatory purposes.

(2) The standards applicable in 2013 included U.S. Basel I as supplemented by Basel 2.5. The Company's U.S. Subsidiary Banks' Tier 1 and total risk-based capital ratios, Tier 1 leverage ratio and RWAs at December 31, 2013 were calculated under this framework.

(3) MSBNA ratios have been restated to reflect certain amendments to its regulatory reports.

The table below sets forth the capital information for MSPBNA at December 31, 2014 and December 31, 2013:

	At December 31, 2014			At December 31, 2013		
	U.S. Basel III Transitional/ Basel I + Basel 2.5 Approach			U.S. Basel I(2)		
	Amount	Ratio	Required Capital Ratio(1)	Amount	Ratio	Required Capital Ratio(1)
			(dollars in millions)			
Common Equity Tier 1 capital	$2,468	20.3%	6.5%	N/A	N/A	N/A
Tier 1 capital	$2,468	20.3%	8.0%	$2,177	26.5%	6.0%
Total capital	$2,480	20.4%	10.0%	$2,184	26.6%	10.0%
Tier 1 leverage	$2,468	9.4%	5.0%	$2,177	9.7%	5.0%

N/A—Not Applicable.

(1) Capital ratios required to be considered well-capitalized for U.S. regulatory purposes.

(2) The standards applicable in 2013 included U.S. Basel I as supplemented by Basel 2.5. The Company’s U.S. Subsidiary Banks’ Tier 1 and total risk-based capital ratios, Tier 1 leverage ratio and RWAs at December 31, 2013 were calculated under this framework.

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well-capitalized, must maintain certain minimum capital ratios. Each U.S. depository institution subsidiary of the Company must be well-capitalized in order for the Company to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At December 31, 2014 and December 31, 2013, the Company’s U.S. Subsidiary Banks maintained capital at levels in excess of the universally mandated well-capitalized requirements. The Company’s U.S. Subsidiary Banks maintained capital at levels sufficiently in excess of these “well capitalized” requirements to address any additional capital needs and requirements identified by the U.S. federal banking regulators.

MS&Co. and Other Broker-Dealers. MS&Co. is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the SEC and the U.S. Commodity Futures Trading Commission (the “CFTC”). MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co.’s net capital totaled $6,593 million and $7,201 million at December 31, 2014 and December 31, 2013, respectively, which exceeded the amount required by $4,928 million and $5,627 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1. MS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. At December 31, 2014 and December 31, 2013, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

MSSB LLC is a registered broker-dealer and introducing broker for the futures business and, accordingly, is subject to the minimum net capital requirements of the SEC and the CFTC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements. MSSB LLC’s net capital totaled $4,620 million and $3,489 million at December 31, 2014 and December 31, 2013, respectively, which exceeded the amount required by $4,460 million and $3,308 million, respectively.

MSIP, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Prudential Regulation Authority, and MSMS, a Tokyo-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated with capital in excess of their respective regulatory capital requirements.

Other Regulated Subsidiaries. Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated with capital in excess of their local capital adequacy requirements.

Morgan Stanley Derivative Products Inc. ("MSDP"), a derivative products subsidiary rated A3 by Moody's and AA- by S&P, maintains certain operating restrictions that have been reviewed by Moody's and S&P. MSDP is operated such that creditors of the Company should not expect to have any claims on the assets of MSDP, unless and until the obligations to its own creditors are satisfied in full. Creditors of MSDP should not expect to have any claims on the assets of the Company or any of its affiliates, other than the respective assets of MSDP.

The regulatory capital requirements referred to above, and certain covenants contained in various agreements governing indebtedness of the Company, may restrict the Company's ability to withdraw capital from its subsidiaries. At December 31, 2014 and December 31, 2013, approximately $31.8 billion and $21.9 billion, respectively, of net assets of consolidated subsidiaries may be restricted as to the payment of cash dividends and advances to the parent company.

15. Total Equity

Morgan Stanley Shareholders' Equity.

Common Stock. Changes in shares of common stock outstanding for 2014 and 2013 were as follows (share data in millions):

	2014	2013
Shares outstanding at beginning of period	1,945	1,974
Treasury stock purchases(1)	(46)	(27)
Other(2)	52	(2)
Shares outstanding at end of period	1,951	1,945

(1) Treasury stock purchases include repurchases of common stock for employee tax withholding.

(2) Other includes net shares issued to and forfeited from Employee stock trusts and issued for RSU conversions.

Treasury Shares. At December 31, 2014, the Company had approximately $0.3 billion remaining under its current share repurchase program. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases under the Company's existing authorized program will be exercised from time to time at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time. Share repurchases by the Company are subject to regulatory approval (see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II, Item 5).

In March 2014, the Company received no objection from the Federal Reserve to the Company's 2014 capital plan, which included a share repurchase of up to $1 billion of the Company's outstanding common stock beginning in the second quarter of 2014 through the end of the first quarter of 2015 as well as an increase in the Company's quarterly common stock dividend to $0.10 per share from $0.05 per share, beginning with the dividend declared on April 17, 2014. The cash dividends declared on the Company's outstanding preferred stock were $311 million, $271 million and $97 million in 2014, 2013 and 2012, respectively. During 2014 and 2013, the Company repurchased approximately $900 million and $350 million of the Company's outstanding common stock as part of its share repurchase program.

Employee Stock Trusts. The Company has established Employee Stock Trusts to provide common stock voting rights to certain employees who hold outstanding RSUs, excluding the awards granted for the 2012 performance year. The assets of the Employee Stock Trusts are consolidated with those of the Company, and the value of the Company's stock held in the Employee Stock Trusts is classified in Morgan Stanley shareholders' equity and generally accounted for in a manner similar to treasury stock.

Preferred Stock. The Company is authorized to issue 30 million shares of preferred stock, and the Company's preferred stock outstanding consisted of the following:

			Carrying Value	
Series	**Shares Outstanding at December 31, 2014**	**Liquidation Preference per Share**	**At December 31, 2014**	**At December 31, 2013**
	(shares in millions)		**(dollars in millions)**	
A	44,000	$25,000	$1,100	$1,100
C	519,882	1,000	408	408
E	34,500	25,000	862	862
F	34,000	25,000	850	850
G	20,000	25,000	500	—
H	52,000	25,000	1,300	—
I	40,000	25,000	1,000	—
Total			$6,020	$3,220

The Company's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 14).

Series A Preferred Stock. In July 2006, the Company issued 44,000,000 Depositary Shares in an aggregate of $1,100 million. Each Depositary Share represents 1/1,000th of a Share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value ("Series A Preferred Stock"). The Series A Preferred Stock is redeemable at the Company's option, in whole or in part, on or after July 15, 2011, at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series A Preferred Stock also has a preference over the Company's common stock upon liquidation. In December 2014, the Company declared a quarterly dividend of $255.56 per share of Series A Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series C Preferred Stock. On October 13, 2008, the Company issued to Mitsubishi UFJ Financial Group, Inc. ("MUFG") 1,160,791 shares of Series C Preferred Stock for an aggregate purchase price of $911 million. During 2009, 640,909 shares of the Series C Preferred Stock were redeemed with an aggregate price equal to the aggregate price exchanged by MUFG for approximately $705 million of common stock. The Series C Preferred Stock is redeemable by the Company, in whole or in part, on or after October 15, 2011 at a redemption price of $1,100 per share. Dividends on the Series C Preferred Stock are payable, on a non-cumulative basis, as and if declared by the Company's Board of Directors, in cash, at the rate of 10% per annum of the liquidation preference of $1,000 per share. In December 2014, the Company declared a quarterly dividend of $25.00 per share of Series C Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series E Preferred Stock. On September 30, 2013, the Company issued 34,500,000 Depositary Shares, for an aggregate price of $862 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series E Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value ("Series E Preferred Stock"). The Series E Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2023 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depository Share). The Series E Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series E Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $854 million. In December 2014, the Company declared a quarterly dividend of $445.31 per share of Series E Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series F Preferred Stock. On December 10, 2013, the Company issued 34,000,000 Depositary Shares, for an aggregate price of $850 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series F Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value ("Series F Preferred Stock"). The Series F Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after January 15, 2024 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series F Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series F Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $842 million. In December 2014, the Company declared a quarterly dividend of $429.69 per share of Series F Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series G Preferred Stock. On April 29, 2014, the Company issued 20,000,000 Depositary Shares, for an aggregate price of $500 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual 6.625% Non-Cumulative Preferred Stock, Series G, $0.01 par value ("Series G Preferred Stock"). The Series G Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2019 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series G Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series G Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $494 million. In December 2014, the Company declared a quarterly dividend of $414.06 per share of Series G Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series H Preferred Stock. On April 29, 2014, the Company issued 1,300,000 Depositary Shares, for an aggregate price of $1,300 million. Each Depositary Share represents a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series H, $0.01 par value ("Series H Preferred Stock"). The Series H Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2019 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $1,000 per Depositary Share). The Series H Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series H Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $1,294 million. In December 2014, the Company declared a semi-annual dividend of $681.25 per share of Series H Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series I Preferred Stock. On September 18, 2014, the Company issued 40,000,000 Depositary Shares, for an aggregate price of $1,000 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, $0.01 par value ("Series I Preferred Stock"). The Series I Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2024 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depository Share). The Series I Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series I Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $994 million. In December 2014, the Company declared the initial quarterly dividend of $517.97 per share of Series I Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Accumulated Other Comprehensive Loss.

The following tables present changes in AOCI by component, net of noncontrolling interests, in 2014 and 2013 (dollars in millions):

	Foreign Currency Translation Adjustments	Net Change in Cash Flow Hedges	Change in Net Unrealized Gains (Losses) on AFS Securities	Pension, Postretirement and Other Related Adjustments	Total
Balance at December 31, 2013	$(266)	$ (1)	$(282)	$(544)	$(1,093)
Other comprehensive income before reclassifications	(397)	—	233	24	(140)
Amounts reclassified from AOCI	—	4	(24)	5	(15)
Net other comprehensive income during the period	(397)	4	209	29	(155)
Balance at December 31, 2014	$(663)	$ 3	$ (73)	$(515)	$(1,248)

	Foreign Currency Translation Adjustments	Net Change in Cash Flow Hedges	Change in Net Unrealized Gains (Losses) on AFS Securities	Pension, Postretirement and Other Related Adjustments	Total
Balance at December 31, 2012	$(123)	$ (5)	$ 151	$(539)	$ (516)
Other comprehensive income (loss) before reclassifications	(143)	—	(406)	(16)	(565)
Amounts reclassified from AOCI	—	4	(27)	11	(12)
Net other comprehensive income (loss) during the period	(143)	4	(433)	(5)	(577)
Balance at December 31, 2013	$(266)	$ (1)	$(282)	$(544)	$(1,093)

The Company had no significant reclassifications out of AOCI for 2014 and 2013.

Cumulative Foreign Currency Translation Adjustments. Cumulative foreign currency translation adjustments include gains or losses resulting from translating foreign currency financial statements from their respective functional currencies to U.S. dollars, net of hedge gains or losses and related tax effects. The Company uses foreign currency contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency subsidiaries. Increases or decreases in the value of the Company's net foreign investments generally are tax deferred for U.S. purposes, but the related hedge gains and losses are taxable currently. The Company attempts to protect its net book value from the effects of fluctuations in currency exchange rates on its net investments in non-U.S. dollar subsidiaries by selling the appropriate non-U.S. dollar currency in the forward market. Under some circumstances, however, the Company may elect not to hedge its net investments in certain foreign operations due to market conditions, including the availability of various currency contracts at acceptable costs. Information at December 31, 2014 and December 31, 2013 relating to the effects on cumulative foreign currency translation adjustments resulting from translation of foreign currency financial statements and from gains and losses from hedges of the Company's net investments in non-U.S. dollar functional currency subsidiaries is summarized below:

	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Net investments in non-U.S. dollar functional currency subsidiaries subject to hedges	$ 9,110	$11,708
Cumulative foreign currency translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$(1,262)	$ (259)
Cumulative foreign currency translation adjustments resulting from realized or unrealized losses on hedges, net of tax	599	(7)
Total cumulative foreign currency translation adjustments, net of tax	$ (663)	$ (266)

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests were $1,204 million and $3,109 million at December 31, 2014 and December 31, 2013, respectively. The reduction in nonredeemable noncontrolling interests at December 31, 2014 primarily reflects a decrease of $1.6 billion related to the deconsolidation in the second quarter of 2014 of certain legal entities associated with a real estate fund sponsored by the Company and distributions of $166 million related to MSMS and $350 million related to TransMontaigne Inc., which was sold on July 1, 2014.

16. Earnings per Common Share.

Basic EPS is computed by dividing earnings (loss) applicable to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Common shares outstanding include common stock and vested RSUs where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. The Company calculates EPS using the two-class method and determines whether instruments granted in share-based payment transactions are participating securities (see Note 2). The following table presents the calculation of basic and diluted EPS (in millions, except for per share data):

	2014	2013	2012
Basic EPS:			
Income from continuing operations	$3,681	$3,656	$757
Income (loss) from discontinued operations	(14)	(43)	(41)
Net income	3,667	3,613	716
Net income applicable to redeemable noncontrolling interests	—	222	124
Net income applicable to nonredeemable noncontrolling interests	200	459	524
Net income applicable to Morgan Stanley	3,467	2,932	68
Less: Preferred dividends (Series A Preferred Stock)	(45)	(44)	(44)
Less: Preferred dividends (Series C Preferred Stock)	(52)	(52)	(52)
Less: Preferred dividends (Series E Preferred Stock)	(61)	(18)	—
Less: Preferred dividends (Series F Preferred Stock)	(58)	(6)	—
Less: Preferred dividends (Series G Preferred Stock)	(24)	—	—
Less: Preferred dividends (Series H Preferred Stock)	(50)	—	—
Less: Preferred dividends (Series I Preferred Stock)	(21)	—	—
Less: Wealth Management JV redemption value adjustment (see Note 3)	—	(151)	—
Less: Allocation of (earnings) loss to participating RSUs(1):			
From continuing operations	(4)	(6)	(2)
Earnings (loss) applicable to Morgan Stanley common shareholders	$3,152	$2,655	$(30)
Weighted average common shares outstanding	1,924	1,906	1,886
Earnings (loss) per basic common share:			
Income from continuing operations	$1.65	$1.42	$0.02
Income (loss) from discontinued operations	(0.01)	(0.03)	(0.04)
Earnings (loss) per basic common share	$1.64	$1.39	$(0.02)
Diluted EPS:			
Earnings (loss) applicable to Morgan Stanley common shareholders	$3,152	$2,655	$(30)
Weighted average common shares outstanding	1,924	1,906	1,886
Effect of dilutive securities:			
Stock options and RSUs(1)	47	51	33
Weighted average common shares outstanding and common stock equivalents	1,971	1,957	1,919
Earnings (loss) per diluted common share:			
Income from continuing operations	$1.61	$1.38	$0.02
Income (loss) from discontinued operations	(0.01)	(0.02)	(0.04)
Earnings (loss) per diluted common share	$1.60	$1.36	$(0.02)

[1] RSUs that are considered participating securities participate in all of the earnings of the Company in the computation of basic EPS, and, therefore, such RSUs are not included as incremental shares in the diluted calculation.

The following securities were considered antidilutive and, therefore, were excluded from the computation of diluted EPS:

Number of Antidilutive Securities Outstanding at End of Period:	2014	2013	2012
	(shares in millions)		
RSUs and performance-based stock units	2	3	8
Stock options	13	33	42
Total	15	36	50

17. Interest Income and Interest Expense.

Details of Interest income and Interest expense were as follows:

	2014	2013	2012
	(dollars in millions)		
Interest income(1):			
Trading assets(2)	$ 2,109	$2,292	$2,736
Investment securities	613	447	343
Loans	1,690	1,121	643
Interest bearing deposits with banks	109	129	124
Securities purchased under agreements to resell and Securities borrowed(3)	(298)	(20)	364
Customer receivables and Other(4)	1,190	1,240	1,482
Total interest income	$ 5,413	$5,209	$5,692
Interest expense(1):			
Deposits	$ 106	$ 159	$ 181
Commercial paper and other short-term borrowings	4	20	38
Long-term borrowings	3,609	3,758	4,622
Securities sold under agreements to repurchase and Securities loaned(5)	1,216	1,469	1,805
Customer payables and Other(6)	(1,257)	(975)	(749)
Total interest expense	$ 3,678	$4,431	$5,897
Net interest	$ 1,735	$ 778	$ (205)

[1] Interest income and expense are recorded within the Company's consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instrument's fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.

[2] Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.

[3] Includes fees paid on securities borrowed.

[4] Includes interest from customer receivables and other interest earning assets.

[5] Includes fees received on securities loaned.

[6] Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers' short positions.

18. Deferred Compensation Plans.

The Company maintains various deferred compensation plans for the benefit of its employees. The two principal forms of deferred compensation are granted under several stock-based compensation and cash-based compensation plans.

Stock-Based Compensation Plans. The accounting guidance for stock-based compensation requires measurement of compensation cost for stock-based awards at fair value and recognition of compensation cost over the service period, net of estimated forfeitures (see Note 2).

The components of the Company's stock-based compensation expense (net of cancellations) are presented below:

	2014	2013	2012
	(dollars in millions)		
Restricted stock units(1)	$1,212	$1,140	$864
Stock options	5	15	4
Performance-based stock units	45	29	29
Total	$1,262	$1,184	$897

(1) Amounts for 2014, 2013 and 2012 include $31 million, $25 million and $31 million, respectively, related to stock-based awards that were granted in 2015, 2014 and 2013, respectively, to employees who satisfied retirement-eligible requirements under award terms that do not contain a service period.

The table above excludes stock-based compensation expense recorded in discontinued operations, which was approximately $3 million in 2012. See Note 1 for additional information on discontinued operations.

The tax benefit related to stock-based compensation expense was $404 million, $371 million and $306 million for 2014, 2013 and 2012, respectively. The tax benefit for stock-based compensation expense included in discontinued operations was $1 million in 2012.

At December 31, 2014, the Company had $779 million of unrecognized compensation cost related to unvested stock-based awards. Absent estimated or actual forfeitures or cancellations, this amount of unrecognized compensation cost will be recognized as $506 million in 2015, $207 million in 2016 and $66 million thereafter. These amounts do not include 2014 performance year awards granted in January 2015, which will begin to be amortized in 2015 (see "2014 Performance Year Deferred Compensation Awards" herein).

In connection with awards under its stock-based compensation plans, the Company is authorized to issue shares of its common stock held in treasury or newly issued shares. At December 31, 2014, approximately 87 million shares were available for future grant under these plans.

The Company generally uses treasury shares, if available, to deliver shares to employees and has an ongoing repurchase authorization that includes repurchases in connection with awards granted under its stock-based compensation plans. Share repurchases by the Company are subject to regulatory approval. See Note 15 for additional information on the Company's share repurchase program.

Restricted Stock Units. The Company has granted restricted stock unit awards pursuant to several stock-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation with awards made in the form of restricted common stock or in the right to receive unrestricted shares of common stock in the future. Awards under these plans are generally subject to vesting over time contingent upon continued employment and to restrictions on sale, transfer or assignment until the end of a specified period, generally one to three years from the date of grant. All or a portion of an award may be canceled if employment is terminated before the end of the relevant restriction period. All or a portion of a vested award also may be canceled in certain limited situations, including termination for cause during the relevant restriction period. Recipients of stock-based awards may have voting rights, at the Company's discretion, and generally receive dividend equivalents.

The following table sets forth activity relating to the Company's vested and unvested RSUs (share data in millions):

	2014	
	Number of Shares	Weighted Average Grant Date Fair Value
RSUs at beginning of period	132	$22.41
Granted	42	32.58
Conversions to common stock	(48)	23.26
Canceled	(5)	25.04
RSUs at end of period(1)	121	$25.52

(1) At December 31, 2014, approximately 116 million RSUs with a weighted average grant date fair value of $25.45 were vested or expected to vest.

The weighted average price for RSUs granted during 2013 and 2012 was $22.72 and $18.09, respectively. At December 31, 2014, the weighted average remaining term until delivery for the Company's outstanding RSUs was approximately 1.2 years.

At December 31, 2014, the intrinsic value of outstanding RSUs was $4,730 million.

The total fair market value of RSUs converted to common stock during 2014, 2013 and 2012 was $1,461 million, $939 million and $660 million, respectively.

The following table sets forth activity relating to the Company's unvested RSUs (share data in millions):

	2014	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested RSUs at beginning of period	98	$22.29
Granted	42	32.58
Vested	(48)	23.51
Canceled	(5)	25.04
Unvested RSUs at end of period(1)	87	$26.44

(1) Unvested RSUs represent awards where recipients have yet to satisfy either the explicit vesting terms or retirement-eligible requirements. At December 31, 2014, approximately 82 million unvested RSUs with a weighted average grant date fair value of $26.39 were expected to vest.

The aggregate fair value of awards that vested during 2014, 2013 and 2012 was $1,517 million, $842 million and $753 million, respectively.

Stock Options. The Company has granted stock option awards pursuant to several stock-based compensation plans. The plans provide for the deferral of a portion of certain key employees' incentive compensation with awards made in the form of stock options generally having an exercise price not less than the fair value of the Company's common stock on the date of grant. Such stock option awards generally become exercisable over a three-year period and expire five to 10 years from the date of grant, subject to accelerated expiration upon termination of employment. Stock option awards have vesting, restriction and cancellation provisions that are generally similar to those in restricted stock units. The weighted average fair value of the Company's options granted during 2013 was $5.41, utilizing the following weighted average assumptions:

Grant Year	Risk-Free Interest Rate	Expected Life	Expected Stock Price Volatility	Expected Dividend Yield
2013	0.6%	3.9 years	32.0%	0.9%

No stock options were granted during 2014 or 2012.

The Company's expected option life has been determined based upon historical experience. The expected stock price volatility assumption was determined using the implied volatility of exchange-traded options, in accordance with accounting guidance for share-based payments. The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues.

The following table sets forth activity relating to the Company's stock options (options data in millions):

	2014	
	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of period	33	$49.40
Canceled	(14)	47.29
Options outstanding at end of period(1)	19	$51.30
Options exercisable at end of period	17	$53.86

(1) At December 31, 2014, approximately 18 million options with a weighted average exercise price of $51.74 were vested.

The total intrinsic value of stock options exercised in 2014 was $2 million with a weighted average exercise price of $24.68. There were no stock options exercised during 2013 or 2012. At December 31, 2014, the intrinsic value of in the money exercisable stock options was $71 million.

The following table presents information relating to the Company's stock options outstanding at December 31, 2014 (options data in millions):

At December 31, 2014	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Life (Years)	Number Exercisable	Weighted Average Exercise Price	Average Remaining Life (Years)
$22.00 – $39.99	6	$26.98	3.0	4	$28.37	3.0
$40.00 – $49.99	2	43.62	0.2	2	43.62	0.2
$50.00 – $59.99	1	52.23	1.2	1	52.23	1.2
$60.00 – $76.99	10	66.75	1.9	10	66.75	1.9
Total	19			17		

Performance-Based Stock Units. The Company has awarded PSUs to certain senior executives. These PSUs will vest and convert to shares of common stock at the end of the performance period only if the Company satisfies predetermined performance and market goals over the three-year performance period that began on

January 1 of the grant year and ends three years later on December 31. Under the terms of the award, the number of PSUs that will actually vest and convert to shares will be based on the extent to which the Company achieves the specified performance goals during the performance period. Performance-based stock unit awards have vesting, restriction and cancellation provisions that are generally similar to those in restricted stock units.

One-half of the award will be earned based on the Company's return on average common shareholders' equity, excluding the impact of the fluctuation in the Company's credit spreads and other credit factors for certain of the Company's long-term and short-term borrowings, primarily structured notes, that are accounted for at fair value, certain gains or losses associated with the sale of specified businesses, specified goodwill impairments, certain gains or losses associated with specified legal settlements related to business activities conducted prior to January 1, 2011 and specified cumulative catch-up adjustments resulting from changes in an existing, or application of a new, accounting principle that is not applied on a fully retrospective basis ("MS Average ROE"). The number of PSUs ultimately earned for this portion of the awards will be determined by applying a multiplier as follows:

	Minimum		Maximum	
Grant Year	MS Average ROE	Multiplier	MS Average ROE	Multiplier
2014	Less than 5%	0.0	11.5% or more	1.5
2013	Less than 5%	0.0	13% or more	2.0
2012	Less than 6%	0.0	12% or more	1.5

On the date of award, the fair value per share of this portion was $32.81, $22.85 and $18.16 for 2014, 2013 and 2012, respectively.

One-half of the award will be earned based on the Company's total shareholder return ("TSR"), relative to the S&P Financial Sectors Index. The number of PSUs ultimately earned for this portion of the award will be determined by applying a multiplier as follows:

	Minimum		Maximum	
Grant Year	TSR	Multiplier	TSR	Multiplier
2014	Below	Down to 0.0	Above	Up to 1.5
2013	Below	Down to 0.0	Above	Up to 2.0
2012	Below	Down to 0.0	Above	Up to 1.5

On the date of award, the fair value per share of this portion was $37.72, $34.65 and $20.42 for 2014, 2013 and 2012, respectively, estimated using a Monte Carlo simulation and the following assumptions:

Grant Year	Risk-Free Interest Rate	Expected Stock Price Volatility	Expected Dividend Yield
2014	0.8%	44.2%	0.0%
2013	0.4%	45.4%	0.0%
2012	0.4%	56.0%	1.1%

The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues. The expected stock price volatility was determined using historical volatility. The expected dividend yield was based on historical dividend payments. A correlation coefficient was developed based on historical price data of the Company and the S&P Financial Sectors Index.

The following table sets forth activity relating to the Company's PSUs:

	2014
	Number of Shares
	(in millions)
PSUs at beginning of period	4
Awarded	2
Conversions to Common Stock	(1)
Canceled	(1)
PSUs at end of period	4

Deferred Cash-Based Compensation Plans. The Company maintains various deferred cash-based compensation plans for the benefit of certain current and former employees that provide a return to the plan participants based upon the performance of various referenced investments. The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred cash-based compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues.

The components of the Company's deferred compensation expense (net of cancellations) are presented below:

	2014	2013	2012
	(dollars in millions)		
Deferred cash-based awards(1)	$1,757	$1,490	$1,815
Return on referenced investments	408	772	435
Total	$2,165	$2,262	$2,250

(1) Amounts for 2014, 2013 and 2012 include $92 million, $78 million and $93 million, respectively, related to deferred cash-based awards that were granted in 2015, 2014 and 2013, respectively, to employees who satisfied retirement-eligible requirements under award terms that do not contain a service period.

The table above excludes deferred cash-based compensation expense recorded in discontinued operations, which was approximately $7 million in 2012. See Note 1 for additional information on discontinued operations.

At December 31, 2014, the Company had approximately $346 million of unrecognized compensation cost related to unvested deferred cash-based awards (excluding unrecognized expense for returns on referenced investments). Absent actual cancellations and any future return on referenced investments, this amount of unrecognized compensation cost will be recognized as $127 million in 2015, $76 million in 2016 and $143 million thereafter. These amounts do not include 2014 performance year awards granted in January 2015, which will begin to be amortized in 2015 (see below).

2014 Performance Year Deferred Compensation Awards. In January 2015, the Company granted approximately $1.1 billion of stock-based awards and $0.7 billion of deferred cash-based awards related to the 2014 performance year that contain a future service requirement. Absent estimated or actual forfeitures or cancellations or accelerations, and any future return on referenced investments, the annual compensation cost for these awards will be recognized as follows:

	2015	2016	Thereafter	Total
		(dollars in millions)		
Stock-based awards	$577	$262	$215	$1,054
Deferred cash-based awards	410	225	99	734
Total	$987	$487	$314	$1,788

19. Employee Benefit Plans.

The Company sponsors various retirement plans for the majority of its U.S. and non-U.S. employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. employees. The Company also provides certain postemployment benefits to certain former employees or inactive employees prior to retirement.

Pension and Other Postretirement Plans. Substantially all of the U.S. employees of the Company and its U.S. affiliates who were hired before July 1, 2007 are covered by the U.S. pension plan, a non-contributory, defined benefit pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the "U.S. Qualified Plan"). Unfunded supplementary plans (the "Supplemental Plans") cover certain executives. In addition, certain of the Company's non-U.S. subsidiaries also have defined benefit pension plans covering substantially all of their employees. These pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. The Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax laws. Liabilities for benefits payable under the Supplemental Plans are accrued by the Company and are funded when paid to the participants and beneficiaries. The Company's U.S. Qualified Plan ceased future benefit accruals after December 31, 2010.

In 2014, the Morgan Stanley Supplemental Executive Retirement and Excess Plan (the "SEREP") was amended to cease accrual of benefits. Any benefits earned by participants under the SEREP prior to October 1, 2014 will be payable in the future based on the SEREP's provisions. The amendment did not have a material impact on the Company's consolidated financial statements.

The Company also has an unfunded postretirement benefit plan that provides medical and life insurance for eligible U.S. retirees and medical insurance for their dependents. Effective October 31, 2014, the Morgan Stanley Medical Plan was amended to change the health care plans offered after December 31, 2014 for retirees who are Medicare-eligible and age 65 or older. The amendment did not have a material impact on the Company's consolidated financial statements.

Net Periodic Benefit Expense.

The following table presents the components of the net periodic benefit expense (income) for 2014, 2013 and 2012:

	Pension			Postretirement		
	2014	2013	2012	2014	2013	2012
	(dollars in millions)					
Service cost, benefits earned during the period	$ 20	$ 23	$ 26	$ 2	$ 4	$ 4
Interest cost on projected benefit obligation	154	151	156	5	7	7
Expected return on plan assets	(110)	(114)	(110)	—	—	—
Net amortization of prior service credit	—	—	—	(14)	(13)	(14)
Net amortization of actuarial loss	22	36	27	—	3	2
Curtailment loss	3	—	—	—	—	—
Settlement loss	2	1	—	—	—	—
Net periodic benefit expense (income)	$ 91	$ 97	$ 99	$ (7)	$ 1	$ (1)

Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) on a pre-tax basis in 2014, 2013 and 2012 were as follows:

	Pension			Postretirement		
	2014	2013	2012	2014	2013	2012
	(dollars in millions)					
Net loss (gain)	$ 18	$ 87	$416	$ 9	$ (52)	$ 16
Prior service cost	2	3	3	(64)	—	—
Amortization of prior service credit	—	—	—	14	13	14
Amortization of net loss	(27)	(37)	(27)	—	(3)	(2)
Total recognized in other comprehensive loss (income)	$ (7)	$ 53	$392	$ (41)	$ (42)	$ 28

The Company generally amortizes unrecognized net gains and losses into net periodic benefit expense to the extent that the gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. The amortization of the unrecognized net gains and losses is generally over the future service of active participants. The U.S. Qualified Plan amortizes the unrecognized net gains and losses over the average life expectancy of participants. Effective October 1, 2014, the SEREP amortizes the unrecognized net gains and losses over the average life expectancy of participants.

The following table presents the weighted average assumptions used to determine net periodic benefit expense for 2014, 2013 and 2012:

	Pension			Postretirement		
	2014	2013	2012	2014	2013	2012
Discount rate(1)	4.74%	3.95%	4.57%	3.77%	3.88%	4.56%
Expected long-term rate of return on plan assets	3.75	3.73	3.78	N/A	N/A	N/A
Rate of future compensation increases	1.06	0.98	2.14	N/A	N/A	N/A

N/A—Not Applicable.

[1] The Postretirement discount rate for 2014 changed to 3.77% from 4.75% effective October 31, 2014 with the amendment and remeasurement of the Morgan Stanley Medical Plan.

The expected long-term rate of return on plan assets represents the Company's best estimate of the long-term return on plan assets. For the U.S. Qualified Plan, the expected long-term rate of return was estimated by computing a weighted average return of the underlying long-term expected returns on the plan's fixed income assets based on the investment managers' target allocations within this asset class. The expected long-term return on assets is a long-term assumption that generally is expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions. The U.S. Qualified Plan is primarily invested in fixed income securities and related derivative instruments, including interest rate swap contracts. This asset allocation is expected to help protect the plan's funded status and limit volatility of the Company's contributions. Total U.S. Qualified Plan investment portfolio performance is assessed by comparing actual investment performance to changes in the estimated present value of the U.S. Qualified Plan's benefit obligation.

Benefit Obligations and Funded Status.

The following table provides a reconciliation of the changes in the benefit obligation and fair value of plan assets for 2014 and 2013 as well as the funded status at December 31, 2014 and December 31, 2013:

	Pension		Postretirement	
	2014	2013	2014	2013
	(dollars in millions)			
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$3,330	$3,883	$128	$ 174
Service cost	20	23	2	4
Interest cost	154	151	5	7
Actuarial loss (gain)	555	(537)	5	(52)
Plan amendments	2	2	(64)	—
Plan curtailments	(1)	—	—	—
Plan settlements	(8)	(7)	—	—
Change in mortality assumptions(1)	203	—	4	—
Benefits paid	(213)	(186)	(5)	(6)
Other, including foreign currency exchange rate changes	(35)	1	—	1
Benefit obligation at end of year	$4,007	$3,330	$ 75	$ 128
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$2,867	$3,519	$—	$ —
Actual return on plan assets	850	(512)	—	—
Employer contributions(2)	244	42	5	6
Benefits paid	(213)	(186)	(5)	(6)
Plan settlements	(8)	(7)	—	—
Other, including foreign currency exchange rate changes	(35)	11	—	—
Fair value of plan assets at end of year	$3,705	$2,867	$—	$ —
Funded (unfunded) status	$ (302)	$ (463)	$ (75)	$(128)

[1] Amounts represent adoption of new mortality tables published by the Society of Actuaries in October 2014.

[2] In December 2014, an elective $200 million contribution was made to the U.S. Qualified Plan primarily to offset the increase in liability due to the Plan's adoption of new mortality tables.

The following table presents a summary of the funded status at period-end:

	Pension		Postretirement	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(dollars in millions)			
Amounts recognized in the Company's consolidated statements of financial condition consist of:				
Assets	$ 224	$ 60	$—	$ —
Liabilities	(526)	(523)	(75)	(128)
Net amount recognized	$(302)	$(463)	$ (75)	$(128)
Amounts recognized in accumulated other comprehensive loss consist of:				
Prior service cost (credit)	$ (1)	$ 1	$ (61)	$ (11)
Net loss (gain)	866	871	(5)	(14)
Net loss (gain) recognized	$ 865	$ 872	$ (66)	$ (25)

The estimated prior service credit that will be amortized from accumulated other comprehensive loss into net periodic benefit expense over 2015 is approximately $1 million for defined benefit pension plans and $19 million for postretirement plans. The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic benefit expense over 2015 is approximately $26 million for defined benefit pension plans.

The accumulated benefit obligation for all defined benefit pension plans was $3,988 million and $3,309 million at December 31, 2014 and December 31, 2013, respectively.

The following table contains information for pension plans with projected benefit obligations in excess of the fair value of plan assets at period-end:

	December 31, 2014	December 31, 2013
	(dollars in millions)	
Projected benefit obligation	$626	$3,127
Fair value of plan assets	100	2,603

The following table contains information for pension plans with accumulated benefit obligations in excess of the fair value of plan assets at period-end:

	December 31, 2014	December 31, 2013
	(dollars in millions)	
Accumulated benefit obligation	$588	$3,089
Fair value of plan assets	82	2,586

The following table presents the weighted average assumptions used to determine benefit obligations at period-end:

	Pension		Postretirement	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Discount rate	3.86%	4.74%	3.69%	4.75%
Rate of future compensation increase	2.85	1.06	N/A	N/A

N/A—Not Applicable.

The discount rates used to determine the benefit obligations for the U.S. pension, U.S. postretirement and the U.K. pension plans' liabilities were selected by the Company, in consultation with its independent actuaries, using a pension discount yield curve based on the characteristics of the plans, each determined independently. The pension discount yield curve represents spot discount yields based on duration implicit in a representative broad-based Aa rated corporate bond universe of high-quality fixed income investments. For all other non-U.S. pension plans, the Company set the assumed discount rates based on the nature of liabilities, local economic environments and available bond indices.

The following table presents assumed health care cost trend rates used to determine the U.S. postretirement benefit obligations at period-end:

	At December 31, 2014	At December 31, 2013
Health care cost trend rate assumed for next year:		
Medical	6.88-7.23%	6.90-7.38%
Prescription	7.87%	8.25%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029	2029

Assumed health care cost trend rates can have a significant effect on the amounts reported for the Company's postretirement benefit plan. A one-percentage point change in the rates would not have a significant impact to the Company's postretirement service and interest cost for 2014, and would increase or decrease the Company's postretirement benefit obligation at December 31, 2014 by $3 million or $2 million, respectively.

No impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 has been reflected in the Company's consolidated statements of income as Medicare prescription drug coverage was deemed to have no material effect on the Company's postretirement benefit plan.

Plan Assets. The U.S. Qualified Plan assets represent 88% of the Company's total pension plan assets. The U.S. Qualified Plan uses a combination of active and risk-controlled fixed income investment strategies. The fixed income asset allocation consists primarily of fixed income securities and related derivative instruments designed to approximate the expected cash flows of the plan's liabilities in order to help reduce plan exposure to interest rate variation and to better align assets with obligations. The longer duration fixed income allocation is expected to help protect the plan's funded status and maintain the stability of plan contributions over the long run.

Derivative instruments are permitted in the U.S. Qualified Plan's investment portfolio only to the extent that they comply with all of the plan's investment policy guidelines and are consistent with the plan's risk and return objectives. In addition, any investment in derivatives must meet the following conditions:

- Derivatives may be used only if they are deemed by the investment manager to be more attractive than a similar direct investment in the underlying cash market or if the vehicle is being used to manage risk of the portfolio.
- Derivatives may not be used in a speculative manner or to leverage the portfolio under any circumstances.
- Derivatives may not be used as short-term trading vehicles. The investment philosophy of the U.S. Qualified Plan is that investment activity is undertaken for long-term investment rather than short-term trading.
- Derivatives may be used in the management of the U.S. Qualified Plan's portfolio only when their possible effects can be quantified, shown to enhance the risk-return profile of the portfolio, and reported in a meaningful and understandable manner.

As a fundamental operating principle, any restrictions on the underlying assets apply to a respective derivative product. This includes percentage allocations and credit quality. Derivatives are used solely for the purpose of enhancing investment in the underlying assets and not to circumvent portfolio restrictions.

Plan assets are measured at fair value using valuation techniques that are consistent with the valuation techniques applied to the Company's major categories of assets and liabilities as described in Note 4. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units multiplied by the market price. If a quoted market price is not available, the estimate of fair value is based on the valuation approaches that maximize use of observable inputs and minimize use of unobservable inputs.

The fair value of OTC derivative contracts is derived primarily using pricing models, which may require multiple market input parameters. Derivative contracts are presented on a gross basis prior to cash collateral or counterparty netting. Derivatives consist of investments in interest rate swap contracts and are categorized as Level 2 of the fair value hierarchy.

Commingled trust funds are privately offered funds available to institutional clients that are regulated, supervised and subject to periodic examination by a U.S. federal or state agency. The trust must be maintained for the collective investment or reinvestment of assets contributed to it from U.S. tax-qualified employee benefit plans maintained by more than one employer or controlled group of corporations. The sponsor of the commingled trust funds values the funds' NAV based on the fair value of the underlying securities. The underlying securities of the commingled trust funds consist of mainly long-duration fixed income instruments. Commingled trust funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy, otherwise they are categorized in Level 3 of the fair value hierarchy.

Some non-U.S.-based plans hold foreign funds that consist of investments in foreign corporate equity funds, foreign fixed income funds, foreign target cash flow funds and foreign liquidity funds. Foreign corporate equity funds and foreign fixed income funds invest in individual securities quoted on a recognized stock exchange or traded in a regulated market. Certain fixed income funds aim to produce returns consistent with certain Financial Times Stock Exchange indexes. Foreign target cash flow funds are designed to provide a series of fixed annual cash flows over five or 10 years achieved by investing in government bonds and derivatives. Foreign liquidity funds place a high priority on capital preservation, stable value and a high liquidity of assets. Foreign funds are generally categorized in Level 2 of the fair value hierarchy as they are readily redeemable at their NAV. Corporate equity funds traded on a recognized exchange are categorized in Level 1 of the fair value hierarchy.

Other investments held by non-U.S. based plans consist of real estate funds, hedge funds and insurance annuity contracts. These real estate and hedge funds are categorized in Level 2 of the fair value hierarchy to the extent that they are readily redeemable at their NAV, otherwise they are categorized in Level 3 of the fair value hierarchy. The insurance annuity contracts are valued based on the premium reserve of the insurer for a guarantee that the insurer has given to the employee benefit plan that approximates fair value. The insurance annuity contracts are categorized in Level 3 of the fair value hierarchy.

The following table presents the fair value of the net pension plan assets at December 31, 2014. There were no transfers between levels during 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(dollars in millions)		
Assets:				
Investments:				
Cash and cash equivalents(1)	$ 63	$ —	$—	$ 63
U.S. government and agency securities:				
U.S. Treasury securities	1,332	—	—	1,332
U.S. agency securities	—	265	—	265
Total U.S. government and agency securities	1,332	265	—	1,597
Corporate and other debt:				
State and municipal securities	—	2	—	2
Collateralized debt obligations	—	62	—	62
Total corporate and other debt	—	64	—	64
Derivative contracts(2)	—	292	—	292
Derivative-related cash collateral receivable	—	2	—	2
Commingled trust funds(3)	—	1,432	—	1,432
Foreign funds(4)	—	347	—	347
Other investments	—	—	36	36
Total investments	1,395	2,402	36	3,833
Receivables:				
Other receivables(1)	—	27	—	27
Total receivables	—	27	—	27
Total assets	$1,395	$2,429	$ 36	$3,860
Liabilities:				
Derivative contracts(5)	$ —	$ 33	$—	$ 33
Derivative-related cash collateral payable	—	2	—	2
Other liabilities(1)	—	120	—	120
Total liabilities	$ —	$ 155	$—	$ 155
Net pension assets	$1,395	$2,274	$ 36	$3,705

(1) Cash and cash equivalents, other receivables and other liabilities are valued at their carrying value, which approximates fair value.

(2) Derivative contracts in an asset position consist of investments in interest rate swaps of $292 million.

(3) Commingled trust funds consist of investments in fixed income funds and money market funds of $1,280 million and $152 million, respectively.

(4) Foreign funds include investments in fixed income funds, targeted cash flow funds and liquidity funds of $158 million, $136 million and $53 million, respectively.

(5) Derivative contracts in a liability position consist of investments in interest rate swaps of $33 million.

The following table presents the fair value of the net pension plan assets at December 31, 2013. There were no transfers between levels during 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(dollars in millions)		
Assets:				
Investments:				
Cash and cash equivalents(1)	$ 91	$ —	$—	$ 91
U.S. government and agency securities:				
U.S. Treasury securities	1,047	—	—	1,047
U.S. agency securities	—	204	—	204
Total U.S. government and agency securities	1,047	204	—	1,251
Corporate and other debt:				
State and municipal securities	—	2	—	2
Collateralized debt obligations	—	76	—	76
Total corporate and other debt	—	78	—	78
Derivative contracts(2)	—	122	—	122
Derivative-related cash collateral receivable	—	37	—	37
Commingled trust funds(3)	—	1,004	—	1,004
Foreign funds(4)	21	291	—	312
Other investments	—	10	38	48
Total investments	1,159	1,746	38	2,943
Receivables:				
Other receivables(1)	—	20	—	20
Total receivables	—	20	—	20
Total assets	$1,159	$1,766	$ 38	$2,963
Liabilities:				
Derivative contracts(5)	$ —	$ 92	$—	$ 92
Derivative-related cash collateral payable	—	2	—	2
Other liabilities(1)	—	2	—	2
Total liabilities	$ —	$ 96	$—	$ 96
Net pension assets	$1,159	$1,670	$ 38	$2,867

(1) Cash and cash equivalents, other receivables and other liabilities are valued at their carrying value, which approximates fair value.

(2) Derivative contracts in an asset position consist of investments in interest rate swaps of $122 million.

(3) Commingled trust funds consist of investments in fixed income funds of $1,004 million.

(4) Foreign funds include investments in fixed income funds, targeted cash flow funds, liquidity funds, corporate equity funds and diversified funds of $157 million, $77 million, $56 million, $21 million and $1 million, respectively.

(5) Derivative contracts in a liability position consist of investments in interest rate swaps of $92 million.

The following table presents changes in Level 3 pension assets measured at fair value for 2014:

	Beginning Balance at January 1, 2014	Actual Return on Plan Assets Related to Assets Still Held at December 31, 2014	Actual Return on Plan Assets Related to Assets Sold during 2014	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers In and/or (Out) of Level 3	Ending Balance at December 31, 2014
	(dollars in millions)					
Investments						
Other investments	$38	$(5)	$—	$3	$—	$36
Total investments	$38	$(5)	$—	$3	$—	$36

The following table presents changes in Level 3 pension assets measured at fair value for 2013:

	Beginning Balance at January 1, 2013	Actual Return on Plan Assets Related to Assets Still Held at December 31, 2013	Actual Return on Plan Assets Related to Assets Sold during 2013	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers In and/or (Out) of Level 3	Ending Balance at December 31, 2013
	(dollars in millions)					
Investments						
Other investments	$30	$2	$—	$4	$2	$38
Total investments	$30	$2	$—	$4	$2	$38

Cash Flows.

At December 31, 2014, the Company expects to contribute approximately $50 million to its pension and postretirement benefit plans in 2015 based upon the plans' current funded status and expected asset return assumptions for 2015, as applicable.

Expected benefit payments associated with the Company's pension and postretirement benefit plans for the next five years and in aggregate for the five years thereafter at December 31, 2014 are as follows:

	Pension	Postretirement
	(dollars in millions)	
2015	$132	$ 4
2016	133	5
2017	143	5
2018	141	5
2019	145	5
2020-2024	854	28

Morgan Stanley 401(k) Plan. U.S. employees meeting certain eligibility requirements may participate in the Morgan Stanley 401(k) Plan. Eligible U.S. employees receive discretionary 401(k) matching cash contributions as determined annually by the Company. For 2014 and 2013, the Company made a $1 for $1 Company match up to 4% of eligible pay, up to the Internal Revenue Service ("IRS") limit. Matching contributions for 2014 and

2013 were allocated according to participants' current investment direction. Eligible U.S. employees with eligible pay less than or equal to $100,000 also receive a fixed contribution under the 401(k) Plan that equals 2% of eligible pay. A transition contribution is allocated to participants who received a 2010 accrual in the U.S. Qualified Plan or a 2010 retirement contribution in the 401(k) Plan and who met certain age and service requirements as of December 31, 2010. A separate transition contribution is allocated to certain eligible legacy Smith Barney employees. The Company match, fixed contribution and transition contribution are included in the Company's 401(k) expense. The pre-tax 401(k) expense for 2014, 2013 and 2012 was $256 million, $242 million and $246 million, respectively.

Defined Contribution Pension Plans. The Company maintains separate defined contribution pension plans that cover substantially all employees of certain non-U.S. subsidiaries. Under such plans, benefits are determined based on a fixed rate of base salary with certain vesting requirements. In 2014, 2013 and 2012, the Company's expense related to these plans was $117 million, $111 million and $126 million, respectively.

Other Postemployment Benefits. Postemployment benefits may include, but are not limited to, salary continuation, severance benefits, disability-related benefits, and continuation of health care and life insurance coverage provided to former employees or inactive employees after employment but before retirement. The postemployment benefit obligations were not material at December 31, 2014 and December 31, 2013.

20. Income Taxes.

The provision for (benefit from) income taxes from continuing operations consisted of:

	2014	2013	2012
	(dollars in millions)		
Current:			
U.S. federal	$(604)	$ 229	$(102)
U.S. state and local	260	164	140
Non-U.S.:			
United Kingdom	88	178	(16)
Japan	114	88	90
Hong Kong	34	36	16
Other(1)	258	301	355
	$ 150	$ 996	$ 483
Deferred:			
U.S. federal	$(207)	$ (3)	$(748)
U.S. state and local	(56)	1	(64)
Non-U.S.:			
United Kingdom	(31)	(75)	77
Japan	56	262	170
Hong Kong	9	(14)	35
Other(1)	(11)	(265)	(114)
	$(240)	$ (94)	$(644)
Provision for (benefit from) income taxes from continuing operations	$ (90)	$ 902	$(161)
Provision for (benefit from) income taxes from discontinued operations	$ (5)	$ (29)	$ (7)

[1] For 2014 Non-U.S. other jurisdictions included significant total tax provisions of $44 million, $38 million, and $38 million from Brazil, India, and Mexico, respectively. For 2013 Non-U.S. other jurisdictions included significant total tax provisions (benefits) of $59 million, $54 million, and $(156) million from Brazil, India, and Luxembourg, respectively. For 2012 Non-U.S. other jurisdictions included significant total tax provisions (benefits) of $43 million, $36 million, $36 million, $33 million, $32 million, and $(31) million from India, Brazil, Spain, Canada, Singapore, and Netherlands, respectively.

The following table reconciles the provision for (benefit from) income taxes to the U.S. federal statutory income tax rate:

	2014	2013	2012[1]
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	6.5	2.3	7.5
Domestic tax credits	(5.0)	(3.2)	(29.0)
Tax exempt income	(3.5)	(2.5)	(26.0)
Non-U.S. earnings:			
Foreign Tax Rate Differential	(22.5)	(6.0)	(12.2)
Change in Reinvestment Assertion	1.4	(1.4)	4.2
Change in Foreign Tax Rates	—	0.1	(0.2)
Wealth Management Legal Entity Restructuring	(38.7)	—	—
Non-deductible legal expenses	25.5	0.9	0.7
Other	(1.2)	(5.4)	(7.0)
Effective income tax rate	(2.5)%	19.8 %	(27.0)%

[1] 2012 percentages are reflective of the lower level of income from continuing operations before income taxes on a comparative basis due to the change in the fair value of certain of the Company's long-term and short-term borrowings resulting from fluctuations in its credit spreads and other credit factors.

The Company's effective tax rate from continuing operations for 2014 included an aggregate discrete net tax benefit of $2,226 million. This discrete net tax benefit consisted of: $1,380 million primarily due to the release of a deferred tax liability as a result of an internal Wealth Management restructuring to simplify the Company's legal entity organization, $609 million principally associated with remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination, and $237 million primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated. Excluding the aggregate discrete net tax benefit noted above, the effective tax rate from continuing operations in 2014 would have been 59.5%, which includes the impact of the non-deductible expenses related to litigation and regulatory matters.

On October 31, 2014, the Company completed an internal restructuring to simplify its legal entity organization that included a change in tax status of Morgan Stanley Smith Barney Holdings LLC from a partnership to a corporation. As a result of this change in tax status, the Company released a deferred tax liability which was previously established in 2009 as part of the acquisition of Smith Barney through a charge to Additional paid-in capital. This discrete net tax benefit of $1,390 million was included in Provision for (benefit from) income taxes in the Company's consolidated statements of income for 2014, and attributable to its Wealth Management business segment.

The Company's effective tax rate from continuing operations for 2013 included an aggregate discrete net tax benefit of $407 million. This included discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of certain tax authority examinations; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and

$81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act"). The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside the U.S. until such income is repatriated to the U.S. as a dividend. Excluding the aggregate discrete net tax benefit noted above, the effective tax rate from continuing operations in 2013 would have been 28.7%.

The Company's effective tax rate from continuing operations for 2012 included an aggregate net tax benefit of $142 million. This included a discrete tax benefit of $299 million related to the remeasurement of reserves and related interest associated with either the expiration of the applicable statute of limitations or new information regarding the status of certain IRS examinations and an aggregate out-of-period net tax provision of $157 million, to adjust the overstatement of deferred tax assets associated with partnership investments, principally in the Company's Investment Management business segment and repatriated earnings of foreign subsidiaries recorded in prior years. The Company has evaluated the effects of the understatement of the income tax provision both qualitatively and quantitatively and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Excluding the aggregate net tax benefit noted above, the effective tax rate from continuing operations in 2012 would have been a benefit of 3.2%.

The Company had $7,364 million and $6,675 million of cumulative earnings at December 31, 2014 and December 31, 2013, respectively, attributable to foreign subsidiaries for which no U.S. provision has been recorded for income tax that could occur upon repatriation. Accordingly, $841 million and $736 million of deferred tax liabilities were not recorded with respect to these earnings at December 31, 2014 and December 31, 2013, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and December 31, 2013 were as follows:

	December 31, 2014	December 31, 2013
	(dollars in millions)	
Gross deferred tax assets:		
Tax credits and loss carryforwards	$3,833	$5,130
Employee compensation and benefit plans	3,715	2,417
Valuation and liability allowances	661	1,122
Valuation of inventory, investments and receivables	586	418
Total deferred tax assets	8,795	9,087
Deferred tax assets valuation allowance(1)	34	38
Deferred tax assets after valuation allowance	$8,761	$9,049
Gross deferred tax liabilities:		
Non-U.S. operations	$ 925	$1,293
Fixed assets	565	275
Other	65	253
Total deferred tax liabilities	$1,555	$1,821
Net deferred tax assets	$7,206	$7,228

(1) The valuation allowance reduces the benefit of certain separate Company federal net operating loss and state capital loss carryforwards to the amount that will more likely than not be realized. During 2014, the valuation allowance was decreased by $4 million related to the ability to utilize certain state capital losses.

The Company had tax credit carryforwards for which a related deferred tax asset of $3,740 million and $4,932 million was recorded at December 31, 2014 and December 31, 2013, respectively. These carryforwards are subject to annual limitations on utilization, with a significant amount scheduled to expire in 2020, if not utilized.

The Company believes the recognized net deferred tax asset (after valuation allowance) of $7,206 million is more likely than not to be realized based on expectations as to future taxable income in the jurisdictions in which it operates.

The Company recorded net income tax provision (benefit) to Paid-in capital related to employee stock-based compensation transactions of $(6) million, $121 million, and $114 million in 2014, 2013, and 2012, respectively.

Cash payments for income taxes were $886 million, $930 million, and $388 million in 2014, 2013, and 2012, respectively.

The following table presents the U.S. and non-U.S. components of income from continuing operations before income tax expense (benefit) for 2014, 2013, and 2012, respectively:

	2014	2013	2012
	(dollars in millions)		
U.S.	$1,805	$1,738	$(1,165)
Non-U.S.(1)	1,786	2,820	1,761
	$3,591	$4,558	$ 596

[1] Non-U.S. income is defined as income generated from operations located outside the U.S.

Investments in Qualified Affordable Housing Projects. In January 2014, the FASB issued an update providing guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. This guidance permits the Company to make an accounting policy election to account for its investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the investment amortization in the Company's consolidated statement of income as a component of Provision for (benefit from) income taxes. As a practical expedient, an investor is permitted to amortize the initial cost of the investment in proportion to only the tax credits allocated to the investor if the investor reasonably expects that doing so would produce a measurement that is substantially similar.

The Company made the accounting policy election described above and early-adopted the guidance with an effective date of April 1, 2014. As a result of adopting the guidance, the Company made retrospective adjustments to remove from Other revenues previously recorded losses recognized under the equity method of accounting and record the amortization expense computed under the proportional amortization method to Provision for (benefit from) income taxes for all prior periods presented. The impact of early adoption on retained earnings was immaterial. The Company removed $(18) million from Other revenues and recorded $18 million to Provision for (benefit from) income taxes for 2014. Also, the Company removed $(76) million from Other revenues and recorded $76 million to Provision for (benefit from) income taxes in both 2013 and 2012.

The total amount of unrecognized tax benefits was approximately $2.2 billion, $4.1 billion, and $4.1 billion at December 31, 2014, December 31, 2013, and December 31, 2012, respectively. Of this total, approximately $1.0 billion, $1.4 billion, and $1.6 billion, respectively (net of federal benefit of state issues, competent authority and foreign tax credit offsets) represent the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes. The Company recognized $(35) million, $50 million, and $(10) million of interest expense (benefit) (net of federal and state income tax benefits) in the Company's consolidated statements of income for 2014, 2013, and 2012, respectively. Interest expense accrued at December 31, 2014, December 31, 2013, and December 31, 2012 was approximately $258 million, $293 million, and $243 million, respectively, net of federal and state income tax benefits. Penalties related to unrecognized tax benefits for the years mentioned above were immaterial.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for 2014, 2013 and 2012 (dollars in millions):

Unrecognized Tax Benefits	
Balance at December 31, 2011	$ 4,045
Increase based on tax positions related to the current period	299
Increase based on tax positions related to prior periods	127
Decreases based on tax positions related to prior periods	(21)
Decreases related to settlements with taxing authorities	(260)
Decreases related to a lapse of applicable statute of limitations	(125)
Balance at December 31, 2012	$ 4,065
Increase based on tax positions related to the current period	$ 51
Increase based on tax positions related to prior periods	267
Decreases based on tax positions related to prior periods	(141)
Decreases related to settlements with taxing authorities	(146)
Balance at December 31, 2013	$ 4,096
Increase based on tax positions related to the current period	$ 135
Increase based on tax positions related to prior periods	100
Decreases based on tax positions related to prior periods	(2,080)
Decreases related to settlements with taxing authorities	(19)
Decreases related to a lapse of applicable statute of limitations	(4)
Balance at December 31, 2014	$ 2,228

The Company is under continuous examination by the IRS and other tax authorities in certain countries, such as Japan and the U.K., and in states in which the Company has significant business operations, such as New York. The Company is currently under review by the IRS Appeals Office for the remaining issues covering tax years 1999 – 2005 and has substantially completed the IRS field examination for the audit of tax years 2006 – 2008. Also, the Company is currently at various levels of field examination with respect to audits by New York State and New York City for tax years 2007 – 2009. During 2015, the Company expects to reach a conclusion with the U.K. tax authorities on substantially all issues through tax year 2010, the resolution of which is not expected to have a material impact on the effective tax rate on the Company's consolidated financial statements.

The Company believes that the resolution of these tax matters will not have a material effect on the Company's consolidated statements of financial condition, although a resolution could have a material impact on the Company's consolidated statements of income for a particular future period and on the Company's effective income tax rate for any period in which such resolution occurs. The Company has established a liability for unrecognized tax benefits that the Company believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from the expiration of the applicable statute of limitations or new information regarding the status of current and subsequent years' examinations. As part of the Company's periodic review, federal and state unrecognized tax benefits were released or remeasured. As a result of this remeasurement, the income tax provision included a discrete tax benefit of $609 million, $161 million and $299 million in 2014, 2013 and 2012, respectively. Additionally, due to new information regarding the status of the IRS field examination referred to above, the 2014 total amount of unrecognized tax benefits decreased by $2.0 billion.

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months related to certain tax authority examinations referred to above. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and impact on the Company's effective tax rate over the next 12 months.

The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax Year
U.S.	1999
New York State and City	2007
Hong Kong	2007
U.K.	2010
Japan	2012

21. Segment and Geographic Information.

Segment Information.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company provides a wide range of financial products and services to its customers in each of its business segments: Institutional Securities, Wealth Management and Investment Management. For a further discussion of the Company's business segments, see Note 1.

Revenues and expenses directly associated with each respective business segment are included in determining its operating results. Other revenues and expenses that are not directly attributable to a particular business segment are allocated based upon the Company's allocation methodologies, generally based on each business segment's respective net revenues, non-interest expenses or other relevant measures.

As a result of revenues and expenses from transactions with other operating segments being treated as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company's consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Company's Institutional Securities business segment to the Company's Wealth Management business segment related to the bank deposit program.

Selected financial information for the Company's business segments is presented below:

2014	Institutional Securities(1)	Wealth Management(2)	Investment Management(2)	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$17,463	$12,549	$2,728	$(200)	$32,540
Interest income	3,389	2,516	2	(494)	5,413
Interest expense	3,981	177	18	(498)	3,678
Net interest	(592)	2,339	(16)	4	1,735
Net revenues	$16,871	$14,888	$2,712	$(196)	$34,275
Income (loss) from continuing operations before income taxes	$ (58)	$ 2,985	$ 664	$ —	$ 3,591
Provision for (benefit from) income taxes(3)	(90)	(207)	207	—	(90)
Income from continuing operations	32	3,192	457	—	3,681
Discontinued operations(4):					
Income (loss) from discontinued operations before income taxes	(26)	—	7	—	(19)
Provision for (benefit from) income taxes	(7)	—	2	—	(5)
Income (loss) from discontinued operations	(19)	—	5	—	(14)
Net income	13	3,192	462	—	3,667
Net income applicable to nonredeemable noncontrolling interests	109	—	91	—	200
Net income (loss) applicable to Morgan Stanley	$ (96)	$ 3,192	$ 371	$ —	$ 3,467

2013	Institutional Securities	Wealth Management(2)	Investment Management(2)	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$16,620	$12,268	$3,060	$(233)	$31,715
Interest income	3,572	2,100	9	(472)	5,209
Interest expense	4,673	225	10	(477)	4,431
Net interest	(1,101)	1,875	(1)	5	778
Net revenues	$15,519	$14,143	$3,059	$(228)	$32,493
Income from continuing operations before income taxes	$ 946	$ 2,604	$1,008	$ —	$ 4,558
Provision for (benefit from) income taxes	(315)	910	307	—	902
Income from continuing operations	1,261	1,694	701	—	3,656
Discontinued operations(4):					
Income (loss) from discontinued operations before income taxes	(81)	(1)	9	1	(72)
Provision for (benefit from) income taxes	(29)	—	—	—	(29)
Income (loss) from discontinued operations	(52)	(1)	9	1	(43)
Net income	1,209	1,693	710	1	3,613
Net income applicable to redeemable noncontrolling interests	1	221	—	—	222
Net income applicable to nonredeemable noncontrolling interests	277	—	182	—	459
Net income applicable to Morgan Stanley	$ 931	$ 1,472	$ 528	$ 1	$ 2,932

2012	Institutional Securities(6)	Wealth Management(2)(6)	Investment Management(2)	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$12,847	$11,387	$2,324	$(175)	$26,383
Interest income	4,224	1,886	10	(428)	5,692
Interest expense	5,970	326	28	(427)	5,897
Net interest	(1,746)	1,560	(18)	(1)	(205)
Net revenues	$11,101	$12,947	$2,306	$(176)	$26,178
Income (loss) from continuing operations before income taxes	$ (1,612)	$ 1,572	$ 640	$ (4)	$ 596
Provision for (benefit from) income taxes(5)	(985)	538	286	—	(161)
Income (loss) from continuing operations	(627)	1,034	354	(4)	757
Discontinued operations(4):					
Income (loss) from discontinued operations	(158)	94	13	3	(48)
Provision for (benefit from) income taxes	(36)	26	4	(1)	(7)
Income (loss) from discontinued operations	(122)	68	9	4	(41)
Net income (loss)	(749)	1,102	363	—	716
Net income applicable to redeemable noncontrolling interests	4	120	—	—	124
Net income applicable to nonredeemable noncontrolling interests	170	167	187	—	524
Net income (loss) applicable to Morgan Stanley	$ (923)	$ 815	$ 176	$ —	$ 68

(1) The Company's Institutional Securities business segment Net loss in 2014 was primarily driven by higher legal expenses (see Notes 13 and 25).

(2) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(3) Amounts include discrete net tax benefits of $1,390 million and $839 million attributable to the Company's Wealth Management and Institutional Securities business segments, respectively (see Note 20).

(4) See Note 1 for discussion of discontinued operations.

(5) Results for 2012 included an out-of-period net tax provision of $107 million, attributable to the Company's Investment Management business segment, related to the overstatement of deferred tax assets associated with partnership investments in prior years and an out-of-period net tax provision of $50 million, attributable to the Company's Institutional Securities business segment, related to the overstatement of deferred tax assets associated with repatriated earnings of a foreign subsidiary recorded in prior years (see Note 20).

(6) On January 1, 2013, the International Wealth Management business was transferred from the Company's Wealth Management business segment to the Equity division within the Company's Institutional Securities business segment. Accordingly, prior-period amounts have been recast to reflect the International Wealth Management business as part of the Company's Institutional Securities business segment.

Total Assets(1)	Institutional Securities	Wealth Management(2)	Investment Management(2)(3)	Total
		(dollars in millions)		
At December 31, 2014	$630,341	$165,147	$6,022	$801,510
At December 31, 2013	$668,596	$156,503	$7,603	$832,702

(1) Corporate assets have been fully allocated to the Company's business segments.

(2) On October 1, 2014, the Managed Futures business was transferred from the Company's Wealth Management business segment to the Company's Investment Management business segment. All prior-period amounts have been recast to conform to the current year's presentation.

(3) On April 1, 2014, the Company deconsolidated approximately $1.6 billion in total assets that were related to certain legal entities associated with a real estate fund sponsored by the Company (see Note 7).

Geographic Information.

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted and managed through European and Asia-Pacific locations. The net revenues disclosed in the following table reflect the regional view of the Company's consolidated net revenues on a managed basis, based on the following methodology:

- Institutional Securities: advisory and equity underwriting—client location, debt underwriting—revenue recording location, sales and trading—trading desk location.
- Wealth Management: wealth management representatives operate in the Americas.
- Investment Management: client location, except for Merchant Banking and Real Estate Investing businesses, which are based on asset location.

Net Revenues	2014	2013	2012
	(dollars in millions)		
Americas	$25,140	$23,358	$20,276
EMEA	4,772	4,542	3,078
Asia-Pacific	4,363	4,593	2,824
Net revenues	$34,275	$32,493	$26,178

Total Assets	At December 31, 2014	At December 31, 2013
	(dollars in millions)	
Americas	$622,556	$632,255
EMEA	104,152	123,008
Asia-Pacific	74,802	77,439
Total	$801,510	$832,702

22. Equity Method Investments.

The Company has investments accounted for under the equity method of accounting (see Note 1) of $3,332 million and $4,746 million at December 31, 2014 and December 31, 2013, respectively, included in Other investments in the Company's consolidated statements of financial condition. Income from equity method investments was $156 million, $451 million and $52 million for 2014, 2013 and 2012, respectively, and is included in Other revenues in the Company's consolidated statements of income. Income from the Company's equity method investments for 2014, 2013 and 2012 was primarily related to the Company's 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS"), as described below.

The following presents certain equity method investees at December 31, 2014 and December 31, 2013:

		Book Value(1)	
	Percent Ownership	December 31, 2014	December 31, 2013
		(dollars in millions)	
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	40%	$1,415	$1,610
Lansdowne Partners(2)	19.5%	182	221
Avenue Capital Group(2)(3)	—	220	198

[1] Book value of these investees exceeds the Company's share of net assets, reflecting equity method intangible assets and equity method goodwill.

(2) The Company's ownership interest represents limited partnership interests. The Company is deemed to have significant influence in these limited partnerships, as the Company's limited partnership interests were above the 3% to 5% threshold for interests that should be accounted for under the equity method.

(3) The Company's ownership interest represents limited partnership interests in a number of different entities within the Avenue Capital Group.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest and MUFG holds a 60% voting interest in MUMSS. The Company accounts for its interest in MUMSS as an equity method investment within the Company's Institutional Securities business segment. During 2014, 2013 and 2012, the Company recorded income of $224 million, $570 million and $152 million, respectively, within Other revenues in the Company's consolidated statements of income, arising from the Company's 40% stake in MUMSS.

In June 2014 and June 2013, MUMSS paid a dividend of approximately $594 million and $287 million, respectively, of which the Company received approximately $238 million and $115 million, respectively, for its proportionate share of MUMSS.

The following presents summarized financial data for MUMSS:

	At December 31,	
	2014	2013
	(dollars in millions)	
Total assets	$111,053	$118,108
Total liabilities	108,263	114,648
Noncontrolling interests	37	13

	2014	2013	2012
	(dollars in millions)		
Net revenues	$2,961	$3,305	$2,365
Income from continuing operations before income taxes	908	1,325	333
Net income	595	1,459	405
Net income applicable to MUMSS	582	1,441	397

Other.

Lansdowne Partners is a London-based investment manager. Avenue Capital Group is a New York-based investment manager. These investments are accounted for within the Company's Investment Management business segment.

The Company also invests in certain structured transactions and other investments not integral to the operations of the Company accounted for under the equity method of accounting amounting of $1.5 billion and $2.7 billion at December 31, 2014 and December 31, 2013, respectively.

23. Parent Company.

Parent Company Only
Condensed Statements of Financial Condition
(dollars in millions, except share data)

	December 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 5,068	$ 2,296
Deposits with banking subsidiaries	4,556	7,070
Interest bearing deposits with banks	1,126	6,846
Trading assets, at fair value	5,014	9,704
Securities purchased under agreement to resell with affiliates	41,601	33,748
Advances to subsidiaries:		
Bank and bank holding company	19,982	17,015
Non-bank	112,863	114,833
Equity investments in subsidiaries:		
Bank and bank holding company	24,573	24,144
Non-bank	34,649	34,968
Other assets	7,805	7,508
Total assets	$257,237	$258,132
Liabilities		
Short-term borrowings	$ 695	$ 506
Trading liabilities, at fair value	4,042	1,135
Payables to subsidiaries	35,517	43,420
Other liabilities and accrued expenses	2,342	3,312
Long-term borrowings	143,741	143,838
Total liabilities	186,337	192,211
Commitments and contingent liabilities		
Equity		
Preferred stock (see Note 15)	6,020	3,220
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at December 31, 2014 and December 31, 2013;		
Shares issued: 2,038,893,979 at December 31, 2014 and December 31, 2013;		
Shares outstanding: 1,950,980,142 and 1,944,868,751 at December 31, 2014 and December 31, 2013, respectively	20	20
Additional paid-in capital	24,249	24,570
Retained earnings	44,625	42,172
Employee stock trusts	2,127	1,718
Accumulated other comprehensive loss	(1,248)	(1,093)
Common stock held in treasury, at cost, $0.01 par value:		
Shares outstanding: 87,913,837 and 94,025,228 at December 31, 2014 and December 31, 2013, respectively	(2,766)	(2,968)
Common stock issued to employee stock trusts	(2,127)	(1,718)
Total shareholders' equity	70,900	65,921
Total liabilities and equity	$257,237	$258,132

Parent Company Only
Condensed Statements of Income and Comprehensive Income
(dollars in millions)

	2014	2013	2012
Revenues:			
Dividends from non-bank subsidiaries	$ 2,641	$ 1,113	$ 545
Trading	601	(635)	(3,400)
Investments	(1)	—	2
Other	10	27	36
Total non-interest revenues	3,251	505	(2,817)
Interest income	2,594	2,783	3,316
Interest expense	3,970	4,053	5,190
Net interest	(1,376)	(1,270)	(1,874)
Net revenues	1,875	(765)	(4,691)
Non-interest expenses:			
Non-interest expenses	214	185	114
Income (loss) before provision for (benefit from) income taxes	1,661	(950)	(4,805)
Provision for (benefit from) income taxes	(423)	(354)	(1,088)
Net income (loss) before undistributed gain (loss) subsidiaries	2,084	(596)	(3,717)
Undistributed gain of subsidiaries	1,383	3,528	3,785
Net income	3,467	2,932	68
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(397)	(143)	(128)
Amortization of cash flow hedges	4	4	6
Change in net unrealized gains (losses) on available for sale securities	209	(433)	28
Pension, postretirement and other related adjustments	29	(5)	(265)
Comprehensive income (loss)	$ 3,312	$ 2,355	$ (291)
Net income	$ 3,467	$ 2,932	$ 68
Preferred stock dividends and other	315	277	98
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 3,152	$ 2,655	$ (30)

Parent Company Only
Condensed Statements of Cash Flows
(dollars in millions)

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,467	$ 2,932	$ 68
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Deferred income taxes	98	(303)	(1,653)
Compensation payable in common stock and options	1,260	1,180	891
Amortization	(182)	(47)	23
Undistributed gain of subsidiaries	(1,383)	(3,528)	(3,785)
Other operating activities	—	—	(29)
Changes in assets and liabilities:			
Trading assets, net of Trading liabilities	2,307	(7,332)	9,587
Other assets	(490)	(165)	1,235
Other liabilities and accrued expenses	488	(4,192)	6,637
Net cash provided by (used for) operating activities	5,565	(11,455)	12,974
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to and investments in subsidiaries	(7,790)	7,458	6,461
Securities purchased under agreement to resell with affiliates	(7,853)	14,745	1,864
Net cash provided by (used for) investing activities	(15,643)	22,203	8,325
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	189	279	(872)
Proceeds from:			
Excess tax benefits associated with stock-based awards	101	10	42
Issuance of preferred stock, net of issuance costs	2,782	1,696	—
Issuance of long-term borrowings	33,031	22,944	20,582
Payments for:			
Long-term borrowings	(28,917)	(31,928)	(41,914)
Repurchases of common stock and employee tax withholdings	(1,458)	(691)	(227)
Cash dividends	(904)	(475)	(469)
Net cash provided by (used for) financing activities	4,824	(8,165)	(22,858)
Effect of exchange rate changes on cash and cash equivalents	(208)	(100)	(32)
Net increase (decrease) in cash and cash equivalents	(5,462)	2,483	(1,591)
Cash and cash equivalents, at beginning of period	16,212	13,729	15,320
Cash and cash equivalents, at end of period	$ 10,750	$ 16,212	$ 13,729
Cash and cash equivalents include:			
Cash and due from banks	$ 5,068	$ 2,296	$ 1,342
Deposits with banking subsidiaries	4,556	7,070	8,222
Interest bearing deposits with banks	1,126	6,846	4,165
Cash and cash equivalents, at end of period	$ 10,750	$ 16,212	$ 13,729

Supplemental Disclosure of Cash Flow Information.

Cash payments for interest were $3,652 million, $3,733 million and $4,254 million for 2014, 2013 and 2012, respectively.

Cash payments (refunds) for income taxes were $187 million, $268 million and $(13) million for 2014, 2013 and 2012, respectively.

Transactions with Subsidiaries.

The Parent Company has transactions with its consolidated subsidiaries determined on an agreed-upon basis and has guaranteed certain unsecured lines of credit and contractual obligations of certain of its consolidated subsidiaries. Certain reclassifications have been made to prior-period amounts to conform to the current year's presentation.

Guarantees.

In the normal course of its business, the Parent Company guarantees certain of its subsidiaries' obligations under derivative and other financial arrangements. The Parent Company records Trading assets and Trading liabilities, which include derivative contracts, at fair value on its condensed statements of financial condition.

The Parent Company also, in the normal course of its business, provides standard indemnities to counterparties on behalf of its subsidiaries for taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, and certain annuity products. These indemnity payments could be required based on a change in the tax laws or change in interpretation of applicable tax rulings. Certain contracts contain provisions that enable the Parent Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Parent Company could be required to make under these indemnifications cannot be estimated. The Parent Company has not recorded any contingent liability in its condensed financial statements for these indemnifications and believes that the occurrence of any events that would trigger payments under these contracts is remote.

The Parent Company has issued guarantees on behalf of its subsidiaries to various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or futures contracts. Under these guarantee arrangements, the Parent Company may be required to pay the financial obligations of its subsidiaries related to business transacted on or with the exchanges and clearinghouses in the event of a subsidiary's default on its obligations to the exchange or the clearinghouse. The Parent Company has not recorded any contingent liability in its condensed financial statements for these arrangements and believes that any potential requirements to make payments under these arrangements are remote.

The Parent Company guarantees certain debt instruments and warrants issued by subsidiaries. The debt instruments and warrants totaled $10.0 billion and $12.0 billion at December 31, 2014 and December 31, 2013, respectively. In connection with subsidiary lease obligations, the Parent Company has issued guarantees to various lessors. At December 31, 2014 and December 31, 2013, the Parent Company had $1.3 billion and $1.4 billion of guarantees outstanding, respectively, under subsidiary lease obligations, primarily in the U.K.

24. Quarterly Results (unaudited).

	2014 Quarter				2013 Quarter			
	First	Second(1)	Third(2)	Fourth(3)	First	Second	Third	Fourth(4)
	(dollars in millions, except per share data)							
Total non-interest revenues	$8,688	$8,341	$8,350	$ 7,161	$7,990	$8,316	$7,846	$7,563
Net interest	308	267	557	603	182	204	110	282
Net revenues	8,996	8,608	8,907	7,764	8,172	8,520	7,956	7,845
Total non-interest expenses	6,626	6,676	6,687	10,695	6,572	6,725	6,591	8,047
Income (loss) from continuing operations before income taxes	2,370	1,932	2,220	(2,931)	1,600	1,795	1,365	(202)
Provision for (benefit from) income taxes	785	15	463	(1,353)	350	575	363	(386)
Income (loss) from continuing operations	1,585	1,917	1,757	(1,578)	1,250	1,220	1,002	184
Discontinued operations(5):								
Income (loss) from discontinued operations	(2)	(1)	(8)	(8)	(30)	(42)	14	(14)
Provision for (benefit from) income taxes	(1)	(1)	(3)	—	(11)	(13)	(2)	(3)
Net income (loss) from discontinued operations	(1)	—	(5)	(8)	(19)	(29)	16	(11)
Net income (loss)	1,584	1,917	1,752	(1,586)	1,231	1,191	1,018	173
Net income applicable to redeemable noncontrolling interests	—	—	—	—	122	100	—	—
Net income applicable to nonredeemable noncontrolling interests	79	18	59	44	147	111	112	89
Net income (loss) applicable to Morgan Stanley	$1,505	$1,899	$1,693	$ (1,630)	$ 962	$ 980	$ 906	$ 84
Preferred stock dividends and other	56	79	64	119	26	177	26	48
Earnings (loss) applicable to Morgan Stanley common shareholders	$1,449	$1,820	$1,629	$ (1,749)	$ 936	$ 803	$ 880	$ 36
Earnings (loss) per basic common share(6):								
Income (loss) from continuing operations	$ 0.75	$ 0.94	$ 0.85	$ (0.91)	$ 0.50	$ 0.44	$ 0.45	$ 0.02
Net income (loss) from discontinued operations	—	—	—	—	(0.01)	(0.02)	0.01	—
Earnings (loss) per basic common share	$ 0.75	$ 0.94	$ 0.85	$ (0.91)	$ 0.49	$ 0.42	$ 0.46	$ 0.02
Earnings (loss) per diluted common share(6):								
Income (loss) from continuing operations	$ 0.74	$ 0.92	$ 0.83	$ (0.91)	$ 0.49	$ 0.43	$ 0.44	$ 0.02
Net income (loss) from discontinued operations	—	—	—	—	(0.01)	(0.02)	0.01	—
Earnings (loss) per diluted common share	$ 0.74	$ 0.92	$ 0.83	$ (0.91)	$ 0.48	$ 0.41	$ 0.45	$ 0.02
Dividends declared per common share(7)	$ 0.05	$ 0.10	$ 0.10	$ 0.10	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Book value per common share	$32.38	$33.46	$34.16	$ 33.25	$31.21	$31.48	$32.13	$32.24

(1) The second quarter of 2014 included a discrete net tax benefit of $609 million, principally associated with remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination (see Note 20).

(2) The third quarter of 2014 included a discrete net tax benefit of $237 million, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated (see Note 20). The third quarter of 2014 also included a gain on sale of a retail property space of $141 million, which was included within Other revenues in the Company's consolidated statement of income and a gain on sale of its ownership stake in TransMontaigne Inc.

(3) The fourth quarter of 2014 included: an increase of legal reserves of approximately $3.1 billion (see Notes 13 and 25); a discrete net tax benefit of $1,380 million recognized in Provision for (benefit from) income taxes primarily due to the release of a deferred tax liability as a result of an internal Wealth Management business segment restructuring to simplify the Company's legal entity organization, partially offset by approximately $900 million of tax provision due to the impact of the non-deductible expenses related to litigation and regulatory matters (see Note 20); compensation expense deferral adjustments of $1.1 billion (see Note 18); and a charge of approximately $468 million related to the implementation of FVA (see Note 2), which was reflected as a reduction of the Company's Institutional Securities business segment Trading revenues.

(4) The fourth quarter of 2013 included a discrete tax benefit of $192 million, consisting of $100 million related to remeasurement of reserves and related interest and $92 million related to the establishment of a previously unrecognized deferred tax asset associated with the reorganization of certain non-U.S. legal entities (see Note 20). The fourth quarter of 2013 also included litigation expenses of $1.4 billion related to settlements and reserve additions (see Note 13).

[5] See Note 1 for more information on discontinued operations.

[6] Summation of the quarters' earnings per common share may not equal the annual amounts due to the averaging effect of the number of shares and share equivalents throughout the year.

[7] Beginning with the dividend declared on April 17, 2014, the Company increased the quarterly common stock dividend to $0.10 per share from $0.05 per share.

25. Subsequent Events.

The Company has evaluated subsequent events for adjustment to or disclosure in the Company's consolidated financial statements through the date of this report, and the Company has not identified any recordable or disclosable events, not otherwise reported in these consolidated financial statements or the notes thereto, except for the following:

Common Stock Dividend.

On January 20, 2015, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.10. The dividend was paid on February 13, 2015 to common shareholders of record on January 30, 2015 (see Note 15).

Long-Term Borrowings.

Subsequent to December 31, 2014 and through January 31, 2015, the Company's long-term borrowings (net of repayments) increased by approximately $5.4 billion. This amount includes the Company's issuance of $5.5 billion in senior debt on January 27, 2015 and the issuance of $1.7 billion in senior debt on January 30, 2015.

Legal.

On February 25, 2015, and subsequent to the release of the Company's 2014 earnings on January 20, 2015, legal reserves were increased by $2.8 billion within the Company's Institutional Securities business segment for the year ended December 31, 2014, for the Civil Division legal matter and certain other legacy residential mortgage matters (see Note 13). This decreased income from continuing operations by $2.7 billion and diluted EPS from continuing operations by $1.35 for the year ended December 31, 2014. The Civil Division and related legal matters were considered to be a recognizable subsequent event requiring adjustment to the Company's December 31, 2014 consolidated financial statements under U.S. GAAP.

FINANCIAL DATA SUPPLEMENT (Unaudited)
Average Balances and Interest Rates and Net Interest Income

	2014		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$104,640	$ 1,643	1.6%
Non-U.S.	113,580	466	0.4
Investment securities:			
U.S.	62,240	613	1.0
Loans:			
U.S.	53,210	1,639	3.1
Non-U.S.	357	51	14.3
Interest bearing deposits with banks:			
U.S.	29,273	73	0.2
Non-U.S.	2,953	36	1.2
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	177,444	(507)	(0.3)
Non-U.S.	77,139	209	0.3
Customer receivables and Other(3):			
U.S.	73,244	655	0.9
Non-U.S.	18,635	535	2.9
Total	$712,715	$ 5,413	0.8%
Non-interest earning assets	114,558		
Total assets	$827,273		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$118,580	$ 94	0.1%
Non-U.S.	1,239	12	1.0
Commercial paper and other short-term borrowings(4):			
U.S.	1,356	—	—
Non-U.S.	568	4	0.7
Long-term borrowings(4):			
U.S.	143,118	3,572	2.5
Non-U.S.	8,771	37	0.4
Trading liabilities(1):			
U.S.	25,587	—	—
Non-U.S.	54,112	—	—
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	86,063	548	0.6
Non-U.S.	50,843	668	1.3
Customer payables and Other(6):			
U.S.	119,153	(1,366)	(1.1)
Non-U.S.	49,555	109	0.2
Total	$658,945	$ 3,678	0.6
Non-interest bearing liabilities and equity	168,328		
Total liabilities and equity	$827,273		
Net interest income and net interest rate spread		$ 1,735	0.2%

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	2013		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$119,549	$ 1,948	1.6%
Non-U.S.	103,774	344	0.3
Investment securities:			
U.S.	44,112	447	1.0
Loans:			
U.S.	33,939	1,052	3.1
Non-U.S.	489	69	14.1
Interest bearing deposits with banks:			
U.S.	34,636	86	0.2
Non-U.S.	7,609	43	0.6
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	203,742	(217)	(0.1)
Non-U.S.	77,713	197	0.3
Customer receivables and Other(3):			
U.S.	62,028	751	1.2
Non-U.S.	19,077	489	2.6
Total	$706,668	$ 5,209	0.7%
Non-interest earning assets	121,793		
Total assets	$828,461		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 91,713	$ 159	0.2%
Non-U.S.	260	—	—
Commercial paper and other short-term borrowings(4):			
U.S.	964	2	0.2
Non-U.S.	1,063	18	1.7
Long-term borrowings(4):			
U.S.	152,532	3,696	2.4
Non-U.S.	9,857	62	0.6
Trading liabilities(1):			
U.S.	31,861	—	—
Non-U.S.	59,200	—	—
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	108,896	681	0.6
Non-U.S.	66,697	788	1.2
Customer payables and Other(6):			
U.S.	98,335	(1,117)	(1.1)
Non-U.S.	37,679	142	0.4
Total	$659,057	$ 4,431	0.7
Non-interest bearing liabilities and equity	169,404		
Total liabilities and equity	$828,461		
Net interest income and net interest rate spread		$ 778	— %

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	2012		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$133,615	$ 2,247	1.7%
Non-U.S.	82,019	$ 489	0.6
Investment securities:			
U.S.	35,141	$ 343	1.0
Loans:			
U.S.	20,996	$ 597	2.8
Non-U.S.	363	$ 46	12.7
Interest bearing deposits with banks:			
U.S.	25,905	$ 58	0.2
Non-U.S.	10,612	$ 66	0.6
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	189,186	$ (315)	(0.2)
Non-U.S.	91,851	$ 679	0.7
Customer receivables and Other(3):			
U.S.	54,651	$ 471	0.9
Non-U.S.	15,404	$ 1,011	6.6
Total	$659,743	$ 5,692	0.9%
Non-interest earning assets	122,428		
Total assets	$782,171		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 69,265	$ 181	0.3%
Non-U.S.	165	$ —	—
Commercial paper and other short-term borrowings(4):			
U.S.	557	$ 5	0.9
Non-U.S.	1,383	$ 33	2.4
Long-term borrowings(4):			
U.S.	163,961	$ 4,544	2.8
Non-U.S.	7,552	$ 78	1.0
Trading liabilities(1):			
U.S.	38,125	$ —	—
Non-U.S.	51,834	$ —	—
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	101,210	$ 522	0.5
Non-U.S.	59,932	$ 1,283	2.1
Customer payables and Other(6):			
U.S.	82,881	$(1,475)	(1.8)
Non-U.S.	33,992	$ 726	2.1
Total	$610,857	$ 5,897	1.0
Non-interest bearing liabilities and equity	171,314		
Total liabilities and equity	$782,171		
Net interest income and net interest rate spread		$ (205)	(0.1)%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

(2) Includes fees paid on securities borrowed.

(3) Includes interest from customer receivables and other interest earning assets.

(4) The Company also issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities, which are recorded within Trading revenues (see Note 4).

(5) Includes fees received on securities loaned.

(6) Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers' short positions.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

The following tables set forth an analysis of the effect on net interest income of volume and rate changes:

	2014 versus 2013		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$ (243)	$ (62)	$(305)
Non-U.S.	33	89	122
Investment securities:			
U.S.	184	(18)	166
Loans:			
U.S.	597	(10)	587
Non-U.S.	(19)	1	(18)
Interest bearing deposits with banks:			
U.S.	(13)	—	(13)
Non-U.S.	(26)	19	(7)
Securities purchased under agreements to resell and Securities borrowed:			
U.S.	28	(318)	(290)
Non-U.S.	(1)	13	12
Customer receivables and Other:			
U.S.	136	(232)	(96)
Non-U.S.	(11)	57	46
Change in interest income	$ 665	$(461)	$ 204
Interest bearing liabilities			
Deposits:			
U.S.	$ 47	$(112)	$ (65)
Non-U.S.	—	12	12
Commercial paper and other short-term borrowings:			
U.S.	1	(3)	(2)
Non-U.S.	(8)	(6)	(14)
Long-term borrowings:			
U.S.	(228)	104	(124)
Non-U.S.	(7)	(18)	(25)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(143)	10	(133)
Non-U.S.	(187)	67	(120)
Customer payables and Other:			
U.S.	(236)	(13)	(249)
Non-U.S.	45	(78)	(33)
Change in interest expense	$ (716)	$ (37)	$(753)
Change in net interest income	$1,381	$(424)	$ 957

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

	2013 versus 2012		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$(237)	$ (62)	$ (299)
Non-U.S.	130	(275)	(145)
Investment securities:			
U.S.	88	16	104
Loans:			
U.S.	368	87	455
Non-U.S.	16	7	23
Interest bearing deposits with banks:			
U.S.	20	8	28
Non-U.S.	(19)	(4)	(23)
Securities purchased under agreements to resell and Securities borrowed:			
U.S.	(24)	122	98
Non-U.S.	(105)	(377)	(482)
Customer receivables and Other:			
U.S.	64	216	280
Non-U.S.	241	(763)	(522)
Change in interest income	$ 542	$(1,025)	$ (483)
Interest bearing liabilities			
Deposits:			
U.S.	$ 59	$ (81)	$ (22)
Commercial paper and other short-term borrowings:			
U.S.	4	(7)	(3)
Non-U.S.	(8)	(7)	(15)
Long-term borrowings:			
U.S.	(317)	(531)	(848)
Non-U.S.	24	(40)	(16)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	40	119	159
Non-U.S.	145	(640)	(495)
Customer payables and Other:			
U.S.	(276)	634	358
Non-U.S.	79	(663)	(584)
Change in interest expense	$(250)	$(1,216)	$(1,466)
Change in net interest income	$ 792	$ 191	$ 983

Deposits.

	Average Deposits(1)					
	2014		2013		2012	
	Average Amount(1)	Average Rate	Average Amount(1)	Average Rate	Average Amount(1)	Average Rate
	(dollars in millions)					
Deposits(2):						
Savings deposits	$118,086	0.1%	$90,447	0.1%	$66,073	0.1%
Time deposits	1,733	0.7%	1,526	3.9%	3,357	2.6%
Total	$119,819	0.1%	$91,973	0.2%	$69,430	0.3%

(1) The Company calculates its average balances based upon weekly amounts, except where weekly balances are unavailable, month-end balances are used.

(2) Deposits are primarily located in U.S. offices.

Ratios.

	2014	2013	2012
Net income to average assets	0.4%	0.4%	N/M
Return on average common equity(1)	4.8%	4.3%	N/M
Return on total equity(2)	4.9%	4.6%	0.1%
Dividend payout ratio(3)	21.9%	14.7%	N/M
Total average common equity to average assets	7.9%	7.5%	7.8%
Total average equity to average assets	8.5%	7.7%	8.0%

N/M—Not meaningful.

(1) Percentage is based on net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity.

(2) Percentage is based on net income as a percentage of average total equity.

(3) Percentage is based on dividends declared per common share as a percentage of net income per diluted share.

Short-term Borrowings.

	2014	2013	2012
	(dollars in millions)		
Securities sold under repurchase agreements:			
Period-end balance	$ 69,949	$145,676	$122,674
Average balance(1)(2)	103,640	136,151	125,465
Maximum balance at any month-end	129,265	145,676	139,962
Weighted average interest rate during the period(3)	0.8%	0.7%	0.9%
Weighted average interest rate on period-end balance(4)	0.7%	0.4%	0.8%
Securities loaned:			
Period-end balance	$ 25,219	$ 32,799	$ 36,849
Average balance(1)(2)	33,266	39,442	35,677
Maximum balance at any month-end	35,700	44,182	39,881
Weighted average interest rate during the period(3)	1.3%	1.2%	1.9%
Weighted average interest rate on period-end balance(4)	1.6%	1.2%	1.5%

(1) The Company calculates its average balances based upon weekly amounts, except where weekly balances are unavailable, month-end balances are used.

(2) In 2014, period-end balance was lower than the annual average balance primarily due to a decrease in the Company's assets.

(3) The approximated weighted average interest rate was calculated using (a) interest expense incurred on all securities sold under repurchase agreements and securities loaned transactions, whether or not such transactions were reported on the Company's consolidated

statements of financial condition and (b) average balances that were reported on a net basis where certain criteria were met in accordance with applicable offsetting guidance. In addition, securities-for-securities transactions in which the Company was the borrower were not included in the average balances since they were not reported on the Company's consolidated statements of financial condition.

(4) The approximated weighted average interest rate was calculated using (a) interest expense for all securities sold under repurchase agreements and securities loaned transactions, whether or not such transactions were reported in the Company's consolidated statements of financial condition and (b) period-end balances that were reported on a net basis where certain criteria were met in accordance with applicable offsetting guidance. In addition, securities-for-securities transactions in which the Company was the borrower were not included in the period-end balances since they were not reported in the Company's consolidated statements of financial condition.

Cross-border Outstandings.

Cross-border outstandings are based upon the Federal Financial Institutions Examination Council's ("FFIEC") regulatory guidelines for reporting cross-border risk. Claims include cash, customer and other receivables, securities purchased under agreements to resell, securities borrowed and cash trading instruments, but exclude commitments. Securities purchased under agreements to resell and securities borrowed are presented based on the domicile of the counterparty, without reduction for related securities collateral held. Effective December 31, 2013, the regulatory guidelines for reporting cross-border risk were updated and prospectively require the reporting of, among other items, cross-border exposure to Non-banking financial institutions. For information regarding the Company's country risk exposure, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk—Country Risk Exposure" in Part II, Item 7A.

The following tables set forth cross-border outstandings for each country in which cross-border outstandings exceed 1% of the Company's consolidated assets or 20% of the Company's total capital, whichever is less, at December 31, 2014, December 31, 2013 and December 31, 2012, respectively, in accordance with the FFIEC guidelines:

	At December 31, 2014			
Country	Banks	Governments	Other(1)	Total
	(dollars in millions)			
United Kingdom	$ 8,514	$ 948	$60,025	$69,487
Cayman Islands	144	—	43,472	43,616
Japan	14,860	5,645	22,976	43,481
France	18,838	218	7,940	26,996
Germany	6,650	6,679	7,295	20,624
Singapore	2,117	7,761	806	10,684
China	1,738	3,259	5,610	10,607
Canada	2,741	286	6,955	9,982
South Korea	149	6,081	3,733	9,963
Ireland	304	20	8,996	9,320
Netherlands	910	—	7,399	8,309

	At December 31, 2013			
Country	Banks	Governments	Other(1)	Total
	(dollars in millions)			
United Kingdom	$11,874	$ 911	$57,594	$70,379
Japan	27,251	3,622	26,426	57,299
Cayman Islands	1	—	45,041	45,042
Germany	8,844	10,312	10,613	29,769
France	22,408	264	6,247	28,919
Canada	2,988	2,012	7,108	12,108
Netherlands	1,474	—	10,015	11,489
South Korea	65	4,307	3,376	7,748

Country	At December 31, 2012			
	Banks	Governments	Other(1)	Total
	(dollars in millions)			
United Kingdom	$17,504	$ 6	$100,090	$117,600
Cayman Islands	5	10	41,628	41,643
France	28,699	149	3,915	32,763
Japan	24,935	148	2,967	28,050
Germany	15,084	3,014	4,192	22,290
Netherlands	1,700	—	10,920	12,620
Canada	6,651	1,310	2,893	10,854
South Korea	32	6,812	2,311	9,155
Switzerland	3,319	242	5,483	9,044
Luxemburg	221	223	7,952	8,396

(1) Other includes Non-banking financial institutions and others in 2014, 2013 and 2012.

For cross-border exposure that exceeds 0.75% but does not exceed 1% of the Company's consolidated assets, Saudi Arabia, Switzerland and Luxembourg had a total cross-border exposure of $21,639 million at December 31, 2014; Ireland, Italy and Luxembourg had a total cross-border exposure of $21,026 million at December 31, 2013; and Saudi Arabia and Singapore had a total cross-border exposure of $12,848 million at December 31, 2012.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States, and that our receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013).* Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2014.

The Company's independent registered public accounting firm has audited and issued a report on the Company's internal control over financial reporting, which appears below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the internal control over financial reporting of Morgan Stanley and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of December 31, 2014, and for the year then ended, and our report dated March 2, 2015 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
New York, New York
March 2, 2015

Changes in Internal Control Over Financial Reporting.

No change in the Company’s internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the quarter ended December 31, 2014 that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Information relating to the Company's directors and nominees under the following captions in the Company's definitive proxy statement for its 2015 annual meeting of shareholders ("Morgan Stanley's Proxy Statement") is incorporated by reference herein.

- "Item 1—Election of Directors—Director Nominees"
- "Corporate Governance—Board Meetings and Committees"
- "Beneficial Ownership of Company Common Stock—Section 16(a) Beneficial Ownership Reporting Compliance"

Information relating to the Company's executive officers is contained in Part I, Item 1 of this report under "Executive Officers of Morgan Stanley."

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. You can find our Code of Ethics and Business Conduct on our internet site, *www.morganstanley.com/about-us-governance/ethics.html*. We 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 NYSE, on our internet site.

Item 11. Executive Compensation.

Information relating to director and executive officer compensation under the following captions in Morgan Stanley's Proxy Statement is incorporated by reference herein.

- "Corporate Governance—Director Compensation"
- "Executive Compensation"

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information relating to equity compensation plans and security ownership of certain beneficial owners and management is set forth under the captions “Item 4—Company Proposal to Amend the 2007 Equity Incentive Compensation Plan to Increase Shares Available for Grant—Equity Compensation Plan Information” and “Beneficial Ownership of Company Common Stock” in Morgan Stanley’s Proxy Statement and such information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions under the following caption in Morgan Stanley’s Proxy Statement is incorporated by reference herein.

- “Corporate Governance—Related Person Transactions Policy”
- “Corporate Governance—Certain Transactions”

Information regarding director independence under the following caption in Morgan Stanley’s Proxy Statement is incorporated by reference herein.

- “Corporate Governance—Director Independence”

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services under the following caption in Morgan Stanley’s Proxy Statement is incorporated by reference herein.

- “Item 2—Ratification of Appointment of Morgan Stanley’s Independent Auditor” (excluding the information under the subheading “Audit Committee Report”)

Part IV

Item 15. Exhibits and Financial Statement Schedules.

Documents filed as part of this report.

- The consolidated financial statements required to be filed in this Annual Report on Form 10-K are included in Part II, Item 8 hereof.
- An exhibit index has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 2, 2015.

MORGAN STANLEY
(REGISTRANT)
By: /s/ JAMES P. GORMAN
(James P. Gorman)
Chairman of the Board and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned, hereby severally constitute Ruth Porat, Eric F. Grossman and Martin M. Cohen, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 2nd day of March, 2015.

Signature	Title
/s/ JAMES P. GORMAN (James P. Gorman)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ RUTH PORAT (Ruth Porat)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ PAUL C. WIRTH (Paul C. Wirth)	Deputy Chief Financial Officer (Principal Accounting Officer)
/s/ ERSKINE B. BOWLES (Erskine B. Bowles)	Director
/s/ HOWARD J. DAVIES (Howard J. Davies)	Director
/s/ THOMAS H. GLOCER (Thomas H. Glocer)	Director
/s/ ROBERT H. HERZ (Robert H. Herz)	Director
/s/ C. ROBERT KIDDER (C. Robert Kidder)	Director

Signature	Title
/s/ KLAUS KLEINFELD (Klaus Kleinfeld)	Director
/s/ JAMI MISCIK (Jami Miscik)	Director
/s/ DONALD T. NICOLAISEN (Donald T. Nicolaisen)	Director
/s/ HUTHAM S. OLAYAN (Hutham S. Olayan)	Director
/s/ JAMES W. OWENS (James W. Owens)	Director
/s/ RYOSUKE TAMAKOSHI (Ryosuke Tamakoshi)	Director
/s/ MASAAKI TANAKA (Masaaki Tanaka)	Director
/s/ LAURA D’ANDREA TYSON (Laura D’Andrea Tyson)	Director
/s/ RAYFORD WILKINS, JR. (Rayford Wilkins, Jr.)	Director

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS TO FORM 10-K

For the year ended December 31, 2014
Commission File No. 1-11758

Morgan Stanley

Exhibit Index

Certain of the following exhibits, as indicated parenthetically, were previously filed as exhibits to registration statements filed by Morgan Stanley or its predecessor companies under the Securities Act or to reports or registration statements filed by Morgan Stanley or its predecessor companies under the Exchange Act and are hereby incorporated by reference to such statements or reports. Morgan Stanley's Exchange Act file number is 1-11758. The Exchange Act file number of Morgan Stanley Group Inc., a predecessor company ("MSG"), was 1-9085.[1]

Exhibit No.	Description
2.1	Amended and Restated Joint Venture Contribution and Formation Agreement dated as of May 29, 2009 by and among Citigroup Inc. and Morgan Stanley and Morgan Stanley Smith Barney Holdings LLC (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated May 29, 2009).
2.2	Integration and Investment Agreement dated as of March 30, 2010 by and between Mitsubishi UFJ Financial Group, Inc. and Morgan Stanley (Exhibit 2.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
3.1	Amended and Restated Certificate of Incorporation of Morgan Stanley, as amended to date (Exhibit 3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009), as amended by the Certificate of Elimination of Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (Exhibit 3.1 Morgan Stanley's Current Report on Form 8-K dated July 20, 2011), as amended by the Certificate of Merger of Domestic Corporations dated December 29, 2011 (Exhibit 3.3 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2012), as amended by the Certificate of Designation of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E (Exhibit 2.5 to Morgan Stanley's Registration Statement on Form 8-A dated September 27, 2013), as amended by the Certificate of Designation of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F (Exhibit 2.3 to Morgan Stanley's Registration Statement on Form 8-A dated December 9, 2013), as amended by the Certificate of Designation of Preferences and Rights of the 6.625% Non-Cumulative Preferred Stock, Series G (Exhibit 2.3 to Morgan Stanley's Registration Statement on Form 8-A dated April 28, 2014), as amended by the Certificate of Designation of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series H (Exhibits 3.2 and 4.2 to Morgan Stanley's Registration Statement on Form 8-K dated April 29, 2014), as amended by the Certificate of Designation of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I (Exhibit 2.3 to Morgan Stanley's Registration Statement on Form 8-A dated September 17, 2014).
3.2	Amended and Restated Bylaws of Morgan Stanley, as amended to date (Exhibit 3.1 to Morgan Stanley's Current Report on Form 8-K dated March 9, 2010).
4.1	Indenture dated as of February 24, 1993 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4 to Morgan Stanley's Registration Statement on Form S-3 (No. 33-57202)).
4.2	Amended and Restated Senior Indenture dated as of May 1, 1999 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-e to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289) as amended by Fourth Supplemental Senior Indenture dated as of October 8, 2007 (Exhibit 4.3 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).

[1] For purposes of this Exhibit Index, references to "The Bank of New York" mean in some instances the entity successor to JPMorgan Chase Bank, N.A. or J.P. Morgan Trust Company, National Association; references to "JPMorgan Chase Bank, N.A." mean the entity formerly known as The Chase Manhattan Bank, in some instances as the successor to Chemical Bank; references to "J.P. Morgan Trust Company, N.A." mean the entity formerly known as Bank One Trust Company, N.A., as successor to The First National Bank of Chicago.

Exhibit No.	Description
4.3	Senior Indenture dated as of November 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752), as amended by First Supplemental Senior Indenture dated as of September 4, 2007 (Exhibit 4.5 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007), Second Supplemental Senior Indenture dated as of January 4, 2008 (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated January 4, 2008), Third Supplemental Senior Indenture dated as of September 10, 2008 (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008), Fourth Supplemental Senior Indenture dated as of December 1, 2008. (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated December 1, 2008), Fifth Supplemental Senior Indenture dated as of April 1, 2009 (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009), Sixth Supplemental Senior Indenture dated as of September 16, 2011 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011), Seventh Supplemental Senior Indenture dated as of November 21, 2011 (Exhibit 4.4 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011), Eighth Supplemental Senior Indenture dated as of May 4, 2012 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012), and Ninth Supplemental Senior Indenture dated as of March 10, 2014 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
4.4	The Unit Agreement Without Holders' Obligations, dated as of August 29, 2008, between Morgan Stanley and The Bank of New York Mellon, as Unit Agent, as Trustee and Paying Agent under the Senior Indenture referred to therein and as Warrant Agent under the Warrant Agreement referred to therein (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated August 29, 2008).
4.5	Amended and Restated Subordinated Indenture dated as of May 1, 1999 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289)).
4.6	Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-g to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752)).
4.7	Junior Subordinated Indenture dated as of March 1, 1998 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998).
4.8	Junior Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-ww to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752)).
4.9	Junior Subordinated Indenture dated as of October 12, 2006 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated October 12, 2006).
4.10	Deposit Agreement dated as of July 6, 2006 among Morgan Stanley, JPMorgan Chase Bank, N.A. and the holders from time to time of the depositary receipts described therein (Exhibit 4.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2006).
4.11	Depositary Receipt for Depositary Shares, representing Floating Rate Non-Cumulative Preferred Stock, Series A (included in Exhibit 4.10 hereto).
4.12	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust III dated as of February 27, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee, and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2003).

Exhibit No.	Description
4.13	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust IV dated as of April 21, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware Trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2003).
4.14	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust V dated as of July 16, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2003).
4.15	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VI dated as of January 26, 2006 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006).
4.16	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VII dated as of October 12, 2006 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley's Current Report on Form 8-K dated October 12, 2006).
4.17	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VIII dated as of April 26, 2007 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley's Current Report on Form 8-K dated April 26, 2007).
4.18	Instruments defining the Rights of Security Holders, Including Indentures—Except as set forth in Exhibits 4.1 through 4.17 above, the instruments defining the rights of holders of long-term debt securities of Morgan Stanley and its subsidiaries are omitted pursuant to Section (b)(4)(iii) of Item 601 of Regulation S-K. Morgan Stanley hereby agrees to furnish copies of these instruments to the SEC upon request.
10.1	Amended and Restated Trust Agreement dated as of October 18, 2011 by and between Morgan Stanley and State Street Bank and Trust Company (Exhibit 10.1 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011).
10.2	Transaction Agreement dated as of April 21, 2011 between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated April 21, 2011).
10.3	Amended and Restated Investor Agreement dated as of June 30, 2011 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated June 30, 2011), as amended by Third Amendment, dated October 3, 2013 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.4†	Morgan Stanley 401(k) Plan, amended and restated as of January 1, 2013 (Exhibit 10.6 to Morgan Stanley Annual Report on Form 10-K for the year ended December 31, 2012), as amended by Amendment (Exhibit 10. 5 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2013) and Amendment (Exhibit 10.6 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2013).
10.5†*	Amendment to Morgan Stanley 401(k) Plan, dated as of December 19, 2014.
10.6†	Tax Deferred Equity Participation Plan as amended and restated as of November 26, 2007 (Exhibit 10.9 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.7†	Directors' Equity Capital Accumulation Plan as amended and restated as of March 22, 2012 (Exhibit 10.2 to Morgan Stanley's Current Report on Form 8-K dated May 15, 2012).

Exhibit No. **Description**

10.8† Select Employees' Capital Accumulation Program as amended and restated as of May 7, 2008 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2008).

10.9† Form of Term Sheet under the Select Employees' Capital Accumulation Program (Exhibit 10.9 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).

10.10† Employees' Equity Accumulation Plan as amended and restated as of November 26, 2007 (Exhibit 10.12 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).

10.11† Employee Stock Purchase Plan as amended and restated as of February 1, 2009 (Exhibit 10.20 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).

10.12† Morgan Stanley Supplemental Executive Retirement and Excess Plan, amended and restated effective December 31, 2008 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009) as amended by Amendment (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009), Amendment (Exhibit 10.19 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2010), Amendment (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011) and Amendment (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).

10.13† 1995 Equity Incentive Compensation Plan (Annex A to MSG's Proxy Statement for its 1996 Annual Meeting of Stockholders) as amended by Amendment (Exhibit 10.39 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000), Amendment (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2005), Amendment (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006), Amendment (Exhibit 10.24 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006) and Amendment (Exhibit 10.22 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).

10.14† Form of Management Committee Equity Award Certificate for Discretionary Retention Award of Stock Units and Stock Options (Exhibit 10.30 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006).

10.15† Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program 2 (Exhibit 10.12 to MSG's Annual Report for the fiscal year ended November 30, 1996).

10.16† Key Employee Private Equity Recognition Plan (Exhibit 10.43 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).

10.17† Morgan Stanley Financial Advisor and Investment Representative Compensation Plan as amended and restated as of November 26, 2007 (Exhibit 10.34 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).

10.18† Morgan Stanley UK Share Ownership Plan (Exhibit 4.1 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-146954)).

10.19† Supplementary Deed of Participation for the Morgan Stanley UK Share Ownership Plan, dated as of November 5, 2009 (Exhibit 10.36 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2009).

10.20† Aircraft Time Sharing Agreement, dated as of January 1, 2010, by and between Corporate Services Support Corp. and James P. Gorman (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

Exhibit No.	Description
10.21†	Agreement between Morgan Stanley and James P. Gorman, dated August 16, 2005, and amendment dated December 17, 2008 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010), as amended by Amendment (Exhibit 10.25 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31 2013).
10.22†	Agreement between Morgan Stanley and Gregory J. Fleming, dated February 3, 2010 (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.23†	Form of Restrictive Covenant Agreement (Exhibit 10 to Morgan Stanley's Current Report on Form 8-K dated November 22, 2005).
10.24†	Morgan Stanley Performance Formula and Provisions (Exhibit 10.2 to Morgan Stanley's Current Report on Form 8-K dated May 14, 2013).
10.25†	2007 Equity Incentive Compensation Plan, as amended and restated as of March 21, 2013 (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated May 14, 2013).
10.26†	Morgan Stanley 2006 Notional Leveraged Co-Investment Plan, as amended and restated as of November 28, 2008 (Exhibit 10.47 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.27†	Form of Award Certificate under the 2006 Notional Leveraged Co-Investment Plan (Exhibit 10.7 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.28†	Morgan Stanley 2007 Notional Leveraged Co-Investment Plan, amended as of June 4, 2009 (Exhibit 10.6 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.29†	Form of Award Certificate under the 2007 Notional Leveraged Co-Investment Plan for Certain Management Committee Members (Exhibit 10.8 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.30†	Morgan Stanley Compensation Incentive Plan (Exhibit 10.54 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.31†	Morgan Stanley 2009 Replacement Equity Incentive Compensation Plan for Morgan Stanley Smith Barney Employees (Exhibit 4.2 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-159504)).
10.32†	Form of Award Certificate for Special Discretionary Retention Awards of Stock Options (Exhibit 10.4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.33†	Morgan Stanley Schedule of Non-Employee Directors Annual Compensation, effective as of August 1, 2014 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).
10.34†	Form of Award Certificate for Discretionary Retention Awards of Stock Units (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.35†	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan Deferred Bonus Program (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.36†	Form of Award Certificate for Performance Stock Units (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.37†	Memorandum to Colm Kelleher Regarding Repatriation to London (Exhibit 10.4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.38†	Morgan Stanley U.S. Tax Equalization Program (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).

Exhibit No.	Description
10.39†	Morgan Stanley UK Limited Alternative Retirement Plan, dated as of October 8, 2009 (Exhibit 10.2 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.40†	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan (Exhibit 10.3 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.41†	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan (Exhibit 10.1 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.42†	Form of Award Certificate for Discretionary Retention Awards of Stock Units (Exhibit 10.4 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.43†	Form of Award Certificate for Discretionary Retention Awards of Stock Units (Exhibit 10.2 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.44†	Form of Award Certificate for Discretionary Retention Awards of Stock Options (Exhibit 10.5 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.45†	Form of Award Certificate for Long-Term Incentive Program Awards (Exhibit 10.6 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.46†	Form of Award Certificate for Long-Term Incentive Program Awards (Exhibit 10.3 to Morgan Stanley’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
12*	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	Subsidiaries of Morgan Stanley.
23.1*	Consent of Deloitte & Touche LLP.
24	Powers of Attorney (included on signature page).
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition—December 31, 2014 and December 31, 2013, (ii) the Consolidated Statements of Income—Twelve Months Ended December 31, 2014, December 31, 2013 and December 31, 2012, (iii) the Consolidated Statements of Comprehensive Income—Twelve Months Ended December 31, 2014, December 31, 2013 and December 31, 2012, (iv) the Consolidated Statements of Cash Flows—Twelve Months Ended December 31, 2014, December 31, 2013 and December 31, 2012, (v) the Consolidated Statements of Changes in Total Equity—Twelve Months Ended December 31, 2014, December 31, 2013, and December 31, 2012, and (vi) Notes to Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

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, 2015
Commission File Number 1-11758

Morgan Stanley

(Exact name of Registrant as specified in its charter)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
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
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series G, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, $0.01 par value	New York Stock Exchange
6 ¼% Capital Securities of Morgan Stanley Capital Trust III (and Registrant's guarantee with respect thereto)	New York Stock Exchange
6 ¼% Capital Securities of Morgan Stanley Capital Trust IV (and Registrant's guarantee with respect thereto)	New York Stock Exchange
5 ¾% Capital Securities of Morgan Stanley Capital Trust V (and Registrant's guarantee with respect thereto)	New York Stock Exchange
6.45% Capital Securities of Morgan Stanley Capital Trust VIII (and Registrant's guarantee with respect thereto)	New York Stock Exchange
Global Medium-Term Notes, Series A, Fixed Rate Step-Up Senior Notes Due 2026 of Morgan Stanley Finance LLC (and Registrant's guarantee with respect thereto)	New York Stock Exchange
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.

Indicate by check mark if Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ 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 ☒

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 ☒ 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 ☒ 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 ☒	Accelerated Filer □
Non-Accelerated Filer □ (Do not check if a smaller reporting company)	Smaller reporting company □

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

As of June 30, 2015, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $72,777,054,630. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2016, there were 1,958,568,849 shares of Registrant's common stock, $0.01 par value, outstanding.

Documents Incorporated by Reference: Portions of Registrant's definitive proxy statement for its 2016 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

Morgan Stanley

ANNUAL REPORT ON FORM 10-K

for the year ended December 31, 2015

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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, possibly materially, 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;
- sovereign risk;
- the effect of market conditions, particularly in the global equity, fixed income, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets and energy 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, funding and liquidity requirements), policies (including fiscal and monetary), and legal and regulatory actions in the United States of America (“U.S.”) and worldwide;
- the level and volatility of equity, fixed income and commodity prices (including oil 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, consumer and business sentiment and confidence in the financial markets;
- the performance and results of our acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements;
- our reputation and the general perception of the financial services industry;
- inflation, natural disasters, pandemics and acts of war or terrorism;
- the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations;
- the effectiveness of our risk management policies;
- technological changes instituted by us, our competitors or counterparties and technological risks, including cybersecurity, business continuity and related operational risks;
- our ability to provide innovative products and services and execute our strategic objectives; 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.

Available Information.

The Company files annual, quarterly and current reports, proxy statements and other information with the U.S. 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-us-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-us-governance.* The Company's Corporate Governance webpage includes:

- 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 Activities;
- Policy Regarding Shareholder Rights Plan;
- Equity Ownership Commitment;
- Code of Ethics and Business Conduct;
- Code of Conduct; and
- Integrity Hotline information.

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. 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.

Part I

Item 1. Business.

Overview.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, advises, and originates, trades, manages and distributes capital for, governments, 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. As of December 31, 2015, the Company had 56,218 employees worldwide. Unless the context otherwise requires, the terms "Morgan Stanley," the "Company," "we," "us" and "our" mean Morgan Stanley together with its consolidated subsidiaries.

Financial information concerning the Company, its business segments and geographic regions for each of the 12 months ended December 31, 2015 ("2015"), December 31, 2014 ("2014") and December 31, 2013 ("2013") is included in the consolidated financial statements and the notes thereto in "Financial Statements and Supplementary Data" in Part II, Item 8.

Business Segments.

The Company is a global financial services firm that maintains significant market positions in each of its business segments—Institutional Securities, Wealth Management and Investment Management. Through its subsidiaries and affiliates, the Company 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. Additional information related to the Company's business segments, respective clients, and products and services provided is included under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7.

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. Operating within the financial services industry on a global basis presents, 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'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, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds and private equity funds, energy companies and other companies offering financial or ancillary services in the U.S., globally and through the internet. In addition, restrictive laws and regulations applicable to certain U.S. financial services institutions, such as Morgan Stanley, which may prohibit the Company from engaging in certain transactions and impose more stringent capital and liquidity requirements, can put the Company at a competitive disadvantage to competitors in certain businesses not subject to these same requirements. See also "—Supervision and Regulation" below and "Risk Factors" in Part I, Item 1A.

Institutional Securities and Wealth Management.

The Company's competitive position for its Institutional Securities and Wealth Management 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. Additionally, there is increased competition driven by established firms as well as the emergence of new firms and business models competing for the same clients and assets or offering similar products and services.

The Company's ability to access capital at competitive rates (which is generally impacted by 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 on the Company's businesses. In addition, the Company's business is subject to increased regulation in the U.S. and abroad, while certain of its competitors may be subject to less stringent legal and regulatory regimes than the Company, thereby putting the Company at a competitive disadvantage.

The Company continues to experience intense price competition in some of its businesses. In particular, the ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions and comparable fees. The trend toward direct access to automated, electronic markets will likely increase as additional trading moves to more automated platforms. It is also possible that the Company will experience competitive pressures in these and other areas in the future as some of its competitors seek to obtain market share by reducing prices (in the form of commissions or pricing).

Investment 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 investment products, including alternative investment products, may compete with investments offered by other investment managers who may be subject to less stringent legal and regulatory regimes than the Company.

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 conducts its business. Moreover, in response to the 2007–2008 financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, continue to propose or are in the process of implementing a wide range of reforms that have resulted or that will result in major changes to the way the Company is regulated and conducts its business. These reforms include the Dodd-Frank Act; risk-based capital, leverage and liquidity standards adopted by the Basel Committee on Banking Supervision (the "Basel Committee"), including Basel III, and the national implementation of those standards; capital planning and stress testing requirements; proposed requirements for total loss-absorbing capacity, including long-term debt; and new resolution regimes that are being developed in the U.S. and other jurisdictions. While certain portions of these reforms are effective, others are still subject to final rulemaking or transition periods.

It is likely that there will be 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 the exact impact these changes will have on the Company's business, financial condition, results of operations and cash flows for a particular future period.

Financial Holding Company.

Consolidated Supervision. The Company has operated as a bank holding company and financial holding company under the BHC Act since September 2008. 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 has 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, or will become, subject to (among other things): significantly revised and expanded regulation and supervision; more intensive scrutiny of its businesses and plans for expansion of those businesses; new activities limitations; a systemic risk regime that imposes heightened capital and liquidity requirements; new restrictions on activities and investments imposed by a section of the BHC Act added by the Dodd-Frank Act referred to as the "Volcker Rule;" and comprehensive derivatives regulation. In addition, the Consumer Financial Protection Bureau has primary rulemaking, enforcement and examination authority over the Company and its subsidiaries with respect to federal consumer protection laws, to the extent applicable.

Scope of Permitted Activities. The BHC Act limits the activities of bank holding companies and financial holding companies and grants the Federal Reserve authority to limit the Company's ability to conduct activities. The Company must obtain the Federal Reserve's approval before engaging in certain banking and other financial activities both in the U.S. and internationally. Since becoming a bank holding company, the Company has disposed of certain nonconforming assets and conformed certain activities to the requirements of the BHC Act.

The BHC Act 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. At this time, the Company believes, based on its interpretation of applicable law, that (i) such commodities activities qualify for the BHC Act grandfather exemption or otherwise conform to the BHC Act and (ii) if the Federal Reserve were to determine otherwise, any required divestment would not have a material adverse impact on its financial condition. Additionally, the Federal Reserve has stated that it is considering the issuance of a formal notice of proposed rulemaking to address the risks associated with financial holding companies' physical commodities activities and merchant banking investments in nonfinancial companies, including rules that may impose additional capital, risk management and reporting requirements.

Activities Restrictions under the Volcker Rule. The Volcker Rule prohibits "banking entities," including the Company and its affiliates, from engaging in certain "proprietary trading" activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market-making-related activities, risk-mitigating hedging and certain other activities. The Volcker Rule also prohibits certain investments and relationships by banking entities with "covered funds," as defined in the Volcker Rule, subject to certain exemptions and exclusions. Banking entities were required to bring all of their activities and investments into conformance with the Volcker Rule by July 21, 2015, subject to certain extensions. In addition, the Volcker Rule requires banking entities to have comprehensive compliance programs reasonably designed to ensure and monitor compliance with the Volcker Rule.

The Volcker Rule also requires that deductions be made from a bank holding company's Tier 1 capital for certain permissible investments in covered funds. Beginning with the three months ended September 30, 2015, the required deductions are reflected in the Company's relevant regulatory capital tiers and ratios. Given its complexity, the full impact of the Volcker Rule is still uncertain and will ultimately depend on the interpretation and implementation by the five regulatory agencies responsible for its oversight.

Capital Standards. The Federal Reserve establishes capital requirements for the Company and evaluates its compliance with such requirements. The Office of the Comptroller of the Currency (the "OCC") establishes similar capital requirements and standards for the Company's U.S. bank subsidiaries, Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA") (collectively, "U.S. Bank Subsidiaries").

Basel III. The current risk-based and leverage capital framework governing the Company and its U.S. Bank Subsidiaries is based on the Basel III capital standards established by the Basel Committee, as modified in certain respects by the U.S. banking agencies, and is referred to herein as "U.S. Basel III." Under U.S. Basel III, on a fully phased-in basis, the Company will be subject to the following requirements:

- A minimum Common Equity Tier 1 capital ratio of 4.5%; Tier 1 capital ratio of 6.0%; Total capital ratio of 8.0%; and Tier 1 leverage ratio of 4.0%;
- A supplementary leverage ratio of at least 5.0%, which includes a Tier 1 supplementary leverage capital buffer of at least 2.0% in addition to the 3.0% minimum supplementary leverage ratio;

- A greater than 2.5% Common Equity Tier 1 capital conservation buffer;
- Up to a 2.5% Common Equity Tier 1 countercyclical buffer, if deployed by banking regulators; and
- A global systemically important bank capital surcharge, which the Federal Reserve calculated at 3% for the Company in July 2015.

The Federal Reserve may require the Company and its peer financial holding companies to maintain risk- and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company's particular condition, risk profile and growth plans.

In order for the Company's U.S. Bank Subsidiaries to qualify as "well-capitalized" under the higher capital requirements in U.S. Basel III, they must maintain a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a Common Equity Tier 1 risk-based capital ratio of at least 6.5% and a Tier 1 leverage ratio of at least 5%. The Federal Reserve has not yet revised the "well-capitalized" standard for financial holding companies to reflect the higher capital standards in U.S. Basel III.

The Basel Committee is in the process of considering revisions to various provisions of the Basel III framework that, if adopted by the U.S. banking agencies, could result in substantial changes to U.S. Basel III.

For more information about the capital requirements applicable to the Company and its U.S. Bank Subsidiaries, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Regulatory Requirements" in Part II, Item 7.

Capital Planning, Stress Tests and Capital Distributions. Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including the Company. The Dodd-Frank Act also requires each of the Company's U.S. Bank Subsidiaries to conduct an annual stress test. For more information about the capital planning and stress test requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Regulatory Requirements" in Part II, Item 7.

In addition to capital planning requirements, the OCC, the Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") have the authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including the Company and its U.S. Bank Subsidiaries, 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 affect the Company's ability to pay dividends and/or repurchase stock, or require it to provide capital assistance to its U.S. Bank Subsidiaries under circumstances which the Company would not otherwise decide to do so.

Liquidity Standards. In addition to capital regulations, the U.S. banking agencies and the Basel Committee have adopted, or are in the process of considering, liquidity standards. The Basel Committee has developed two standards intended for use in liquidity risk supervision, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requirements issued by the U.S. banking regulators ("U.S. LCR") apply to the Company and its U.S. Bank Subsidiaries. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Regulatory Liquidity Framework" in Part II, Item 7.

Systemic Risk Regime. The Dodd-Frank Act established a systemic risk regime to which bank holding companies with $50 billion or more in consolidated assets, such as the Company, are subject. Under rules issued by the Federal Reserve to implement certain requirements of the Dodd-Frank Act's enhanced prudential standards, such bank holding companies must conduct internal liquidity stress tests, maintain unencumbered highly liquid assets to meet projected net cash outflows for 30 days over the range of liquidity stress scenarios used in internal stress tests, and comply with various liquidity risk management requirements. Institutions also must comply with a range of risk management and corporate governance requirements.

The Federal Reserve has proposed rules that would establish single counterparty credit limits and create a new early remediation framework to address financial distress or material management weaknesses. The Federal Reserve also has the ability to establish additional prudential standards, including those regarding contingent capital, enhanced public disclosures, and limits on short-term debt, including off-balance sheet exposures. For example, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Regulatory Requirements—Total Loss-Absorbing Capacity and Long-Term Debt Requirement" in Part II, Item 7.

Under the systemic risk regime, if the Federal Reserve or the Financial Stability Oversight Council determines that a bank holding company with $50 billion or more in consolidated assets poses a "grave threat" to U.S. financial stability, the institution may be, among other things, restricted in its ability to merge or offer financial products and required to terminate activities and dispose of assets.

See also "—Capital Standards" and "—Liquidity Standards" herein and "—Resolution and Recovery Planning" below.

Resolution and Recovery Planning. Pursuant to the Dodd-Frank Act, the Company is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the Company. The Company's preferred resolution strategy, which is set out in its 2015 resolution plan, submitted on July 1, 2015, is a single-point-of-entry ("SPOE") strategy. On August 5, 2014, the Federal Reserve and the FDIC notified the Company and 10 other large banking organizations that certain shortcomings in their 2013 resolution plans needed to be addressed in their 2015 resolution plans. If the Federal Reserve and the FDIC both were to determine that the Company's 2015 resolution plan is not credible or would not facilitate an orderly resolution and the Company does not cure the plan's deficiencies, the Company or any of its subsidiaries may be subjected to more stringent capital, leverage, or liquidity requirements or restrictions on its growth, activities, or operations, or, after a two-year period, the Company may be required to divest assets or operations.

Further, the Company is required to submit an annual recovery plan to the Federal Reserve that outlines the steps that management could take over time to generate or conserve financial resources in times of prolonged financial stress.

Certain of the Company's domestic and foreign subsidiaries are also subject to resolution and recovery planning requirements in the jurisdictions in which they operate. For example, MSBNA must submit to the FDIC an annual resolution plan that describes MSBNA's strategy for a rapid and orderly resolution in the event of material financial distress or failure of MSBNA. The OCC has also proposed guidelines that would require insured national banks with $50 billion or more in consolidated assets, which include MSBNA, to submit an annual recovery plan to the OCC.

In addition, under the Dodd-Frank Act, certain financial companies, including bank holding companies such as the Company and certain covered subsidiaries, can be subjected to a resolution proceeding under the orderly liquidation authority in Title II of the Dodd-Frank Act with the FDIC being appointed as receiver, provided that certain procedures are met, including certain extraordinary financial distress and systematic risk determinations by the U.S. Treasury Secretary in consultation with the U.S. President. The orderly liquidation authority rulemaking is proceeding in stages, with some regulations now finalized and others planned but not yet proposed. If the Company were subject to the orderly liquidation authority, the FDIC would have considerable powers, including: the power to remove officers and directors responsible for the Company's failure and to appoint new directors and officers; the power to assign the Company's assets and liabilities to a third party or bridge financial company without the need for creditor consent or prior court review; the ability to differentiate among the Company's creditors, including by treating certain creditors within the same class better than others, subject to a minimum recovery right on the part of disfavored creditors to receive at least what they would have received in bankruptcy liquidation; and broad powers to administer the claims process to determine distributions from the assets of the receivership. The FDIC has been developing an SPOE strategy that could be used to implement the orderly liquidation authority and in December 2013 issued a public notice inviting comments on the proposed strategy.

Regulators have taken and proposed various actions to facilitate an SPOE strategy under the U.S. Bankruptcy Code, the orderly liquidation authority or other resolution regimes. For example, the Federal Reserve has issued a proposed rule that would require top-tier bank holding companies of U.S. global systemically important banks ("G-SIBs"), including the Company, to maintain minimum amounts of equity and eligible long-term debt in order to ensure that such institutions have enough loss-absorbing resources to be recapitalized under an SPOE resolution strategy. (The proposed rule also imposes additional requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—

Liquidity and Capital Resources—Regulatory Requirements—Total Loss-Absorbing Capacity and Long-Term Debt Requirements" in Part II, Item 7.) In addition, on November 12, 2015, in order to facilitate an SPOE resolution strategy, the Company and certain of its subsidiaries, together with certain other G-SIBs, agreed to adhere to the International Swaps and Derivatives Association ("ISDA") 2015 Universal Resolution Stay Protocol (the "Protocol"), which applies to over-the-counter ("OTC") derivative transactions entered into among the adhering parties under ISDA Master Agreements and securities financing transactions governed by specified securities financing transaction agreements. The Protocol overrides certain cross-default rights and certain other default rights related to the entry of an adhering party or certain of its affiliates into certain resolution proceedings. The Federal Reserve is expected to promulgate regulations implementing and possibly expanding portions of, and the parties subject to, the Protocol.

U.S. Bank Subsidiaries.

U.S. Banking Institutions. MSBNA, primarily a wholesale commercial bank, offers commercial lending and certain retail securities-based lending services in addition to deposit products. It also conducts certain foreign exchange activities.

MSPBNA offers certain mortgage and other secured lending products, including retail securities-based lending products, primarily for customers of its affiliate retail broker-dealer, Morgan Stanley Smith Barney LLC ("MSSB LLC"). MSPBNA also offers certain deposit products, as well as prime brokerage custody services.

Both MSBNA and MSPBNA are FDIC-insured national banks subject to supervision, regulation and examination by the OCC. They are both subject to the OCC's risk governance guidelines, which establish heightened standards for a large national bank's risk governance framework and the oversight of that framework by the bank's board of directors.

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" ("PCA") with respect to a depository institution if that institution does not meet certain capital adequacy standards. Current PCA regulations generally apply only to insured banks and thrifts such as MSBNA or MSPBNA and not to their parent holding companies. The Federal Reserve is, however, authorized to take appropriate action at the holding company level, subject to certain limitations. Under the systemic risk regime, as described above, the Company also would become subject to an early remediation protocol in the event of financial distress. In addition, bank holding companies, such as the Company, are required to serve as a source of strength to their U.S. bank subsidiaries and commit resources to support these subsidiaries in the event such subsidiaries are in financial distress.

Transactions with Affiliates. The Company's U.S. Bank Subsidiaries are subject to Sections 23A and 23B of the Federal Reserve Act, which impose restrictions on "covered transactions" with any affiliates. Covered transactions include any extension of credit to, purchase of assets from, and certain other transactions by insured banks with an affiliate. These restrictions limit the total amount of credit exposure that the Company's U.S. Bank Subsidiaries may have to any one affiliate and to all affiliates. Other provisions set collateral requirements and require all such transactions to be made on market terms. Derivatives, securities borrowing and securities lending transactions between the Company's U.S. Bank Subsidiaries and their affiliates are subject to these restrictions. The Federal Reserve has indicated that it will propose a rulemaking to implement these more recent restrictions.

In addition, the Volcker Rule generally prohibits covered transactions between (i) the Company or any of its affiliates and (ii) covered funds for which the Company or any of its affiliates serves as the investment manager, investment adviser, commodity trading advisor or sponsor or other covered funds organized and offered by the Company or any of its affiliates pursuant to specific exemptions in the Volcker Rule.

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 commonly controlled FDIC-insured depository institutions, each of MSBNA and MSPBNA could be responsible for any loss to the FDIC from the failure of the other. In addition, both institutions are exposed to changes in the cost of FDIC insurance. Under the Dodd-Frank Act, some of the restoration of the FDIC's reserve fund must be paid for exclusively by large depository institutions, including MSBNA, and FDIC deposit insurance assessments are calculated using a methodology that generally results in a lower charge for banks that are mostly funded by deposits.

Institutional Securities and Wealth Management.

Broker-Dealer and Investment Adviser Regulation. The Company's primary U.S. broker-dealer subsidiaries, Morgan Stanley & Co. LLC ("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. 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, risk management controls in connection with market access, 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 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. Morgan Stanley's broker-dealer subsidiaries are also members of the Securities Investor Protection Corporation, which provides certain protections for customers of broker-dealers against losses in the event of the insolvency of a broker-dealer.

MSSB LLC is also a registered investment adviser with the SEC. MSSB LLC's relationship with its investment advisory clients is subject to the fiduciary and other obligations imposed on investment advisors under the Investment Advisers Act of 1940, and the rules and regulations promulgated thereunder as well as various state securities laws. These laws and regulations generally grant the SEC and other supervisory bodies broad administrative powers to address non-compliance, including the power to restrict or limit MSSB LLC from carrying on its investment advisory and other asset management activities. Other sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain activities for specified periods of time or for specified types of clients, the revocation of registrations, other censures and significant fines.

The Company is subject to various regulations that affect broker-dealer sales practices and customer relationships. For example, under the Dodd-Frank Act, the SEC is authorized to adopt a fiduciary duty applicable to broker-dealers when providing personalized investment advice about securities to retail customers, although the SEC has not yet acted on this authority. As a separate matter, in April 2015, the U.S. Department of Labor issued a proposed rule under the Employee Retirement Income Security Act of 1974 that, when finalized, would subject broker-dealers to a fiduciary duty and may limit certain transactions and activities involving retirement accounts. These developments may impact the manner in which affected businesses are conducted, decrease profitability and increase potential liabilities.

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. 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 liquid assets be maintained by the subsidiary. See also "—Financial Holding Company—Consolidated Supervision" and "—Financial Holding Company—Liquidity 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.

Regulation of Futures Activities and Certain Commodities Activities. MS&Co., as a futures commission merchant, and MSSB LLC, as an introducing broker, are subject to net capital requirements of, and their activities are regulated by, the U.S. Commodity Futures Trading Commission (the "CFTC"), the National Futures Association (the "NFA"), a registered futures association, CME Group, and various commodity futures exchanges. MS&Co. and MSSB LLC and certain of their affiliates are registered members of the NFA in various capacities. Rules and regulations of the CFTC, NFA and commodity futures exchanges address obligations related to, among other things, customer protections, the segregation of customer funds and the holding of secured amounts, the use by futures commission merchants of customer funds, recordkeeping and reporting obligations of futures commission merchants and introducing brokers, risk disclosure, risk management and discretionary trading.

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 companies conducting the activities in which we are engaged. See also "—Financial Holding Company—Scope of Permitted Activities" above.

Derivatives Regulation. Under the U.S. regulatory regime for "swaps" and "security-based swaps" (collectively, "Swaps") implemented pursuant to the Dodd-Frank Act, the Company is subject to regulations including, among others, public and regulatory reporting, central clearing and mandatory trading on regulated exchanges or execution facilities for certain types of Swaps. While the CFTC has completed the majority of its regulations in this area, most of which are in effect, the SEC has not yet adopted a number of its Swaps regulations. The Dodd-Frank Act also requires the registration of "swap dealers" with the CFTC and "security-based swap dealers" with the SEC (collectively, "Swaps Entities"). Certain of the Company's subsidiaries have registered with the CFTC as swap dealers and will in the future be required to register with the SEC as security-based swap dealers. Swaps Entities are or will be subject to a comprehensive regulatory regime with new obligations for the Swaps activities for which they are registered, including capital requirements, margin requirements for uncleared Swaps and comprehensive business conduct rules.

The specific parameters of some of these requirements for Swaps have been and continue to be developed through the CFTC, SEC and bank regulator rulemakings. In October 2015, the federal banking regulators issued a final rule establishing minimum uncleared Swap margin requirements for Swaps Entities that they prudentially regulate, which includes MSBNA. The rule requires the exchange of initial and variation margin for uncleared Swaps with certain types of counterparties. Similarly, in December 2015, the CFTC issued a final rule establishing uncleared Swap margin requirements for swap dealers that are not subject to regulation by the federal banking regulators, which includes Morgan Stanley Capital Services LLC and Morgan Stanley & Co. International plc ("MSIP").

Although the full impact of U.S. derivatives regulation on the Company remains unclear, the Company has already faced, and will continue to face, increased costs and regulatory oversight due to the registration and regulatory requirements indicated above. Complying with the Swaps rules also has required, and will in the future require, the Company to change its Swaps businesses and has required, and will in the future require, extensive systems and personnel changes. Compliance with Swaps-related regulatory capital requirements may require the Company to devote more capital to its Swaps business.

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. FINRA adopted amendments to its equity research rules (effective December 2015) and adopted new rules for debt research (to be effective April 2016). 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.

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. Non-U.S. policy makers and regulators, including the European Commission and European Supervisory Authorities (among others the European Banking Authority and the European Securities and Markets Authority), continue to propose and adopt numerous market reforms, including those that may further impact the structure of banks, and formulate regulatory standards and measures that will be of relevance and importance to the Company's European operations. 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 Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and several securities and futures exchanges in the United Kingdom ("U.K."), including the London Stock Exchange and ICE Futures Europe, regulate the Company's activities in the U.K.; the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) and the Deutsche Börse AG regulate its activities in the Federal Republic of Germany; the Financial Services Agency, the Bank of Japan, the Japanese Securities Dealers Association and several Japanese securities and futures exchanges, regulate its activities in Japan; the Securities and Futures Commission of Hong Kong, 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.

Regulators in the U.K., E.U. and other major jurisdictions have also finalized or are in the process of proposing or finalizing risk-based capital, leverage capital, liquidity, banking structural reforms and other regulatory standards applicable to certain Morgan Stanley subsidiaries that operate in those jurisdictions. For example, MSIP is subject to regulation and supervision by the PRA with respect to prudential matters. As a prudential regulator, the PRA seeks to promote the safety and soundness of the firms that it regulates and to minimize the adverse effects that such firms may have on the stability of the U.K. financial system. The PRA has broad legal authority to establish prudential and other standards to pursue these objectives, including approvals of relevant regulatory models, as well as to bring public and non-public disciplinary actions against regulated firms to address noncompliance with such standards. MSIP is also regulated and supervised by the FCA with respect to business conduct matters. European Market Infrastructure Regulation introduces new requirements regarding the central clearing and reporting of derivatives. In addition, the E.U. Bank Recovery and Resolution Directive ("BRRD") has established a recovery and resolution framework for E.U. credit institutions and investment firms, including MSIP. E.U. Member States were required to apply provisions implementing the BRRD as of January 1, 2015, subject to certain exemptions. New directives and regulations originally expected to apply from January 3, 2017 (currently with potential delay of one year) will introduce various trading and market infrastructure reforms in the E.U., subject to restrictions

Investment 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 Investment Management business segment. In addition, certain affiliates of the Company 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, and have certain responsibilities with respect to each pool they advise. 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. See also "—Institutional Securities and Wealth Management—Broker-Dealer and Investment Adviser Regulation" and "—Institutional Securities and Wealth Management—Regulation of Futures Activities and Certain Commodities Activities" above.

As a result of the passage of the Dodd-Frank Act, the Company's asset management activities are 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) and restrictions on sponsoring or investing in, or maintaining certain other relationships with, "covered funds," as defined in the Volcker Rule, subject to certain limited exemptions. 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. See also "—Financial Holding Company—Activities Restrictions under the Volcker Rule."

The Company's Investment Management business is also regulated outside the U.S. For example, the FCA is the primary regulator of the Company's business in the U.K.; the Financial Services Agency regulates the Company's business in Japan; the Hong Kong Securities and Futures Commission regulates the Company's business in Hong Kong; and the Monetary Authority of Singapore regulates the Company's business in Singapore. See also "—Institutional Securities and Wealth Management—Non-U.S. Regulation" herein.

Financial Crimes Program.

The Company's Financial Crimes program is coordinated on an enterprise-wide basis and supports the Company's financial crime prevention efforts across all regions and business units with responsibility for governance, oversight and execution of the Company's Anti-Money Laundering ("AML"), economic sanctions ("Sanctions") and anti-corruption programs.

In the U.S. 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 companies and their subsidiaries, broker-dealers, futures commission merchants, introducing brokers 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 comply with all applicable AML laws and regulations. Regarding Sanctions, the Company has 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 target foreign countries, entities and individuals based on external threats to U.S. foreign policy, national security or economic interests, and as applicable similar sanctions programs imposed by foreign governments or global or regional multilateral organizations such as the United Nations Security Council and the E.U. Council.

The Company is also subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, in the jurisdictions in which it operates. Anti-corruption laws generally prohibit offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. 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 businesses 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.

Compensation Practices and Other Regulation.

The Company's compensation practices are subject to oversight by the Federal Reserve. In particular, the Company is subject to the Federal Reserve's guidance that is 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 peer review process, and the Company expects that these policies will evolve over a number of years.

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 risk taking 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. Further, pursuant to the Dodd-Frank Act, in July 2015, the SEC proposed rules that would direct stock exchanges to require listed companies to implement clawback policies to recover incentive-based compensation from current or former executive officers in the event of certain financial restatements and would also require companies to disclose their clawback policies and their actions under those policies.

The Company's compensation practices may also be impacted by regulations in other jurisdictions. The Company's compensation practices with respect to certain employees whose activities have a material impact on the risk profile of the Company's E.U. operations are subject to the CRD IV and related E.U. and Member State regulations, including, amongst others, a cap on the ratio of variable remuneration to fixed remuneration and clawback arrangements in relation to variable remuneration paid in the past. In the U.K., the remuneration of certain employees of banks and other firms is governed by the Remuneration Codes in the PRA and FCA Handbooks, including since January 1, 2014, provisions that implement the CRD IV as well as additional U.K. requirements.

For a discussion of certain risks relating to the Company's regulatory environment, see "Risk Factors" in Part I, Item 1A.

Executive Officers of Morgan Stanley.

The executive officers of Morgan Stanley and their ages and titles as of February 23, 2016 are set forth below. Business experience for the past five years is provided in accordance with SEC rules.

Jeffrey S. Brodsky (51). Executive Vice President and Chief Human Resources Officer of Morgan Stanley (since January 2016). Vice President and Global Head of Human Resources (January 2011 to December 2015). Co-Head of Human Resources (January 2010 to December 2011). Head of Morgan Stanley Smith Barney Human Resources (June 2009 to January 2010).

James P. Gorman (57). Chairman of the Board of Directors and Chief Executive Officer of Morgan Stanley (since January 2012). President and Chief Executive Officer (January 2010 through December 2011) and member of the Board of Directors (since January 2010). Co-President (December 2007 to December 2009) and Co-Head of Strategic Planning (October 2007 to December 2009). President and Chief Operating Officer of Wealth Management (February 2006 to April 2008).

Eric F. Grossman (49). 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 Wealth Management (November 2008 to September 2010). Partner at the law firm of Davis Polk & Wardwell LLP (June 2001 to December 2005).

Keishi Hotsuki (53). Executive Vice President (since May 2014) and Chief Risk Officer of Morgan Stanley (since May 2011). Interim Chief Risk Officer (January 2011 to May 2011) and Head of Market Risk Department (March 2008 to April 2014). 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 (58). President of Morgan Stanley (since January 2016). Executive Vice President (October 2007 to January 2016). President of Institutional Securities (January 2013 to January 2016). Head of International (January 2011 to January 2016). Co-President of Institutional Securities (January 2010 to December 2012). 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).

Jonathan M. Pruzan (47). Executive Vice President and Chief Financial Officer of Morgan Stanley (since May 2015). Co-Head of Global Financial Institutions Group (January 2010 to April 2015). Co-Head of North American Financial Institutions Group M&A (September 2007 to December 2009). Head of the U.S. Bank Group (April 2005 to August 2007).

James A. Rosenthal (62). 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 Wealth Management (January 2010 to August 2011). Head of Firmwide Technology and Operations of Morgan Stanley (March 2008 to January 2010). Chief Financial Officer of Tishman Speyer (May 2006 to March 2008).

Item 1A. Risk Factors.

For a discussion of the risks and uncertainties that may affect the Company's future results and strategic goals, see "Forward-Looking Statements" immediately preceding Part I, Item 1 and "Return on Equity Target" and "Effects of Inflation and Changes in Interest and Foreign Exchange Rates" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio owned by us. For more information on how we monitor and manage market risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Market Risk" in Part II, Item 7A.

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

Our results of operations have been in the past and may be materially affected by market fluctuations due to global and economic conditions and other factors, including the level and volatility of equity, fixed income and commodity prices (including oil prices), interest rates, currency values and other market indices. 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 market fluctuations due to a variety of factors 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 Wealth Management 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 Investment Management business segment.

The value of our financial instruments may be materially affected by market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets make it extremely difficult to value certain of our financial instruments, particularly during periods of market displacement. Subsequent valuations in future periods, in light of factors then prevailing, may result in significant changes in the values of these instruments and may adversely impact historical or prospective performance-based fees (also known as incentive fees or carried interest) in respect of certain business. In addition, at the time of any sales and settlements of these financial instruments, 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 financial instruments, 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. 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 and we could realize significant losses if extreme market events were to occur.

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.

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us. For more information on how we monitor and manage credit risk, see “Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk” in Part II, Item 7A.

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 our Institutional Securities business segment. This risk may arise from a variety of business activities, including but not limited to extending credit to clients through various loans and 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; entering into swap or other derivative contracts under which counterparties have obligations to make payments to us; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in 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 our Wealth Management business segment lending to mainly individual investors, including, but not limited to, margin and securities-based 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, adverse economic conditions may negatively impact our clients and our current credit exposures. In addition, as a clearing member of several central counterparties, 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 a large financial institution could adversely affect financial markets.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. For example, increased centralization of trading activities through particular clearing houses, central agents or exchanges as required by provisions of the Dodd-Frank Act may increase our concentration of risk with respect to these entities. 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 with on a daily basis, and therefore could adversely affect us. See also “Systemic Risk Regime” under “Business—Supervision and Regulation—Financial Holding Company” in Part I, Item 1.

Operational Risk.

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under “Legal, Regulatory and

Compliance 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.

We are subject to operational risks, including a failure, breach or other disruption of our operational or security systems, that could adversely affect our businesses or reputation.

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 some of our businesses, the transactions we process are complex. In addition, we may introduce new products or services or change processes, resulting in new operational risk that we may not fully appreciate or identify. The trend toward direct access to automated, electronic markets and the move to more automated trading platforms has resulted in using increasingly complex technology that relies on the continued effectiveness of the programming code and integrity of the data to process the trades. 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 unaffiliated third parties to process a high volume of transactions.

As a major participant in the global capital markets, we maintain extensive controls to reduce the risk of incorrect valuation or risk management of our trading positions due to flaws in data, models, electronic trading systems or processes or due to fraud. Nevertheless, such risk cannot be completely eliminated.

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. In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business.

Despite the business contingency plans we have in place, there can be no assurance that such plans will fully mitigate all potential business continuity risks to us. 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, which are concentrated in the New York metropolitan area, London, Hong Kong and Tokyo as well as Mumbai, Budapest, Glasgow and Baltimore. This may include a disruption involving physical site access, cyber incidents, terrorist activities, disease pandemics, catastrophic events, natural disasters, extreme weather events, electrical, environmental, computer servers, communications or other services we use, our employees or third parties with whom we conduct business.

Although we devote significant resources to maintaining and upgrading our systems and networks with measures such as intrusion and detection prevention systems, monitoring firewalls to safeguard critical business applications, and supervising third party providers that have access to our systems, there is no guarantee that these measures or any other measures can provide absolute security. Like other financial services firms, we and our third party providers continue to be the subject of attempted unauthorized access, mishandling or misuse of information, computer viruses or malware, cyber attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, denial of service attacks and other events. These threats may derive from human error, fraud or malice on the part of our employees or third parties, including third party providers, or may result from accidental technological failure. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends. Any of these parties may also attempt to fraudulently induce employees, customers, clients, third parties or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. There can be no assurance that such unauthorized access or cyber incidents will not occur in the future, and they could occur more frequently and on a more significant scale.

If one or more of these events occur, it could result in a security impact on our systems and jeopardize our or our clients', partners' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, our and our third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in our, our clients', partners', counterparties' or third parties' operations, which could result in reputational damage with our clients and the market, client dissatisfaction, additional costs to us (such as repairing systems or adding new personnel or protection technologies), regulatory investigations, litigation or enforcement, or regulatory fines or penalties, all or any of which could adversely affect our business, financial condition or results of operations.

Given our global footprint and the high volume of transactions we process, the large number of clients, partners and counterparties with which we do business, and the increasing sophistication of cyber attacks, a cyber attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber attack would be inherently unpredictable and that it would take time before the completion of any investigation and before there is availability of full and reliable information. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber attack.

While many of our agreements with partners and third party vendors include indemnification provisions, we may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses. In addition, although we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

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 and “Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Liquidity and Funding Risk” in Part II, Item 7A.

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 fiscal matters in the U.S. and other geographic areas, could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if investors or lenders develop a negative perception of our long-term or short-term financial prospects due to factors such as an incurrence of large trading losses, a downgrade by the rating agencies, a decline in the level of our business activity, or if regulatory authorities take significant action against us or our industry, 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 to market value, either of which could adversely affect our results of operations, cash flows and financial condition.

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 impacted by our short-term and long-term credit ratings. 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 rating agencies will look at other industry-wide factors such as regulatory or legislative changes, including, for example, regulatory changes relating to total loss absorbing capacity requirements, macro-economic environment, and perceived levels of third party support, and it is possible that they could downgrade our ratings and those of similar institutions.

Our credit ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with our Institutional Securities business segment, we may be required to provide additional collateral to, or immediately settle any outstanding liability balance with, certain counterparties in the event of a credit ratings downgrade. Termination of our trading and other agreements could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements. The additional collateral or termination payments which may occur in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's Investor Services and Standard & Poor's Rating Services. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Ratings—Incremental Collateral or Terminating Payments upon Potential Future Rating Downgrade" in Part II, Item 7.

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, tax restrictions or elections 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, including steps to "ring fence" entities by regulators outside of the U.S. to protect clients and creditors of such entities in the event of financial difficulties involving such entities. 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 common 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 U.S. Bank 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 economies. Global market and economic conditions have been particularly disrupted and volatile in the last several years and may be in the future. In particular, our cost and availability of funding in the past have been, and may in the future be, adversely affected by illiquid credit markets and wider credit spreads. Significant 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.

Legal, Regulatory and Compliance Risk.

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation we may suffer as a result of our failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with AML and terrorist financing rules and regulations. In today's environment of rapid and possibly transformational regulatory change, we also view regulatory change as a component of legal, regulatory and compliance risk. For more information on how we monitor and manage legal, regulatory and compliance risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Legal and Compliance Risk" in Part II, Item 7A.

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 conduct our business. These laws and regulations significantly affect the way we do business and can restrict the scope of our existing businesses and limit our ability to expand our product offerings and pursue certain investments.

In response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, continue to propose and are in the process of adopting, finalizing and implementing a wide range of financial market reforms that are resulting in major changes to the way our global operations are regulated and conducted. In particular, as a result of these reforms, we are, or will become, subject to (among other things) significantly revised and expanded regulation and supervision, more intensive scrutiny of our businesses and any plans for expansion of those businesses, new activities limitations, a systemic risk regime that imposes heightened capital and liquidity requirements and other enhanced prudential standards, new resolution regimes and resolution planning requirements, new requirements for maintaining minimum amounts of external total loss-absorbing capacity and external long-term debt, new restrictions on activities and investments imposed by the Volcker Rule, and comprehensive new derivatives regulation. While certain portions of these reforms are effective, others are still subject to final rulemaking or transition periods. Many of the changes required by these reforms could materially impact the profitability of our businesses and the value of assets we hold, expose us to additional costs, require changes to business practices or force us to discontinue businesses, adversely affect our ability to pay dividends and repurchase our stock, or require us to raise capital, including in ways that may adversely impact our shareholders or creditors. In addition, regulatory requirements that are being proposed by foreign policymakers and regulators may be inconsistent or conflict with regulations that we are subject to in the U.S. and, if adopted, may adversely affect us. While there continues to be uncertainty about the full impact of these changes, we do know that the Company is and will continue to 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.

The application of regulatory requirements and strategies in the United States to facilitate the orderly resolution of large financial institutions may pose a greater risk of loss for the security holders of the Company.

Pursuant to the Dodd-Frank Act, the Company is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the Company. In addition, provided that certain procedures are met, the Company can be subject to a resolution proceeding under the orderly liquidation authority under Title II of the Dodd-Frank Act with the FDIC being appointed as receiver. The FDIC's power under the orderly liquidation authority to disregard the priority of creditor claims and treat similarly situated creditors differently in certain circumstances, subject to certain limitations, could adversely impact holders of the Company's unsecured debt. See "Business—Supervision and Regulation" in Part I, Item 1.

Further, because both our resolution plan contemplates a single-point-of-entry ("SPOE") strategy under the U.S. Bankruptcy Code and the FDIC has proposed an SPOE strategy through which it may apply its orderly liquidation authority powers, we believe that the application of an SPOE strategy is the reasonably likely outcome if either our resolution plan were implemented or a resolution proceeding were commenced under the orderly liquidation authority. An SPOE strategy generally contemplates the provision of additional capital and liquidity by the Company to certain subsidiaries in an effort to ensure that such subsidiaries have the resources necessary to implement the resolution strategy. Although this strategy, whether applied pursuant to the Company's resolution plan or in a resolution proceeding under the orderly liquidation authority, is intended to result in better outcomes for creditors overall, there is no guarantee that the application of an SPOE strategy will not result in greater losses for holders of the Company's securities compared to a different resolution strategy for the firm.

Regulators have taken and proposed various actions to facilitate an SPOE strategy under the U.S. Bankruptcy Code, the orderly liquidation authority or other resolution regimes. For example, the Federal Reserve has issued a proposed rule that would require top-tier bank holding companies of U.S. G-SIBs, including the Company, to maintain minimum amounts of equity and eligible long-term debt ("total loss-absorbing capacity" or "TLAC") in order to ensure that such institutions have enough loss-absorbing resources at the point of failure to be recapitalized through the conversion of debt to equity or otherwise by imposing losses on eligible TLAC where the SPOE strategy is used.

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

As a global financial services firm, we face the risk of investigations and proceedings by governmental and self-regulatory organizations 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 compensation to whistleblowers who present the SEC or CFTC with information related to securities or commodities law violations that leads to a successful enforcement action. As a result of this compensation, it is possible we could face an increased number of investigations by the SEC or CFTC.

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.

We may be responsible for representations and warranties associated with residential and commercial real estate loans and may incur losses in excess of our reserves.

We 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. 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. 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. For additional information, see also Note 12 to the consolidated financial statements in Part II, Item 8.

We currently have several legal proceedings related to claims for alleged breaches of representations and warranties. If there are decisions adverse to us in those legal proceedings, we may incur losses substantially in excess of our reserves. In addition, our reserves are based, in part, on certain factual and legal assumptions. If those assumptions are incorrect and need to be revised, we may need to adjust our reserves substantially.

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 execution of transactions in several commodities, including metals, natural gas, electric power, emission credits, and other commodity products. In addition, we are an electricity power marketer in the U.S. and own electricity generating facilities in the U.S. and 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.

Although we have attempted to mitigate our environmental risks by, among other measures, selling or ceasing much of our prior petroleum storage and transportation activities and adopting appropriate policies and procedures for power plant operations 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.

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. See also "Scope of Permitted Activities" under "Business—Supervision and Regulation" in Part I, Item 1.

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 conducting the activities in which we are engaged. 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.

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

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 identify and 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 and reputation.

Our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions. 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 U.S. Bank Subsidiaries and their affiliates.

Risk Management.

Our risk management strategies, models and processes may not be fully effective in mitigating our risk exposures 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 risk management strategies, models and processes, including our use of various risk models for assessing market exposures and hedging strategies, stress testing and other analysis, 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. As our businesses change and grow, and the markets in which we operate evolve, our risk management strategies, models and processes may not always adapt with those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. In addition, many models we use are based on assumptions or inputs regarding correlations among prices of various asset classes or other market indicators and therefore cannot anticipate sudden, unanticipated or unidentified market or economic movements, which could cause us to incur losses.

Management of market, credit, liquidity, operational, legal, regulatory and compliance 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. For example, to the extent that our trading or investing activities involve less liquid trading markets or are otherwise subject to restrictions on sale or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. We may, therefore, incur losses in the course of our trading or investing activities. For more information on how we monitor and manage market and certain other risks and related strategies, models and processes, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Market Risk" in Part II, Item 7A.

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, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial or ancillary 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, technology, 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 left businesses, been acquired by or merged into other firms or have declared bankruptcy. Such changes 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, or new competitors may emerge. We have experienced and may continue to experience pricing pressures as a result of these factors and as some of our competitors seek to obtain market share by reducing prices. In addition, certain of our competitors may be subject to different, and in some cases, less stringent, legal and regulatory regimes, than we are, thereby putting us at a competitive disadvantage. For more information regarding the competitive environment in which we operate, see "Business—Competition" and "Business—Supervision and Regulation" in Part I, Item 1.

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, derivatives and other financial instrument trades electronically on exchanges, swap execution facilities, and other automated trading platforms has increased the pressure on bid-offer spreads, commissions, markups or comparable fees. The trend toward direct access to automated, electronic markets will likely continue and will likely increase as additional markets move to more automated trading platforms. 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 bid-offer spreads, commissions, markups or comparable fees.

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. If we are unable to continue to attract and retain highly qualified employees, or do so at rates or in forms 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 experienced 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, defaults or potential defaults on sovereign debt, 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.

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, as well as applicable anti-corruption laws in the jurisdictions in which we operate, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. A violation of a sanction, embargo program, or anti-corruption law could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties.

Acquisition, Divestiture and Joint Venture Risk.

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

In connection with past or future acquisitions, divestitures, joint ventures or strategic alliances (including with Mitsubishi UFJ Financial Group, Inc.), we face numerous risks and uncertainties combining, transferring, separating or integrating the relevant businesses and systems, including the need to combine or separate 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.

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 or divestitures will be successfully integrated or disaggregated or yield all of the positive benefits anticipated. If we are not able to integrate or disaggregate successfully our past and future acquisitions or dispositions, 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.

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.

Item 2. Properties.

The Company has 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 include the following properties:

Location	Owned/ Leased	Lease Expiration	Approximate Square Footage as of December 31, 2015(1)
U.S. Locations			
1585 Broadway New York, New York *(Global Headquarters and Institutional Securities Headquarters)*	Owned	N/A	1,332,700 square feet
2000 Westchester Avenue Purchase, New York *(Wealth Management Headquarters)*	Owned	N/A	597,400 square feet
522 Fifth Avenue New York, New York *(Investment Management Headquarters)*	Owned	N/A	571,800 square feet
International Locations			
20 Bank Street London *(London Headquarters)*	Leased	2038	546,500 square feet
1 Austin Road West Kowloon *(Hong Kong Headquarters)*	Leased	2019	499,900 square feet
Otemachi Financial City South Tower Otemachi, Chiyoda-ku *(Tokyo Headquarters)*	Leased	2028	245,600 square feet

[1] The indicated total aggregate square footage leased does not include space leased by Morgan Stanley branch offices.

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, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Company, and 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. The Company's future legal expenses may fluctuate from period to period, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

In many proceedings and investigations, 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 or investigations will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings and investigations will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings or investigations 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 (both formal and informal) by government and self-regulatory agencies 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 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 claims that have not yet been asserted or are not yet determined to be material.

Residential Mortgage and Credit Crisis Related Matters.

Regulatory and Governmental Matters. The Company has received subpoenas and requests for information from certain federal and state regulatory and governmental entities, including among others various members of the RMBS Working Group of the Financial Fraud Enforcement Task Force, such as the United States Department of Justice, Civil Division and several state Attorney General's Offices, 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, some of which are in advanced stages, 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.

In May 2014, the California Attorney General's Office ("CAAG"), which is one of the members of the RMBS Working Group, indicated that it has made certain preliminary conclusions that the Company made knowing and material misrepresentations regarding RMBS and that it knowingly caused material misrepresentations to be made regarding the Cheyne SIV, which issued securities marketed to the California Public Employees Retirement System. The CAAG has further indicated that it believes the Company's conduct violated California law and that it may seek treble damages, penalties and injunctive relief. The Company does not agree with these conclusions and has presented defenses to them to the CAAG.

In October 2014, the Illinois Attorney General's Office ("ILAG") sent a letter to the Company alleging that the Company knowingly made misrepresentations related to RMBS purchased by certain pension funds affiliated with the State of Illinois and demanding that the Company pay ILAG approximately $88 million. The Company and ILAG reached an agreement to resolve the matter on February 10, 2016.

On January 13, 2015, the New York Attorney General's Office ("NYAG"), which is also a member of the RMBS Working Group, indicated that it intends to file a lawsuit related to approximately 30 subprime securitizations sponsored by the Company. NYAG indicated that the lawsuit would allege that the Company misrepresented or omitted material information related to the due diligence, underwriting and valuation of the loans in the securitizations and the properties securing them and indicated that its lawsuit would be brought under the Martin Act. The Company and NYAG reached an agreement to resolve the matter on February 10, 2016.

On February 25, 2015, the Company reached an agreement in principle with the United States Department of Justice, Civil Division and the United States Attorney's Office for the Northern District of California, Civil Division (collectively, the "Civil Division") to pay $2.6 billion to resolve certain claims that the Civil Division indicated it intended to bring against the Company. That settlement was finalized on February 10, 2016.

Civil Litigation.

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.* The amended complaint, filed on September 28, 2010, 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. 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 7, 2013, the court granted defendants' motion to strike plaintiff's demand for a jury trial. The defendants' joint motions for partial summary judgment were denied on November 9, 2015.

On March 15, 2010, the Federal Home Loan Bank of San Francisco filed a complaint against the Company and other defendants in the Superior Court of the State of California styled *Federal Home Loan Bank of San Francisco v. Deutsche Bank Securities Inc. et al.* An amended complaint, filed on June 10, 2010, alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiff of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly sold to plaintiff by the Company was approximately $276 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. On August 11, 2011, plaintiff's federal securities law claims were dismissed with prejudice. On February 9, 2012, defendants' demurrers with respect to all other claims were overruled. On December 20, 2013, plaintiff's negligent misrepresentation claims were dismissed with prejudice.

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 second amended complaint, filed on March 5, 2012, 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 amended complaint raises claims under California law and seeks, among other things, to rescind the plaintiff's purchase of such certificates. On April 10, 2012, the Company filed a demurrer to certain causes of action in the second amended complaint, which the court overruled on July 24, 2012. On November 24, 2014, plaintiff's negligent misrepresentation claims were dismissed with prejudice. An initial trial of certain of plaintiff's claims is scheduled to begin in July 2016.

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Company, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"). 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 February 28, 2011, the court denied the Company's motion to dismiss the complaint.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a complaint against the Company and other defendants in the Circuit Court of the State of Illinois, styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al*. A corrected amended complaint was filed on April 8, 2011. The corrected amended complaint alleges 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 and asserts claims under Illinois law. The total amount of certificates allegedly sold to plaintiff by the Company at issue in the action was approximately $203 million. The complaint seeks, among other things, to rescind the plaintiff's purchase of such certificates. The defendants filed a motion to dismiss the corrected amended complaint on May 27, 2011, which was denied on September 19, 2012. On December 13, 2013, the court entered an order dismissing all claims related to one of the securitizations at issue. After that dismissal, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $78 million.

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.* An amended complaint was filed on June 29, 2012 and 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 $385 million. The amended 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. The defendants' motions to dismiss the amended complaint were granted in part and denied in part on September 30, 2013. On November 25, 2013, July 16, 2014, and May 19, 2015, respectively, the plaintiff voluntarily dismissed its claims against the Company with respect to three of the securitizations at issue. After these voluntary dismissals, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $332 million.

On August 7, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v. Morgan Stanley Mortgage Capital Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On August 8, 2014, the court granted in part and denied in part the defendants' motion to dismiss the complaint.

On August 8, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*. and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. On August 16, 2013, the court granted in part and denied in part the Company's motion to dismiss the complaint.

On September 28, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.,* pending in the Supreme Court of NY. Plaintiff filed an amended complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. By order entered September 30, 2014, the court granted in part and denied in part the Company's motion to dismiss the amended complaint. On July 13, 2015, plaintiff perfected its appeal from the court's September 30, 2014 decision.

On December 14, 2012, Royal Park Investments SA/NV filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY, styled *Royal Park Investments SA/NV v. Merrill Lynch et al.* On October 24, 2013, plaintiff filed a new complaint against the Company in the Supreme Court of NY, styled *Royal Park Investments SA/NV v. Morgan Stanley et al.*, alleging that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $597 million. The complaint raises common law claims of fraud, fraudulent inducement, negligent misrepresentation, and aiding and abetting fraud and seeks, among other things, compensatory and punitive damages. The plaintiff filed an amended complaint on December 1, 2015.

On January 10, 2013, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-10SL and Mortgage Pass-Through Certificates, Series 2006-10SL against the Company. The complaint is styled *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $300 million, breached various representations and warranties. The complaint seeks, among other relief, an order requiring the Company to comply with the loan breach remedy procedures in the transaction documents, unspecified damages, and interest. On August 8, 2014, the court granted in part and denied in part the Company's motion to dismiss the complaint.

On January 31, 2013, HSH Nordbank AG and certain affiliates filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY, styled *HSH Nordbank AG et al. v. Morgan Stanley et al.* The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $524 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On April 12, 2013, defendants filed a motion to dismiss the complaint, which was granted in part and denied in part on July 21, 2015. On August 19, 2015, the Company filed a Notice of Appeal of the court's decision, and on August 20, 2015, the plaintiffs filed a Notice of Cross-Appeal. On August 25, 2015, the plaintiffs filed a motion for leave to amend their complaint.

On May 3, 2013, plaintiffs in *Deutsche Zentral-Genossenschaftsbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $644 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On June 10, 2014, the court granted in part and denied in part the defendants' motion to dismiss the complaint. The Company perfected its appeal from that decision on June 12, 2015.

On May 17, 2013, plaintiff in *IKB International S.A. in Liquidation, et al. v. Morgan Stanley, et al.* filed a complaint against the Company and certain affiliates in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff was approximately $132 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, compensatory and punitive damages. On October 29, 2014, the court granted in part and denied in part the Company's motion to dismiss. All claims regarding four certificates were dismissed. After these dismissals, the remaining amount of certificates allegedly issued by the Company or sold to plaintiff by the Company was approximately $116 million. On August 26, 2015, the Company perfected its appeal from the court's October 29, 2014 decision.

On July 2, 2013, Deutsche Bank, in its capacity as trustee, became the named plaintiff in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 (MSAC 2007-NC1) v. Morgan Stanley ABS Capital I Inc.*, and filed a complaint in the Supreme Court of NY under the caption *Deutsche Bank National Trust Company, as Trustee for the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 v. Morgan Stanley ABS Capital I, Inc.* On February 3, 2014, the plaintiff filed an amended complaint, which asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.25 billion, breached various representations and warranties. The amended complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, rescission and interest. On March 12, 2014, the Company filed a motion to dismiss the amended complaint.

On July 8, 2013, U.S. Bank National Association, in its capacity as trustee, filed a complaint styled *Morgan Stanley Mortgage Loan Trust 2007-2AX, by U.S. Bank National Association, solely in its capacity as Trustee v. Morgan Stanley Mortgage Capital Holdings LLC, as successor-by-merger to Morgan Stanley Mortgage Capital Inc., and Greenpoint Mortgage Funding, Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On August 22, 2013, the Company a filed a motion to dismiss the complaint, which was granted in part and denied in part on November 24, 2014.

On August 26, 2013, a complaint was filed against the Company and certain affiliates in the Supreme Court of NY, styled *Phoenix Light SF Limited et al v. Morgan Stanley et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiffs, or their assignors, 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 or their assignors by the Company was approximately $344 million. The complaint raises common law claims of fraud, fraudulent inducement, aiding and abetting fraud, negligent misrepresentation and rescission based on mutual mistake and seeks, among other things, compensatory damages, punitive damages or alternatively rescission or rescissionary damages associated with the purchase of such certificates. The defendants filed a motion to dismiss the complaint on December 13, 2013, which the parties later agreed would be deemed to be directed at an amended complaint filed on June 17, 2014. On April 23, 2015, the court granted the Company's motion to dismiss the amended complaint, and on May 21, 2015, the plaintiffs filed a notice of appeal of that order.

On November 6, 2013, Deutsche Bank, in its capacity as trustee, became the named plaintiff in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley*

ABS Capital I Inc. Trust, Series 2007-NC3 (MSAC 2007-NC3) v. Morgan Stanley Mortgage Capital Holdings LLC, and filed a complaint in the Supreme Court of NY under the caption *Deutsche Bank National Trust Company, solely in its capacity as Trustee for Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC3 v. Morgan Stanley Mortgage Capital Holdings LLC, as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc.* The complaint asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.3 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, rescission, interest and costs. On December 16, 2013, the Company filed a motion to dismiss the complaint.

On December 30, 2013, Wilmington Trust Company, in its capacity as trustee for Morgan Stanley Mortgage Loan Trust 2007-12, filed a complaint against the Company. The matter is styled *Wilmington Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC et al.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $516 million, breached various representations and warranties. The complaint seeks, among other relief, unspecified damages, interest and costs. On February 28, 2014, the defendants filed a motion to dismiss the complaint.

On April 28, 2014, Deutsche Bank National Trust Company, in its capacity as trustee for Morgan Stanley Structured Trust I 2007-1, filed a complaint against the Company. The matter is styled *Deutsche Bank National Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC* and is pending in the United States District Court for the Southern District of New York ("SDNY"). The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $735 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified compensatory and/or rescissory damages, interest and costs. On April 3, 2015, the court granted in part and denied in part the Company's motion to dismiss the complaint.

On September 19, 2014, Financial Guaranty Insurance Company ("FGIC") filed a complaint against the Company in the Supreme Court of NY, styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* The complaint asserts claims for breach of contract and alleges, among other things, that the net interest margin securities ("NIMS") in the trust breached various representations and warranties. FGIC issued a financial guaranty policy with respect to certain notes that had an original balance of approximately $475 million. The complaint seeks, among other relief, specific performance of the NIM breach remedy procedures in the transaction documents, unspecified damages, reimbursement of certain payments made pursuant to the transaction documents, attorneys' fees and interest. On November 24, 2014, the Company filed a motion to dismiss the complaint.

On September 23, 2014, FGIC filed a complaint against the Company in the Supreme Court of NY styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* The complaint asserts claims for breach of contract and fraudulent inducement and alleges, among other things, that the loans in the trust breached various representations and warranties and defendants made untrue statements and material omissions to induce FGIC to issue a financial guaranty policy on certain classes of certificates that had an original balance of approximately $876 million. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential and punitive damages, attorneys' fees and interest. On November 24, 2014, the Company filed a motion to dismiss the complaint.

On January 23, 2015, Deutsche Bank National Trust Company, in its capacity as trustee, filed a complaint against the Company styled *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.05 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential, rescissory, equitable and punitive damages, attorneys' fees, costs and other related expenses, and interest. On October 20, 2015, the court granted in part and denied in part the Company's motion to dismiss the complaint.

Commercial Mortgage Related Matter.

On January 25, 2011, the Company was named as a defendant in *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc.,* a litigation pending in the SDNY. The suit, brought by the trustee of a series of commercial mortgage pass-through certificates, alleges that the Company breached certain representations and warranties with respect to an $81 million commercial mortgage loan that was originated and transferred to the trust by the Company. The complaint seeks, among other things, to have the Company repurchase the loan and pay additional monetary damages. On June 16, 2014, the court granted the Company's supplemental motion for summary judgment. On July 16, 2014, the plaintiff filed a notice of appeal.

Currency Related Matters.

Regulatory and Governmental Matters.

The Company is responding to a number of regulatory and governmental inquiries both in the United States and abroad related to its foreign exchange business. In addition, on June 29, 2015, the Company and a number of other financial institutions were named as respondents in a proceeding before Brazil's Council for Economic Defense related to alleged anticompetitive activity in the foreign exchange market for the Brazilian Real.

Class Action Litigation.

Beginning in December 2013, several foreign exchange dealers (including the Company and certain affiliates) were named as defendants in multiple purported antitrust class actions most of which have now been consolidated into a single proceeding in the United States District Court for the Southern District of New York styled *In Re Foreign Exchange Benchmark Rates Antitrust Litigation*. On July 16, 2015, plaintiffs filed an amended complaint generally alleging that defendants engaged in a conspiracy to fix, maintain or make artificial prices for key benchmark rates, to manipulate bid/ask spreads, and, by their behavior in the over-the-counter market, to thereby cause corresponding manipulation in the foreign exchange futures market. Plaintiffs seek declaratory relief as well as treble damages in an unspecified amount. Defendants filed a motion to dismiss the amended complaint on November 30, 2015.

On September 11, 2015, several foreign exchange dealers (including the Company and an affiliate) were named as defendants in a purported class action filed in the Ontario Superior Court of Justice styled *Christopher Staines v. Royal Bank of Canada, et al.* The plaintiff has made allegations similar to those in the *In Re Foreign Exchange Benchmark Rates Antitrust Litigation* and seeks C$1 billion as well as C$50 million in punitive damages. On September 16, 2015, a parallel proceeding was initiated in Quebec Superior Court styled *Christine Beland v. Royal Bank of Canada, et al.* based on similar allegations and seeking C$100 million as well as C$50 million in punitive damages.

Wealth Management Related Matters.

The Company is currently defending itself in an ongoing arbitration styled *Lynnda L. Speer, as Personal Representative of the Estate of Roy M. Speer, et al. v. Morgan Stanley Smith Barney LLC, et al.*, which is pending before a Financial Industry Regulatory Authority arbitration panel in the state of Florida. Plaintiffs assert claims for excessive trading, unauthorized use of discretion, undue influence, negligence and negligent supervision, constructive fraud, abuse of fiduciary duty, unjust enrichment and violations of several Florida statutes in connection with brokerage accounts owned by a former high-net worth wealth management client who is now deceased. Plaintiffs are seeking approximately $475 million in disgorgement, compensatory damages, statutory damages, punitive damages and treble damages under various factual and legal theories.

The following matters were terminated during or following the quarter ended December 31, 2015:

On January 20, 2012, Sealink Funding Limited filed a complaint against the Company in the Supreme Court of NY, styled *Sealink Funding Limited v. Morgan Stanley, et al.* A second amended complaint, filed on March 20, 2013, alleged that defendants made untrue statements and material omissions in the sale 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 $507 million. On April 18, 2014, the court granted the Company's motion to dismiss the second amended complaint. The dismissal was affirmed on appeal on November 12, 2015.

On January 25, 2012, Dexia SA/NV and certain of its affiliated entities filed a complaint against the Company in the Supreme Court of NY, styled *Dexia SA/NV et al. v. Morgan Stanley, et al.* An amended complaint was filed on May 24, 2012 and alleged 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 $626 million. On October 16, 2013, the court granted the defendants' motion to dismiss the amended complaint. The dismissal was affirmed on appeal on January 12, 2016.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey, styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* On October 16, 2012, plaintiffs filed an amended complaint. The amended complaint alleged that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company was approximately $1.073 billion. The amended complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud, fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On January 8, 2016, the parties reached an agreement to settle the litigation.

On August 10, 2012, the FDIC, as receiver for Colonial Bank, filed a complaint against the Company and other defendants in the Circuit Court of Montgomery, Alabama styled *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Citigroup Mortgage Loan Trust Inc. et al.* On January 15, 2014, the FDIC, as receiver for United Western Bank filed a complaint against the Company and others in the District Court of the State of Colorado, styled *Federal Deposit Insurance Corporation, as Receiver for United Western Bank v. Banc of America Funding Corp., et al.* The complaints in those cases asserted that the Company made untrue statements and material omissions in connection with the sale of mortgage pass-through certificates purchased by Colonial Bank and United Western Bank, respectively. On January 28, 2016, the parties reached an agreement to settle both actions.

On August 5, 2013, Landesbank Baden-Württemberg and two affiliates filed a complaint against the Company and certain affiliates in the Supreme Court of NY, styled *Landesbank Baden-Württemberg et al. v. Morgan Stanley et al.* The complaint alleged that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiffs was approximately $50 million. On January 20, 2016, the parties reached an agreement in principle to settle the litigation.

On August 16, 2013, the plaintiff in *National Credit Union Administration Board v. Morgan Stanley & Co. Incorporated, et al.* filed a complaint against the Company and certain affiliates in the United States District Court for the District of Kansas. On September 23, 2013, the plaintiff in *National Credit Union Administration Board v. Morgan Stanley & Co. Inc., et al.* filed a complaint against the Company and certain affiliates in the SDNY. The complaints alleged that defendants made untrue statements of material fact or omitted to state material facts in the sale to the plaintiff of certain mortgage pass-through certificates issued by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiffs in the matters was approximately $567 million and $417 million, respectively. The complaints alleged violations of federal and various state securities laws and sought, among other things, rescissionary and compensatory damages. On November 23, 2015, the parties reached an agreement to settle both matters.

On September 16, 2014, the Virginia Attorney General's Office filed a civil lawsuit, styled *Commonwealth of Virginia ex rel. Integra REC LLC v. Barclays Capital Inc., et al.*, against the Company and several other defendants in the Circuit Court of the City of Richmond related to RMBS. The lawsuit alleged that the Company and the other defendants knowingly made misrepresentations and omissions related to the loans backing RMBS purchased by the Virginia Retirement System. The complaint asserts claims under the Virginia Fraud Against Taxpayers Act, as well as common law claims of actual and constructive fraud, and seeks, among other things, treble damages and civil penalties. On January 6, 2016, the parties reached an agreement to settle the litigation. An order dismissing the action with prejudice was entered on January 28, 2016.

Matters Related to the CDS Market.

On July 1, 2013, the European Commission (“EC”) issued a Statement of Objections (“SO”) addressed to twelve financial firms (including the Company), the International Swaps and Derivatives Association, Inc. (“ISDA”) and Markit Group Limited (“Markit”) and various affiliates alleging that, between 2006 and 2009, the recipients breached European Union competition law by taking and refusing to take certain actions in an effort to prevent the development of exchange traded credit default swap (“CDS”) products. The Company and the other recipients of the SO filed a response to the SO on January 21, 2014, and attended oral hearings before the EC during the period May 12-19, 2014. On December 4, 2015, the EC announced that it had closed its antitrust investigation into the twelve financial firms, including the Company.

Beginning in May 2013, twelve financial firms (including the Company), as well as ISDA and Markit, were named as defendants in multiple purported antitrust class actions consolidated into a single proceeding in the SDNY styled *In Re: Credit Default Swaps Antitrust Litigation*. Plaintiffs alleged that defendants violated United States antitrust laws from 2008 to present in connection with their alleged efforts to prevent the development of exchange traded CDS products. The complaints sought, among other relief, certification of a class of plaintiffs who purchased CDS from defendants in the United States, treble damages and injunctive relief. On September 30, 2015, the Company reached an agreement with plaintiffs to settle the litigation. The settlement received preliminary court approval on October 29, 2015, and is subject to final court approval.

Item 4. Mine Safety Disclosures.

Not applicable.

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 under the symbol "MS" on the New York Stock Exchange. As of February 17, 2016, the Company had 68,615 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 dividends declared per common share by its Board of Directors for such quarter.

	Low Sale Price	High Sale Price	Dividends Declared per Common Share
2015:			
Fourth Quarter	$ 30.15	$ 35.74	$ 0.15
Third Quarter	$ 30.40	$ 41.04	$ 0.15
Second Quarter	$ 35.36	$ 40.26	$ 0.15
First Quarter	$ 33.72	$ 39.15	$ 0.10
2014:			
Fourth Quarter	$ 31.35	$ 39.19	$ 0.10
Third Quarter	$ 31.12	$ 36.44	$ 0.10
Second Quarter	$ 28.31	$ 32.82	$ 0.10
First Quarter	$ 28.78	$ 33.52	$ 0.05

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, 2015.

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(1)	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs
Month #1 (October 1, 2015-October 31, 2015)				
Share Repurchase Program(2)	2,448,000	$ 32.17	2,448,000	$ 1,796
Employee transactions(3)	83,738	$ 32.06	—	—
Month #2 (November 1, 2015-November 30, 2015)				
Share Repurchase Program(2)	7,985,128	$ 33.99	7,985,128	$ 1,525
Employee transactions(3)	243,334	$ 34.58	—	—
Month #3 (December 1, 2015-December 31, 2015)				
Share Repurchase Program(2)	8,210,166	$ 33.47	8,210,166	$ 1,250
Employee transactions(3)	72,712	$ 33.87	—	—
Quarter ended at December 31, 2015				
Share Repurchase Program(2)	18,643,294	$ 33.52	18,643,294	$ 1,250
Employee transactions(3)	399,784	$ 33.92	—	—

[1] 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 and may be suspended at any time.

[2] The Company's Board of Directors has authorized the repurchase 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 stock-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. In March 2015, the Company received no objection from the Federal Reserve to repurchase up to $3.1 billion of the Company's outstanding common stock during the period that began April 1, 2015 through June 30, 2016 under the Company's 2015 capital plan. During the quarter ended December 31, 2015, the Company repurchased approximately $625 million of the Company's outstanding common stock as part of its Share Repurchase Program. For further information, see "Liquidity and Capital Resources—Capital Management" in Part II, Item 7.

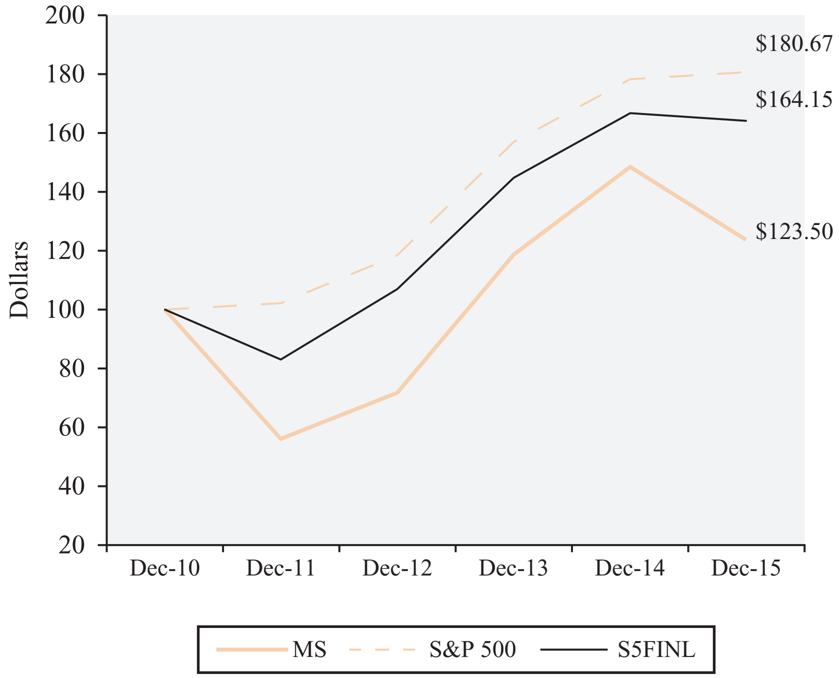
[3] Includes shares acquired by the Company in satisfaction of the tax withholding obligations on stock-based awards and the exercise price of stock options granted under the Company's stock-based compensation plans.

***

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 Standard & Poor's 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 31, 2010 and reinvestment of dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of the Company's common stock.

CUMULATIVE TOTAL RETURN
December 31, 2010 - December 31, 2015



	MS	S&P 500	S5FINL
12/31/2010	$ 100.00	$ 100.00	$ 100.00
12/31/2011	$ 56.07	$ 102.10	$ 82.94
12/31/2012	$ 71.73	$ 118.44	$ 106.78
12/31/2013	$ 118.60	$ 156.78	$ 144.79
12/31/2014	$ 148.35	$ 178.22	$ 166.76
12/31/2015	$ 123.50	$ 180.67	$ 164.15

Item 6. Selected Financial Data.

MORGAN STANLEY
SELECTED FINANCIAL DATA
(dollars in millions, except share and per share data)

	2015	2014	2013	2012	2011
Income Statement Data:					
Revenues:					
Total non-interest revenues	$ 32,062	$ 32,540	$ 31,715	$ 26,383	$ 31,953
Interest income	5,835	5,413	5,209	5,692	7,234
Interest expense	2,742	3,678	4,431	5,897	6,883
Net interest	3,093	1,735	778	(205)	351
Net revenues	35,155	34,275	32,493	26,178	32,304
Non-interest expenses:					
Compensation and benefits	16,016	17,824	16,277	15,615	16,325
Other	10,644	12,860	11,658	9,967	9,792
Total non-interest expenses	26,660	30,684	27,935	25,582	26,117
Income from continuing operations before income taxes	8,495	3,591	4,558	596	6,187
Provision for (benefit from) income taxes	2,200	(90)	902	(161)	1,491
Income from continuing operations	6,295	3,681	3,656	757	4,696
Discontinued operations:					
Income (loss) from discontinued operations before income taxes	(23)	(19)	(72)	(48)	(170)
Provision for (benefit from) income taxes	(7)	(5)	(29)	(7)	(119)
Income (loss) from discontinued operations	(16)	(14)	(43)	(41)	(51)
Net income	6,279	3,667	3,613	716	4,645
Net income applicable to redeemable noncontrolling interests(1)	—	—	222	124	—
Net income applicable to nonredeemable noncontrolling interests(1)	152	200	459	524	535
Net income applicable to Morgan Stanley	$ 6,127	$ 3,467	$ 2,932	$ 68	$ 4,110
Preferred stock dividends and other	456	315	277	98	2,043
Earnings (loss) applicable to Morgan Stanley common shareholders(2)	$ 5,671	$ 3,152	$ 2,655	$ (30)	$ 2,067
Amounts applicable to Morgan Stanley:					
Income from continuing operations	$ 6,143	$ 3,481	$ 2,975	$ 138	$ 4,168
Income (loss) from discontinued operations	(16)	(14)	(43)	(70)	(58)
Net income applicable to Morgan Stanley	$ 6,127	$ 3,467	$ 2,932	$ 68	$ 4,110

	2015	2014	2013	2012	2011
Per Share Data:					
Earnings (loss) per basic common share(3):					
Income from continuing operations	$ 2.98	$ 1.65	$ 1.42	$ 0.02	$ 1.28
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.03)	(0.04)	(0.03)
Earnings (loss) per basic common share	$ 2.97	$ 1.64	$ 1.39	$ (0.02)	$ 1.25
Earnings (loss) per diluted common share(3):					
Income from continuing operations	$ 2.91	$ 1.61	$ 1.38	$ 0.02	$ 1.27
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.02)	(0.04)	(0.04)
Earnings (loss) per diluted common share	$ 2.90	$ 1.60	$ 1.36	$ (0.02)	$ 1.23
Book value per common share(4)	$ 35.24	$ 33.25	$ 32.24	$ 30.70	$ 31.42
Dividends declared per common share	0.55	0.35	0.20	0.20	0.20
Average common shares outstanding(2):					
Basic	1,909,116,527	1,923,805,397	1,905,823,882	1,885,774,276	1,654,708,640
Diluted	1,952,815,453	1,970,535,560	1,956,519,738	1,918,811,270	1,675,271,669
Balance Sheet and Other Operating Data:					
Trading assets	$ 228,280	$ 256,801	$ 280,744	$ 267,603	$ 275,353
Loans(5)	85,759	66,577	42,874	29,046	15,369
Total assets	787,465	801,510	832,702	780,960	749,898
Total deposits	156,034	133,544	112,379	83,266	65,662
Long-term borrowings	153,768	152,772	153,575	169,571	184,234
Morgan Stanley shareholders' equity	75,182	70,900	65,921	62,109	62,049
Return on average common equity(6)	8.5%	4.8%	4.3%	N/M	3.8%

N/M—Not Meaningful.

(1) Reflects 51% ownership of the retail securities joint venture between the Company and Citigroup Inc. up to September 17, 2012, 65% up to June 28, 2013 and 100% thereafter (see Note 15 to the consolidated financial statements in Part II, Item 8).

(2) Amounts shown are used to calculate earnings (loss) per basic and diluted common share.

(3) For the calculation of basic and diluted earnings (loss) per common share, see Note 16 to the consolidated financial statements in Part II, Item 8.

(4) Book value per common share equals common shareholders' equity of $67,662 million at December 31, 2015, $64,880 million at December 31, 2014, $62,701 million at December 31, 2013, $60,601 million at December 31, 2012 and $60,541 million at December 31, 2011, divided by common shares outstanding of 1,920 million at December 31, 2015, 1,951 million at December 31, 2014, 1,945 million at December 31, 2013, 1,974 million at December 31, 2012 and 1,927 million at December 31, 2011.

(5) Amounts include loans held for investment and loans held for sale but exclude loans at fair value, which are included in Trading assets in the consolidated statements of financial condition (see Note 7 to the consolidated financial statements in Part II, Item 8).

(6) The calculation of return on average common equity equals net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity. The return on average common equity is a non-generally accepted accounting principle ("non-GAAP") financial measure that the Company considers to be a useful measure to the Company and its investors to assess operating performance.

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, Wealth Management and Investment Management. Morgan Stanley, 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" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries.

A description of the clients and principal products and services of each of the Company's business segments is as follows:

> *Institutional Securities* provides investment banking, sales and trading and other services to corporations, governments, financial institutions, and high-to-ultra high net worth clients. Investment banking services comprise capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing and market-making activities in equity securities and fixed income products, including foreign exchange and commodities, as well as prime brokerage services. Other services include corporate lending activities and credit products, investments and research.
>
> *Wealth Management* provides a comprehensive array of financial services and solutions to individual investors and small-to-medium sized businesses and institutions covering brokerage and investment advisory services, market-making activities in fixed income securities, financial and wealth planning services, annuity and insurance products, credit and other lending products, banking and retirement plan services.
>
> *Investment Management* provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets, to a diverse group of clients across institutional and intermediary channels. Institutional clients include defined benefit/defined contribution pensions, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are serviced through intermediaries, including affiliated and non-affiliated distributors. Strategies and products comprise traditional asset management, including equity, fixed income, liquidity, alternatives and managed futures products as well as merchant banking and real estate investing.

The results of operations in the past have been, and in the future may continue to be, materially affected by competition, risk factors, legislative, legal and regulatory developments, as well as other factors. These factors also may have an adverse impact on the Company's ability to achieve its strategic objectives. Additionally, the discussion of the Company's results of operations below may contain forward-looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect the Company's future results, see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Business—Competition" and "Business—Supervision and Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A and "Liquidity and Capital Resources—Regulatory Requirements" herein.

Executive Summary.

Overview of Financial Results.

2015 Compared with 2014.

Consolidated Results.

- The Company reported net revenues of $35,155 million in 2015, a 3% increase from net revenues of $34,275 million in 2014. The impact of debt valuation adjustment ("DVA") included in net revenues was positive $618 million and $651 million in 2015 and 2014, respectively.

- Net income applicable to Morgan Stanley for the current year was $6,127 million, or $2.90 per diluted common share, compared with $3,467 million, or $1.60 per diluted common share, a year ago. The current year included net discrete tax benefits of $564 million, or $0.29 per diluted common share, compared with $2,226 million, or $1.13 per diluted common share, in the prior year. For a further discussion of these net discrete tax benefits, see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein. The prior year also included litigation costs related to residential mortgage-backed securities and credit crisis matters of $3,083 million, or a loss of $1.47 per diluted common share, 2014 compensation actions of approximately $1,137 million (see also "Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation" herein), or a loss of $0.39 per diluted common share, and a funding valuation adjustment ("FVA") implementation charge of $468 million, or a loss of $0.17 per diluted common share.

- Excluding DVA, net revenues were $34,537 million in 2015 compared with $33,624 million in 2014, and net income applicable to Morgan Stanley was $5,728 million, or $2.70 per diluted common share, in 2015 compared with $3,049 million, or $1.39 per diluted common share, in 2014. Excluding both DVA and the net discrete tax benefits, net income applicable to Morgan Stanley was $5,164 million, or $2.41 per diluted common share, in 2015 compared with $823 million, or $0.26 per diluted common share, in 2014.

Business Segments.

- Institutional Securities net revenues of $17,953 million in 2015 increased 6% compared with $16,871 million in 2014, primarily as a result of higher Sales and trading net revenues, partially offset by lower Other revenues and lower revenues in Investment banking.

- Wealth Management net revenues of $15,100 million in 2015 increased 1% from $14,888 million in 2014, primarily as a result of higher net interest income and asset management revenues, partially offset by lower transactional revenues.

- Investment Management net revenues of $2,315 million in 2015 decreased 15% from $2,712 million in 2014, primarily reflecting the reversal of previously accrued carried interest, reduction in revenues attributable to non-controlling interests and markdowns on principal investments.

Expenses.

- Compensation and benefits expenses of $16,016 million in 2015 were down 10% from $17,824 million in 2014, primarily due to the 2014 compensation actions, a decrease in 2015 in the fair value of deferred compensation plan referenced investments and carried interest, and a decrease in the level of discretionary incentive compensation in 2015 (see also "Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation" herein).

- Non-compensation expenses were $10,644 million in 2015 compared with $12,860 million in 2014, representing a 17% decrease, primarily as a result of lower legal expenses in the Institutional Securities business segment associated with residential mortgage-backed securities and credit crisis-related matters.

Return on Average Common Equity.

- The return on average common equity was 8.5% in 2015, or 7.8% excluding DVA, and 7.0% excluding DVA and the net discrete tax benefits. For 2014, the return on average common equity was 4.8%, or 4.1% excluding DVA, and 0.8% excluding DVA and the net discrete tax benefits.

2014 Compared with 2013.

Consolidated Results.

- The Company reported net revenues of $34,275 million in 2014, a 5% increase compared with $32,493 million in 2013. Net revenues in 2014 included positive revenues due to the impact of DVA of $651 million compared with negative revenues of $681 million in 2013. In addition, net revenues in 2014 included a charge of approximately $468 million related to the implementation of FVA (see "Critical Accounting Policies" herein and Note 2 to the consolidated financial statements in Item 8), which was recorded in the Institutional Securities business segment.

- For 2014, net income applicable to Morgan Stanley was $3,467 million, or $1.60 per diluted common share, compared with $2,932 million, or $1.36 per diluted common share, in 2013. 2014 included net discrete tax benefits of $2,226 million, or $1.13 per diluted common share, compared with $407 million, or $0.21 per diluted common share, in 2013. For a further discussion of these net discrete tax benefits, see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein.

- Excluding DVA, net revenues were $33,624 million in 2014 compared with $33,174 million in 2013, and net income applicable to Morgan Stanley was $3,049 million, or $1.39 per diluted common share, in 2014 compared with $3,384 million, or $1.59 per diluted common share, in 2013. Excluding both DVA and the net discrete tax benefits, net income applicable to Morgan Stanley was $823 million, or $0.26 per diluted common share, in 2014 compared with $2,977 million, or $1.38 per diluted common share, in 2013.

Business Segments.

- Institutional Securities net revenues of $16,871 million in 2014 increased 9% compared with $15,519 million in 2013, primarily as a result of an increase in Sales and trading net revenues and Investment banking revenues, partially offset by lower net investment gains.

- Wealth Management net revenues of $14,888 million in 2014 increased 5% from $14,143 million in 2013, primarily as a result of higher Asset management, distribution and administration fees and an increase in net interest income, partially offset by lower transactional revenues.

- Investment Management net revenues of $2,712 million in 2014 decreased 11% from $3,059 million in 2013. The decrease in net revenues was primarily related to lower net investment gains, including from investments in the Company's employee deferred compensation and co-investment plans, and lower carried interest, partially offset by higher management and administration revenues.

Expenses.

- Compensation and benefits expenses of $17,824 million in 2014 increased 10% from $16,277 million in 2013, primarily due to the 2014 compensation actions of approximately $1,137 million (see "Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation" herein).

- Non-compensation expenses were $12,860 million in 2014 compared with $11,658 million in 2013, representing a 10% increase, primarily due to higher legal expenses.

Return on Average Common Equity.

- The return on average common equity was 4.8% in 2014, or 4.1% excluding DVA, and 0.8% excluding DVA and the net discrete tax benefits. Return on average common equity in 2013 was 4.3%, or 4.9% excluding DVA, and 4.3% excluding DVA and the net discrete tax benefits.

Selected Financial Information.

In addition to the Selected Financial Data presented in Part II, Item 6, the following financial information is presented below:

Business Segment Financial Information and Other Statistical Data.

	2015	2014	2013
	(dollars in millions, except where noted)		
Net revenues:			
Institutional Securities	$ 17,953	$ 16,871	$ 15,519
Wealth Management	15,100	14,888	14,143
Investment Management	2,315	2,712	3,059
Intersegment Eliminations	(213)	(196)	(228)
Consolidated net revenues	$ 35,155	$ 34,275	$ 32,493
Income (loss) from continuing operations applicable to Morgan Stanley(1):			
Institutional Securities	$ 3,713	$ (77)	$ 983
Wealth Management	2,085	3,192	1,473
Investment Management	345	366	519
Income from continuing operations applicable to Morgan Stanley	$ 6,143	$ 3,481	$ 2,975
Pre-tax profit margin(2):			
Institutional Securities	26%	N/M	6%
Wealth Management	22%	20%	18%
Investment Management	21%	24%	33%
Consolidated	24%	10%	14%
Average common equity (dollars in billions)(3)(4):			
Institutional Securities	$ 34.6	$ 32.2	$ 37.9
Wealth Management	11.2	11.2	13.2
Investment Management	2.2	2.9	2.8
Parent capital	18.9	19.0	8.0
Consolidated average common equity	$ 66.9	$ 65.3	$ 61.9
Return on average common equity(3)(4):			
Institutional Securities	10.0%	N/M	2.3%
Wealth Management	16.9%	27.5%	9.9%
Investment Management	15.8%	12.8%	18.1%
Consolidated	8.5%	4.8%	4.3%
Regional net revenues(5):			
Americas	$ 25,080	$ 25,140	$ 23,358
EMEA	5,353	4,772	4,542
Asia-Pacific	4,722	4,363	4,593
Net revenues	$ 35,155	$ 34,275	$ 32,493
Effective income tax rate from continuing operations	25.9%	(2.5)%	19.8%

	At December 31, 2015	At December 31, 2014
	(dollars in millions, except where noted)	
Global Liquidity Reserve managed by bank and non-bank legal entities(6):		
Bank legal entities	$ 94,328	$ 87,944
Non-bank legal entities	108,936	105,225
Total	$ 203,264	$ 193,169
Maturities of long-term borrowings outstanding (next 12 months)	$ 22,396	$ 20,740
Capital ratios (Transitional)(7):		
Common Equity Tier 1 capital ratio	15.5%	12.6%
Tier 1 capital ratio	17.4%	14.1%
Total capital ratio	20.7%	16.4%
Tier 1 leverage ratio(8)	8.3%	7.9%
Assets under management or supervision (dollars in billions)(9):		
Wealth Management	$ 784	$ 778
Investment Management	406	403
Total	$ 1,190	$ 1,181
Worldwide employees	56,218	55,802

Selected Non-Generally Accepted Accounting Principles ("Non-GAAP") Financial Information.

From time to time, the Company may disclose certain "non-GAAP financial measures" in the course of its earnings releases, earnings conference calls, financial presentations and otherwise. The U.S. Securities and Exchange Commission ("SEC") defines a "non-GAAP financial measure" as a numerical measure of historical or future financial performance, financial positions, or cash flows that excludes, or includes, amounts or is subject to adjustments that effectively exclude, or include, amounts from the most directly comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Non-GAAP financial measures disclosed by the Company are provided as additional information to investors in order to provide them with further transparency about, or as an alternative method for assessing, the Company's financial condition, operating results or prospective regulatory capital requirements. These measures are not in accordance with, or a substitute for, U.S. GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever the Company refers to a non-GAAP financial measure, the Company will also generally define it or present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the non-GAAP financial measure and the U.S. GAAP financial measure.

Reconciliation of Financial Measures from a Non-GAAP to a U.S. GAAP Basis.

	2015	2014	2013
	(dollars in millions, except per share amounts)		
Net revenues			
Net revenues—non-GAAP	$ 34,537	$ 33,624	$ 33,174
Impact of DVA	618	651	(681)
Net revenues—U.S. GAAP	$ 35,155	$ 34,275	$ 32,493
Net income applicable to Morgan Stanley			
Net income applicable to Morgan Stanley, excluding DVA and net discrete tax benefits—non-GAAP	$ 5,164	$ 823	$ 2,977
Impact of net discrete tax benefits(10)	564	2,226	407
Net income applicable to Morgan Stanley, excluding DVA—non-GAAP	$ 5,728	$ 3,049	$ 3,384
Impact of DVA	399	418	(452)
Net income applicable to Morgan Stanley—U.S. GAAP	$ 6,127	$ 3,467	$ 2,932
Earnings per diluted common share			
Earnings per diluted common share, excluding DVA and net discrete tax benefits—non-GAAP	$ 2.41	$ 0.26	$ 1.38
Impact of net discrete tax benefits(10)	0.29	1.13	0.21
Earnings per diluted common share, excluding DVA—non-GAAP	$ 2.70	$ 1.39	$ 1.59
Impact of DVA	0.20	0.21	(0.23)
Earnings per diluted common share—U.S. GAAP	$ 2.90	$ 1.60	$ 1.36
Effective income tax rate			
Effective income tax rate from continuing operations—non-GAAP	32.5%	59.5%	28.7%
Impact of net discrete tax benefits(10)	(6.6)%	(62.0)%	(8.9)%
Effective income tax rate from continuing operations—U.S. GAAP	25.9%	(2.5)%	19.8%

Average common equity, return on average common equity, average tangible common equity, return on average tangible common equity and tangible book value per common share are all non-GAAP financial measures the Company considers to be useful to the Company and investors to assess capital adequacy and to allow better comparability of period-to-period operating performance. For a discussion of tangible common equity, see "Liquidity and Capital Resources—Tangible Equity" herein.

Non-GAAP Financial Measures.

	2015	2014	2013
	(dollars in millions)		
Average common equity(4)(11)			
Average common equity, excluding DVA and net discrete tax benefits	$ 67,139	$ 65,679	$ 62,805
Average common equity, excluding DVA	$ 67,573	$ 66,392	$ 62,952
Average common equity	$ 66,936	$ 65,284	$ 61,895
Return on average common equity(4)(12)			
Return on average common equity, excluding DVA and net discrete tax benefits	7.0%	0.8%	4.3%
Return on average common equity, excluding DVA	7.8%	4.1%	4.9%
Return on average common equity	8.5%	4.8%	4.3%
Average tangible common equity(11)			
Average tangible common equity, excluding DVA and net discrete tax benefits	$ 57,478	$ 55,943	$ 53,906
Average tangible common equity, excluding DVA	$ 57,912	$ 56,656	$ 54,052
Average tangible common equity	$ 57,275	$ 55,548	$ 52,995
Return on average tangible common equity(13)			
Return on average tangible common equity, excluding DVA and net discrete tax benefits	8.2%	0.9%	5.0%
Return on average tangible common equity, excluding DVA	9.1%	4.8%	5.8%
Return on average tangible common equity	9.9%	5.7%	5.0%

	At December 31, 2015	At December 31, 2014
Tangible book value per common share(14)	$ 30.26	$ 28.26

EMEA—Europe, Middle East and Africa.

DVA—Debt valuation adjustment represents the change in the fair value of certain of the Company's long-term and short-term borrowings resulting from the fluctuation in its credit spreads and other credit factors.

N/M—Not Meaningful.

(1) The Institutional Securities business segment's net income applicable to noncontrolling interests was $133 million, $109 million and $278 million in 2015, 2014 and 2013, respectively. The Wealth Management business segment's net income applicable to noncontrolling interests was $221 million in 2013. The Investment Management business segment's net income applicable to noncontrolling interests was $19 million, $91 million and $182 million in 2015, 2014 and 2013, respectively. See Note 15 to the consolidated financial statements in Item 8 for further information.

(2) Pre-tax profit margin is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance. Percentages represent income from continuing operations before income taxes as a percentage of net revenues.

(3) The computation of average common equity for each business segment is determined using the Company's Required Capital framework, an internal capital adequacy measure (see "Liquidity and Capital Resources—Regulatory Requirements—Required Capital" herein). The calculation of each business segment's return on average common equity equals net income applicable to Morgan Stanley less preferred dividends as a percentage of each business segment's average common equity. The effective tax rates used in the computation of each business segment's return on average common equity were determined on a separate legal entity basis. Average common equity and the return on average common equity for each business segment are non-GAAP financial measures that the Company considers to be useful measures to the Company and investors to assess capital adequacy and to allow better comparability of period-to-period operating performance, respectively.

(4) The calculation of return on average common equity equals consolidated net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity. To determine the return on average common equity, excluding DVA, and excluding DVA and net discrete tax benefits, both the numerator and denominator were adjusted to exclude those items. Average common equity, the return on average common equity, and average common equity and the return on average common equity, both excluding DVA, and excluding DVA and net discrete tax benefits, are non-GAAP financial measures that the Company considers useful for investors to assess capital adequacy and to allow better comparability of period-to-period operating performance.

(5) For a discussion regarding the geographic methodology for net revenues, see Note 21 to the consolidated financial statements in Item 8.

(6) For a discussion of Global Liquidity Reserve, see "Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve" herein.

(7) For a discussion of the Company's methods for calculating its risk-based capital ratios, see "Liquidity and Capital Resources—Regulatory Requirements" herein.

(8) See Note 14 to the consolidated financial statements in Item 8 for information on the Tier 1 leverage ratio.

(9) Amounts exclude the Investment Management business segment's proportionate share of assets managed by entities in which it owns a minority stake and assets for which fees are not generated. For 2015, amounts include $4.6 billion of inflows related to the transfer of certain portfolio managers and their portfolios from the Wealth Management business segment to the Investment Management business segment.

(10) For a discussion of the Company's net discrete tax benefits, see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein.

(11) The impact of DVA on average common equity and average tangible common equity was $(637) million, $(1,108) million and $(1,057) million in 2015, 2014 and 2013, respectively. The impact of net discrete tax benefits on average common equity and average tangible common equity was approximately $434 million, $713 million and $146 million in 2015, 2014 and 2013, respectively.

(12) The impact of DVA on return on average common equity was 0.7%, 0.7% and (0.6)% in 2015, 2014 and 2013, respectively. The impact of net discrete tax benefits on return on average common equity was 0.8%, 3.3% and 0.6% in 2015, 2014 and 2013, respectively.

(13) The calculation of return on average tangible common equity equals net income applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity. To determine the return on average tangible common equity, excluding DVA, and excluding DVA and net discrete tax benefits, both the numerator and the denominator were adjusted to exclude the impact of DVA and the impact of net discrete tax benefits. The impact of DVA was 0.8%, 0.9% and (0.8)% in 2015, 2014 and 2013, respectively. The impact of net discrete tax benefits was 0.9%, 3.9% and 0.8% in 2015, 2014 and 2013, respectively.

(14) Tangible book value per common share equals tangible common equity of $58,098 million at December 31, 2015 and $55,138 million at December 31, 2014 divided by common shares outstanding of 1,920 million at December 31, 2015 and 1,951 million at December 31, 2014.

Return on Equity Target.

The Company is aiming to improve its returns to shareholders, and has established a target of achieving a 9% to 11% return on average common equity excluding DVA ("Return on Equity") by 2017, subject to the successful execution of its strategic objectives.

The Company plans to progress toward achieving its Return on Equity target through the following key elements of its strategy:

- Revenue and profitability growth:
  - Wealth Management pre-tax margin improvement to approximately 23% to 25% through net interest income growth via continued high quality lending, expense efficiency and business growth;
  - Continued strength in Investment Banking and Equity Sales and Trading results;
  - Steady performance in Investment Management;
- Expense efficiency:
  - Achieve an expense efficiency target ratio excluding DVA of 74%, assuming a flat revenue environment (not including any outsized litigation expense or penalties);
- Sufficient capital:
  - Continuing to right-size the Fixed Income and Commodities Sales and Trading business from an operational and capital standpoint; and
  - Increasing capital returns to shareholders, subject to regulatory approval.

The Company's Return on Equity target and its related strategies, goals and targets are forward-looking statements that may be materially affected by many factors including, among other things: macroeconomic and market conditions; legislative and regulatory developments; industry trading and investment banking volumes; equity market levels; interest rate environment; legal expenses; capital levels; and discrete tax items. Given the uncertainties surrounding these and other factors, there are significant risks that the Company's Return on Equity target and its related strategies and targets may not be realized. Actual results may differ from goals and targets, and the differences may be material and adverse. Accordingly, the Company cautions that undue reliance should not be placed on any of these forward-looking statements. See "Forward-Looking Statements" immediately preceding Part I, Item 1, and "Risk Factors" in Part I, Item 1A, for additional information regarding these forward-looking statements.

Return on Equity, excluding DVA, and pre-tax margin are non-GAAP financial measures that the Company considers to be useful measures to the Company's investors to assess operating performance. The Company's expense efficiency ratio, excluding DVA, represents total non-interest expenses as a percentage of net revenues, excluding DVA. For 2015, the Company's expense efficiency ratio was 77%, which was calculated as non-interest expenses of $26,660 million divided by net revenues of $34,537 million, which excludes the positive impact of $618 million from DVA. The expense efficiency ratio, excluding DVA, is a non-GAAP financial measure that the Company considers useful for investors to assess operating performance.

Global Market and Economic Conditions.

During the first half of 2015, global growth was supported by a rebound in the U.S. and firmer growth in the euro zone and the United Kingdom ("U.K.") economies, partially offset by sluggishness in major emerging market economies. During the second half of 2015, global growth slowed as a result of the continued sluggishness of emerging market economies, declines in energy prices and the slowdown of China's economic growth. Global real gross domestic product growth decelerated in 2015 from 2014. Growth in emerging market economies slowed for a fourth straight year, while growth in developed market economies was steady but sluggish. Notable trends during the year included falling oil and other commodity prices, an appreciating U.S. dollar weighing on global trade flows and increasing policy challenges in a number of major emerging market economies, most notably China. The U.S. Board of Governors of the Federal Reserve System (the "Federal Reserve") announced a rate increase in December 2015 based on cumulative labor market progress and rising confidence in achieving its inflation target. However, with Europe and Japan still struggling and China decelerating, the European Central Bank, the Bank of Japan and the People's Bank of China acted to continue their targeted monetary policy easing measures. Subsequent to December 31, 2015, the Bank of Japan announced a program of *Quantitative and Qualitative Monetary Easing with a Negative Interest Rate* that introduced a three tier policy rate system for bank reserves with a low rate of (0.1)%.

Business Segments.

Substantially all of the Company's operating revenues and operating expenses are directly attributable to its business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to its consolidated results.

Net Revenues.

Trading. Trading revenues include revenues from customers' purchases and sales of financial instruments in which the Company acts as a market maker as well as gains and losses on the Company's related positions and other positions carried at fair value. Trading revenues include the realized gains and losses from sales of cash instruments and derivative settlements, unrealized gains and losses from ongoing fair value changes of the Company's positions related to market-making activities, and gains and losses related to investments associated with certain employee deferred compensation plans and other positions carried at fair value. In many markets, the realized and unrealized gains and losses from the purchase and sale transactions will include any spreads between bids and offers. Certain fees received on loans carried at fair value and dividends from equity securities are also recorded in this line item since they relate to positions carried at fair value. Commissions received for purchasing and selling listed equity securities and options are recorded separately in Commissions and fees. Other cash and derivative instruments typically do not have fees associated with them, and fees for related services are recorded in Commissions and fees.

The Company often invests in investments or other financial instruments to economically hedge its obligations under its deferred compensation plans. Changes in the value of such investments are recorded in Trading revenues and Investments revenues. Expenses associated with the related deferred compensation plans are recorded in Compensation and benefits. Compensation expense is calculated based on the notional value of the award granted, adjusted for upward and downward changes in fair value of the referenced investment, and is recognized ratably over the prescribed vesting period for the award. Generally, changes in compensation expense resulting from changes in fair value of the referenced investment will be offset by changes in fair value of the investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period.

As a market maker, the Company stands ready to buy, sell or otherwise transact with customers under a variety of market conditions and to provide firm or indicative prices in response to customer requests. The Company's liquidity obligations can be explicit and obligatory in some cases, and in others, customers expect the Company to be willing to transact with them. In order to most effectively fulfill its market-making function, the Company engages in activities across all of its trading businesses that include, but are not limited to: (i) taking positions in anticipation of, and in response to, customer demand to buy or sell and—depending on the liquidity of the relevant market and the size of the position—to hold those positions for a period of time; (ii) managing and assuming basis risk (risk associated with imperfect hedging) between customized customer risks and the standardized products available in the market to hedge those risks; (iii) building, maintaining and rebalancing inventory, through trades with other market participants, and engaging in accumulation activities to accommodate anticipated customer demand; (iv) trading in the market to remain current on pricing and trends; and (v) engaging in other activities to provide efficiency and liquidity for markets. Although not included in Trading revenues, Interest income and expense are also impacted by market-making activities, as debt securities held by the Company earn interest and securities are loaned, borrowed, sold with agreement to repurchase and purchased with agreement to resell.

Investments. The Company's investments generally are held for long-term appreciation, or as discussed above, hedging purposes, and generally are subject to significant sales restrictions. Estimates of the fair value of the investments may involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions. In some cases, such investments are required or are a necessary part of offering other products. The revenues recorded are the result of realized gains and losses from sales and unrealized gains and losses from ongoing fair value changes of the Company's holdings, as well as from investments associated with certain employee deferred compensation and co-investment plans. Typically, there are no fee revenues from these investments. The sales restrictions on the investments relate primarily to redemption and withdrawal restrictions on investments in real estate funds, hedge funds and private equity funds, which include investments made in connection with certain employee deferred compensation plans (see Note 3 to the consolidated financial statements in Item 8). Restrictions on interests in exchanges and clearinghouses generally include a requirement to hold those interests for the period of time that the Company is clearing trades on that exchange or clearinghouse. Additionally, there are certain investments related to assets held by consolidated real estate funds, which are primarily related to holders of noncontrolling interests.

Commissions and Fees. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities, services related to sales and trading activities, and sales of mutual funds, futures, insurance products and options.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include fees associated with the management and supervision of assets, account services and administration, performance-based fees relating to certain funds, separately managed accounts, shareholder servicing and the distribution of certain open-ended mutual funds.

Asset management, distribution and administration fees in the Wealth Management business segment also include revenues from individual and institutional investors electing a fee-based pricing arrangement and fees for investment management. Mutual fund distribution fees in the Wealth Management business segment are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management fees in the Investment Management business segment arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. The Company receives fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity for other vehicles. Performance-based fees in the Investment Management business segment are earned on certain products as a percentage of appreciation earned by those products and, in certain cases, are based upon the achievement of performance criteria. These fees are normally earned annually and are recognized on a monthly or quarterly basis.

Net Interest. Interest income and Interest expense are a function of the level and mix of total assets and liabilities, including Trading assets and Trading liabilities; Investment securities, which include available for sale ("AFS") securities and held to maturity ("HTM") securities; Securities borrowed or purchased under agreements to resell; Securities loaned or sold under agreements to repurchase; Loans; Deposits; Other short-term borrowings; Long-term borrowings; trading strategies; customer activity in the prime brokerage business; and the prevailing level, term structure and volatility of interest rates.

Net Revenues by Segment.

Institutional Securities. Investment banking revenues are composed of fees from advisory services and revenues from the underwriting of securities offerings and syndication of loans, net of syndication expenses.

Equity and fixed income and commodities sales and trading net revenues are composed of Trading revenues; Commissions and fees; Asset management, distribution and administration fees; and Net interest income (expense). In assessing the profitability of its sales and trading activities, the Company views these net revenues in the aggregate. In addition, decisions relating to trading are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions and fees, dividends, the interest income or expense associated with financing or hedging the Company's positions, and other related expenses. See Note 4 to the consolidated financial statements in Item 8 for further information related to gains (losses) on derivative instruments.

In addition to sales and trading net revenues discussed above, sales and trading net revenues also include other trading revenues, consisting of costs related to liquidity held ("negative carry"), gains (losses) on economic hedges related to the long-term borrowings and certain activities associated with the corporate lending activities.

Wealth Management. Net revenues are composed of Transactional, Asset management, Net interest and Other revenues.

Transactional revenues include Investment banking, Trading, and Commissions and fees. Investment banking revenues include revenues from the distribution of equity and fixed income securities, including initial public offerings, secondary offerings, closed-end funds and unit trusts. Trading revenues include revenues from customers' purchases and sales of financial instruments, in which the Company acts as principal, gains and losses on the Company's inventory positions, which are held primarily to facilitate customer transactions, and gains and losses associated with certain employee deferred compensation plans. Revenues from Commissions and fees primarily arise from agency transactions in listed and OTC equity securities and sales of mutual funds, futures, insurance products and options.

Asset management revenues include Asset management, distribution and administration fees, and referral fees related to the bank deposit program.

Net interest income includes interest related to the bank deposit program, interest on AFS securities and HTM securities, interest on lending activities and other net interest. Interest income and Interest expense are a function of the level and mix of total assets and liabilities. Net interest is driven by securities-based lending, mortgage lending, margin loans, securities borrowed and securities loaned transactions and bank deposit program activity.

Other revenues include revenues from the sale of AFS securities, customer account services fees and other miscellaneous revenues.

Investment Management. The Investment Management business segment generates investment banking revenues primarily from the acquisition of investments in mature real estate and merchant banking funds. Investments revenue primarily consists of real estate and private equity investments that generally are held for long-term appreciation and generally subject to sales restrictions. Estimates of the fair value of the investments involve significant judgment and may fluctuate materially over time in light of business, market, economic and financial conditions generally or in relation to specific transactions.

For information about the composition of Sales and trading, Investment and Asset management revenues, see "Net Revenues" herein.

Compensation Expense.

Compensation and benefits expense includes accruals for base salaries and fixed allowances, formulaic programs, discretionary incentive compensation, amortization of deferred cash and equity awards, changes in fair value of deferred compensation plan referenced investments, severance costs, and other items such as health and welfare benefits. The factors that drive compensation for the Company's employees vary from quarter to quarter, segment to segment and within a segment. For certain revenue-producing employees in the Wealth Management and Investment Management business segments, their compensation is largely paid on the basis of formulaic payouts that link employee compensation to revenues. Compensation for certain employees, including revenue-producing employees in the Institutional Securities business segment, may also include incentive compensation that is determined following the assessment of the Company, business unit and individual performance. Compensation for the Company's remaining employees is largely fixed in nature (*e.g.*, base salary, benefits, etc.).

INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

				% Change from Prior Year:	
	2015	2014	2013	2015	2014
	(dollars in millions)				
Revenues:					
Investment banking	$ 5,008	$ 5,203	$ 4,377	(4)%	19%
Trading	9,400	8,445	8,147	11%	4%
Investments	274	240	707	14%	(66)%
Commissions and fees	2,616	2,610	2,425	—	8%
Asset management, distribution and administration fees	281	281	280	—	—
Other	221	684	684	(68)%	—
Total non-interest revenues	17,800	17,463	16,620	2%	5%
Interest income	3,190	3,389	3,572	(6)%	(5)%
Interest expense	3,037	3,981	4,673	(24)%	(15)%
Net interest	153	(592)	(1,101)	N/M	46%
Net revenues	17,953	16,871	15,519	6%	9%
Compensation and benefits	6,467	7,786	6,823	(17)%	14%
Non-compensation expenses	6,815	9,143	7,750	(25)%	18%
Total non-interest expenses	13,282	16,929	14,573	(22)%	16%
Income (loss) from continuing operations before income taxes	4,671	(58)	946	N/M	N/M
Provision for (benefit from) income taxes	825	(90)	(315)	N/M	71%
Income from continuing operations	3,846	32	1,261	N/M	(97)%
Discontinued operations:					
Income (loss) from discontinued operations before income taxes	(24)	(26)	(81)	8%	68%
Provision for (benefit from) income taxes	(7)	(7)	(29)	—	76%
Income (losses) from discontinued operations	(17)	(19)	(52)	11%	63%
Net income	3,829	13	1,209	N/M	(99)%
Net income applicable to redeemable noncontrolling interests	—	—	1	N/M	(100)%
Net income applicable to nonredeemable noncontrolling interests	133	109	277	22%	(61)%
Net income (loss) applicable to Morgan Stanley	$ 3,696	$ (96)	$ 931	N/M	N/M
Amounts applicable to Morgan Stanley:					
Income (loss) from continuing operations	$ 3,713	$ (77)	$ 983	N/M	N/M
Income (loss) from discontinued operations	(17)	(19)	(52)	11%	63%
Net income (loss) applicable to Morgan Stanley	$ 3,696	$ (96)	$ 931	N/M	N/M

N/M—Not Meaningful.

Investment Banking.

Investment Banking Revenues.

	2015	2014	2013	% Change from Prior Year: 2015	% Change from Prior Year: 2014
	(dollars in millions)				
Advisory revenues	$ 1,967	$ 1,634	$ 1,310	20%	25%
Underwriting revenues:					
Equity underwriting revenues	1,398	1,613	1,262	(13)%	28%
Fixed income underwriting revenues	1,643	1,956	1,805	(16)%	8%
Total underwriting revenues	3,041	3,569	3,067	(15)%	16%
Total investment banking revenues	$ 5,008	$ 5,203	$ 4,377	(4)%	19%

Investment Banking Volumes.

	2015(1)	2014(1)	2013(1)
	(dollars in billions)		
Announced mergers and acquisitions(2)	$ 1,550	$ 657	$ 497
Completed mergers and acquisitions(2)	636	624	526
Equity and equity-related offerings(3)	67	72	61
Fixed income offerings(4)	256	286	291

(1) Source: Thomson Reuters, data at January 15, 2016. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.

(2) Amounts include transactions of $100 million or more. Announced mergers and acquisitions exclude terminated transactions.

(3) Amounts include Rule 144A issuances and registered public offerings of common stock and convertible securities and rights offerings.

(4) Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Amounts include publicly registered and Rule 144A issues. Amounts exclude leveraged loans and self-led issuances.

2015 Compared with 2014.

Investment banking revenues of $5,008 million in 2015 decreased 4% from the prior year due to lower underwriting revenues, partially offset by higher advisory revenues.

- Advisory revenues increased led primarily by merger, acquisition and restructuring transactions ("M&A") in the Americas. Global industry-wide announced M&A volume activity for 2015 increased significantly compared with 2014.

- Equity underwriting revenues decreased driven by decreases in initial public offering volumes. Fixed income underwriting revenues decreased primarily driven by lower non-investment grade bond and loan fees.

2014 Compared with 2013.

Investment banking revenues of $5,203 million in 2014 increased 19% from the prior year driven by increases across both underwriting and advisory revenues.

- Advisory revenues from M&A increased due to increased deal activity in the Americas and Asia-Pacific regions. Industry-wide announced M&A volume activity for 2014 increased across all regions compared with 2013, primarily driven by cross-border activity.

- Equity underwriting revenues increased driven by increased activity with clients across all regions. Fixed income underwriting revenues increased driven by increased investment grade volumes.

Sales and Trading Net Revenues.

Sales and Trading Net Revenues.

				% Change from Prior Year:	
	2015	2014(1)	2013	2015	2014
		(dollars in millions)			
Trading	$ 9,400	$ 8,445	$ 8,147	11%	4%
Commissions and fees	2,616	2,610	2,425	—	8%
Asset management, distribution and administration fees	281	281	280	—	—
Net interest	153	(592)	(1,101)	N/M	46%
Total sales and trading net revenues	$ 12,450	$ 10,744	$ 9,751	16%	10%

Sales and Trading Net Revenues by Business.

				% Change from Prior Year:	
	2015	2014(1)	2013	2015	2014
		(dollars in millions)			
Equity	$ 8,288	$ 7,135	$ 6,529	16%	9%
Fixed income and commodities	4,758	4,214	3,594	13%	17%
Other	(596)	(605)	(372)	1%	(63)%
Total sales and trading net revenues	$ 12,450	$ 10,744	$ 9,751	16%	10%

N/M—Not Meaningful.

(1) Results in 2014 included a charge of $468 million related to the implementation of FVA (Equity: $2 million; Fixed income and commodities: $466 million).

Sales and Trading Net Revenues, Excluding DVA and FVA.

Sales and trading net revenues, including equity and fixed income and commodities sales and trading net revenues that exclude the impact of DVA, or exclude the impact of DVA and the initial implementation of FVA, are non-GAAP financial measures that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance.

				% Change from Prior Year:	
	2015	2014	2013	2015	2014
		(dollars in millions)			
Total sales and trading net revenues—non-GAAP	$ 11,832	$ 10,561	$ 10,432	12%	1%
Impact of DVA	618	651	(681)	(5)%	N/M
Impact of FVA	—	(468)	—	100%	N/M
Total sales and trading net revenues	$ 12,450	$ 10,744	$ 9,751	16%	10%
Equity sales and trading net revenues—non-GAAP	$ 8,125	$ 6,905	$ 6,607	18%	5%
Impact of DVA	163	232	(78)	(30)%	N/M
Impact of FVA	—	(2)	—	100%	N/M
Equity sales and trading net revenues	$ 8,288	$ 7,135	$ 6,529	16%	9%
Fixed income and commodities sales and trading net revenues—non-GAAP	$ 4,303	$ 4,261	$ 4,197	1%	2%
Impact of DVA	455	419	(603)	9%	N/M
Impact of FVA	—	(466)	—	100%	N/M
Fixed income and commodities sales and trading net revenues	$ 4,758	$ 4,214	$ 3,594	13%	17%

N/M—Not Meaningful.

2015 Compared with 2014.

Total sales and trading net revenues, excluding the impact of DVA and the initial implementation of FVA, of $11,832 million in 2015 increased 12% from the prior year due to higher equity, fixed income and commodities revenues.

Equity.

- Equity sales and trading net revenues, excluding the impact of DVA and the implementation of FVA, increased driven by strong results in prime brokerage and derivatives products. Higher client balances primarily drove the increase in prime brokerage results, while the improved results in derivatives reflected increased client activity and gains on inventory.

Fixed Income and Commodities.

- Excluding the impact of DVA and the implementation of FVA, fixed income and commodities sales and trading net revenues increased as higher commodity net revenues were partially offset by lower fixed income product results.

- Fixed income product net revenues, excluding the impact of DVA and the implementation of FVA, decreased due to lower results in credit and securitized products from wider credit spread environment which were partially offset by higher revenues in interest rates and foreign exchange products from higher client activity.

- Commodity net revenues, excluding the impact of DVA and the implementation of FVA, increased primarily reflecting higher revenues from the global oil merchanting business, which was sold on November 1, 2015 (see "Investments, Other Revenues, Non-interest Expenses, Income Tax Items, Dispositions and Other Items—2015 Compared with 2014—Dispositions" herein). The increase was partially offset by credit driven losses and the absence of revenues from TransMontaigne Inc., which was sold on July 1, 2014 (see "Investments, Other Revenues, Non-interest Expenses, Income Tax Items, Dispositions and Other Items—2014 Compared with 2013—Dispositions" herein).

2014 Compared with 2013.

Total sales and trading net revenues, excluding the impact of DVA and the implementation of FVA, of $10,561 million in 2014 increased 1% from the prior year due to higher equity and fixed income and commodities revenues partially offset by higher losses in other sales and trading net revenues.

Equity.

- Equity sales and trading net revenues, excluding the impact of DVA and the implementation of FVA of $2 million, increased primarily due to higher revenues in the prime brokerage business driven by higher client balances partially offset by a decrease in derivatives revenues, reflecting unfavorable volatility movement.

Fixed Income and Commodities.

- Fixed income and commodities sales and trading net revenues in 2014 included a charge of $466 million related to the implementation of FVA. Excluding the impact of DVA and the implementation of FVA, fixed income and commodities sales and trading net revenues increased as higher commodity net revenues were partially offset by lower fixed income product results.

- Fixed income product net revenues, excluding the impact of DVA and the implementation of FVA, decreased as higher results in interest rate products were offset by declines in credit products, which reflected an unfavorable market environment.

- Commodity net revenues, excluding the impact of DVA and the implementation of FVA, increased reflecting higher levels of client demand for structured transactions and volatility in natural gas and power partly offset by lower revenues in the oil related businesses in part attributable to TransMontaigne Inc., which was sold on July 1, 2014 (see “Investments, Other Revenues, Non-interest Expenses, Income Tax Items, Dispositions and Other Items—2014 Compared with 2013—Dispositions” herein).

Investments, Other Revenues, Non-interest Expenses, Income Tax Items, Dispositions and Other Items.

2015 Compared with 2014.

Investments.

- Net investment gains of $274 million in 2015 increased 14% from the prior year driven by gains on business related investments.

Other.

- Other revenues of $221 million in 2015 decreased 68% from the prior year primarily due to the absence of gains realized on certain assets sold in 2014 (see Note 1 to the consolidated financial statements in Item 8) and markdowns and provisions on loans held for sale and held for investment, respectively.

Non-interest Expenses.

Non-interest expenses of $13,282 million in 2015 decreased 22% from the prior year driven by a 25% reduction in Non-compensation expenses and a 17% reduction in Compensation and benefits expenses.

- Compensation and benefits expenses decreased primarily due to the 2014 compensation actions, a decrease in the fair value of deferred compensation plan referenced investments, and a decrease in the level of discretionary incentive compensation in 2015 (see also “Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation” herein).

- Non-compensation expenses decreased primarily due to lower litigation expenses.

Income Tax Items.

In 2015, the Company recognized in Provision for (benefit from) income taxes net discrete tax benefits of $564 million. These net discrete tax benefits were primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated due to an internal restructuring to simplify the Company’s legal entity organization in the U.K.

Dispositions.

On November 1, 2015, the Company completed the sale of its global oil merchanting unit of the commodities division to Castleton Commodities International LLC. The loss on sale of approximately $71 million was recognized in Other revenues.

2014 Compared with 2013.

Investments.

- Net investment gains of $240 million in 2014 decreased 66% from the prior year reflecting a gain recorded in 2013 related to the disposition of an investment in an insurance broker, and lower gains on principal investments and investments associated with the deferred compensation and co-investment plans in 2014.

Other.

- Other revenues of $684 million remained unchanged. The results in 2014 included lower income from the Company’s 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”) compared with 2013 (see “Other Items—Japanese Securities Joint Venture” herein and Note 8 to the consolidated financial statements in

Item 8). In 2014, Other revenues also included gains realized on certain assets sold (see Note 1 to the consolidated financial statements in Item 8).

Non-interest Expenses.

Non-interest expenses of $16,929 million in 2014 increased 16% from the prior year primarily due to higher legal expenses and higher compensation expenses.

- Compensation and benefits expenses increased primarily due to the 2014 compensation actions and an increase in base salaries and fixed allowances partially offset by a decrease in the fair value of deferred compensation plan referenced investments (see also "Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation" herein).
- Non-compensation expenses increased primarily due to higher legal expenses related to certain legacy residential mortgage-backed securities and credit crisis-related matters (see "Supplemental Financial Information and Disclosures—Legal" herein and "Contingencies—Legal" in Note 12 to the consolidated financial statements in Item 8).

Income Tax Items.

In 2014, the Company recognized in Provision for (benefit from) income taxes net discrete tax benefits of $839 million. This included net discrete tax benefits of: $612 million principally associated with remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination, and $237 million primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated. In addition, the Company's Provision for (benefit from) income taxes for the business segment was impacted by approximately $900 million of tax provision as a result of non-deductible expenses related to litigation and regulatory matters.

In 2013, the Company recognized in Provision for (benefit from) income taxes net discrete tax benefits of $407 million. This included net discrete tax benefits of: $161 million related to the remeasurement of reserves and related interest associated with new information regarding the status of a multi-year tax authority examination; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act"). For a further discussion of the Relief Act, see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein.

Dispositions.

On July 1, 2014, the Company completed the sale of its ownership stake in TransMontaigne Inc., a U.S.-based oil storage, marketing and transportation company, as well as related physical inventory and the assumption of its obligations under certain terminal storage contracts, to NGL Energy Partners LP. The gain on sale of $112 million is recorded in Other revenues.

On March 27, 2014, the Company completed the sale of Canterm Canadian Terminals Inc., a public storage terminal operator for refined products with two distribution terminals in Canada. The gain on sale was approximately $45 million and is recorded in Other revenues.

Other Items.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest and Mitsubishi UFJ Financial Group, Inc. ("MUFG") holds a 60% voting interest in MUMSS.

To the extent that losses incurred by MUMSS result in a requirement to restore its capital level, MUFG is solely responsible for providing this additional capital to a minimum level, whereas the Company is not obligated to contribute additional capital to MUMSS. To the extent that MUMSS is required to increase its capital level due to factors other than losses, such as changes in regulatory requirements, both MUFG and the Company are required to contribute the necessary capital based upon their economic interest as set forth above.

See Note 8 to the consolidated financial statements in Item 8 for further information.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests primarily relate to MUFG interest in Morgan Stanley MUFG Securities Co., Ltd.

WEALTH MANAGEMENT

INCOME STATEMENT INFORMATION

				% Change from Prior Year:	
	2015	2014	2013	2015	2014
	(dollars in millions)				
Revenues:					
Investment banking	$ 623	$ 791	$ 923	(21)%	(14)%
Trading	731	957	1,161	(24)%	(18)%
Investments	18	9	14	100%	(36)%
Commissions and fees	1,981	2,127	2,209	(7)%	(4)%
Asset management, distribution and administration fees	8,536	8,345	7,571	2%	10%
Other	255	320	390	(20)%	(18)%
Total non-interest revenues	12,144	12,549	12,268	(3)%	2%
Interest income	3,105	2,516	2,100	23%	20%
Interest expense	149	177	225	(16)%	(21)%
Net interest	2,956	2,339	1,875	26%	25%
Net revenues	15,100	14,888	14,143	1%	5%
Compensation and benefits	8,595	8,825	8,265	(3)%	7%
Non-compensation expenses	3,173	3,078	3,274	3%	(6)%
Total non-interest expenses	11,768	11,903	11,539	(1)%	3%
Income from continuing operations before income taxes	3,332	2,985	2,604	12%	15%
Provision for (benefit from) income taxes	1,247	(207)	910	N/M	N/M
Income from continuing operations	2,085	3,192	1,694	(35)%	88%
Discontinued operations:					
Income (loss) from discontinued operations before income taxes	—	—	(1)	N/M	(100)%
Provision for (benefit from) income taxes	—	—	—	N/M	N/M
Income (loss) from discontinued operations	—	—	(1)	N/M	(100)%
Net income	2,085	3,192	1,693	(35)%	89%
Net income applicable to redeemable noncontrolling interests	—	—	221	N/M	(100)%
Net income applicable to Morgan Stanley	$ 2,085	$ 3,192	$ 1,472	(35)%	N/M
Amounts applicable to Morgan Stanley:					
Income from continuing operations	$ 2,085	$ 3,192	$ 1,473	(35)%	N/M
Income (loss) from discontinued operations	—	—	(1)	N/M	(100)%
Net income applicable to Morgan Stanley	$ 2,085	$ 3,192	$ 1,472	(35)%	N/M

N/M—Not Meaningful.

Transactional Revenues.

Transactional Revenues.

	2015	2014	2013	% Change from Prior Year: 2015	% Change from Prior Year: 2014
	(dollars in millions)				
Investment banking	$ 623	$ 791	$ 923	(21)%	(14)%
Trading	731	957	1,161	(24)%	(18)%
Commissions and fees	1,981	2,127	2,209	(7)%	(4)%
Transactional revenues	$ 3,335	$ 3,875	$ 4,293	(14)%	(10)%

2015 Compared with 2014.

Transactional revenues of $3,335 million in 2015 decreased 14% from the prior year due to lower revenues in each of Trading, Investment banking and Commissions and fees.

- Investment banking revenues decreased primarily due to lower revenues from the distribution of underwritten offerings.
- Trading revenues decreased primarily due to losses related to investments associated with certain employee deferred compensation plans and lower revenues from fixed income products.
- Commissions and fees decreased primarily due to lower revenues from equity, mutual fund and annuity products partially offset by higher revenues from alternatives asset classes.

2014 Compared with 2013.

Transactional revenues of $3,875 million in 2014 decreased 10% from the prior year due to lower revenues in each of Trading, Investment banking and Commissions and fees.

- Investment banking revenues decreased primarily due to lower levels of underwriting activity in closed-end funds partially offset by higher revenues from structured products.
- Trading revenues decreased primarily as a result of lower gains related to investments associated with certain employee deferred compensation plans and lower revenues from fixed income products.
- Commissions and fees revenues decreased primarily due to lower equity, insurance and mutual fund activity.

Net Revenues.

2015 Compared with 2014.

Asset Management.

- Asset management, distribution and administration fees of $8,536 million in 2015 increased 2% from the prior year primarily due to higher fee-based revenues that resulted from positive flows and higher average market values over 2015 as compared with the average market values during 2014 (see “Statistical Data” herein). The increase in fee-based revenues was partially offset by lower referral fees from the bank deposit program, reflecting the completion of the transfer of the deposits from Citigroup Inc. (“Citi”) to the Company (see Note 10 to the consolidated financial statements in Item 8).

Net Interest.

- Net interest of $2,956 million in 2015 increased 26% from the prior year primarily due to higher balances in the bank deposit program and growth in loans and lending commitments.

Other.

- Other revenues of $255 million in 2015 decreased 20% from the prior year primarily due to a $40 million gain on sale of a retail property space in the prior year and an increase in the allowance for credit losses in 2015.

Non-interest Expenses.

Non-interest expenses of $11,768 million in 2015 decreased 1% from the prior year primarily due to lower Compensation and benefit expenses partially offset by higher Non-compensation expenses.

- Compensation and benefits expenses decreased primarily due to the 2014 compensation actions, a decrease in the fair value of deferred compensation plan referenced investments and a decrease in the level of discretionary incentive compensation in 2015 (see also "Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation" herein).

- Non-compensation expenses increased primarily due to an increase in Professional services, resulting from increased consulting and legal fees partially offset by a provision related to a rescission offer in the prior year. Other expenses in 2014 included $50 million related to a rescission offer to Wealth Management clients who may not have received a prospectus for certain securities transactions, for which delivery of a prospectus was required.

2014 Compared with 2013.

Net Revenues.

Asset Management.

- Asset management, distribution and administration fees of $8,345 million in 2014 increased 10% from the prior year primarily due to higher fee-based revenues partially offset by lower revenues from referral fees from the bank deposit program. The referral fees for deposits placed with Citi-affiliated depository institutions declined to $81 million in 2014 from $240 million in 2013, reflecting the transfer of deposits to the Company from Citi.

Net Interest.

- Net interest of $2,339 million in 2014 increased 25% from the prior year primarily due to higher lending balances and growth in loans and lending commitments in Portfolio Loan Account ("PLA") securities-based lending products.

Other.

- Other revenues of $320 million in 2014 decreased 18% from the prior year primarily as a result of a gain on sale of the U.K. operation of the Global Stock Plan Services business in 2013 and lower account fees. The results for Other revenues in 2014 included a $40 million gain on sale of a retail property space.

Non-interest Expenses.

Non-interest expenses of $11,903 million in 2014 increased 3% from the prior year primarily due to higher Compensation and benefit expenses partially offset by lower Non-compensation expenses.

- Compensation and benefits expenses increased primarily due to a higher formulaic payout to Wealth Management representatives linked to higher net revenues and an increase in base salaries.

- Non-compensation expenses decreased in 2014 primarily driven by technology write-offs and an impairment expense related to certain intangible assets (management contracts) associated with alternative investments funds in 2013, lower intangible amortization and a lower Federal Deposit Insurance Corporation ("FDIC") assessment on deposits partially offset by a provision in 2014 related to a rescission offer to Wealth Management clients.

Income Tax Items.

In 2014, the Company recognized in Provision for (benefit from) income taxes net discrete tax benefits of $1,390 million due to the release of a deferred tax liability as a result of an internal restructuring to simplify the Company's legal entity organization. For a further discussion of these net discrete tax benefits, see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein.

Statistical Data.

Financial Information and Statistical Data (dollars in billions, except where noted).

	At December 31, 2015	At December 31, 2014
Client assets	$ 1,985	$ 2,025
Fee-based client assets(1)	$ 795	$ 785
Fee-based client assets as a percentage of total client assets	40%	39%
Client liabilities(2)	$ 64	$ 51
Bank deposit program(3)	$ 149	$ 137
Investment securities portfolio	$ 57.9	$ 57.3
Loans and lending commitments	$ 55.3	$ 42.7
Wealth Management representatives	15,889	16,076
Retail locations	608	622

	2015	2014	2013
Annual revenues per representative (dollars in thousands)(4)	$ 950	$ 914	$ 863
Client assets per representative (dollars in millions)(5)	$ 125	$ 126	$ 116
Fee-based asset flows(6)	$ 46.3	$ 58.8	$ 51.9

(1) Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets.

(2) Client liabilities include securities-based and tailored lending, home loans and margin lending.

(3) Balances in the bank deposit program included deposits held by Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA") (collectively, "U.S. Bank Subsidiaries") of $149 billion and $128 billion at December 31, 2015 and December 31, 2014, respectively, with the remainder at December 31, 2014 held at Citi-affiliated FDIC insured depositories. At June 30, 2015, the transfer of deposits from Citi to the Company was completed. See Note 10 to the consolidated financial statements in Item 8 for further discussion of the Company's customer deposits previously held by Citi.

(4) Annual revenues per representative equal the Wealth Management business segment's annual revenues divided by the average representative headcount.

(5) Client assets per representative equal total period-end client assets divided by period-end representative headcount.

(6) Fee-based asset flows include net new fee-based assets, net account transfers, dividends, interest and client fees and exclude cash management-related activity.

Total client liability balances increased to $64 billion at December 31, 2015 from $51 billion at December 31, 2014, primarily due to growth in PLA and Liquidity Access Line ("LAL") securities-based lending products and residential real estate loans. The loans and lending commitments in the Wealth Management business segment continued to grow in 2015, and the Company expects this trend to continue. See "Supplemental Financial Information and Disclosures—U.S. Bank Subsidiaries Lending Activities" herein and "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk—Lending Activities" in Item 7A.

Fee-Based Client Assets.

Wealth Management earns fees based on a contractual percentage of fee-based client assets related to certain account types that are offered to Wealth Management clients. These fees, which the Company records in the Asset management, distribution and administrative fees line on its income statement, are earned based on the client assets in the specific account types in which the client participates and are generally not driven by asset class. For most account types, fees are billed in the first month of each quarter based on the related client assets as of the end of the prior quarter. Across the account types, the fees will vary based on both the distinct services provided within each account type and on the level of household assets under supervision in Wealth Management.

Fee-Based Client Assets Activity and Average Fee Rate by Account Type.

	At December 31, 2014	Inflows	Outflows	Market Impact	At December 31, 2015	Average for the Year Ended December 31, 2015
						Fee Rate(1)
			(dollars in billions)			(in bps)
Separately managed accounts(2)	$ 285	$ 42	$ (32)	$ (12)	$ 283	34
Unified managed accounts	93	29	(14)	(3)	105	113
Mutual fund advisory	31	3	(6)	(3)	25	121
Representative as advisor	119	29	(25)	(8)	115	89
Representative as portfolio manager	241	58	(38)	(9)	252	104
Subtotal	$ 769	$ 161	$ (115)	$ (35)	$ 780	76
Cash management	16	9	(10)	—	15	6
Total fee-based client assets	$ 785	$ 170	$ (125)	$ (35)	$ 795	74

	At December 31, 2013	Inflows	Outflows	Market Impact	At December 31, 2014	Average for the Year Ended December 31, 2014
						Fee Rate(1)
			(dollars in billions)			(in bps)
Separately managed accounts(2)	$ 260	$ 41	$ (31)	$ 15	$ 285	35
Unified managed accounts	78	24	(11)	2	93	116
Mutual fund advisory	34	5	(8)	—	31	121
Representative as advisor	111	30	(23)	1	119	90
Representative as portfolio manager	201	60	(28)	8	241	106
Subtotal	$ 684	$ 160	$ (101)	$ 26	$ 769	77
Cash management	13	12	(9)	—	16	6
Total fee-based client assets	$ 697	$ 172	$ (110)	$ 26	$ 785	75

	At December 31, 2012	Inflows	Outflows	Market Impact/ Other (3)	At December 31, 2013	Average for the Year Ended December 31, 2013
						Fee Rate(1)
			(dollars in billions)			(in bps)
Separately managed accounts(2)	$ 195	$ 43	$ (32)	$ 54	$ 260	37
Unified managed accounts	61	19	(10)	8	78	120
Mutual fund advisory	31	5	(6)	4	34	121
Representative as advisor	94	28	(21)	10	111	91
Representative as portfolio manager	160	51	(25)	15	201	109
Subtotal	$ 541	$ 146	$ (94)	$ 91	$ 684	78
Cash management	13	6	(6)	—	13	6
Total fee-based client assets	$ 554	$ 152	$ (100)	$ 91	$ 697	77

bps—Basis points.

[1] Average fee rate is for the year ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

[2] Includes non-custody account values reflecting prior quarter-end balances due to a lag in the reporting of asset values by third-party custodians.

[3] Effective in 2013, client assets include certain additional non-custodied assets as a result of the completion of the platform conversion between the Company and Citi.

- *Inflows*—include new accounts, account transfers, deposits, dividends and interest.
- *Outflows*—include closed or terminated accounts, account transfers, withdrawals and client fees.
- *Market impact*—includes realized and unrealized gains and losses on portfolio investments.

- *Separately managed accounts*—Accounts by which third-party asset managers are engaged to manage clients' assets with investment decisions made by the asset manager. One third-party asset manager strategy can be held per account.

- *Unified managed accounts*—Accounts that provide the client with the ability to combine separately managed accounts, mutual funds and exchange traded funds all in one aggregate account. Unified managed accounts can be client-directed, financial advisor-directed or Company-directed (with "directed" referring to the investment direction or decision/ discretion/power of attorney).

- *Mutual fund advisory*—Accounts that give the client the ability to systematically allocate assets across a wide range of mutual funds. Investment decisions are made by the client.

- *Representative as advisor*—Accounts where the investment decisions must be approved by the client and the financial advisor must obtain approval each time a change is made to the account or its investments.

- *Representative as portfolio manager*—Accounts where a financial advisor has discretion (contractually approved by the client) to make ongoing investment decisions without the client's approval for each individual change.

- *Cash management*—Accounts where the financial advisor provides discretionary cash management services to institutional clients whereby securities or proceeds are invested and reinvested in accordance with the client's investment criteria. Generally, the portfolio will be invested in short-term fixed income and cash equivalent investments.

INVESTMENT MANAGEMENT

INCOME STATEMENT INFORMATION

				% Change from Prior Year:	
	2015	2014	2013	2015	2014
		(dollars in millions)			
Revenues:					
Investment banking	$ 1	$ 5	$ 11	(80)%	(55)%
Trading	(1)	(19)	41	95%	N/M
Investments	249	587	1,056	(58)%	(44)%
Commissions and fees	1	—	—	N/M	N/M
Asset management, distribution and administration fees	2,049	2,049	1,920	—	7%
Other	32	106	32	(70)%	N/M
Total non-interest revenues	2,331	2,728	3,060	(15)%	(11)%
Interest income	2	2	9	—	(78)%
Interest expense	18	18	10	—	80%
Net interest	(16)	(16)	(1)	—	N/M
Net revenues	2,315	2,712	3,059	(15)%	(11)%
Compensation and benefits	954	1,213	1,189	(21)%	2%
Non-compensation expenses	869	835	862	4%	(3)%
Total non-interest expenses	1,823	2,048	2,051	(11)%	—
Income from continuing operations before income taxes	492	664	1,008	(26)%	(34)%
Provision for income taxes	128	207	307	(38)%	(33)%
Income from continuing operations	364	457	701	(20)%	(35)%
Discontinued operations:					
Income from discontinued operations before income taxes	1	7	9	(86)%	(22)%
Provision for (benefit from) income taxes	—	2	—	(100)%	N/M
Income from discontinued operations	1	5	9	(80)%	(44)%
Net income	365	462	710	(21)%	(35)%
Net income applicable to nonredeemable noncontrolling interests	19	91	182	(79)%	(50)%
Net income applicable to Morgan Stanley	$ 346	$ 371	$ 528	(7)%	(30)%
Amounts applicable to Morgan Stanley:					
Income from continuing operations	$ 345	$ 366	$ 519	(6)%	(29)%
Income from discontinued operations	1	5	9	(80)%	(44)%
Net income applicable to Morgan Stanley	$ 346	$ 371	$ 528	(7)%	(30)%

N/M—Not Meaningful.

2015 Compared with 2014.

Net Revenues.

Investments.

- Investments of $249 million in 2015 decreased 58% from the prior year reflecting the reversal of previously accrued carried interest associated with Asia Private Equity and additional net markdowns on principal investments.

Asset Management, Distribution and Administration Fees.

- Asset management, distribution and administration fees were unchanged from the prior year as the impact of positive net flows was offset by a shift in the asset class mix from equity and fixed income products to liquidity products, (see "Statistical Data" herein).

Other.

- Other revenues of $32 million in 2015 decreased 70% from the prior year due to lower revenues associated with the Company's minority investment in certain third-party investment managers.

Non-interest Expenses.

Non-interest expenses of $1,823 million in 2015 decreased 11% from the prior year primarily due to lower Compensation and benefit expenses partially offset by higher Non-compensation expenses.

- Compensation and benefits expenses decreased primarily due to the 2014 compensation actions, a decrease in deferred compensation associated with carried interest and a decrease in the level of incentive compensation in 2015 (see also "Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation" herein).
- Non-compensation expenses increased primarily due to higher Brokerage and clearing, Professional services, resulting from higher consulting and legal fees and Information processing and communications expenses.

2014 Compared with 2013.

Trading.

- Trading losses of $19 million in 2014 compared with gains of $41 million in 2013 primarily reflected losses related to certain consolidated real estate funds sponsored by the Company.

Investments.

- Investments of $587 million in 2014 decreased 44% from the prior year primarily related to lower net investment gains, lower carried interest in the Merchant Banking and Real Estate Investing businesses and lower gains from investments in the Company's employee deferred compensation and co-investment plans. 2014 results were also negatively impacted by the deconsolidation in the second quarter of 2014 of certain legal entities associated with a real estate fund sponsored by the Company.

Asset Management, Distribution and Administration Fees.

- Asset management, distribution and administration fees of $2,049 million in 2014 increased 7% from the prior year primarily reflected higher management and administration revenues as a result of higher average assets under management ("AUM"), (see "Statistical Data" herein).

Other.

- Other revenues of $106 million in 2014 increased from $32 million in 2013 primarily due to higher revenues associated with the Company's minority investment in certain third-party investment managers and a $17 million gain on sale of a retail property space.

Non-interest Expenses.

Non-interest expenses of $2,048 million were essentially unchanged from 2013.

- Compensation and benefits expenses increased due to the 2014 compensation actions and increases in salaries partially offset by a decrease in the fair value of deferred compensation plan referenced investments (see also “Supplemental Financial Information and Disclosures—Discretionary Incentive Compensation” herein).
- Non-compensation expenses decreased primarily due to an impairment expense related to certain intangible assets (management contracts) associated with alternative investments funds in 2013 and the result of lower consumption taxes in the European Union.

Other Items.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests are primarily related to the consolidation of certain real estate funds sponsored by the Company. Investment gains (losses) associated with nonredeemable noncontrolling interests in these consolidated funds were $14 million, $104 million and $151 million in 2015, 2014 and 2013, respectively. Nonredeemable noncontrolling interests decreased in 2015 primarily due to the deconsolidation of certain legal entities associated with a real estate fund sponsored by the Company in the second quarter 2015.

Statistical Data.

Assets Under Management or Supervision and Average Fee Rate by Asset Class.

	At December 31, 2014	Inflows (1)	Outflows	Distributions	Market Impact	Foreign Currency Impact	At December 31, 2015	Average for the Year Ended December 31, 2015	
								AUM	Fee Rate
				(dollars in billions)					(in bps)
Traditional Asset Management:									
Equity	$ 141	$ 33	$ (44)	$ —	$ (2)	$ (2)	$ 126	$ 136	70
Fixed income	65	21	(23)	—	(1)	(2)	60	63	32
Liquidity	128	1,259	(1,238)	—	—	—	149	136	9
Alternatives(2)	36	4	(3)	(1)	—	—	36	36	61
Managed Futures	3	—	—	—	—	—	3	3	111
Total Traditional Asset Management	373	1,317	(1,308)	(1)	(3)	(4)	374	374	41
Merchant Banking and Real Estate Investing(2)	30	6	(1)	(5)	2	—	32	31	106
Total assets under management or supervision	$ 403	$ 1,323	$ (1,309)	$ (6)	$ (1)	$ (4)	$ 406	$ 405	46
Shares of minority stake assets	7						8	7	

	At December 31, 2013	Inflows	Outflows	Distributions	Market Impact	Foreign Currency Impact	At December 31, 2014	Average for the Year Ended December 31, 2014	
								AUM	Fee Rate
				(dollars in billions)					(in bps)
Traditional Asset Management:									
Equity	$ 140	$ 33	$ (34)	$ (1)	$ 5	$ (2)	$ 141	$ 145	69
Fixed income	60	26	(20)	—	1	(2)	65	63	32
Liquidity	112	963	(945)	—	(2)	—	128	119	8
Alternatives(2)	31	6	(2)	—	1	—	36	34	65
Managed Futures	4	—	(1)	—	—	—	3	3	122
Total Traditional Asset Management	347	1,028	(1,002)	(1)	5	(4)	373	364	43
Merchant Banking and Real Estate Investing(2)	30	8	(7)	(2)	1	—	30	30	104
Total assets under management or supervision	$ 377	$ 1,036	$ (1,009)	$ (3)	$ 6	$ (4)	$ 403	$ 394	47
Shares of minority stake assets	6						7	7	

	At December 31, 2012	Inflows	Outflows	Distributions	Market Impact	Foreign Currency Impact	At December 31, 2013	Average for the Year Ended December 31, 2013	
								AUM	Fee Rate
				(dollars in billions)					(in bps)
Traditional Asset Management:									
Equity	$ 120	$ 29	$ (30)	$ —	$ 22	$ (1)	$ 140	$ 130	65
Fixed income	62	27	(27)	—	—	(2)	60	61	34
Liquidity	100	742	(730)	—	—	—	112	104	10
Alternatives(2)	27	5	(2)	(1)	2	—	31	29	65
Managed Futures	5	—	(1)	—	—	—	4	5	125
Total Traditional Asset Management	314	803	(790)	(1)	24	(3)	347	329	43
Merchant Banking and Real Estate Investing(2)	29	5	(3)	(3)	2	—	30	29	96
Total assets under management or supervision	$ 343	$ 808	$ (793)	$ (4)	$ 26	$ (3)	$ 377	$ 358	47
Shares of minority stake assets	5						6	6	

bps—Basis points.

[1] Includes $4.6 billion related to the transfer of certain equity portfolio managers and their portfolios from the Wealth Management business segment to the Investment Management business segment.

[2] Assets under management or supervision for Merchant Banking and Real Estate Investing and Alternatives reflect the basis on which management fees are earned. This calculation excludes AUM where no management fees are earned or where the fair value of these assets, including lending commitments, differs from the basis on which management fees are earned. Including these assets, AUM at December 31, 2015 and December 31, 2014 for Merchant Banking and Real Estate Investing were $44 billion and $42 billion, respectively, and for Alternatives were $39 billion and $39 billion, respectively.

- *Inflows*—represent investments or commitments from new and existing clients in new or existing investment products, including reinvestments of client dividends and increases in invested capital. Excludes the impact of exchanges occurring whereby a client changes positions within the same asset class.
- *Outflows*—represent redemptions from clients' funds, transition of funds from the committed capital period to the invested capital period and decreases in invested capital. Excludes the impact of exchanges occurring whereby a client changes positions within the same asset class.

- *Distributions*—represent decreases in invested capital due to returns of capital after the investment period of a fund. It also includes fund dividends for which the client has not elected to reinvest.

- *Market impact*—includes realized and unrealized gains and losses on portfolio investments. This excludes any funds where market impact does not impact management fees.

- *Foreign currency impact*—reflects foreign currency changes for non-U.S. dollar denominated funds.

- *Average fee rate*—based on asset management and administration fees, net of waivers. It excludes performance-based fees and other non-management fees. For certain non-U.S. funds, it includes the portion of advisory fees that the advisor collects on behalf of third-party distributors. The payment of those fees to the distributor is included in Non-compensation expenses in the consolidated statements of income.

- *Alternatives asset class*—includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.

- *Shares of minority stake assets*—represent the Investment Management business segment's proportional share of assets managed by entities in which it owns a minority stake.

Supplemental Financial Information and Disclosures.

Legal.

The Company incurred legal expenses of $563 million in 2015, $3,364 million in 2014 and $1,941 million in 2013. Legal expenses are included in Other expenses in the consolidated statements of income.

Legal expenses incurred in 2015 were primarily related to increases in reserves for the settlement of a credit default swap antitrust litigation matter and for legacy residential mortgage-backed securities matters. The legal expenses incurred in 2014 and 2013 were principally due to reserve additions and settlements related to legacy residential mortgage-backed securities and credit crisis related matters, including in 2014 the Company's $2,600 million agreement with the United States Department of Justice, Civil Division, which was reached on February 25, 2015 and finalized on February 10, 2016 (see "Contingencies—Legal" in Note 12 to the consolidated financial statements in Item 8).

The Company's future legal expenses may fluctuate from period to period given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

U.S. Bank Subsidiaries.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, primarily through its U.S. Bank Subsidiaries. The lending activities in the Institutional Securities business segment include corporate lending activities, in which the Company provides loans or lending commitments to certain corporate clients, and other lending activities. The lending activities in the Wealth Management business segment primarily include securities-based lending that allows clients to borrow money against the value of qualifying securities and also include residential real estate loans. The Company expects its lending activities to continue to grow through further penetration of the Institutional Securities and Wealth Management business segments' client base. For a further discussion of credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Item 7A. Also see Notes 7 and 12 to the consolidated financial statements in Item 8 for additional information about loans and lending commitments, respectively.

U.S. Bank Subsidiaries' Supplemental Financial Information Excluding Transactions with Affiliated Entities.

	At December 31, 2015	At December 31, 2014
	(dollars in billions)	
U.S. Bank Subsidiaries assets	$ 174.2	$ 151.2
U.S. Bank Subsidiaries investment securities portfolio(1)	$ 57.9	$ 57.3
Wealth Management U.S. Bank Subsidiaries data:		
Securities-based lending and other loans(2)	$ 28.6	$ 22.0
Residential real estate loans	20.9	15.8
Total	$ 49.5	$ 37.8
Institutional Securities U.S. Bank Subsidiaries data:		
Corporate Lending	$ 10.0	$ 9.6
Other lending(3):		
Corporate loans	$ 12.9	$ 8.0
Wholesale real estate loans and other loans	8.9	8.6
Total other loans	$ 21.8	$ 16.6
Total	$ 31.8	$ 26.2

[1] The U.S. Bank Subsidiaries investment securities portfolio includes AFS investment securities of $53.0 billion at December 31, 2015 and $57.2 billion at December 31, 2014. The remaining balance represents HTM investment securities.

[2] Other loans primarily include tailored lending.

[3] Other lending includes activities related to commercial and residential mortgage lending, asset-backed lending, corporate loans purchased in the secondary market, financing extended to equities and commodities customers, and loans to municipalities.

Income Tax Matters.

The effective tax rate from continuing operations was 25.9% for 2015. Included in this rate were net discrete tax benefits of $564 million, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated due to an internal restructuring to simplify the legal entity organization in the U.K. Excluding these net discrete tax benefits, the effective tax rate from continuing operations for 2015 would have been 32.5%, which is reflective of the geographic mix of earnings.

The effective tax rate from continuing operations was a benefit of 2.5% for 2014. Included in this rate were net discrete tax benefits of $2,226 million. These net discrete tax benefits consisted of: $1,380 million primarily due to the release of a deferred tax liability, previously established as part of the acquisition of Smith Barney in 2009 through a charge to Additional paid-in capital, as a result of the legal entity restructuring that included a change in tax status of Morgan Stanley Smith Barney Holdings LLC from a partnership to a corporation; $609 million principally associated with the remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination; and $237 million primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated. Excluding these net discrete tax benefits, the effective tax rate from continuing operations for 2014 would have been 59.5%, which is primarily attributable to approximately $900 million of tax provision from non-deductible expenses for litigation and regulatory matters.

The effective tax rate from continuing operations was 19.8% for 2013. Included in this rate were net discrete tax benefits of $407 million. These net discrete tax benefits consisted of: $161 million related to the remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the enactment of the Relief Act, which retroactively extended a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside the U.S. until such income is repatriated to the U.S. as a dividend. Excluding these net discrete tax benefits, the effective tax rate from continuing operations for 2013 would have been 28.7%, which is reflective of the geographic mix of earnings.

Discretionary Incentive Compensation.

On December 1, 2014, the Compensation, Management Development and Succession Committee ("CMDS Committee") of the Company's Board of Directors (the "Board") approved an approach for awards of discretionary incentive compensation for the 2014 performance year to be granted in 2015 that would reduce the average deferral of such awards to an approximate baseline of 50%. Additionally, the CMDS Committee approved the acceleration of vesting for certain outstanding deferred cash-based incentive compensation awards. The deferred cash-based incentive compensation awards subject to accelerated vesting will be distributed on their regularly scheduled future distribution dates and will continue to be subject to cancellation and clawback provisions. The following table presents the increase in Compensation and benefits expense for the Company and each of the business segments as a result of these actions in 2014 ("2014 compensation actions").

2014 Compensation and Benefits Expense.

	Institutional Securities	Wealth Management	Investment Management	Total
	(dollars in millions)			
2014 compensation and benefits expense before fourth quarter actions(1)	$ 6,882	$ 8,737	$ 1,068	$ 16,687
Fourth quarter actions:				
Change in 2014 level of deferrals(2)	610	66	80	756
Acceleration of prior-year cash-based deferred awards(3)	294	22	65	381
Fourth quarter actions total	$ 904	$ 88	$ 145	$ 1,137
2014 compensation and benefits expense	$ 7,786	$ 8,825	$ 1,213	$ 17,824

[1] Amount represents compensation and benefits expense at pre-adjustment accrual levels (*i.e.*, at an approximate average baseline 74% deferral rate and with no acceleration of cash-based award vesting that was utilized for the first three quarters of 2014).

[2] Amounts reflect reduction in deferral level from an approximate average baseline of 74% to an approximate average baseline of 50%.

[3] Amounts represent acceleration of vesting for certain cash-based awards.

Accounting Development Updates.

Thus far in 2016, the Financial Accounting Standards Board (the "FASB") issued the following accounting update, which applies to the Company:

- Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance is effective for the Company beginning January 1, 2018. Early adoption is permitted for a specific component in the accounting standard, in which the Company would present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the Company has elected to measure the liability at fair value in accordance with the fair value option for financial instruments (*i.e.*, DVA). This accounting update is currently being evaluated to determine the potential impact of adoption.

During 2015 and 2014, the FASB issued the following accounting updates, which apply to the Company, but they are not expected to have a material impact on the consolidated financial statements:

- Simplifying the Accounting for Measurement-Period Adjustments.
- Simplifying the Presentation of Debt Issuance Costs.
- Amendments to the Consolidation Analysis.
- Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity.
- Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.
- Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity.
- Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.

During 2014, the FASB also issued the following accounting update:

- Revenue from Contracts with Customers. In May 2014, the FASB issued an accounting update to clarify the principles of revenue recognition, to develop a common revenue recognition standard across all industries for U.S. GAAP and International Financial Reporting Standards and to provide enhanced disclosures for users of the financial statements. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On April 1, 2015, the FASB voted to propose a deferral of the effective date of this accounting update by one year to January 1, 2018. Additionally, the FASB permits an entity to adopt this accounting update early but not before the original effective date, beginning January 1, 2017. This accounting update is currently being evaluated to determine the potential impact of adoption.

Critical Accounting Policies.

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP, which require the Company to make estimates and assumptions (see Note 1 to the consolidated financial statements in Item 8). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements in Item 8), the following policies involve a higher degree of judgment and complexity.

Fair Value.

Financial Instruments Measured at Fair Value.

A significant number of the Company's financial instruments are carried at fair value. The Company makes estimates regarding valuation of assets and liabilities measured at fair value in preparing the consolidated financial statements. These assets and liabilities include, but are not limited to:

- Trading assets and Trading liabilities;
- AFS securities;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Securities purchased under agreements to resell;
- Certain Deposits, primarily structured certificates of deposits;
- Certain Short-term borrowings, primarily structured notes;
- Certain Securities sold under agreements to repurchase;
- Certain Other secured financings; and
- Certain Long-term borrowings, primarily structured notes.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the relevant observable inputs be used when available. The hierarchy is broken down into three levels, wherein Level 1 uses quoted prices in active markets, Level 2 uses valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, and Level 3 consists of valuation techniques that incorporate significant unobservable inputs and, therefore, require the greatest use of judgment. In periods of market disruption, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be recategorized from Level 1 to Level 2 or Level 2 to Level 3. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments. For further information on the valuation process, fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, and quantitative information about and sensitivity of significant unobservable inputs used in Level 3 fair value measurements, see Notes 2 and 3 to the consolidated financial statements in Item 8.

The Company incorporates FVA into the fair value measurements of OTC uncollateralized or partially collateralized derivatives and in collateralized derivatives where the terms of the agreement do not permit the reuse of the collateral received.

For a further discussion of valuation adjustments applied by the Company, see Note 2 to the consolidated financial statements in Item 8.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis.

At December 31, 2015 and December 31, 2014, certain of the Company's assets and liabilities were measured at fair value on a non-recurring basis, primarily relating to loans, other investments, premises, equipment and software costs, intangible assets, other assets and other liabilities, and accrued expenses. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

See Note 3 to the consolidated financial statements in Item 8 for further information on assets and liabilities that are measured at fair value on a non-recurring basis.

Fair Value Control Processes.

The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

See Note 2 to the consolidated financial statements in Item 8 for additional information regarding the Company's valuation policies, processes and procedures.

Goodwill and Intangible Assets.

Goodwill.

The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. Goodwill no longer retains its association with a particular acquisition once it has been assigned to a reporting unit. As such, all the activities of a reporting unit, whether acquired or organically developed, are available to support the value of the goodwill. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required.

The estimated fair value of the reporting units is derived based on valuation techniques the Company believes market participants would use for each of the reporting units. The estimated fair value is generally determined by utilizing a discounted cash flow methodology or methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies. At each annual goodwill impairment testing date, each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

Intangible Assets.

Amortizable intangible assets are amortized over their estimated useful life and are reviewed for impairment on an interim basis when certain events or circumstances exist. An impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the expected undiscounted cash flows.

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

See Notes 2, 3 and 9 to the consolidated financial statements in Item 8 for additional information about goodwill and intangible assets.

Legal and Regulatory Contingencies.

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 and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Company, and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Accruals for litigation and regulatory proceedings are generally determined on a case-by-case basis. 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. For certain legal proceedings and investigations, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional range of loss can be reasonably estimated for a proceeding or investigation.

Significant judgment is required in deciding when and if to make these accruals and the actual cost of a legal claim or regulatory fine/penalty may ultimately be materially different from the recorded accruals.

See Note 12 to the consolidated financial statements in Item 8 for additional information on legal proceedings.

Income Taxes.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

The Company's provision for income taxes is composed of current and deferred taxes. Current income taxes approximate taxes to be paid or refunded for the current period. The Company's deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company's deferred tax balances also include deferred assets related to tax attribute carryforwards, such as net operating losses and tax credits that will be realized through reduction of future tax liabilities and, in some cases, are subject to expiration if not utilized within certain periods. The Company performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management's estimates and assumptions regarding future taxable income and incorporate various tax planning strategies, including strategies that may be available to tax attribute carryforwards before they expire. Once the deferred tax asset balances have been determined, the Company may record a valuation allowance against the deferred tax asset balances to reflect the amount of these balances (net of valuation allowance) that the Company estimates it is more likely than not to realize at a future date. Both current and deferred income taxes could reflect adjustments related to the Company's unrecognized tax benefits.

Significant judgment is required in estimating the consolidated provision for (benefit from) income taxes, current and deferred tax balances (including valuation allowance, if any), accrued interest or penalties and uncertain tax positions. Revisions in estimates and/or the actual costs of a tax assessment may ultimately be materially different from the recorded accruals and unrecognized tax benefits, if any.

See Note 2 to the consolidated financial statements in Item 8 for additional information on the Company's significant assumptions, judgments and interpretations associated with the accounting for income taxes and Note 20 to the consolidated financial statements in Item 8 for additional information on the Company's tax examinations.

Liquidity and Capital Resources.

The Company's senior management establishes liquidity and capital policies. Through various risk and control committees, senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity, interest rate and currency sensitivity of the Company's asset and liability position. The Treasury Department, Firm Risk Committee, Asset and Liability Management Committee, and other committees and control groups assist in evaluating, monitoring and controlling the impact that the Company's business activities have on its consolidated statements of financial condition, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board's Risk Committee.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet on a regular basis. The Company's balance sheet management process includes quarterly planning, business-specific limits, monitoring of business-specific usage versus limits, key metrics and new business impact assessments.

The Company establishes balance sheet limits at the consolidated, business segment and business unit levels. The Company monitors balance sheet usage versus limits and reviews variances resulting from business activity or market fluctuations. On a regular basis, the Company reviews current performance versus limits and assesses the need to re-allocate limits based on business unit needs. The Company also monitors key metrics, including asset and liability size, composition of the balance sheet, limit utilization and capital usage.

Total Assets for the Company's Business Segments.

	At December 31, 2015			
	Institutional Securities	Wealth Management	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents	$ 22,356	$ 31,216	$ 511	$ 54,083
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	28,663	2,806	—	31,469
Trading assets	224,949	883	2,448	228,280
Investment securities	14,124	57,858	1	71,983
Securities received as collateral	11,225	—	—	11,225
Securities purchased under agreements to resell	83,205	4,452	—	87,657
Securities borrowed	141,971	445	—	142,416
Customer and other receivables	23,390	21,406	611	45,407
Loans, net of allowance	36,237	49,522	—	85,759
Other assets(1)	16,594	11,120	1,472	29,186
Total assets	$ 602,714	$ 179,708	$ 5,043	$ 787,465

	At December 31, 2014			
	Institutional Securities	Wealth Management	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents	$ 23,161	$ 23,363	$ 460	$ 46,984
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	37,841	2,766	—	40,607
Trading assets	252,021	1,300	3,480	256,801
Investment securities	11,999	57,317	—	69,316
Securities received as collateral	21,316	—	—	21,316
Securities purchased under agreements to resell	73,299	9,989	—	83,288
Securities borrowed	136,336	372	—	136,708
Customer and other receivables	27,328	21,022	611	48,961
Loans, net of allowance	28,755	37,822	—	66,577
Other assets(1)	18,285	11,196	1,471	30,952
Total assets	$ 630,341	$ 165,147	$ 6,022	$ 801,510

(1) Other assets primarily includes Other investments; Premises, equipment and software costs; Goodwill; Intangible assets and deferred tax assets.

A substantial portion of the Company’s total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. The liquid nature of these assets provides the Company with flexibility in managing the size of its balance sheet. Total assets decreased to $787 billion at December 31, 2015 from $802 billion at December 31, 2014. The decrease in total assets was primarily due to reductions in Trading assets within the Institutional Securities business segment (primarily within Fixed Income and Commodities), partially offset by balance sheet growth related to higher Deposits, which were redeployed into lending activity and excess cash and liquidity and by an increase in secured funding to support the Equity business within the Institutional Securities business segment.

Securities borrowed or securities purchased under agreements to resell and securities loaned or securities sold under agreements to repurchase are treated as collateralized financings (see Notes 2 and 6 to the consolidated financial statements in Item 8).

Collateralized Financing Transactions and Average Balances.

			Average Balance	
	At December 31, 2015	At December 31, 2014	2015	2014
	(dollars in millions)			
Securities purchased under agreements to resell and Securities borrowed	$ 230,073	$ 219,996	$ 252,971	$ 254,612
Securities sold under agreements to repurchase and Securities loaned	$ 56,050	$ 95,168	$ 85,421	$ 136,954

Period-end balances for Securities purchased under agreements to resell and Securities borrowed and Securities sold under agreements to repurchase and Securities loaned at December 31, 2015 were lower than the average balances during 2015. The balances moved in line with client financing activity and with general movements in firm inventory.

Securities purchased under agreements to resell and Securities borrowed period-end balances at December 31, 2014 were lower than the average balances during 2014 due to a reduction in client financing activity and an increase in financing balance sheet efficiencies. Securities sold under agreements to repurchase and Securities loaned period-end balances at December 31, 2014 were lower than the average balances during 2014 as the Company’s assets decreased.

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer-owned securities, and customer cash, which is segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes payables to the Company's prime brokerage customers. The Company's risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company's credit exposure to customers. Included within securities financing assets were $11 billion and $21 billion at December 31, 2015 and December 31, 2014, respectively, recorded in accordance with accounting guidance for the transfer of financial assets that represented offsetting assets and liabilities for fully collateralized non-cash loan transactions.

Liquidity Risk Management Framework.

The primary goal of the Company's Liquidity Risk Management Framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfill its financial obligations and support the execution of its business strategies.

The following principles guide the Company's Liquidity Risk Management Framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The core components of the Company's Liquidity Risk Management are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve (as defined below), which support its target liquidity profile.

Required Liquidity Framework.

The Company's Required Liquidity Framework reflects the amount of liquidity the Company must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a consolidated and legal entity level.

Liquidity Stress Tests.

The Company uses Liquidity Stress Tests to model liquidity inflows and outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Company's Liquidity Stress Tests are important components of the Required Liquidity Framework.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- No government support;
- No access to equity and unsecured debt markets;
- Repayment of all unsecured debt maturing within the stress horizon;
- Higher haircuts and significantly lower availability of secured funding;
- Additional collateral that would be required by trading counterparties, certain exchanges and clearing organizations related to credit rating downgrades;
- Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;

- Discretionary unsecured debt buybacks;
- Drawdowns on lending commitments provided to third parties;
- Client cash withdrawals and reduction in customer short positions that fund long positions;
- Limited access to the foreign exchange swap markets; and
- Maturity roll-off of outstanding letters of credit with no further issuance.

Liquidity Stress Tests are produced for the Parent and major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability across the Company, including a limited number of asset sales in a stressed environment. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from the Parent and that the Parent will support its subsidiaries and will not have access to subsidiaries' liquidity reserves. In addition to the assumptions underpinning the Liquidity Stress Tests, the Company takes into consideration the settlement risk related to intraday settlement and clearing of securities and financing activities.

At December 31, 2015 and December 31, 2014, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its Liquidity Stress Tests.

Global Liquidity Reserve.

The Company maintains sufficient liquidity reserves ("Global Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows, regional and segment liquidity requirements, regulatory requirements and collateral requirements. In addition, the Company's Global Liquidity Reserve includes a discretionary surplus based on risk tolerance and is subject to change dependent on market and firm-specific events. The Global Liquidity Reserve is held within the Parent and its major operating subsidiaries.

Global Liquidity Reserve by Type of Investment.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Cash deposits with banks	$ 10,187	$ 12,173
Cash deposits with central banks	39,774	29,607
Unencumbered highly liquid securities:		
U.S. government obligations	72,265	76,555
U.S. agency and agency mortgage-backed securities	37,678	32,358
Non-U.S. sovereign obligations(1)	28,999	25,888
Investments in money market funds	—	277
Other investment grade securities	14,361	16,311
Global Liquidity Reserve	$ 203,264	$ 193,169

[1] Non-U.S. sovereign obligations are composed of unencumbered German, French, Dutch, U.K., Brazilian and Japanese government obligations.

Global Liquidity Reserve Managed by Bank and Non-Bank Legal Entities.

	At December 31, 2015	At December 31, 2014	Average Balance(1) 2015	Average Balance(1) 2014
	(dollars in millions)			
Bank legal entities:				
Domestic	$ 88,432	$ 82,484	$ 81,691	$ 81,874
Foreign	5,896	5,460	5,097	5,366
Total Bank legal entities	94,328	87,944	86,788	87,240
Non-Bank legal entities(2):				
Domestic	74,811	70,122	72,115	75,499
Foreign	34,125	35,103	34,133	31,934
Total Non-Bank legal entities	108,936	105,225	106,248	107,433
Total	$ 203,264	$ 193,169	$ 193,036	$ 194,673

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.

(2) The Parent managed $54,810 million and $55,094 million at December 31, 2015 and December 31, 2014, respectively, and averaged $53,620 million and $56,501 million during 2015 and 2014, respectively.

Regulatory Liquidity Framework.

The Basel Committee on Banking Supervision (the "Basel Committee") has developed two standards intended for use in liquidity risk supervision: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

Liquidity Coverage Ratio.

The LCR was developed to ensure banking organizations have sufficient high-quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard's objective is to promote the short-term resilience of the liquidity risk profile of banking organizations.

The final rule to implement the LCR in the U.S. ("U.S. LCR") applies to the Company and its U.S. Bank Subsidiaries and each is required to calculate its respective U.S. LCR on each business day. As of January 1, 2015, the Company and its U.S. Bank Subsidiaries were required to maintain a minimum U.S. LCR of 80%. Beginning on January 1, 2016, the Company and its U.S. Bank Subsidiaries are required to maintain a minimum U.S. LCR of 90%, and this minimum standard will reach the fully phased-in level of 100% beginning on January 1, 2017. In addition, the Federal Reserve has proposed rules that would require large banking organizations, including the Company, to publicly disclose certain qualitative and quantitative information about their U.S. LCR beginning in the third quarter of 2016. The Company is compliant with the minimum required U.S. LCR based on current interpretation and continues to evaluate its impact on the Company's liquidity and funding requirements.

Net Stable Funding Ratio.

The objective of the NSFR is to reduce funding risk over a one-year horizon by requiring banking organizations to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. In October 2014, the Basel Committee finalized revisions to the NSFR. The U.S. banking regulators are expected to issue a proposal to implement the NSFR in the U.S. The Company continues to evaluate the NSFR and its potential impact on the Company's current liquidity and funding requirements.

Funding Management.

The Company manages its funding in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of its liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company's equity capital, long-term debt, securities sold under agreements to repurchase ("repurchase agreements"), securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing.

A substantial portion of the Company's total assets consists of liquid marketable securities and arises principally from the Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Company with flexibility in funding these assets with secured financing. The Company's goal is to achieve an optimal mix of durable secured and unsecured financing. Secured financing investors principally focus on the quality of the eligible collateral posted. Accordingly, the Company actively manages its secured financing book based on the quality of the assets being funded.

The Company utilizes shorter-term secured financing only for highly liquid assets and has established longer tenor limits for less liquid asset classes, for which funding may be at risk in the event of a market disruption. The Company defines highly liquid assets as government-issued or government-guaranteed securities with a high degree of fundability and less liquid assets as those that do not meet these criteria. At December 31, 2015 and December 31, 2014, the weighted average maturity of the Company's secured financing of less liquid assets was greater than 120 days. To further minimize the refinancing risk of secured financing for less liquid assets, the Company has established concentration limits to diversify its investor base and reduce the amount of monthly maturities for secured financing of less liquid assets. Furthermore, the Company obtains term secured funding liabilities in excess of less liquid inventory, or "spare capacity," as an additional risk mitigant to replace maturing trades in the event that secured financing markets, or its ability to access them, become limited. As a component of the Liquidity Risk Management Framework, the Company holds a portion of its Global Liquidity Reserve against the potential disruption to its secured financing capabilities.

The Company also maintains a pool of liquid and easily fundable securities, which provide a valuable future source of liquidity. With the implementation of U.S. Basel III liquidity standards, the Company has also incorporated high-quality liquid asset classifications that are consistent with the U.S. LCR definitions into its encumbrance reporting, which further substantiates the demonstrated liquidity characteristics of the unencumbered asset pool and its ability to readily identify new funding sources for such assets.

Unsecured Financing.

The Company views long-term debt and deposits as stable sources of funding. Unencumbered securities and non-security assets are financed with a combination of long-term and short-term debt and deposits. The Company's unsecured financings include structured borrowings, whose payments and redemption values are based on the performance of certain underlying assets, including equity, credit, foreign exchange, interest rates and commodities. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to its interest rate and structured borrowings risk profile (see Note 4 to the consolidated financial statements in Item 8).

Deposits.

Available funding sources to the Company's bank subsidiaries include time deposits, money market deposit accounts, demand deposit accounts, repurchase agreements, federal funds purchased, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in the Company's U.S. Bank Subsidiaries are sourced from its retail brokerage accounts and are considered to have stable, low-cost funding characteristics. The transfer of deposits previously held by Citi to the Company's depository institutions relating to the Company's customer accounts was completed on June 30, 2015. During 2015, $8.7 billion of deposits were transferred by Citi to the Company's depository institutions.

Deposits.

	At December 31, 2015(1)	At December 31, 2014(1)
	(dollars in millions)	
Savings and demand deposits	$ 153,346	$ 132,159
Time deposits(2)	2,688	1,385
Total(3)	$ 156,034	$ 133,544

[1] Total deposits subject to the FDIC insurance at December 31, 2015 and December 31, 2014 were $113 billion and $99 billion, respectively.

[2] Certain time deposit accounts are carried at fair value under the fair value option (see Note 3 to the consolidated financial statements in Item 8).

[3] The Company's deposits were primarily held in the U.S.

Short-Term Borrowings.

The Company's unsecured Short-term borrowings may consist of bank loans, bank notes, commercial paper and structured notes with maturities of 12 months or less at issuance. At December 31, 2015 and December 31, 2014, the Company had approximately $2,173 million and $2,261 million, respectively, in Short-term borrowings.

Long-Term Borrowings.

The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments. Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, its credit ratings and the overall availability of credit.

The Company may engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Long-term Borrowings by Maturity Profile.

	Parent	Subsidiaries	Total
		(dollars in millions)	
Due in 2016	$ 18,110	$ 4,286	$ 22,396
Due in 2017	21,161	1,105	22,266
Due in 2018	17,099	838	17,937
Due in 2019	17,959	609	18,568
Due in 2020	16,002	1,003	17,005
Thereafter	53,759	1,837	55,596
Total	$ 144,090	$ 9,678	$ 153,768

During 2015, the Company issued notes with a principal amount of approximately $34.2 billion. In connection with these note issuances, the Company generally enters into certain transactions to obtain floating interest rates. The weighted average maturity of the Company's long-term borrowings, based upon stated maturity dates, was approximately 6.1 years at December 31, 2015. During 2015, approximately $27.3 billion in aggregate long-term borrowings matured or were retired. Subsequent to December 31, 2015 and through February 19, 2016, long-term borrowings increased by approximately $5.2 billion, net of maturities and repayments. This amount includes the issuance of $5.5 billion of senior debt on January 27, 2016 and $400 million of senior debt on February 17, 2016. For a further discussion of the Company's long-term borrowings, including the amount of senior debt outstanding at December 31, 2015, see Note 11 to the consolidated financial statements in Item 8.

During 2015, Morgan Stanley Capital Trusts VI and VII redeemed all of their issued and outstanding 6.60% Capital Securities, respectively, and the Company concurrently redeemed the related underlying junior subordinated debentures.

Capital Covenants.

In April 2007, the Company executed replacement capital covenants in connection with an offering by Morgan Stanley Capital Trust VIII Capital Securities, which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenants, see the Company's Current Report on Form 8-K dated April 26, 2007.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally are impacted by, among other things, the Company's credit ratings. In addition, the Company's credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies consider company-specific factors; other industry factors such as regulatory or legislative changes; the macroeconomic environment; and perceived levels of government support, among other things.

As of December 2, 2015, the Company's credit ratings no longer incorporate uplift from perceived government support from any rating agency given the significant progress of the U.S. financial reform legislation and regulations. Meanwhile, some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from non-governmental third-party sources of potential support.

Parent and MSBNA's Senior Unsecured Ratings at January 29, 2016.

	Parent			Morgan Stanley Bank, N.A.		
	Short-Term Debt	Long-Term Debt	Rating Outlook	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.	R-1 (middle)	A (high)	Stable	—	—	—
Fitch Ratings, Inc.(1)	F1	A	Stable	F1	A+	Stable
Moody's Investors Service, Inc.(2)	P-2	A3	Stable	P-1	A1	Stable
Rating and Investment Information, Inc.(3)	a-1	A-	Stable	—	—	—
Standard & Poor's Ratings Services(4)	A-2	BBB+	Stable	A-1	A	Positive Watch

(1) On May 19, 2015, Fitch Ratings, Inc. upgraded the long-term rating of MSBNA by one notch to A+ from A. The rating outlook remained Stable.

(2) On May 28, 2015, Moody's Investors Service, Inc. ("Moody's") upgraded the long-term rating of the Parent and MSBNA by two notches to A3 from Baa2 and A1 from A3, respectively. The rating outlook for the Parent and MSBNA was revised to Stable.

(3) On November 6, 2015, Rating and Investment Information, Inc. downgraded the long-term rating of the Parent one-notch to A- from A. The rating outlook for the Parent was revised to Stable.

(4) On December 2, 2015, Standard & Poor's Ratings Services ("S&P") downgraded the rating of the non-operating holding companies of all eight U.S. global systemically important banks by removing the government support uplift from the rating based on S&P's view that it is uncertain that the U.S. government would provide extraordinary support to its banking system given S&P's review of the progress made toward putting in place a viable U.S. resolution plan. The Parent's long-term rating was lowered by one-notch to BBB+ from A-. The rating outlook for the Parent was revised to Stable. On November 2, 2015, MSBNA's rating outlook was revised to Positive Watch from Positive.

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the Company is in a net asset or net liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and S&P. The table below shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody's or S&P ratings, based on the relevant contractual downgrade triggers.

Incremental Collateral or Terminating Payments upon Potential Future Rating Downgrade.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
One-notch downgrade	$ 1,169	$ 1,856
Two-notch downgrade	1,465	2,984

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it would have on the Company's business and results of operations in future periods is inherently uncertain and would depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions the Company might take. The liquidity impact of additional collateral requirements is included in the Company's Liquidity Stress Tests.

Capital Management.

The Company's senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries' required equity.

In March 2015, the Company received no objection from the Federal Reserve to its 2015 capital plan. The capital plan included a share repurchase of up to $3.1 billion of the Company's outstanding common stock during the period that began April 1, 2015 through June 30, 2016. Additionally, the capital plan included an increase in the Company's quarterly common stock dividend to $0.15 per share from $0.10 per share that began with the dividend declared on April 20, 2015. During 2015 and 2014, the Company repurchased approximately $2,125 million and $900 million, respectively, of its outstanding common stock as part of its share repurchase program (see Note 15 to the consolidated financial statements in Item 8). Pursuant to the share repurchase program, the Company considers, among other things, business segment capital needs, as well as stock-based compensation and benefit plan requirements. Share repurchases under the Company's program will be exercised from time to time at prices the Company deems appropriate subject to various factors, including its capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time. Share repurchases by the Company are subject to regulatory approval (see also "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II, Item 5).

The Board determines the declaration and payment of dividends on a quarterly basis. The cash dividends declared on the Company's outstanding preferred stock were $452 million, $311 million and $271 million for the years ended 2015, 2014 and 2013, respectively. On January 19, 2016, the Company announced that the Board declared a quarterly dividend per common share of $0.15. The dividend is payable on February 15, 2016 to common shareholders of record on January 29, 2016 (see Note 24 to the consolidated financial statements in Item 8).

Issuance of Preferred Stock.

Series J Preferred Stock. On March 19, 2015, the Company issued 1,500,000 Depositary Shares for an aggregate price of $1,500 million. Each Depositary Share represents a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series J, $0.01 par value ("Series J Preferred Stock"). The Series J Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2020 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $1,000 per Depositary Share), plus any declared and unpaid dividends to, but excluding, the date fixed for redemption, without accumulation of any undeclared dividends. The Series J Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series J Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $1,493 million.

On December 15, 2015, the Company announced that the Board declared a quarterly dividend for preferred stock shareholders of record on December 31, 2015, that was paid on January 15, 2016.

Preferred Stock Dividends.

Series	Preferred Stock Description	Quarterly Dividend per Share(1)
A	Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.25556)	$ 255.56
C	10% Non-Cumulative Non-Voting Perpetual Preferred Stock	25.00
E	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.44531)	445.31
F	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.42969)	429.69
G	6.625% Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.41406)	414.06
H	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/25th interest in a share of preferred stock and each having a dividend of $27.25000)(1)	681.25
I	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.39844)	398.44
J	Fixed-to-Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing a 1/25th interest in a share of preferred stock and each having a dividend of $27.75000)(2)	693.75

(1) Dividend on Series H Preferred Stock is payable semiannually until July 15, 2019 and quarterly thereafter.
(2) Dividend on Series J Preferred Stock is payable semiannually until July 15, 2020 and quarterly thereafter.

Tangible Equity.

Tangible Equity Measures—Period End and Average.

	Balance at		Average Balance(1)	
	December 31, 2015	December 31, 2014	2015	2014
	(dollars in millions)			
Common equity	$ 67,662	$ 64,880	$ 66,936	$ 65,284
Preferred equity	7,520	6,020	7,174	4,774
Morgan Stanley shareholders' equity	75,182	70,900	74,110	70,058
Junior subordinated debentures issued to capital trusts	2,870	4,868	3,640	4,866
Less: Goodwill and net intangible assets	(9,564)	(9,742)	(9,661)	(9,737)
Tangible Morgan Stanley shareholders' equity(2)	$ 68,488	$ 66,026	$ 68,089	$ 65,187
Common equity	$ 67,662	$ 64,880	$ 66,936	$ 65,284
Less: Goodwill and net intangible assets	(9,564)	(9,742)	(9,661)	(9,737)
Tangible common equity(2)	$ 58,098	$ 55,138	$ 57,275	$ 55,547

(1) Average balances were calculated based upon month-end balances.
(2) Tangible Morgan Stanley shareholders' equity and tangible common equity are non-GAAP financial measures that the Company and investors consider to be a useful measure to assess capital adequacy.

Regulatory Requirements.

Regulatory Capital Framework.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates its compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Company's U.S. Bank Subsidiaries.

Implementation of U.S. Basel III.

The U.S. banking regulators have comprehensively revised their risk-based and leverage capital framework to implement many aspects of the Basel III capital standards established by the Basel Committee. The U.S. banking regulators' revised capital framework is referred to herein as "U.S. Basel III." The Company and its U.S. Bank Subsidiaries became subject to U.S. Basel III on January 1, 2014. Aspects of U.S. Basel III, such as the minimum risk-based capital ratio requirements, new capital buffers, and certain deductions from and adjustments to capital, are being phased in over several years.

Regulatory Capital. U.S. Basel III, which is aimed at increasing the quality and amount of regulatory capital, establishes Common Equity Tier 1 capital as a new tier of capital, increases minimum required risk-based capital ratios, provides for capital buffers above those minimum ratios, provides for new regulatory capital deductions and adjustments, modifies methods for calculating risk-weighted assets ("RWAs")—the denominator of risk-based capital ratios—by, among other things, increasing counterparty credit risk capital requirements, and introduces a supplementary leverage ratio. In addition, new items (including certain investments in the capital instruments of unconsolidated financial institutions) are deducted from the respective tiers of regulatory capital, and certain existing regulatory deductions and adjustments are modified or are no longer applicable. The majority of these capital deductions are subject to a phase-in schedule and will be fully phased in by 2018. Unrealized gains and losses on AFS securities are reflected in Common Equity Tier 1 capital, subject to a phase-in schedule. The percentage of the regulatory deductions and adjustments to Common Equity Tier 1 capital that applied to the Company in 2015 generally ranged from 40% to 100%, depending on the specific item.

In addition, U.S. Basel III narrows the eligibility criteria for regulatory capital instruments. Existing trust preferred securities are required to be fully phased out of the Company's Tier 1 capital by January 1, 2016. Thereafter, existing trust preferred securities that do not satisfy U.S. Basel III's eligibility criteria for Tier 2 capital will be phased out of the Company's regulatory capital by January 1, 2022.

The deductions that the Volcker Rule requires to be made from a bank holding company's Tier 1 capital for certain permissible investments in covered funds are reflected in the relevant regulatory capital tiers and ratios beginning with the three months ended September 30, 2015 (see also "Business—Supervision and Regulation—Financial Holding Company—Activities Restrictions under the Volcker Rule" in Part I, Item 1).

Risk-Weighted Assets. The Company is required to calculate and hold capital against credit, market and operational risk RWAs. RWAs reflect both on- and off-balance sheet risk of the Company. Credit risk RWAs reflect capital charges attributable to the risk of loss arising from a borrower, counterparty or issuer failing to meet its financial obligations to the Company. Market risk RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. Operational risk RWAs reflect capital charges attributable to the risk of loss resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud; theft; legal, regulatory and compliance risks; or damage to physical assets). The Company may incur operational risks across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). In addition, given the evolving regulatory and litigation environment across the financial services industry and the fact that operational risk RWAs incorporate the impact of such related matters, operational risk RWAs may increase in future periods. For a further discussion of the Company's market, credit and operational risks, see "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A.

The Basel Committee is in the process of considering revisions to various provisions of the Basel III framework that, if adopted by the U.S. banking agencies, could result in substantial changes to U.S. Basel III. In particular, the Basel Committee has finalized a new methodology for calculating counterparty credit risk exposures in derivatives transactions, the standardized approach for measuring counterparty credit risk exposures, and revised frameworks for market risk and securitization capital requirements. In addition, the Basel Committee has proposed revisions to various regulatory capital standards, including for credit risk, operational risk and interest rate risk in the banking book. In each case, the impact of these revised standards on the Company and its U.S. Bank Subsidiaries is uncertain and depends on future rulemakings by the U.S. banking agencies.

Calculation of Risk-Based Capital Ratios. On February 21, 2014, the Federal Reserve and the OCC approved the Company's and its U.S. Bank Subsidiaries' respective use of the U.S. Basel III advanced internal ratings-based approach for determining credit risk capital requirements and advanced measurement approaches for determining operational risk capital requirements to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014, subject to the "capital floor" discussed below (the "Advanced Approach"). As a U.S. Basel III Advanced Approach banking organization, the Company is required to compute risk-based capital ratios calculated using both (i) standardized approaches for calculating credit risk RWAs and market risk RWAs (the "Standardized Approach"); and (ii) an advanced internal ratings-based approach for calculating credit risk RWAs, an advanced measurement approach for calculating operational risk RWAs, and an advanced approach for calculating market risk RWAs under U.S. Basel III.

To implement a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), U.S. Basel III subjects Advanced Approach banking organizations that have been approved by their regulators to exit the parallel run, such as the Company, to a permanent "capital floor." Beginning on January 1, 2015, as a result of the capital floor, the Company's binding risk-based capital ratios for regulatory purposes are the lower of the capital ratios computed under the Advanced Approach or the Standardized Approach under U.S. Basel III. The U.S. Basel III Standardized Approach modifies certain U.S. Basel I-based methods for calculating RWAs and prescribes new standardized risk weights for certain types of assets and exposures. The capital floor applies to the calculation of the minimum risk-based capital requirements, the capital conservation buffer, the countercyclical capital buffer (if deployed by banking regulators) and the global systemically important bank ("G-SIB") capital surcharge.

The methods for calculating each of the Company's risk-based capital ratios will change through January 1, 2022 as aspects of U.S. Basel III are phased in. These ongoing methodological changes may result in differences in the Company's reported capital ratios from one reporting period to the next that are independent of changes to its capital base, asset composition, off-balance sheet exposures or risk profile.

Calculation of the U.S. Basel III Capital Ratios on a Transitional and Fully Phased-In Basis.

		Transition Period		Fully Phased In(1)
		Second to Fourth Quarter of 2014	2015 to 2017	2018 and Onward
Regulatory Capital (Numerator of risk-based capital and leverage ratios)		U.S. Basel III Transitional(2)		U.S. Basel III
RWAs (Denominator of risk-based capital ratios)	Standardized Approach	U.S. Basel I and Basel 2.5	U.S. Basel III Standardized Approach	
	Advanced Approach	U.S. Basel III Advanced Approach		
Denominator of leverage ratios	Tier 1 Leverage Ratio	Adjusted Average On-Balance Sheet Assets(3)		
	Supplementary Leverage Ratio		Adjusted Average On-Balance Sheet Assets(3) and Certain Off-Balance Sheet Exposures	

(1) Beginning in 2018, U.S. Basel III rules defining capital (numerator of capital ratios) will be fully phased in, except for the exclusion of non-qualifying trust preferred securities from Tier 2 capital, which will be fully phased in as of January 1, 2022. In addition, the Company will also be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer, a G-SIB capital surcharge and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer, all of which will be fully phased in by the beginning of 2019. The capital conservation buffer, the G-SIB capital surcharge and, if deployed, the countercyclical buffer apply in addition to each of the Company's Common Equity Tier 1, Tier 1 and Total capital ratios. The requirements for these additional capital buffers will be phased in beginning in 2016. For information on the recently adopted G-SIB capital surcharge, see "G-SIB Capital Surcharge" herein.

(2) In 2015, as a result of the Company's and its U.S. Bank Subsidiaries' completion of the Advanced Approach parallel run, the amount of expected credit loss that exceeds eligible credit reserves must be deducted 40% from Common Equity Tier 1 capital and 60% from Additional Tier 1 capital. Over the next two years, this deduction from Common Equity Tier 1 capital will incrementally increase and the amount deducted from Additional Tier 1 capital will correspondingly decrease until fully phased in by the beginning of 2018. In addition, under the Advanced Approach framework, the allowance for loan losses cannot be included in Tier 2 capital. Instead, an Advanced Approach banking organization may include in Tier 2 capital any eligible credit reserves that exceed its total expected credit losses to the extent that the excess reserve amount does not exceed 0.6% of its Advanced Approach credit risk RWAs. The allowance for loan losses may continue to be included in Tier 2 capital for purposes of calculating capital ratios under the Standardized Approach, up to 1.25% of credit risk RWAs.

(3) In accordance with U.S. Basel III, adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

Regulatory Capital Ratios.

Regulatory Capital Ratios and Minimum Regulatory Capital Ratios Applicable under U.S. Basel III.

	At December 31, 2015		
	Actual Capital Ratio		Minimum Regulatory Capital Ratio
	U.S. Basel III Transitional/ Standardized Approach	U.S. Basel III Transitional/ Advanced Approach	Calendar Year 2015
Common Equity Tier 1 capital ratio	16.4%	15.5%	4.5%
Tier 1 capital ratio	18.4%	17.4%	6.0%
Total capital ratio	22.0%	20.7%	8.0%
Tier 1 leverage ratio	8.3%	N/A	4.0%

N/A—Not Applicable.

For the Company to remain a financial holding company, its U.S. Bank Subsidiaries must qualify as "well-capitalized" under the higher capital requirements of U.S. Basel III by maintaining a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a Common Equity Tier 1 risk-based capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%. The Federal Reserve has not yet revised the "well-capitalized" standard for financial holding companies to reflect the higher capital standards in U.S. Basel III. Assuming that the Federal Reserve would apply the same or very similar well-capitalized standards to financial holding companies, each of the Company's risk-based capital ratios and Tier 1 leverage ratio at December 31, 2015 would have exceeded the revised well-capitalized standard. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk- and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company's particular condition, risk profile and growth plans.

At December 31, 2015, the Company's capital ratios calculated under the U.S. Basel III Advanced Approach were lower than those calculated under the U.S. Basel III Standardized Approach and, therefore, are the binding ratios for the Company as a result of the capital floor. At December 31, 2014, the Company's capital ratios calculated under the U.S. Basel III Advanced Approach were lower than those calculated under the Standardized Approach, represented as the U.S. banking regulators' U.S. Basel I-based rules ("U.S. Basel I") as supplemented by rules that implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5" and, therefore, are the binding ratios.

RWAs and Regulatory Capital Ratios under the U.S. Basel III Advanced Approach Transitional Rules.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
RWAs:		
Credit risk	$ 173,586	$ 184,645
Market risk	71,476	121,363
Operational risk	139,100	150,000
Total RWAs	$ 384,162	$ 456,008
Capital ratios:		
Common Equity Tier 1 ratio	15.5%	12.6%
Tier 1 capital ratio	17.4%	14.1%
Total capital ratio	20.7%	16.4%
Tier 1 leverage ratio(1)	8.3%	7.9%
Adjusted average assets(2)	$ 803,574	$ 810,524

(1) Tier 1 leverage ratios are calculated under U.S. Basel III Standardized Approach transitional rules.

(2) Beginning with the first quarter of 2015, in accordance with U.S. Basel III, adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

Regulatory Capital Calculated under the U.S. Basel III Advanced Approach Transitional Rules.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Common Equity Tier 1 capital:		
Common stock and surplus	$ 20,114	$ 21,503
Retained earnings	49,204	44,625
Accumulated other comprehensive income (loss)	(1,656)	(1,248)
Regulatory adjustments and deductions:		
Net goodwill	(6,582)	(6,612)
Net intangible assets (other than goodwill and mortgage servicing assets)	(1,192)	(632)
Credit spread premium over risk-free rate for derivative liabilities	(202)	(161)
Net deferred tax assets	(675)	(580)
Net after-tax debt valuation adjustment	156	158
Adjustments related to accumulated other comprehensive income	411	462
Expected credit loss over eligible credit reserves	—	(10)
Other adjustments and deductions	(169)	(181)
Total Common Equity Tier 1 capital	$ 59,409	$ 57,324
Additional Tier 1 capital:		
Preferred stock	$ 7,520	$ 6,020
Trust preferred securities	702	2,434
Nonredeemable noncontrolling interests	678	1,004
Regulatory adjustments and deductions:		
Net deferred tax assets	(1,012)	(2,318)
Credit spread premium over risk-free rate for derivative liabilities	(303)	(644)
Net after-tax debt valuation adjustment	233	630
Expected credit loss over eligible credit reserves	—	(39)
Other adjustments and deductions	(253)	(229)
Additional Tier 1 capital	$ 7,565	$ 6,858
Deduction for investments in covered funds	(252)	—
Total Tier 1 capital	$ 66,722	$ 64,182
Tier 2 capital:		
Subordinated debt	$ 10,404	$ 8,339
Trust preferred securities	2,106	2,434
Other qualifying amounts	35	27
Regulatory adjustments and deductions	136	(10)
Total Tier 2 capital	$ 12,681	$ 10,790
Total capital	$ 79,403	$ 74,972

Roll-forward of Regulatory Capital Calculated under the U.S. Basel III Advanced Approach Transitional Rules.

	2015 (dollars in millions)
Common Equity Tier 1 capital:	
Common Equity Tier 1 capital at December 31, 2014	$ 57,324
Change related to the following items:	
Value of shareholders' common equity	2,782
Net goodwill	30
Net intangible assets (other than goodwill and mortgage servicing assets)	(560)
Credit spread premium over risk-free rate for derivative liabilities	(41)
Net deferred tax assets	(95)
Net after-tax debt valuation adjustment	(2)
Adjustments related to accumulated other comprehensive income	(51)
Expected credit loss over eligible credit reserves	10
Other deductions and adjustments	12
Common Equity Tier 1 capital at December 31, 2015	$ 59,409
Additional Tier 1 capital:	
Additional Tier 1 capital at December 31, 2014	$ 6,858
New issuance of qualifying preferred stock	1,500
Change related to the following items:	
Trust preferred securities	(1,732)
Nonredeemable noncontrolling interests	(326)
Net deferred tax assets	1,306
Credit spread premium over risk-free rate for derivative liabilities	341
Net after-tax debt valuation adjustment	(397)
Expected credit loss over eligible credit reserves	39
Other adjustments and deductions	(24)
Additional Tier 1 capital at December 31, 2015	$ 7,565
Deduction for investments in covered funds	(252)
Tier 1 capital at December 31, 2015	$ 66,722
Tier 2 capital:	
Tier 2 capital at December 31, 2014	$ 10,790
Change related to the following items:	
Subordinated debt	2,065
Trust preferred securities	(328)
Nonredeemable noncontrolling interests	8
Other adjustments and deductions	146
Tier 2 capital at December 31, 2015	$ 12,681
Total capital at December 31, 2015	$ 79,403

Roll-forward of RWAs Calculated under the U.S. Basel III Advanced Approach Transitional Rules.

	2015(1)
	(dollars in millions)
Credit risk RWAs:	
Balance at December 31, 2014	$ 184,645
Change related to the following items:	
Derivatives	(6,509)
Securities financing transactions	1,486
Other counterparty credit risk	(39)
Securitizations	4,071
Credit valuation adjustment	(3,303)
Investment securities	1,402
Loans	(247)
Cash	(682)
Equity investments	(4,794)
Other credit risk(2)	(2,444)
Total change in credit risk RWAs	$ (11,059)
Balance at December 31, 2015	$ 173,586
Market risk RWAs:	
Balance at December 31, 2014	$ 121,363
Change related to the following items:	
Regulatory VaR	(1,575)
Regulatory stressed VaR	(16,256)
Incremental risk charge	(9,826)
Comprehensive risk measure	(2,750)
Specific risk:	
Non-securitizations	(3,848)
Securitizations	(15,632)
Total change in market risk RWAs	$ (49,887)
Balance at December 31, 2015	$ 71,476
Operational risk RWAs:	
Balance at December 31, 2014	$ 150,000
Change in operational risk RWAs(3)	(10,900)
Balance at December 31, 2015	$ 139,100

VaR—Value-at-Risk.

(1) The RWAs for each category in the table reflect both on- and off-balance sheet exposures, where appropriate.

(2) Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions.

(3) Amount primarily reflects model recalibration related to residential mortgage litigation expense recorded in 2014.

Pro Forma Regulatory Capital Ratios.

Pro Forma Estimates under the Fully Phased-in U.S. Basel III Advanced and Standardized Approaches.

	At December 31, 2015	
	U.S. Basel III Advanced Approach	U.S. Basel III Standardized Approach
	(dollars in millions)	
Common Equity Tier 1 capital	$ 55,441	$ 55,441
Total RWAs	395,277	373,421
Common Equity Tier 1 ratio	14.0%	14.8%
Required Common Equity Tier 1 ratio at January 1, 2019(1)	10.0%	10.0%

(1) Includes the applicable minimum risk-based capital ratio and capital conservation buffer and assumes that: (1) the G-SIB capital surcharge for the Company remains at 3% as calculated by the Federal Reserve in July 2015; and (2) no countercyclical buffer has been deployed.

These fully phased-in basis pro forma estimates are based on the Company's current understanding of U.S. Basel III and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from the Federal Reserve relating to U.S. Basel III and as the interpretation of the regulation evolves over time. The fully phased-in basis pro forma Common Equity Tier 1 capital, RWAs and Common Equity Tier 1 risk-based capital ratio estimates are non-GAAP financial measures that the Company considers to be useful measures for evaluating compliance with new regulatory capital requirements that were not yet effective at December 31, 2015. These preliminary estimates are subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what the Company's capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, see "Risk Factors" in Part I, Item 1A.

The Company is subject to the following minimum capital ratios under U.S. Basel III: Common Equity Tier 1 capital ratio of 4.5%; Tier 1 capital ratio of 6.0%; Total capital ratio of 8.0%; and Tier 1 leverage ratio of 4.0%. In addition, on a fully phased-in basis by 2019, the Company will be subject to a greater than 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed by banking regulators, up to a 2.5% Common Equity Tier 1 countercyclical buffer. The capital conservation buffer and countercyclical capital buffer, if any, apply over each of the Company's Common Equity Tier 1, Tier 1 and Total risk-based capital ratios. Failure to maintain such buffers will result in restrictions on the Company's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. The Company is also subject to the G-SIB capital surcharge, which augments the capital conservation buffer (see "G-SIB Capital Surcharge" herein), and a supplementary leverage ratio (see "Supplementary Leverage Ratio" herein).

G-SIB Capital Surcharge.

In July 2015, the Federal Reserve issued a final rule imposing risk-based capital surcharges on U.S. bank holding companies that are identified as G-SIBs, which include the Company. A G-SIB must calculate its G-SIB capital surcharge under two methods and use the higher of the two surcharges. The first method considers the G-SIB's size, interconnectedness, cross-jurisdictional activity, substitutability and complexity, which is generally consistent with the methodology developed by the Basel Committee. The second method uses similar inputs, but replaces substitutability with the use of short-term wholesale funding and generally results in higher surcharges than the first method. The G-SIB capital surcharge must be satisfied using Common Equity Tier 1 capital and functions as an extension of the capital conservation buffer. The Federal Reserve has stated that, under the final rule and using the most recent available data, the estimated G-SIB surcharges will range from 1.0% to 4.5% of a GSIB's RWAs. The Federal Reserve calculated the Company's G-SIB surcharge at 3% in July 2015. The surcharge will be phased in between January 1, 2016 and January 1, 2019, and the phase-in amount for 2016 is 25% of the applicable surcharge (see "Pro Forma Regulatory Capital Ratios" herein).

Total Loss-Absorbing Capacity and Long-Term Debt Requirements.

The Federal Reserve has issued a proposed rule for top-tier bank holding companies of U.S. G-SIBs ("covered BHCs"), including the Company, that establishes external total loss-absorbing capacity ("TLAC") and long-term debt ("LTD") requirements. The proposal contains various definitions and restrictions, such as requiring eligible LTD to be unsecured, have a remaining maturity of at least one year, and not have derivative-linked features, such as structured notes.

Under the proposal, a covered BHC would be required to maintain minimum external TLAC equal to the greater of 16% of RWAs and 9.5% of its U.S. Basel III total leverage exposure (the denominator of its supplementary leverage ratio) by January 1, 2019, increasing to the greater of 18% of RWAs and 9.5% of its U.S. Basel III total leverage exposure by January 1, 2022. In addition, covered BHCs must meet a separate external LTD requirement equal to the greater of 6% of RWAs plus the Method 2 G-SIB capital surcharge applicable to the Company, and 4.5% of its U.S. Basel III total leverage exposure.

In addition, the proposed rule would impose a TLAC buffer on top of the external TLAC requirement. The TLAC buffer must be composed solely of Common Equity Tier 1 capital, and the same Common Equity Tier 1 capital that is used to satisfy the capital conservation buffer, the G-SIB surcharge, and the countercyclical buffer, if any, under U.S. Basel III may be used to satisfy the TLAC buffer. The required buffer amount would be equal to the sum of 2.5%, the Method 1 G-SIB surcharge applicable to the Company and any applicable countercyclical buffer. Failure to maintain the full TLAC buffer would result in restrictions on capital distributions and discretionary bonus payments to executive officers.

The proposal would also impose restrictions on certain liabilities that covered BHCs may incur or have outstanding, including structured notes, as well as require all U.S. banking organizations supervised by the Federal Reserve with assets of at least $1 billion to make certain deductions from capital for their investments in unsecured debt issued by covered BHCs. The Company continues to evaluate the potential impact of these proposed requirements. The steps that the covered BHCs, including the Company, may need to take to come into compliance with the final TLAC rules, including the amount and form of LTD that must be refinanced or issued, will depend in substantial part on the ultimate eligibility requirements for senior LTD and any grandfathering provisions in the final rules.

The main purpose of the Federal Reserve's proposed minimum TLAC and LTD requirements is to ensure that covered BHCs, including the Company, will have enough loss-absorbing resources at the point of failure to be recapitalized through the conversion of eligible LTD to equity or otherwise by imposing losses on eligible LTD or other forms of TLAC where the single point of entry ("SPOE") resolution strategy is used. This strategy can be used under either the orderly liquidation authority in Title II of the Dodd-Frank Act or the U.S. Bankruptcy Code and is being adopted by both U.S. resolution authorities and by resolution authorities in other countries. As with other major financial companies, the combined implication of the SPOE resolution strategy and the TLAC proposal to facilitate the orderly resolution of G-SIBs is that the group's losses will likely be imposed on the holders of eligible LTD and other forms of eligible TLAC issued by the top-tier bank holding company before any of its losses are imposed on the holders of the debt securities of the group's operating subsidiaries or put U.S. taxpayers at risk (see "Business—Supervision and Regulation—Financial Holding Company—Resolution and Recovery Planning" in Part I, Item 1 and "Risk Factors—Legal, Regulatory and Compliance Risk" in Part I, Item 1A).

Capital Plans and Stress Tests.

Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including the Company, which form part of the Federal Reserve's annual Comprehensive Capital Analysis and Review ("CCAR") framework.

The Company must submit an annual capital plan to the Federal Reserve, taking into account the results of separate stress tests designed by the Company and the Federal Reserve, so that the Federal Reserve may assess the Company's systems and processes that incorporate forward-looking projections of revenues and losses to monitor and maintain its internal capital adequacy. The capital plan 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 plan must include a discussion of how the bank holding company will maintain capital above the minimum regulatory capital ratios, including the U.S. Basel III requirements that are phased in over the planning horizon, and serve as a source of strength to its subsidiary U.S. depository institutions under supervisory stress scenarios. In addition, the Federal Reserve has issued guidance setting out its heightened expectations for capital planning practices at certain large financial institutions, including the Company.

In November 2015, the Federal Reserve amended its capital plan and stress test rules, with effect from January 1, 2016, to delay until 2017 the use of the supplementary leverage ratio requirement, defer indefinitely the use of the Advanced Approach risk-based capital framework in capital planning and company-run stress tests, and incorporate the Tier 1 capital deductions for certain investments in Volcker Rule covered funds into the pro forma minimum capital requirements for capital plan and stress testing purposes. In addition, the Federal Reserve has indicated that it is considering whether and, if so, how to incorporate the G-SIB capital surcharge in the CCAR and Dodd-Frank Act stress tests.

The capital plan rule requires that large bank holding companies receive no objection from the Federal Reserve before making a capital distribution. In addition, even with an approved capital plan, the bank holding company must seek the approval of the Federal Reserve before making a capital distribution if, among other reasons, the bank holding company would not meet its regulatory capital requirements after making the proposed capital distribution. A bank holding company's ability to make capital distributions (other than scheduled payments on Additional Tier 1 and Tier 2 capital instruments) is also limited if its net capital issuances are less than the amount indicated in its capital plan.

In addition, the Company must conduct semiannual company-run stress tests and is subject to an annual Dodd-Frank Act supervisory stress test conducted by the Federal Reserve. The Company received no objection to its 2015 capital plan (see "Capital Management" herein). Beginning with the 2016 capital planning and stress test cycle and in subsequent cycles, the cycle begins on January 1, and large bank holding companies must submit their capital plans and company-run stress test results to the Federal Reserve by April 5, 2016. The Company expects that the Federal Reserve will provide its response to the Company's 2016 capital plan by June 30, 2016. The Federal Reserve is expected to publish summary results of the CCAR and Dodd-Frank Act supervisory stress tests of each large bank holding company, including the Company, by June 30, 2016. The Company is required to disclose a summary of the results of its company-run stress tests within 15 days of the date the Federal Reserve discloses the results of the supervisory stress tests. In addition, the Company must submit the results of its mid-cycle company-run stress test to the Federal Reserve by October 5, 2016 and disclose a summary of the results between October 5, 2016 and November 4, 2016.

The Dodd-Frank Act also requires each of the Company's U.S. Bank Subsidiaries to conduct an annual stress test. The OCC has shifted the timing of the annual stress testing cycle that applies to the Company's U.S. Bank Subsidiaries beginning with the 2016 cycle. MSBNA and MSPBNA must submit their 2016 annual company-run stress tests to the OCC by April 5, 2016 and publish the summary results between June 15, 2016 and July 15, 2016.

Supplementary Leverage Ratio.

The Company and its U.S. Bank Subsidiaries are required to publicly disclose their U.S. Basel III supplementary leverage ratio, which will become effective as a capital standard on January 1, 2018. By January 1, 2018, the Company must also maintain a Tier 1 supplementary leverage capital buffer of at least 2% in addition to the 3% minimum supplementary leverage ratio (for a total of at least 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. In addition, beginning in 2018, the Company's U.S. Bank Subsidiaries must maintain a supplementary leverage ratio of 6% to be considered "well-capitalized."

Supplementary Leverage Exposure and Ratio on Transitional Basis under the U.S. Basel III Rules.

	At December 31, 2015
	(dollars in millions)
Total assets	$ 787,465
Consolidated daily average total assets(1)	$ 813,715
Adjustment for derivative exposures(2)(3)	216,317
Adjustment for repo-style transactions(2)(4)	15,064
Adjustment for off-balance sheet exposures(2)(5)	62,850
Other adjustments(6)	(10,141)
Pro forma supplementary leverage exposure	$ 1,097,805
Pro forma supplementary leverage ratio(7)	6.1%

(1) Computed as the average daily balance of consolidated total assets under U.S. GAAP during the calendar quarter.

(2) Computed as the arithmetic mean of the month-end balances over the calendar quarter.

(3) Reflects the addition of the potential future exposure for derivative contracts (including derivatives that are centrally cleared for clients), the gross-up of cash collateral netting where certain qualifying criteria are not met, and the effective notional principal amount of sold credit protection offset by certain qualifying purchased credit protection.

(4) Reflects the counterparty credit risk associated with repo-style transactions.

(5) Reflects the credit equivalent amount of off-balance sheet exposures, which is computed by applying the relevant credit conversion factors.

(6) Reflects adjustments to Tier 1 capital, including disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

(7) At December 31, 2015, pro forma supplementary leverage ratios calculated using Tier 1 capital and pro forma supplementary leverage exposures computed under U.S. Basel III on a transitional basis for the Company's U.S. Bank Subsidiaries were as follows: MSBNA: 7.3%; and MSPBNA: 10.3%.

The Company estimates its pro forma fully phased-in supplementary leverage ratio to be approximately 5.8% at December 31, 2015. This estimate utilizes a fully phased-in U.S. Basel III Tier 1 capital numerator and a fully phased-in denominator of approximately $1,095.6 billion, which takes into consideration the Tier 1 capital deductions that would be applicable in 2018 after the phased-in period has ended. The pro forma supplementary leverage exposures and pro forma supplementary leverage ratios, both on transitional and fully phased-in bases, are non-GAAP financial measures that the Company considers to be useful measures for evaluating compliance with new regulatory capital requirements that have not yet become effective. The Company's estimates are subject to risks and uncertainties that may cause actual results to differ materially from estimates based on these regulations. Further, these expectations should not be taken as projections of what the Company's supplementary leverage ratios, earnings, assets or exposures will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, see "Risk Factors" in Part I, Item 1A.

Required Capital.

The Company's required capital ("Required Capital") estimation is based on the Required Capital framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the Company's regulatory capital to ensure that the Company maintains an amount of going concern capital after absorbing potential losses from extreme stress events, where applicable, at a point in time. The Company defines the difference between its regulatory capital and aggregate Required Capital as Parent capital. Average Common Equity Tier 1 capital, aggregate Required Capital and Parent capital for 2015 were approximately $58.2 billion, $39.0 billion and $19.2 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, including for example, supplementary leverage ratio and U.S. Basel III transitional deductions and adjustments expected to reduce its capital through 2018. The Company also holds Parent capital for organic growth, acquisitions and other capital needs.

Common Equity Tier 1 capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital framework, as well as each business segment's relative contribution to the Company's total Required Capital. Required Capital is assessed for each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis. The Required Capital framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

Average Common Equity Tier 1 Capital and Average Common Equity by Business Segment and Parent Capital.

	2015		2014	
	Average Common Equity Tier 1 Capital(1)	Average Common Equity(1)	Average Common Equity Tier 1 Capital(1)	Average Common Equity(1)
	(dollars in billions)			
Institutional Securities	$ 32.8	$ 34.6	$ 31.3	$ 32.2
Wealth Management	4.9	11.2	5.2	11.2
Investment Management	1.3	2.2	1.9	2.9
Parent capital	19.2	18.9	19.2	19.0
Total	$ 58.2	$ 66.9	$ 57.6	$ 65.3

[1] Amounts are calculated on a monthly basis. Average Common Equity and average Common Equity Tier 1 capital are non-GAAP financial measures that the Company and investors consider to be useful measures to assess capital adequacy.

Resolution and Recovery Planning.

Pursuant to the Dodd-Frank Act, the Company is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the Company. The Company's preferred resolution strategy, which is set out in its 2015 resolution plan, is an SPOE strategy. On August 5, 2014, the Federal Reserve and the FDIC notified the Company and 10 other large banking organizations that certain shortcomings in their 2013 resolution plans needed to be addressed in their 2015 resolution plans. If the Federal Reserve and the FDIC both were to determine that the Company's 2015 resolution plan is not credible or would not facilitate an orderly resolution and the Company does not cure the plan's deficiencies, the Company or any of its subsidiaries may be subjected to more stringent capital, leverage, or liquidity requirements or restrictions on its growth, activities, or operations, or, after a two-year period, the Company may be required to divest assets or operations.

For more information about resolution and recovery planning requirements and the activities of the Company and its U.S. Bank Subsidiaries in these areas, see "Business—Supervision and Regulation—Financial Holding Company—Resolution and Recovery Planning" in Part I, Item 1.

Off-Balance Sheet Arrangements and Contractual Obligations.

Off-Balance Sheet Arrangements.

The Company enters into various off-balance sheet arrangements, including through unconsolidated special purpose entities ("SPEs") and lending-related financial instruments (*e.g.*, guarantees and commitments), primarily in connection with the Institutional Securities and Investment Management business segments.

The Company utilizes SPEs primarily in connection with securitization activities. For information on the Company's securitization activities, see Note 13 to the consolidated financial statements in Item 8.

For information on the Company's commitments, obligations under certain guarantee arrangements and indemnities, see Note 12 to the consolidated financial statements in Item 8. For further information on the Company's lending commitments, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk—Lending Activities" in Item 7A.

Contractual Obligations.

In the normal course of business, the Company enters into various contractual obligations that may require future cash payments. Contractual obligations include long-term borrowings, other secured financings, contractual interest payments, contractual payments on time deposits, operating leases and purchase obligations.

Future Cash Payments Associated with Certain Obligations.

	At December 31, 2015				
	Payments Due in:				
	2016	2017-2018	2019-2020	Thereafter	Total
			(dollars in millions)		
Long-term borrowings(1)	$ 22,396	$ 40,203	$ 35,573	$ 55,596	$ 153,768
Other secured financings(1)	2,333	3,675	1,290	331	7,629
Contractual interest payments(2)	4,965	7,763	5,409	18,075	36,212
Time deposits(3)	2,604	68	—	20	2,692
Operating leases—premises(4)	612	1,212	923	3,127	5,874
Purchase obligations(5)	554	438	148	233	1,373
Total(6)	$ 33,464	$ 53,359	$ 43,343	$ 77,382	$ 207,548

(1) For further information on long-term borrowings and other secured financings, see Note 11 to the consolidated financial statements in Item 8. Amounts presented for Other secured financings are financings with original maturities greater than one year.

(2) Amounts represent estimated future contractual interest payments related to unsecured long-term borrowings based on applicable interest rates at December 31, 2015.

(3) Amounts represent contractual principal and interest payments related to time deposits primarily held at the Company's U.S. Bank Subsidiaries.

(4) For further information on operating leases covering premises and equipment, see Note 12 to the consolidated financial statements in Item 8.

(5) Purchase obligations for goods and services include payments for, among other things, consulting, outsourcing, computer and telecommunications maintenance agreements, and certain transmission, transportation and storage contracts related to the commodities business. Purchase obligations at December 31, 2015 reflect the minimum contractual obligation under legally enforceable contracts with contract terms that are both fixed and determinable. These amounts exclude obligations for goods and services that already have been incurred and are reflected on the consolidated statements of financial condition.

(6) Amounts exclude unrecognized tax benefits, as the timing and amount of future cash payments are not determinable at this time (see Note 20 to the consolidated financial statements in Item 8 for further information).

Effects of Inflation and Changes in Interest and Foreign Exchange Rates.

To the extent that an increased inflation outlook results in rising interest rates or has negative impacts on the valuation of financial instruments that exceed the impact on the value of the Company's liabilities, it may adversely affect the Company's financial position and profitability. Rising inflation may also result in increases in the Company's non-interest expenses that may not be readily recoverable in higher prices of services offered. Other changes in the interest rate environment and related volatility as well as expectations about the level of future interest rates could also impact the Company's results of operations. For example, should interest rates remain stagnant or decrease to below zero for a prolonged period, this could negatively impact certain of the Company's businesses. See also "Global Market and Economic Conditions" herein.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar, therefore, can affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on the Company's financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows. For information about cumulative foreign currency translation adjustments, see Note 15 to the consolidated financial statements in Item 8.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Risk Management.

Overview.

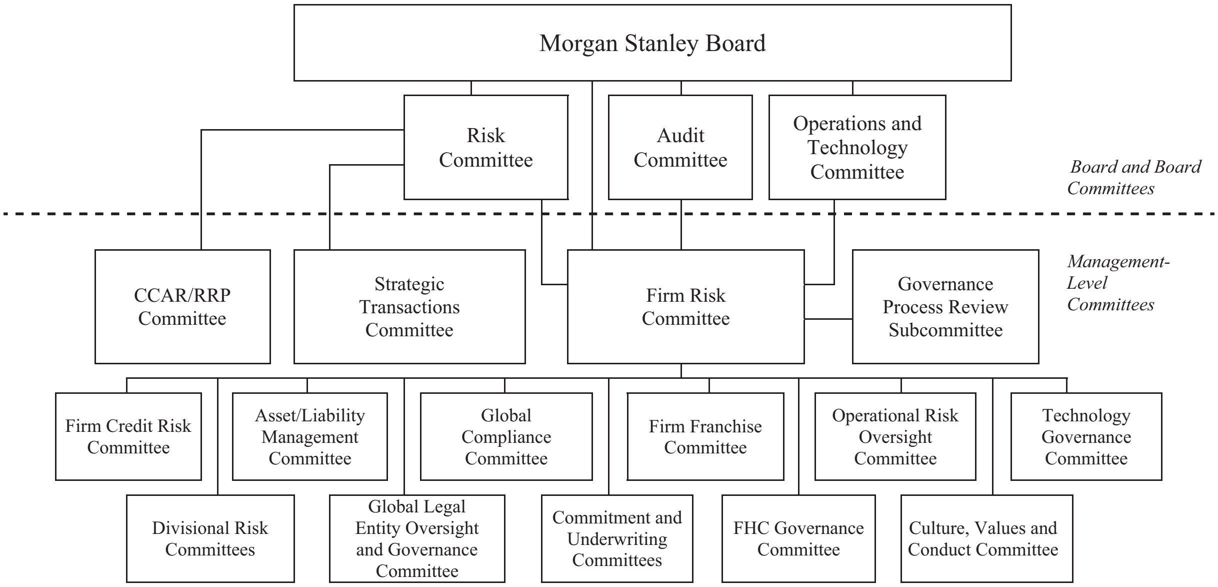
Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company has established an enterprise risk management ("ERM") framework to integrate the diverse roles of risk management into a holistic enterprise structure and to facilitate the incorporation of risk assessment into decision-making processes across the Company. Risk is an inherent part of the Company's businesses and activities. The Company has policies and procedures in place to identify, measure, monitor, advise, challenge and control the principal risks involved in the activities of the Institutional Securities, Wealth Management and Investment Management business segments, as well as at the holding company level. The principal risks involved in the Company's business activities include market (including non-trading interest rate risk), credit, operational, liquidity and funding, franchise and reputational risk. Strategic risk is integrated into the Company's business planning, embedded in the evaluation of all principal risks and overseen by its Board of Directors (the "Board").

The cornerstone of the Company's risk management philosophy is the pursuit of risk-adjusted returns through prudent risk taking that protects its capital base and franchise, and is implemented through the ERM framework. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability and transparency. To help ensure the efficacy of risk management, which is an essential component of the Company's reputation, senior management requires thorough and frequent communication and the appropriate escalation of risk matters. The fast-paced, complex and constantly evolving nature of global financial markets requires that the Company maintain a risk management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement.

The Company's risk appetite defines the types of risk that it is willing to accept in pursuit of its strategic objectives and business plan, taking into account the interest of clients and fiduciary duties to shareholders, as well as capital and other regulatory requirements. This risk appetite is embedded in the Company's risk culture and, linked to its short-term and long-term strategic, capital and financial plans, as well as compensation programs. This risk appetite and the related Board-level risk limits and risk tolerance statements are reviewed and approved by the Risk Committee of the Board ("BRC") and the Board on, at least, an annual basis.

Risk Governance Structure.

Risk management at the Company requires independent company-level oversight, accountability of its business divisions, and effective communication of risk matters across the Company, to senior management and ultimately to the Board. The Company's risk governance structure is composed of the Board; the BRC, the Audit Committee of the Board ("BAC"), and the Operations and Technology Committee of the Board ("BOTC"); the Firm Risk Committee ("FRC"); the functional risk and control committees; senior management oversight (including the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Legal Officer and Chief Compliance Officer); the Internal Audit Department and risk managers, committees, and groups within and across the business segments. The ERM framework, composed of independent but complementary entities, facilitates efficient and comprehensive supervision of the Company's risk exposures and processes.


Morgan Stanley Board
Risk Committee
Audit Committee
Operations and Technology Committee
Board and Board Committees
Management-Level Committees
CCAR/RRP Committee
Strategic Transactions Committee
Firm Risk Committee
Governance Process Review Subcommittee
Firm Credit Risk Committee
Asset/Liability Management Committee
Global Compliance Committee
Firm Franchise Committee
Operational Risk Oversight Committee
Technology Governance Committee
Divisional Risk Committees
Global Legal Entity Oversight and Governance Committee
Commitment and Underwriting Committees
FHC Governance Committee
Culture, Values and Conduct Committee

Morgan Stanley Board of Directors. The Board has oversight for the ERM framework and is responsible for helping to ensure that the Company's risks are managed in a sound manner. The Board has authorized the committees within the ERM framework to help facilitate its risk oversight responsibilities. As set forth in the Company's Corporate Governance Policies, the Board also oversees, and receives reports on, the Company's practices and procedures relating to culture, values and conduct.

Risk Committee of the Board. The BRC is composed of non-management directors. The BRC oversees the Company's global ERM framework; oversees the major risk exposures of the Company, including market, credit, operational, liquidity, funding, reputational and franchise risk, against established risk measurement methodologies and the steps management has taken to monitor and control such exposures; oversees the Company's risk appetite statement, including risk limits and tolerances; reviews capital, liquidity and funding strategy and related guidelines and policies; reviews the contingency funding plan and internal capital adequacy assessment process and capital plan; oversees the Company's significant risk management and risk assessment guidelines and policies; oversees the performance of the Chief Risk Officer; reviews reports from the Company's Strategic Transactions Committee and Comprehensive Capital Analysis and Review ("CCAR")/ Resolution and Recovery Planning ("RRP") Committee; reviews significant reputational risk, franchise risk, new product risk, emerging risks and regulatory matters; and reviews results of Internal Audit reviews and assessment of the risk management, liquidity and capital functions. The BRC reports to the entire Board on a regular basis and the entire Board attends quarterly meetings with the BRC.

Audit Committee of the Board. The BAC is composed of independent directors. The BAC oversees the integrity of the Company's consolidated financial statements, compliance with legal and regulatory requirements and system of internal controls; oversees risk management and risk assessment guidelines in coordination with the Board, BRC and BOTC and reviews the major legal and compliance risk exposures of the Company and the steps management has taken to monitor and control such exposures; selects, determines the compensation of, evaluates and when appropriate, replaces the independent auditor; oversees the qualifications, independence and performance of the Company's independent auditor, and pre-approves audit and permitted non-audit services; oversees the performance of the Company's head of internal audit; and after review, recommends to the Board the acceptance and inclusion of the annual audited consolidated financial statements in the Company's Annual Report on Form 10-K. The BAC reports to the entire Board on a regular basis.

Operations and Technology Committee of the Board. The BOTC is composed of non-management directors. The BOTC oversees the Company's operations and technology strategy, including trends that may affect such strategy; reviews operations and technology budget and significant expenditures and investments; reviews operations and technology metrics; oversees risk management and risk assessment guidelines and policies regarding operations and technology risk; reviews the major operations and technology risk exposures of the Company, including information security and cybersecurity risks, and the steps management has taken to monitor and control such exposures; and oversees the Company's business continuity planning. The BOTC reports to the entire Board on a regular basis.

Firm Risk Committee. The Board has also authorized the FRC, a management committee appointed and chaired by the Chief Executive Officer, which includes the most senior officers of the Company, including the Chief Risk Officer, Chief Legal Officer and Chief Financial Officer, to oversee the global ERM framework. The FRC's responsibilities include oversight of the Company's risk management principles, procedures and limits and the monitoring of capital levels and material market, credit, operational, liquidity and funding, franchise and reputational risk matters, and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. The FRC also establishes and communicates risk tolerance, including aggregate Company limits and tolerance, as appropriate. The Governance Process Review Subcommittee of the FRC oversees governance and process issues on behalf of the FRC. The FRC reports to the entire Board, the BAC, the BOTC and the BRC through the Chief Risk Officer, Chief Financial Officer and Chief Legal Officer.

Functional Risk and Control Committees. Functional risk and control committees comprising the ERM framework, including the Firm Credit Risk Committee, the Operational Risk Oversight Committee, the Asset/Liability Management Committee, the Global Compliance Committee, the Technology Governance Committee and the Firm Franchise Committee, facilitate efficient and comprehensive supervision of the Company's risk exposures and processes. The Strategic Transactions Committee reviews large strategic transactions and principal investments for the Company; the CCAR/RRP Committee oversees the Company's Comprehensive Capital Analysis and Review, Dodd-Frank Act Stress Testing and Title I Resolution Plan and Recovery Plan; the Global Legal Entity Oversight and Governance Committee monitors the governance framework that operates over the Company's consolidated legal entity population; the FHC Governance Committee oversees the Company's initiatives relating to its status as a financial holding company; various commitment and underwriting committees are responsible for reviewing capital, lending and underwriting commitments on behalf of the Company; and the Culture, Values and Conduct Committee is charged with developing Company-wide standards and overseeing initiatives relating to culture, values and conduct, including training and enhancements to performance and compensation processes.

In addition, each business segment has a risk committee that is responsible for helping to ensure that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies, procedures, controls and systems that are consistent with the risk framework established by the FRC; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management policies and procedures, and related controls.

Chief Risk Officer. The Chief Risk Officer, who is independent of business units, reports to the Chief Executive Officer and the BRC. The Chief Risk Officer oversees compliance with the Company's risk limits; approves exceptions to the Company's risk limits; independently reviews material market, credit, liquidity and operational risks; and reviews results of risk management processes with the Board, the BRC and the BAC, as appropriate. The Chief Risk Officer also coordinates with the Chief Financial Officer regarding capital and liquidity management and works with the Compensation, Management Development and Succession Committee of the Board to help ensure that the structure and design of incentive compensation arrangements do not encourage unnecessary and excessive risk taking.

Internal Audit Department. The Internal Audit Department provides independent risk and control assessment and reports to the BAC. The Internal Audit Department provides an independent assessment of the Company's control environment and risk management processes using a risk-based methodology developed from professional auditing standards. The Internal Audit Department also assists in assessing the Company's compliance with internal guidelines set for risk management and risk monitoring, as well as external rules and regulations governing the industry. It effects these responsibilities through risk-based reviews of the Company's processes, activities, products or information systems; targeted reviews of specific controls and activities; pre-implementation reviews of new or significantly changed processes, activities, products or information systems; and special investigations required as a result of internal factors or regulatory requests.

Independent Risk Management Functions. The independent risk management functions (Market Risk, Credit Risk, Operational Risk and Liquidity Risk Management Departments) are independent of the Company's business units. These functions assist senior management and the FRC in monitoring and controlling the Company's risk through a number of control processes. Each function maintains its own risk governance structure with specified individuals and committees responsible for aspects of managing risk. Further discussion about the responsibilities of the risk management functions may be found below under “Market Risk,” “Credit Risk,” “Operational Risk” and “Liquidity and Funding Risk.”

Support and Control Groups. The Company’s support and control groups include the Legal Department, the Compliance Department, the Finance Division, the Operations Division, the Technology and Data Division, and the Human Resources Department. The Company’s support and control groups coordinate with the business segment control groups to review the risk monitoring and risk management policies and procedures relating to, among other things, controls over financial reporting and disclosure; the business segment’s market, credit and operational risk profile; liquidity risks; sales practices; reputational, legal enforceability, compliance and regulatory risk; and technological risks. Participation by the senior officers of the Company and business segment control groups helps ensure that risk policies and procedures, exceptions to risk limits, new products and business ventures, and transactions with risk elements undergo thorough review.

Culture, Values and Conduct of Employees. Employees of the Company are accountable for conducting themselves in accordance with the Company’s core values: *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas and Giving Back*. The Company is committed to establishing a strong culture anchored in these core values, its governance framework, management oversight, effective risk management and controls, training and development programs, policies, procedures, and defined roles and responsibilities, including the role of the Culture, Values and Conduct Committee. The Company’s Code of Conduct (the “Code”) establishes standards for employee conduct that further reinforce the Company’s commitment to integrity and ethical conduct. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code and the Company’s core values. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether their employees effectively managed and/or supervised risk control practices during the performance year. The Company also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current-year compensation and/or prior-year compensation. The Company’s clawback and cancellation provisions permit recovery of deferred incentive compensation where an employee’s act or omission (including with respect to direct supervisory responsibilities) causes a restatement of the Company’s consolidated financial results, constitutes a violation of the Company’s global risk management principles, policies and standards or causes a loss of revenues associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Stress Value-at-Risk.

The Company frequently enhances its market and credit risk management framework to address severe stresses that are observed in global markets during economic downturns. During 2015, the Company expanded and improved its risk measurement processes, including stress tests and scenario analysis, and further refined its market and credit risk limit framework. Stress Value-at-Risk (“S-VaR”), a proprietary methodology that comprehensively measures the Company’s market and credit risks, was further refined and continues to be an important metric used in establishing its risk appetite and capital allocation framework. S-VaR simulates many stress scenarios based on more than 25 years of historical data and attempts to capture the different liquidities of various types of general and specific risks. Additionally, S-VaR captures event and default risks that are particularly relevant for credit portfolios.

Risk Management Process.

The following is a discussion of the Company’s risk management policies and procedures for its principal risks (capital and liquidity risk is discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” in Item 7). The discussion focuses on the Company’s securities activities (primarily its institutional trading activities) and corporate lending and related activities. The Company believes that these activities generate a substantial portion of its principal risks. This discussion and the estimated amounts of the Company’s risk exposure generated by its statistical analyses are forward-looking statements. However, the analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in which the Company operates and certain other factors described below.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of the Company's Value-at-Risk ("VaR") for market risk exposures is generated. In addition, the Company incurs trading-related market risk within the Wealth Management business segment. The Investment Management business segment incurs principally Non-trading market risk, primarily from capital investments in real estate funds and investments in private equity vehicles.

Sound market risk management is an integral part of the Company's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The control groups help ensure that these risks are measured and closely monitored and are made transparent to senior management. The Market Risk Department is responsible for ensuring transparency of material market risks, monitoring compliance with established limits and escalating risk concentrations to appropriate senior management. To execute these responsibilities, the Market Risk Department monitors the Company's risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains its VaR and scenario analysis systems. These limits are designed to control price and market liquidity risk. Market risk is also monitored through various measures: by use of statistics (including VaR, S-VaR and related analytical measures); by measures of position sensitivity; and through routine stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, and scenario analyses conducted by the Market Risk Department in collaboration with the business units. The material risks identified by these processes are summarized in reports produced by the Market Risk Department that are circulated to and discussed with senior management, the FRC, the BRC and the Board.

The Chief Risk Officer, among other things, monitors market risk through the Market Risk Department, which reports to the Chief Risk Officer and is independent of the business units, and has close interactions with senior management and the risk management control groups in the business units. The Chief Risk Officer is a member of the FRC, chaired by the Chief Executive Officer, which includes the most senior officers of the Company, and regularly reports on market risk matters to this committee, as well as to the BRC and the Board.

Sales and Trading and Related Activities.

Primary Market Risk Exposures and Market Risk Management. During 2015, the Company had exposures to a wide range of interest rates, equity prices, foreign exchange rates and commodity prices—and the associated implied volatilities and spreads—related to the global markets in which it conducts its trading activities.

The Company is exposed to interest rate and credit spread risk as a result of its market-making activities and other trading in interest rate-sensitive financial instruments (*e.g*., risk arising from changes in the level or implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads). The activities from which those exposures arise and the markets in which the Company is active include, but are not limited to, the following: corporate and government debt across both developed and emerging markets and asset-backed debt (including mortgage-related securities).

The Company is exposed to equity price and implied volatility risk as a result of making markets in equity securities and derivatives and maintaining other positions (including positions in non-public entities). Positions in non-public entities may include, but are not limited to, exposures to private equity, venture capital, private partnerships, real estate funds and other funds. Such positions are less liquid, have longer investment horizons and are more difficult to hedge than listed equities.

The Company is exposed to foreign exchange rate and implied volatility risk as a result of making markets in foreign currencies and foreign currency derivatives, from maintaining foreign exchange positions and from holding non-U.S. dollar-denominated financial instruments.

The Company is exposed to commodity price and implied volatility risk as a result of market-making activities in crude and refined oil products, natural gas, electricity, and precious and base metals. Commodity exposures are subject to periods of high price volatility as a result of changes in supply and demand. These changes can be caused by weather conditions; physical production and transportation; or geopolitical and other events that affect the available supply and level of demand for these commodities.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g*., futures, forwards, swaps and options). Hedging activities may not always provide effective mitigation against trading losses due to differences in the terms, specific characteristics or other basis risks that may exist between the hedge instrument and the risk exposure that is being hedged. The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis. The Company manages and monitors its market risk exposures in such a way as to maintain a portfolio that the Company believes is well-diversified in the aggregate with respect to market risk factors and that reflects its aggregate risk tolerance as established by the Company's senior management.

Aggregate market risk limits have been approved for the Company across all divisions worldwide. Additional market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers, traders and the Market Risk Department monitor market risk measures against limits in accordance with policies set by the Company's senior management.

VaR. The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. The Company estimates VaR using a model based on volatility-adjusted historical simulation for general market risk factors and Monte Carlo simulation for name-specific risk in corporate shares, bonds, loans and related derivatives. The model constructs a distribution of hypothetical daily changes in the value of trading portfolios based on the following: historical observation of daily changes in key market indices or other market risk factors; and information on the sensitivity of the portfolio values to these market risk factor changes. The Company's VaR model uses four years of historical data with a volatility adjustment to reflect current market conditions. VaR for risk management purposes ("Management VaR") is computed at a 95% level of confidence over a one-day time horizon, which is a useful indicator of possible trading losses resulting from adverse daily market moves. The 95%/one-day VaR corresponds to the unrealized loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held constant for one day.

The Company's VaR model generally takes into account linear and non-linear exposures to equity and commodity price risk, interest rate risk, credit spread risk and foreign exchange rates. The model also takes into account linear exposures to implied volatility risks for all asset classes and non-linear exposures to implied volatility risks for equity, commodity and foreign exchange referenced products. The VaR model also captures certain implied correlation risks associated with portfolio credit derivatives, as well as certain basis risks (*e.g.,* corporate debt and related credit derivatives).

The Company uses VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as periods of extreme illiquidity. The Company is aware of these and other limitations and, therefore, uses VaR as only one component in its risk management oversight process. This process also incorporates stress testing and scenario analyses and extensive risk monitoring, analysis and control at the trading desk, division and Company levels.

The Company’s VaR model evolves over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of the Company’s regular process improvements, additional systematic and name-specific risk factors may be added to improve the VaR model’s ability to more accurately estimate risks to specific asset classes or industry sectors.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the Company’s future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company’s actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days for a 95%/one-day VaR. VaR does not predict the magnitude of losses that, should they occur, may be significantly greater than the VaR amount.

VaR statistics are not readily comparable across firms because of differences in the firms’ portfolios, modeling assumptions and methodologies. These differences can result in materially different VaR estimates across firms for similar portfolios. The impact of such differences varies depending on the factor history assumptions, the frequency with which the factor history is updated and the confidence level. As a result, VaR statistics are more useful when interpreted as indicators of trends in a firm’s risk profile rather than as an absolute measure of risk to be compared across firms.

The Company utilizes the same VaR model for risk management purposes, as well as for regulatory capital calculations. The Company’s VaR model has been approved by the Company’s regulators for use in regulatory capital calculations.

The portfolio of positions used for Management VaR differs from that used for regulatory capital requirements (“Regulatory VaR”), as Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include counterparty Credit Valuation Adjustments (“CVA”) and related hedges, as well as loans that are carried at fair value and associated hedges.

The following table presents the Management VaR for the Trading portfolio, on a period-end, annual average and annual high and low basis. To further enhance the transparency of the traded market risk, the Credit Portfolio VaR has been disclosed as a separate category from the Primary Risk Categories. The Credit Portfolio includes counterparty CVA and related hedges, as well as loans that are carried at fair value and associated hedges.

Trading Risks.

95%/One-Day Management VaR.

	95%/One-Day VaR for 2015				95%/One-Day VaR for 2014			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
				(dollars in millions)				
Interest rate and credit spread	$ 28	$ 34	$ 42	$ 27	$ 31	$ 31	$ 44	$ 25
Equity price	17	19	40	14	18	18	26	15
Foreign exchange rate	6	11	20	6	10	11	17	6
Commodity price	10	16	21	10	15	17	24	12
Less: Diversification benefit(1)(2)	(23)	(33)	N/A	N/A	(30)	(34)	N/A	N/A
Primary Risk Categories	$ 38	$ 47	$ 57	$ 38	$ 44	$ 43	$ 53	$ 34
Credit Portfolio	12	13	20	10	15	11	15	9
Less: Diversification benefit(1)(2)	(9)	(10)	N/A	N/A	(14)	(7)	N/A	N/A
Total Management VaR	$ 41	$ 50	$ 61	$ 41	$ 45	$ 47	$ 58	$ 38

N/A—Not Applicable.

(1) Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

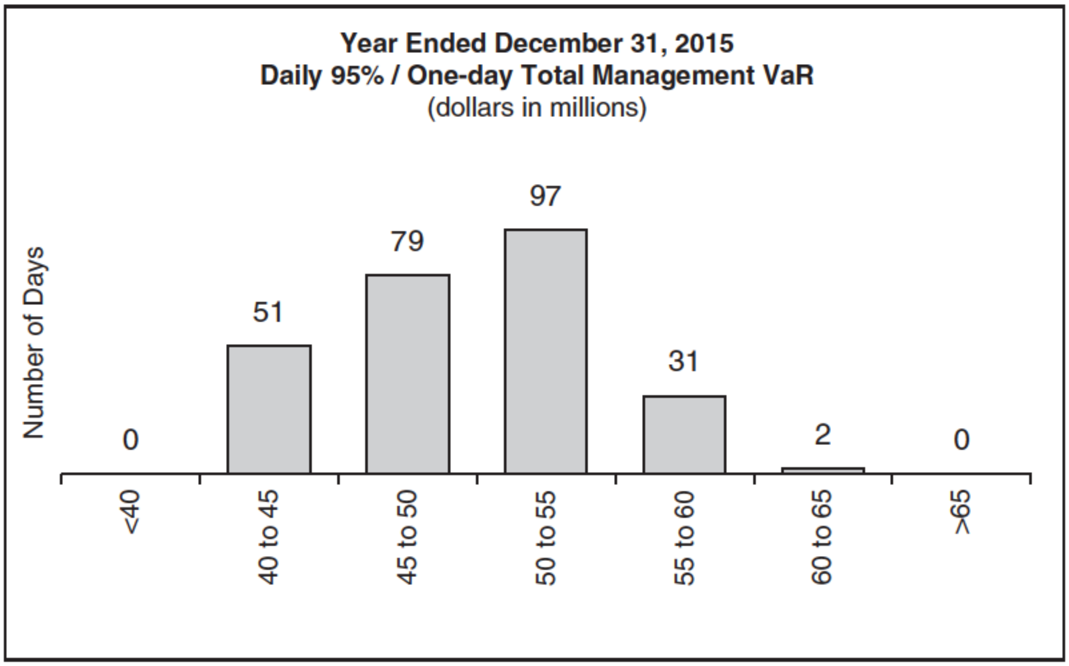
(2) The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the year, and therefore, the diversification benefit is not an applicable measure.

The average Management VaR for the Primary Risk Categories for 2015 was $47 million compared with $43 million for 2014. The increase was primarily driven by higher market volatility.

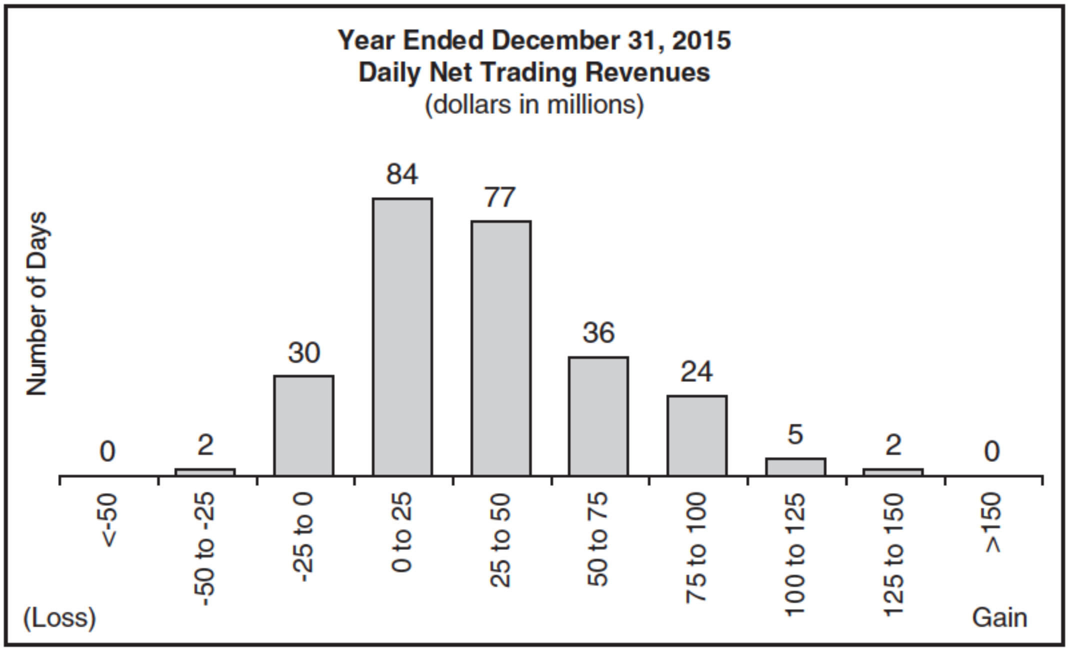
Distribution of VaR Statistics and Net Revenues for 2015. One method of evaluating the reasonableness of the Company's VaR model as a measure of the Company's potential volatility of net revenues is to compare VaR with actual trading revenues. Assuming no intraday trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model would be questioned. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Company, as well as individual business units. For days where losses exceed the VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results.

The distribution of VaR Statistics and Net Revenues is presented in the histograms below for the Total Trading populations.

Total Trading. As shown in the 95%/One-Day Management VaR table, the average 95%/one-day Total Management VaR for 2015 was $50 million. The histogram below presents the distribution of the daily 95%/one-day Total Management VaR for 2015, which was in a range between $40 million and $60 million for approximately 99% of trading days during the year.



The histogram below shows the distribution for 2015 of daily net trading revenues, including profits and losses from Interest rate and credit spread, Equity price, Foreign exchange rate, Commodity price and Credit Portfolio positions and intraday trading activities, for the Company's Trading businesses. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading. During 2015, the Company experienced net trading losses on 32 days, of which no day was in excess of the 95%/one-day Total Management VaR.



Non-trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company's non-trading risks. Reflected below is this analysis covering substantially all of the non-trading risk in the Company's portfolio.

Counterparty Exposure Related to the Company's Own Credit Spread. The credit spread risk sensitivity of the counterparty exposure related to the Company's own credit spread corresponded to an increase in value of approximately $6 million for each 1 basis point widening in the Company's credit spread level at both December 31, 2015 and December 31, 2014.

Funding Liabilities. The credit spread risk sensitivity of the Company's mark-to-market funding liabilities corresponded to an increase in value of approximately $11 million and $10 million for each 1 basis point widening in the Company's credit spread level at December 31, 2015 and December 31, 2014, respectively.

Interest Rate Risk Sensitivity. The table below presents an analysis of selected instantaneous upward and downward parallel interest rate shocks on net interest income over the next 12 months for the Company's U.S. Bank Subsidiaries. These shocks are applied to the Company's 12-month forecast for its U.S. Bank Subsidiaries, which incorporates market expectations of interest rates and the Company's forecasted business activity, including its deposit deployment strategy and asset-liability management hedges. Thus, the impacts are incremental to that forecast and, additionally, do not reflect the impact of the repricing of assets and liabilities beyond 12 months. As a result, impacts from an instantaneous shock can vary significantly from period to period and can vary compared with impacts from a similar move in rates over time. For example, depending on interest rate levels and the relative sensitivity of assets and liabilities, an instantaneous increase (as opposed to an increase over time) may have a negative or positive impact on net interest income over the subsequent 12 months. At December 31, 2015, large instantaneous interest rates shocks had a negative impact to the Company's U.S. Bank Subsidiaries' projected net interest income over the following 12 months due to composition of the banks' assets as well as expected deposit pricing behavior at higher levels of interest rates.

U.S. Bank Subsidiaries' Net Interest Income Sensitivity Analysis.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
+200 basis points	$ (149)	$ 256
+100 basis points	(84)	204
–100 basis points	(512)	(393)

The Company does not manage to any single rate scenario but rather manages net interest income in its U.S. Bank Subsidiaries to optimize across a range of possible outcomes. The sensitivity analysis assumes that the Company takes no action in response to these rate shocks and does not assume any change in other macroeconomic variables normally correlated with changes in interest rates.

Investments. The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values and related impact on performance fees.

Investments Sensitivity, Including Related Performance Fees.

	10% Sensitivity	
	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Investments related to Investment Management activities:		
Real estate funds	$ 139	$ 175
Private equity and infrastructure funds	131	186
Traditional asset management and hedge fund investments	101	109
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	142	142
Other Company investments	194	195

Equity Market Sensitivity. In the Wealth Management and Investment Management business segments, certain fee-based revenue streams are driven by the value of clients' equity holdings. The overall level of revenues for these streams also depends on multiple additional factors that include, but are not limited to, the level and duration of the equity market decline, price volatility, the geographic and industry mix of client assets, the rate and magnitude of client investments and redemptions, and the impact of such market decline and price volatility on client behavior. Therefore, overall revenues do not correlate completely with changes in the equity markets.

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. The Company primarily incurs credit risk exposure to institutions and individuals through its Institutional Securities and Wealth Management business segments.

The Company may incur credit risk in its Institutional Securities business segment through a variety of activities, including, but not limited to, the following:

- entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Company;
- 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;

- posting margin and/or collateral to clearinghouses, clearing agencies, exchanges, banks, securities firms and other financial counterparties;
- placing funds on deposit at other financial institutions to support the Company's clearing and settlement obligations; and
- investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

The Company incurs credit risk in its Wealth Management business segment, primarily through lending to individuals and entities, including, but not limited to, the following:

- margin loans collateralized by securities;
- securities-based and other forms of secured loans; and
- single-family residential mortgage loans in conforming, non-conforming or home equity lines of credit ("HELOC") form, primarily to existing Wealth Management clients.

Monitoring and Control.

In order to help protect the Company from losses, the Credit Risk Management Department establishes Company-wide practices to evaluate, monitor and control credit risk exposure at the transaction, obligor and portfolio levels. The Credit Risk Management Department approves extensions of credit, evaluates the creditworthiness of the counterparties and borrowers on a regular basis, and ensures that credit exposure is actively monitored and managed. The evaluation of counterparties and borrowers includes an assessment of the probability that an obligor will default on its financial obligations and any losses that may occur when an obligor defaults. In addition, credit risk exposure is actively managed by credit professionals and committees within the Credit Risk Management Department and through various risk committees, whose membership includes individuals from the Credit Risk Management Department. A comprehensive and global Credit Limits Framework is utilized to manage credit risk levels across the Company. The Credit Limits Framework is calibrated within the Company's risk tolerance and includes single-name limits and portfolio concentration limits by country, industry and product type.

The Credit Risk Management Department ensures transparency of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. The Credit Risk Management Department also works closely with the Market Risk Department and applicable business units to monitor risk exposures and to perform stress tests to identify, analyze and control credit risk concentrations arising in the lending and trading activities. The stress tests shock market factors (*e.g.*, interest rates, commodity prices, credit spreads), risk parameters *(e.g.*, default probabilities and loss given default), recovery rates and expected losses in order to assess the impact of stresses on exposures, profit and loss, and the Company's capital position. Stress and scenario tests are conducted in accordance with established Company policies and procedures.

Credit Evaluation.

The evaluation of corporate and institutional counterparties and borrowers includes assigning obligor credit ratings, which reflect an assessment of an obligor's probability of default and loss given default. Credit evaluations typically involve the assessment of financial statements; leverage; liquidity; capital strength; asset composition and quality; market capitalization; access to capital markets; adequacy of collateral, if applicable; and in the case of certain loans, cash flow projections and debt service requirements. The Credit Risk Management Department also evaluates strategy, market position, industry dynamics, management and other factors that could affect the obligor's risk profile. Additionally, the Credit Risk Management Department evaluates the relative position of the Company's exposure in the borrower's capital structure and relative recovery prospects, as well as adequacy of collateral (if applicable) and other structural elements of the particular transaction.

The evaluation of consumer borrowers is tailored to the specific type of lending. Margin and securities-based loans are evaluated based on factors that include, but are not limited to, the amount of the loan, the degree of leverage and the quality, diversification, price volatility and liquidity of the collateral. The underwriting of residential real estate loans includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan-to-value ratio and credit bureau information. Subsequent credit monitoring for individual loans is performed at the portfolio level, and collateral values are monitored on an ongoing basis.

Credit risk metrics assigned to the Company's borrowers during the evaluation process are incorporated into the Credit Risk Management Department's maintenance of the allowance for loan losses for the loans held for the investment portfolio. Such allowance serves as a reserve for probable inherent losses, as well as probable losses related to loans identified for impairment. For more information on the allowance for loan losses, see Notes 2 and 7 to the consolidated financial statements in Item 8.

Risk Mitigation.

The Company may seek to mitigate credit risk from its lending and trading activities in multiple ways, including collateral provisions, guarantees and hedges. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The Company actively hedges its lending and derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. Additionally, the Company may sell, assign or syndicate loans and lending commitments to other financial institutions in the primary and secondary loan markets. In connection with its derivatives trading activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of a counterparty default.

Lending Activities.

The Company provides loans and lending commitments to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, the Company purchases loans in the secondary market. In the consolidated statements of financial condition, these loans and lending commitments are carried at either fair value with changes in fair value recorded in earnings; held for investment, which are recorded at amortized cost; or held for sale, which are recorded at lower of cost or fair value. Loans held for investment and loans held for sale are classified in Loans, and loans held at fair value are classified in Trading assets in the consolidated statements of financial condition. See Notes 3, 7 and 12 to the consolidated financial statements in Item 8 for further information.

Loan Portfolio by Loan Type within the Institutional Securities and Wealth Management Business Segments.

	At December 31, 2015		
	Institutional Securities Lending	Wealth Management Lending	Total
		(dollars in millions)	
Corporate loans	$ 16,452	$ 7,102	$ 23,554
Consumer loans	—	21,528	21,528
Residential real estate loans	—	20,863	20,863
Wholesale real estate loans	6,839	—	6,839
Loans held for investment, gross of allowance	23,291	49,493	72,784
Allowance for loan losses	(195)	(30)	(225)
Loans held for investment, net of allowance	23,096	49,463	72,559
Corporate loans	11,924	—	11,924
Residential real estate loans	45	59	104
Wholesale real estate loans	1,172	—	1,172
Loans held for sale	13,141	59	13,200
Corporate loans	7,286	—	7,286
Residential real estate loans	1,885	—	1,885
Wholesale real estate loans	1,447	—	1,447
Loans held at fair value	10,618	—	10,618
Total loans(1)	46,855	49,522	96,377
Lending commitments(2)(3)	95,572	5,821	101,393
Total loans and lending commitments(2)(3)	$ 142,427	$ 55,343	$ 197,770

	At December 31, 2014		
	Institutional Securities Lending	Wealth Management Lending	Total
		(dollars in millions)	
Corporate loans	$ 14,233	$ 5,426	$ 19,659
Consumer loans	—	16,576	16,576
Residential real estate loans	—	15,735	15,735
Wholesale real estate loans	5,298	—	5,298
Loans held for investment, gross of allowance	19,531	37,737	57,268
Allowance for loan losses	(136)	(13)	(149)
Loans held for investment, net of allowance	19,395	37,724	57,119
Corporate loans	8,200	—	8,200
Residential real estate loans	16	98	114
Wholesale real estate loans	1,144	—	1,144
Loans held for sale	9,360	98	9,458
Corporate loans	7,093	—	7,093
Residential real estate loans	1,682	—	1,682
Wholesale real estate loans	3,187	—	3,187
Loans held at fair value	11,962	—	11,962
Total loans(1)	40,717	37,822	78,539
Lending commitments(2)(3)	87,000	4,914	91,914
Total loans and lending commitments(2)(3)	$ 127,717	$ 42,736	$ 170,453

(1) Amounts exclude $25.3 billion and $29.0 billion related to margin loans and $4.9 billion and $5.1 billion related to employee loans at December 31, 2015 and December 31, 2014, respectively. See Notes 6 and 7 to the consolidated financial statements in Item 8 for further information.

(2) Lending commitments represent the notional amount of legally binding obligations to provide funding to clients for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.

(3) For syndications led by the Company, the lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that the Company participates in and does not lead, lending commitments accepted by the borrower but not yet closed include only the amount that the Company expects it will be allocated from the lead, syndicate bank. Due to the nature of the Company's obligations under the commitments, these amounts include certain commitments participated to third parties.

The Company's credit exposure from its loans and lending commitments is measured in accordance with the Company's internal risk management standards. Risk factors considered in determining the allowance include the borrower's financial strength, seniority of the loan, collateral type, volatility of collateral value, debt cushion, loan-to-value ratio, debt service ratio, covenants and counterparty type. At December 31, 2015 and December 31, 2014, the allowance for loan losses related to loans that were accounted for as held for investment was $225 million and $149 million, respectively, and the allowance for commitment losses related to lending commitments that were accounted for as held for investment was $185 million and $149 million, respectively. The aggregate allowance for loan and commitment losses increased over the year ended December 31, 2015 due to environmental macro factors including a deteriorating energy sector, updates to parameters used in determining the inherent allowance and overall portfolio growth. See Note 7 to the consolidated financial statements in Item 8 for further information.

Institutional Securities Lending Activities. In connection with certain of its Institutional Securities business segment activities, the Company provides loans and lending commitments to a diverse group of corporate and other institutional clients. These activities include corporate lending, commercial and residential mortgage lending, asset-backed lending, corporate loans purchased in the secondary market, financing extended to equities and commodities customers, and loans to municipalities. These loans and lending commitments may have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by the Company.

Institutional Securities loans and lending commitments are mainly related to relationship-based and event-driven lending to select corporate clients. Relationship-based loans and lending commitments are used for general corporate purposes, working capital and liquidity purposes by the Company's Investment Banking clients and typically consist of revolving lines of credit, letter of credit facilities and term loans. In connection with the relationship-based lending activities, the Company had hedges (which included "single name," "sector" and "index" hedges) with a notional amount of $12.0 billion and $12.9 billion at December 31, 2015 and December 31, 2014, respectively. Event-driven loans and lending commitments are associated with a particular event or transaction, such as to support client merger, acquisition, recapitalization and project finance activities. Event-driven loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans.

Institutional Securities Loans and Lending Commitments by Credit Rating(1).

	At December 31, 2015				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
AAA	$ 287	$ 24	$ 50	$ —	$ 361
AA	5,022	2,553	3,735	63	11,373
A	3,996	5,726	11,993	1,222	22,937
BBB	5,089	16,720	23,248	4,086	49,143
Investment grade	14,394	25,023	39,026	5,371	83,814
Non-investment grade	7,768	15,863	22,818	7,779	54,228
Unrated(2)	930	1,091	246	2,118	4,385
Total	$ 23,092	$ 41,977	$ 62,090	$ 15,268	$ 142,427

	At December 31, 2014				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
AAA	$ 275	$ 74	$ 37	$ —	$ 386
AA	3,760	3,025	4,580	—	11,365
A	2,135	5,060	12,090	657	19,942
BBB	4,710	11,902	23,740	3,035	43,387
Investment grade	10,880	20,061	40,447	3,692	75,080
Non-investment grade	6,161	14,645	20,716	7,386	48,908
Unrated(2)	128	906	235	2,460	3,729
Total	$ 17,169	$ 35,612	$ 61,398	$ 13,538	$ 127,717

(1) Obligor credit ratings are determined by the Credit Risk Management Department.

(2) Unrated loans and lending commitments are primarily trading positions that are measured at fair value and risk managed as a component of Market Risk. For a further discussion of the Company's Market Risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management" in Part II, Item 7A.

At December 31, 2015 and December 31, 2014, the aggregate amount of investment grade loans was $15.8 billion and $11.8 billion, respectively, the aggregate amount of non-investment grade loans was $26.9 billion and $25.4 billion, respectively, and the aggregate amount of unrated loans was $4.2 billion and $3.5 billion, respectively.

Event-Driven Loans and Lending Commitments. Included in the total loans and lending commitments above at December 31, 2015 were event-driven exposures of $23.2 billion composed of loans of $5.4 billion and lending commitments of $17.8 billion. Included in the event-driven exposures at December 31, 2015 were $13.5 billion of loans and lending commitments to non-investment grade borrowers. The maturity profile of these event-driven loans and lending commitments at December 31, 2015 was as follows: 24% will mature in less than 1 year, 21% will mature within 1 to 3 years, 24% will mature within 3 to 5 years and 31% will mature in over 5 years.

Included in the total loans and lending commitments above at December 31, 2014 were event-driven exposures of $15.2 billion composed of funded loans of $5.7 billion and lending commitments of $9.5 billion. Included in the event-driven exposure at December 31, 2014 were $11.6 billion of loans and lending commitments to non-investment grade borrowers.

The maturity profile of these event-driven loans and lending commitments at December 31, 2014 was as follows: 18% will mature in less than 1 year, 14% will mature within 1 to 3 years, 37% will mature within 3 to 5 years and 31% will mature in over 5 years.

At December 31, 2015 and December 31, 2014, approximately 99.5% of the Institutional Securities business segment loans held for investment were current, while approximately 0.5% were on nonaccrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

Institutional Securities Credit Exposure from Loans and Lending Commitments by Industry.

Industry(1)	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Real estate	$ 17,847	$ 16,867
Energy	15,921	14,926
Healthcare	12,677	10,203
Utilities	12,631	11,986
Consumer discretionary	12,098	11,755
Funds, exchanges and other financial services(2)	11,649	9,949
Information technology	11,122	7,931
Industrials	10,018	9,896
Consumer staples	8,597	7,584
Mortgage finance	8,260	6,516
Materials	6,440	5,357
Insurance	4,682	3,313
Telecommunications services	4,403	4,484
Special purpose vehicles	3,482	3,326
Consumer finance	977	1,065
Other	1,623	2,559
Total	$ 142,427	$ 127,717

(1) Industry categories are based on the Global Industry Classification Standard®.

(2) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, and diversified financial services.

Institutional Securities Lending Exposures Related to the Energy Industry. At December 31, 2015, Institutional Securities' loans and lending commitments related to the energy industry were $15.9 billion. Approximately 60% of these energy industry loans and lending commitments were to investment grade counterparties. At December 31, 2015, the energy industry portfolio included $1.7 billion in loans and $2.7 billion in lending commitments to Oil and Gas Exploration and Production ("E&P") companies. The E&P loans were substantially all to non-investment grade counterparties which are subject to semi-annual borrowing base reassessments based on the value of the underlying oil and gas reserves pledged as collateral. The E&P lending commitments were primarily to investment grade counterparties.

Margin Lending. In addition, Institutional Securities lending activities include margin lending, which allows the client to borrow against the value of qualifying securities. At December 31, 2015 and December 31, 2014, the amounts related to margin lending were $10.6 billion and $15.3 billion, respectively, which were classified within Customer and other receivables in the consolidated statements of financial condition.

Wealth Management Lending Activities. The principal Wealth Management lending activities include securities-based lending and residential real estate loans.

Securities-based lending provided to the Company's retail clients is primarily conducted through its Portfolio Loan Account ("PLA") and Liquidity Access Line ("LAL") platforms which had an outstanding loan balance of $24.9 billion and $19.1 billion at December 31, 2015 and December 31, 2014, respectively. These loans allow the client to borrow money against the value of qualifying securities for any purpose other than purchasing securities. The Company establishes approved credit lines against qualifying securities and monitors limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce debt positions, when necessary. These credit lines are primarily uncommitted loan facilities, as the Company reserves the right to not make any advances, or may terminate these credit lines at any time. Factors considered in the review of these loans include, but are not limited to, the loan amount, the client's credit profile, the degree of leverage, collateral diversification, price volatility and liquidity of the collateral.

Residential real estate loans consist of first and second lien mortgages, including HELOC loans. The Company's underwriting policy is designed to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysis utilizing industry standard credit scoring models (*e.g.*, Fair Isaac Corporation ("FICO") scores), debt ratios and assets of the borrower. Loan-to-value ratios are determined based on independent third-party property appraisal/ valuations, and security lien position is established through title/ownership reports. The vast majority of mortgage and HELOC loans are held for investment in the Wealth Management business segment's loan portfolio.

For the year ended December 31, 2015, loans and lending commitments associated with the Wealth Management business segment lending activities increased by approximately 29%, mainly due to growth in PLA, LAL and residential real estate loans.

Wealth Management Lending Activities by Remaining Contractual Maturity.

	At December 31, 2015				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Securities-based lending and other loans	$ 25,975	$ 1,004	$ 889	$ 749	$ 28,617
Residential real estate loans	—	—	35	20,870	20,905
Total	$ 25,975	$ 1,004	$ 924	$ 21,619	$ 49,522
Lending commitments	5,143	286	115	277	5,821
Total loans and lending commitments	$ 31,118	$ 1,290	$ 1,039	$ 21,896	$ 55,343

	At December 31, 2014				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Securities-based lending and other loans	$ 19,408	$ 1,071	$ 750	$ 768	$ 21,997
Residential real estate loans	—	—	—	15,825	15,825
Total	$ 19,408	$ 1,071	$ 750	$ 16,593	$ 37,822
Lending commitments	4,192	290	131	301	4,914
Total loans and lending commitments	$ 23,600	$ 1,361	$ 881	$ 16,894	$ 42,736

At December 31, 2015 and December 31, 2014, approximately 99.9% of the Wealth Management business segment loans held for investment were current, while approximately 0.1% were on nonaccrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

The Wealth Management business segment also provides margin lending to clients and had an outstanding balance of $14.7 billion and $13.7 billion at December 31, 2015 and December 31, 2014, respectively, which were classified within Customer and other receivables within the consolidated statements of financial condition.

In addition, the Wealth Management business segment has employee loans that are granted primarily in conjunction with programs established by the Company to recruit and retain certain employees. These loans, recorded in Customer and other receivables in the consolidated statements of financial condition, are full recourse, require periodic payments and have repayment terms ranging from 2 to 12 years. The Company establishes an allowance for loan amounts it does not consider recoverable from terminated employees, which is recorded in Compensation and benefits expense.

Credit Exposure—Derivatives.

The Company incurs credit risk as a dealer in over-the-counter ("OTC") derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. In connection with its OTC derivative activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master netting agreement in the event of counterparty default. The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). For credit exposure information on the Company's OTC derivative products, see Note 4 to the consolidated financial statements in Item 8.

Credit Derivatives. A credit derivative is a contract between a seller and buyer of protection against the risk of a credit event occurring on one or more debt obligations issued by a specified reference entity. The buyer typically pays a periodic premium over the life of the contract and is protected for the period. If a credit event occurs, the seller is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events, as defined in the contract, may be one or more of the following defined events: bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation, payment moratorium and restructurings.

The Company trades in a variety of credit derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. In transactions referencing a portfolio of entities or securities, protection may be limited to a tranche of exposure or a single name within the portfolio. The Company is an active market maker in the credit derivatives markets. As a market maker, the Company works to earn a bid-offer spread on client flow business and manages any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented. The effectiveness of the Company's credit default swap ("CDS") protection as a hedge of its exposures may vary depending upon a number of factors, including the contractual terms of the CDS.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company's counterparties are composed of banks, broker-dealers, insurance and other financial institutions. Contracts with these counterparties may include provisions related to counterparty rating downgrades, which may result in the counterparty posting additional collateral to the Company. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate within Trading revenues in the consolidated statements of income.

Credit Derivative Portfolio by Counterparty.

	At December 31, 2015				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Protection Purchased	Protection Sold
			(dollars in millions)		
Banks and securities firms	$ 16,962	$ 17,295	$ (333)	$ 533,557	$ 491,267
Insurance and other financial institutions	5,842	6,247	(405)	189,439	194,723
Non-financial entities	115	123	(8)	5,932	3,529
Total	$ 22,919	$ 23,665	$ (746)	$ 728,928	$ 689,519

	At December 31, 2014				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Protection Purchased	Protection Sold
	(dollars in millions)				
Banks and securities firms	$ 25,452	$ 25,323	$ 129	$ 712,466	$ 687,155
Insurance and other financial institutions	6,639	6,697	(58)	216,489	217,201
Non-financial entities	91	89	2	5,049	3,706
Total	$ 32,182	$ 32,109	$ 73	$ 934,004	$ 908,062

(1) The Company's CDS are classified in either Level 2 or Level 3 of the fair value hierarchy. Approximately 3% and 4% of receivable fair values and 6% and 7% of payable fair values represented Level 3 amounts at December 31, 2015 and December 31, 2014, respectively (see Note 3 to the consolidated financial statements in Item 8).

The fair values shown above are before the application of contractual netting or collateral. For additional credit exposure information on the Company's credit derivative portfolio, see Note 4 to the consolidated financial statements in Item 8.

OTC Derivative Products at Fair Value, Net of Collateral, by Industry.

Industry(1)	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Utilities	$ 3,920	$ 3,797
Industrials	2,635	2,278
Funds, exchanges and other financial services(2)	2,322	3,638
Banks and securities firms	1,912	3,297
Regional governments	1,329	1,603
Healthcare	1,190	1,365
Not-for-profit organizations	908	905
Consumer discretionary	829	423
Special purpose vehicles	821	1,089
Sovereign governments	599	889
Consumer staples	578	650
Materials	540	591
Energy	453	575
Other	975	1,127
Total(3)	$ 19,011	$ 22,227

(1) Industry categories are based on the Global Industry Classification Standard®.

(2) Amounts include mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, and diversified financial services.

(3) For further information on derivative instruments and hedging activities, see Note 4 to the consolidated financial statements in Item 8.

Other.

In addition to the activities noted above, there are other credit risks managed by the Credit Risk Management Department and various business areas within the Institutional Securities business segment. The Company participates in securitization activities whereby it extends short-term or long-term funding to clients through loans and lending commitments that are secured by the assets of the borrower and generally provide for over-collateralization, including commercial real estate loans, loans secured by loan pools, commercial company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value. See Note 13 to the consolidated financial statements in Item 8 for information about the Company's securitization activities. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 6 to the consolidated financial statements in Item 8 for additional information about the Company's collateralized transactions.

Country Risk Exposure.

Country risk exposure is the risk that events in, or that affect, a foreign country (any country other than the U.S.) might adversely affect the Company. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Company to effectively identify, monitor and limit country risk. Country risk exposure before and after hedging is monitored and managed.

The Company's obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country risk.

The Company conducts periodic stress testing that seeks to measure the impact on its credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by the Company's risk managers, the stress test scenarios include possible contagion effects. Second order risks such as the impact for core European banks of their peripheral exposures may also be considered. This analysis, and results of the stress tests, may result in the amendment of limits or exposure mitigation.

In addition to its country risk exposure, the Company discloses its cross-border risk exposure in "Financial Statements and Supplementary Data—Financial Data Supplement (Unaudited)" in Item 8. It is based on the Federal Financial Institutions Examination Council's regulatory guidelines for reporting cross-border information and represents the amounts that the Company may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

There can be substantial differences between the Company's country risk exposure and cross-border risk exposure. For instance, unlike the cross-border risk exposure, the Company's country risk exposure includes the effect of certain risk mitigants. In addition, the basis for determining the domicile of the country risk exposure is different from the basis for determining the cross-border risk exposure. Cross-border risk exposure is reported based on the country of jurisdiction for the obligor or guarantor. For country risk exposure, the Company considers factors in addition to that of country of jurisdiction, including physical location of operations or assets, location and source of cash flows/revenues and location of collateral (if applicable) in order to determine the basis for country risk exposure. Furthermore, cross-border risk exposure incorporates CDS only where protection is purchased, while country risk exposure incorporates CDS where protection is purchased or sold.

The Company's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The following table shows the Company's 10 largest non-U.S. country risk net exposures at December 31, 2015. Index credit derivatives are included in the country risk exposure table. Each reference entity within an index is allocated to that reference entity's country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

Top Ten Country Exposures at December 31, 2015.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Loans	Lending Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)
				(dollars in millions)			
United Kingdom:							
Sovereigns	$ (88)	$ 56	$ —	$ —	$ (32)	$ (166)	$ (198)
Non-sovereigns	654	10,649	4,643	7,161	23,107	(1,722)	21,385
Subtotal	$ 566	$ 10,705	$ 4,643	$ 7,161	$ 23,075	$ (1,888)	$ 21,187
Brazil:							
Sovereigns	$ 3,536	$ —	$ —	$ —	$ 3,536	$ —	$ 3,536
Non-sovereigns	(28)	519	1,097	87	1,675	(650)	1,025
Subtotal	$ 3,508	$ 519	$ 1,097	$ 87	$ 5,211	$ (650)	$ 4,561
China:							
Sovereigns	$ 616	$ 166	$ —	$ —	$ 782	$ (508)	$ 274
Non-sovereigns	1,423	404	956	262	3,045	(64)	2,981
Subtotal	$ 2,039	$ 570	$ 956	$ 262	$ 3,827	$ (572)	$ 3,255
Italy:							
Sovereigns	$ 1,950	$ (19)	$ —	$ —	$ 1,931	$ (61)	$ 1,870
Non-sovereigns	174	661	9	667	1,511	(198)	1,313
Subtotal	$ 2,124	$ 642	$ 9	$ 667	$ 3,442	$ (259)	$ 3,183
Canada:							
Sovereigns	$ (61)	$ 90	$ —	$ —	$ 29	$ —	$ 29
Non-sovereigns	(143)	1,661	239	1,550	3,307	(163)	3,144
Subtotal	$ (204)	$ 1,751	$ 239	$ 1,550	$ 3,336	$ (163)	$ 3,173
Singapore:							
Sovereigns	$ 1,950	$ 197	$ —	$ —	$ 2,147	$ —	$ 2,147
Non-sovereigns	76	278	48	122	524	(30)	494
Subtotal	$ 2,026	$ 475	$ 48	$ 122	$ 2,671	$ (30)	$ 2,641
France:							
Sovereigns	$ (682)	$ —	$ —	$ —	$ (682)	$ —	$ (682)
Non-sovereigns	(103)	1,751	14	2,310	3,972	(1,149)	2,823
Subtotal	$ (785)	$ 1,751	$ 14	$ 2,310	$ 3,290	$ (1,149)	$ 2,141
United Arab Emirates:							
Sovereigns	$ 2	$ 1,162	$ —	$ —	$ 1,164	$ (56)	$ 1,108
Non-sovereigns	(95)	455	181	350	891	(16)	875
Subtotal	$ (93)	$ 1,617	$ 181	$ 350	$ 2,055	$ (72)	$ 1,983
Netherlands:							
Sovereigns	$ (71)	$ —	$ —	$ —	$ (71)	$ —	$ (71)
Non-sovereigns	267	623	188	1,230	2,308	(280)	2,028
Subtotal	$ 196	$ 623	$ 188	$ 1,230	$ 2,237	$ (280)	$ 1,957
Australia:							
Sovereigns	$ (115)	$ 21	$ —	$ —	$ (94)	$ —	$ (94)
Non-sovereigns	449	348	168	875	1,840	(123)	1,717
Subtotal	$ 334	$ 369	$ 168	$ 875	$ 1,746	$ (123)	$ 1,623

(1) Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on a notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At December 31, 2015, gross purchased protection, gross written protection, and net exposures related to single-name and index credit derivatives for those countries were $(164.9) billion, $161.5 billion and $(3.4) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company's hedges, see "Credit Exposure—Derivatives" herein.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.

(3) At December 31, 2015, the benefit of collateral received against counterparty credit exposure was $10.4 billion in the United Kingdom ("U.K."), with 99% of collateral consisting of cash and U.K. and U.S. government obligations, and $5.9 billion in France with 99% of collateral consisting of cash and government obligations of France. The benefit of collateral received against counterparty credit exposure in the other countries totaled approximately $7.0 billion, with collateral primarily consisting of cash and government obligations of Germany, U.S. and France. These amounts do not include collateral received on secured financing transactions.

(4) Amounts represent CDS hedges (purchased and sold) on net counterparty exposure and lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Amounts are based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(5) In addition, at December 31, 2015, the Company had exposure to these countries for overnight deposits with banks of approximately $4.3 billion.

Country Risk Exposure Related to Brazil. At December 31, 2015, the Company's country risk exposures in Brazil included net exposures of $4,561 million (shown in the above table). The Company's sovereign net exposures in Brazil were principally in the form of local currency government bonds held onshore to support client activity. The $1,025 million (shown in the above table) of exposures to non-sovereigns were diversified across both names and sectors.

Country Risk Exposure Related to China. At December 31, 2015, the Company's country risk exposures in China included net exposures of $3,255 million (shown in the above table) and overnight deposits with international banks of $438 million. The $2,981 million (shown in the above table) of exposures to non-sovereigns were diversified across both names and sectors and were primarily concentrated in high-quality positions with negligible direct exposure to onshore equities.

Operational Risk.

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel II: internal fraud; external fraud, employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). Legal and compliance risk is discussed below under "Legal and Compliance Risk."

The Company has established an operational risk framework to identify, measure, monitor and control risk across the Company. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment. The Company has implemented operational risk data and assessment systems to monitor and analyze internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Company employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a strong governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the Board and are prioritized accordingly. The breadth and range of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include enhancing defenses against cyberattacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational

Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganization; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Operational Risk Department is independent of the divisions and reports to the Chief Risk Officer. The Operational Risk Department provides oversight of operational risk management and independently assesses, measures and monitors operational risk. The Operational Risk Department works with the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company. The Operational Risk Department scope includes oversight of technology and data risks (*e.g.*, cybersecurity) and supplier management (vendor risk oversight and assessment) program. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for operational risk capital.

Business Continuity Management is responsible for identifying key risks and threats to the Company's resiliency and planning to ensure that a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a Company-wide basis, and redundancies are built into the systems as deemed appropriate. The key components of the Company's Business Continuity Management Program include: crisis management; business recovery plans; applications/data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Company maintains an information security program that coordinates the management of information security risks and is designed to address regulatory requirements. Information security policies are designed to protect the Company's information assets against unauthorized disclosure, modification or misuse. These policies cover a broad range of areas, including: application entitlements, data protection, incident response, Internet and electronic communications, remote access and portable devices. The Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorized access.

In connection with its ongoing operations, the Company utilizes the services of external vendors, which it anticipates will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company manages its exposures to these services through a variety of means such as the performance of due diligence, consideration of operational risk, implementation of service level and other contractual agreements, and ongoing monitoring of the vendors' performance. The Company maintains a supplier risk management program with policies, procedures, organization, governance and supporting technology that satisfies regulatory requirements. The program is designed to ensure that adequate risk management controls over the services exist, including, but not limited to information security, operational failure, financial stability, disaster recoverability, reputational risk, safeguards against corruption and termination.

Liquidity and Funding Risk.

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Market or idiosyncratic stress events may negatively affect the Company's liquidity and may impact its ability to raise new funding. Generally, the Company incurs liquidity and funding risk as a result of its trading, lending, investing and client facilitation activities.

The Company's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. In 2015, the Company established the Liquidity Risk Department as a distinct area in Risk Management to oversee and monitor liquidity and funding risk. The Liquidity Risk Department is independent of the business units and reports to the Chief Risk Officer. The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department establishes limits in line with the Company's risk appetite, identifies and analyzes emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning the Company's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios. The liquidity and funding risks identified by these processes are summarized in reports produced by the Liquidity Risk Department that are circulated to and discussed with senior management, the FRC, the BRC and the Board, as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity and funding risks arising from the Company's business activities, and maintain processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity and funding risk across the Company. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in Part II, Item 7.

Legal and Compliance Risk.

Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgments, damages and/or settlements, or loss to reputation that the Company may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its business activities. This risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with anti-money laundering and terrorist financing rules and regulations. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business (see also "Business—Supervision and Regulation" in Part I, Item 1, and "Risk Factors" in Part I, Item 1A). The Company, principally through the Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally. In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services and banking industry presents a continuing business challenge for the Company.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley and subsidiaries (the "Company") as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, cash flows, and changes in total equity for the years ended December 31, 2015, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years ended December 31, 2015, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 23, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
New York, New York
February 23, 2016

MORGAN STANLEY
Consolidated Statements of Income
(dollars in millions, except share and per share data)

	2015	2014	2013
Revenues:			
Investment banking	$ 5,594	$ 5,948	$ 5,246
Trading	10,114	9,377	9,359
Investments	541	836	1,777
Commissions and fees	4,554	4,713	4,629
Asset management, distribution and administration fees	10,766	10,570	9,638
Other	493	1,096	1,066
Total non-interest revenues	32,062	32,540	31,715
Interest income	5,835	5,413	5,209
Interest expense	2,742	3,678	4,431
Net interest	3,093	1,735	778
Net revenues	35,155	34,275	32,493
Non-interest expenses:			
Compensation and benefits	16,016	17,824	16,277
Occupancy and equipment	1,382	1,433	1,499
Brokerage, clearing and exchange fees	1,892	1,806	1,711
Information processing and communications	1,767	1,635	1,768
Marketing and business development	681	658	638
Professional services	2,298	2,117	1,894
Other	2,624	5,211	4,148
Total non-interest expenses	26,660	30,684	27,935
Income from continuing operations before income taxes	8,495	3,591	4,558
Provision for (benefits from) income taxes	2,200	(90)	902
Income from continuing operations	6,295	3,681	3,656
Discontinued operations:			
Income (loss) from discontinued operations before income taxes	(23)	(19)	(72)
Provision for (benefit from) income taxes	(7)	(5)	(29)
Income (loss) from discontinued operations	(16)	(14)	(43)
Net income	$ 6,279	$ 3,667	$ 3,613
Net income applicable to redeemable noncontrolling interests	—	—	222
Net income applicable to nonredeemable noncontrolling interests	152	200	459
Net income applicable to Morgan Stanley	$ 6,127	$ 3,467	$ 2,932
Preferred stock dividends and other	456	315	277
Earnings applicable to Morgan Stanley common shareholders	$ 5,671	$ 3,152	$ 2,655
Earnings per basic common share:			
Income from continuing operations	$ 2.98	$ 1.65	$ 1.42
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.03)
Earnings per basic common share	$ 2.97	$ 1.64	$ 1.39
Earnings per diluted common share:			
Income from continuing operations	$ 2.91	$ 1.61	$ 1.38
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.02)
Earnings per diluted common share	$ 2.90	$ 1.60	$ 1.36
Dividends declared per common share	$ 0.55	$ 0.35	$ 0.20
Average common shares outstanding:			
Basic	1,909,116,527	1,923,805,397	1,905,823,882
Diluted	1,952,815,453	1,970,535,560	1,956,519,738

See Notes to Consolidated Financial Statements.

MORGAN STANLEY
Consolidated Statements of Comprehensive Income
(dollars in millions)

	2015	2014	2013
Net income	$ 6,279	$ 3,667	$ 3,613
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments(1)	$ (304)	$ (491)	$ (348)
Change in net unrealized gains (losses) on available for sale securities(2)	(246)	209	(433)
Pension, postretirement and other(3)	138	33	(1)
Total other comprehensive income (loss)	$ (412)	$ (249)	$ (782)
Comprehensive income	$ 5,867	$ 3,418	$ 2,831
Net income applicable to redeemable noncontrolling interests	—	—	222
Net income applicable to nonredeemable noncontrolling interests	152	200	459
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	(4)	(94)	(205)
Comprehensive income applicable to Morgan Stanley	$ 5,719	$ 3,312	$ 2,355

[1] Amounts include provision for (benefit from) income taxes of $185 million, $352 million and $351 million for 2015, 2014 and 2013, respectively.

[2] Amounts include provision for (benefit from) income taxes of $(143) million, $142 million and $(296) million for 2015, 2014 and 2013, respectively.

[3] Amounts include provision for (benefit from) income taxes of $73 million, $20 million and $11 million for 2015, 2014 and 2013, respectively.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY
Consolidated Statements of Financial Condition
(dollars in millions, except share data)

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks ($14 and $45 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	$ 19,827	$ 21,381
Interest bearing deposits with banks	34,256	25,603
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements ($186 and $149 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	31,469	40,607
Trading assets, at fair value ($127,627 and $127,342 were pledged to various parties at December 31, 2015 and December 31, 2014, respectively) ($722 and $966 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	228,280	256,801
Investment securities (includes $66,759 and $69,216 at fair value at December 31, 2015 and December 31, 2014, respectively)	71,983	69,316
Securities received as collateral, at fair value	11,225	21,316
Securities purchased under agreements to resell (includes $806 and $1,113 at fair value at December 31, 2015 and December 31, 2014, respectively)	87,657	83,288
Securities borrowed	142,416	136,708
Customer and other receivables	45,407	48,961
Loans:		
Held for investment (net of allowances of $225 and $149 at December 31, 2015 and December 31, 2014, respectively)	72,559	57,119
Held for sale	13,200	9,458
Other investments ($328 and $467 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	4,202	4,355
Premises, equipment and software costs (net of accumulated depreciation of $7,140 and $6,219 at December 31, 2015 and December 31, 2014, respectively) ($183 and $191 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,373	6,108
Goodwill	6,584	6,588
Intangible assets (net of accumulated amortization of $2,130 and $1,824 at December 31, 2015 and December 31, 2014, respectively) (includes $5 and $6 at fair value at December 31, 2015 and December 31, 2014, respectively)	2,984	3,159
Other assets ($47 and $59 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	9,043	10,742
Total assets	$ 787,465	$ 801,510
Liabilities		
Deposits (includes $125 at fair value at December 31, 2015).	$ 156,034	$ 133,544
Short-term borrowings (includes $1,648 and $1,765 at fair value at December 31, 2015 and December 31, 2014, respectively)	2,173	2,261
Trading liabilities, at fair value	109,139	107,381
Obligation to return securities received as collateral, at fair value	19,316	25,685
Securities sold under agreements to repurchase (includes $683 and $612 at fair value at December 31, 2015 and December 31, 2014, respectively)	36,692	69,949
Securities loaned	19,358	25,219
Other secured financings (includes $2,854 and $4,504 at fair value at December 31, 2015 and December 31, 2014, respectively) ($432 and $348 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	9,464	12,085
Customer and other payables	186,626	181,069
Other liabilities and accrued expenses ($4 and $72 at December 31, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	18,711	19,441
Long-term borrowings (includes $33,045 and $31,774 at fair value at December 31, 2015 and December 31, 2014, respectively)	153,768	152,772
Total liabilities	711,281	729,406
Commitments and contingent liabilities (see Note 12)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock (see Note 15)	7,520	6,020
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at December 31, 2015 and December 31, 2014; Shares issued: 2,038,893,979 at December 31, 2015 and December 31, 2014; Shares outstanding: 1,920,024,027 and 1,950,980,142 at December 31, 2015 and December 31, 2014, respectively	20	20
Additional paid-in capital	24,153	24,249
Retained earnings	49,204	44,625
Employee stock trusts	2,409	2,127
Accumulated other comprehensive loss	(1,656)	(1,248)
Common stock held in treasury, at cost, $0.01 par value:		
Shares outstanding: 118,869,952 and 87,913,837 at December 31, 2015 and December 31, 2014, respectively	(4,059)	(2,766)
Common stock issued to employee stock trusts	(2,409)	(2,127)
Total Morgan Stanley shareholders' equity	75,182	70,900
Nonredeemable noncontrolling interests	1,002	1,204
Total equity	76,184	72,104
Total liabilities and equity	$ 787,465	$ 801,510

See Notes to Consolidated Financial Statements.

MORGAN STANLEY
Consolidated Statements of Changes in Total Equity
(dollars in millions)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non-redeemable Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2012	$ 1,508	$ 20	$ 23,426	$ 39,912	$ 2,932	$ (516)	$ (2,241)	$ (2,932)	$ 3,319	$65,428
Net income applicable to Morgan Stanley	—	—	—	2,932	—	—	—	—	—	2,932
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	459	459
Dividends	—	—	—	(521)	—	—	—	—	—	(521)
Shares issued under employee plans and related tax effects	—	—	1,160	—	(1,214)	—	(36)	1,214	—	1,124
Repurchases of common stock and employee tax withholdings	—	—	—	—	—	—	(691)	—	—	(691)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(577)	—	—	(205)	(782)
Issuance of preferred stock	1,712	—	(16)	—	—	—	—	—	—	1,696
Wealth Management JV redemption value adjustment	—	—	—	(151)	—	—	—	—	—	(151)
Other net decreases	—	—	—	—	—	—	—	—	(464)	(464)
BALANCE AT DECEMBER 31, 2013	3,220	20	24,570	42,172	1,718	(1,093)	(2,968)	(1,718)	3,109	69,030
Net income applicable to Morgan Stanley	—	—	—	3,467	—	—	—	—	—	3,467
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	200	200
Dividends	—	—	—	(1,014)	—	—	—	—	—	(1,014)
Shares issued under employee plans and related tax effects	—	—	(294)	—	409	—	1,660	(409)	—	1,366
Repurchases of common stock and employee tax withholdings	—	—	—	—	—	—	(1,458)	—	—	(1,458)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(155)	—	—	(94)	(249)
Issuance of preferred stock	2,800	—	(18)	—	—	—	—	—	—	2,782
Deconsolidation of certain legal entities associated with a real estate fund	—	—	—	—	—	—	—	—	(1,606)	(1,606)
Other net decreases	—	—	(9)	—	—	—	—	—	(405)	(414)
BALANCE AT DECEMBER 31, 2014	6,020	20	24,249	44,625	2,127	(1,248)	(2,766)	(2,127)	1,204	72,104
Net income applicable to Morgan Stanley	—	—	—	6,127	—	—	—	—	—	6,127
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	152	152
Dividends	—	—	—	(1,548)	—	—	—	—	—	(1,548)
Shares issued under employee plans and related tax effects	—	—	(79)	—	282	—	1,480	(282)	—	1,401
Repurchases of common stock and employee tax withholdings	—	—	—	—	—	—	(2,773)	—	—	(2,773)
Net change in Accumulated other comprehensive income	—	—	—	—	—	(408)	—	—	(4)	(412)
Issuance of preferred stock	1,500	—	(7)	—	—	—	—	—	—	1,493
Deconsolidation of certain legal entities associated with a real estate fund	—	—	—	—	—	—	—	—	(191)	(191)
Other net decreases	—	—	(10)	—	—	—	—	—	(159)	(169)
BALANCE AT DECEMBER 31, 2015	$ 7,520	$ 20	$ 24,153	$ 49,204	$ 2,409	$ (1,656)	$ (4,059)	$ (2,409)	$ 1,002	$76,184

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

Consolidated Statements of Cash Flows
(dollars in millions)

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 6,279	$ 3,667	$ 3,613
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Deferred income taxes	1,189	(231)	(117)
Income from equity method investments	(114)	(156)	(451)
Compensation payable in common stock and options	1,104	1,260	1,180
Depreciation and amortization	1,433	1,161	1,511
Net gain on sale of available for sale securities	(84)	(40)	(45)
Impairment charges	69	111	198
Provision for credit losses on lending activities	123	23	110
Other operating adjustments	322	(72)	142
Changes in assets and liabilities:			
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	9,138	(1,404)	(8,233)
Trading assets, net of Trading liabilities	29,471	20,619	(23,598)
Securities borrowed	(5,708)	(7,001)	(8,006)
Securities loaned	(5,861)	(7,580)	(4,050)
Customer and other receivables and other assets	(434)	3,608	6,774
Customer and other payables and other liabil ties	4,373	27,971	26,697
Securities purchased under agreements to resell	(4,369)	34,842	16,282
Securities sold under agreements to repurchase	(33,257)	(75,692)	23,002
Net cash provided by operating activities	3,674	1,086	35,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payments for):			
Premises, equipment and software, net	(1,373)	(992)	(1,316)
Business dispositions, net of cash disposed	998	989	1,147
Changes in loans, net	(15,816)	(20,116)	(10,057)
Investment securities:			
Purchases	(47,291)	(32,623)	(30,557)
Proceeds from sales	37,926	12,980	11,425
Proceeds from paydowns and maturities	5,663	4,651	4,757
Other investing activities	(102)	(213)	140
Net cash used for investing activ ties	(19,995)	(35,324)	(24,461)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for):			
Short-term borrowings	(88)	119	4
Nonredeemable noncontrolling interests	(96)	(189)	(557)
Other secured financings	(2,370)	(2,189)	(10,726)
Deposits	22,490	21,165	29,113
Proceeds from:			
Excess tax benefits associated with stock-based awards	211	101	10
Derivatives financing activities	512	855	1,003
Issuance of preferred stock, net of issuance costs	1,493	2,782	1,696
Issuance of long-term borrowings	34,182	36,740	27,939
Payments for:			
Long-term borrowings	(27,289)	(33,103)	(38,742)
Derivatives financing activities	(452)	(776)	(1,216)
Repurchases of common stock and employee tax w thholdings	(2,773)	(1,458)	(691)
Purchase of additional stake in Wealth Management JV	—	—	(4,725)
Cash dividends	(1,455)	(904)	(475)
Net cash provided by financing activities	24,365	23,143	2,633
Effect of exchange rate changes on cash and cash equivalents	(945)	(1,804)	(202)
Net increase (decrease) in cash and cash equivalents	7,099	(12,899)	12,979
Cash and cash equivalents, at beginning of period	46,984	59,883	46,904
Cash and cash equivalents, at end of period	$ 54,083	$ 46,984	$ 59,883
Cash and cash equivalents include:			
Cash and due from banks	$ 19,827	$ 21,381	$ 16,602
Interest bearing deposits with banks	34,256	25,603	43,281
Cash and cash equivalents, at end of period	$ 54,083	$ 46,984	$ 59,883

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $2,672 million, $3,575 million and $4,793 million for 2015, 2014 and 2013, respectively.

Cash payments for income taxes, net of refunds, were $677 million, $886 million and $930 million for 2015, 2014 and 2013, respectively.

See Notes to Consolidated Financial Statements.

1. Introduction and Basis of Presentation.

The Company.

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, Wealth Management and Investment Management. Morgan Stanley, 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" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries.

A description of the clients and principal products and services of each of the Company's business segments is as follows:

> *Institutional Securities* provides investment banking, sales and trading and other services to corporations, governments, financial institutions, and high-to-ultra high net worth clients. Investment banking services comprise capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing and market-making activities in equity securities and fixed income products, including foreign exchange and commodities, as well as prime brokerage services. Other services include corporate lending activities and credit products, investments and research.
>
> *Wealth Management* provides a comprehensive array of financial services and solutions to individual investors and small-to-medium sized businesses and institutions covering brokerage and investment advisory services, market-making activities in fixed income securities, financial and wealth planning services, annuity and insurance products, credit and other lending products, banking and retirement plan services.
>
> *Investment Management* provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets, to a diverse group of clients across institutional and intermediary channels. Institutional clients include defined benefit/defined contribution pensions, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are serviced through intermediaries, including affiliated and non-affiliated distributors. Strategies and products comprise traditional asset management, including equity, fixed income, liquidity, alternatives and managed futures products, as well as merchant banking and real estate investing.

Basis of Financial Information.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of legal and tax matters, allowance for credit losses and other matters that affect its consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of its consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates. Intercompany balances and transactions have been eliminated.

Consolidation.

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest, including certain variable interest entities ("VIE") (see Note 13). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The portion of net income attributable to noncontrolling interests for such subsidiaries is presented as either Net income (loss) applicable to redeemable noncontrolling interests or Net income (loss) applicable to nonredeemable noncontrolling interests in the consolidated statements of income. The portion of shareholders' equity of such subsidiaries that is attributable to noncontrolling interests for such subsidiaries is presented as Nonredeemable noncontrolling interests, a component of total equity, in the consolidated statements of financial condition.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional subordinated financial support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Company consolidates those entities it controls either through a majority voting interest or otherwise. For VIEs (*i.e.*, entities that do not meet these criteria), the Company consolidates those entities where it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that are money market funds, are investment companies or are entities qualifying for accounting purposes as investment companies. Generally, the Company consolidates those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For investments in entities in which the Company does not have a controlling financial interest but has significant influence over operating and financial decisions, it generally applies the equity method of accounting with net gains and losses recorded within Other revenues (see Note 8). Where the Company has elected to measure certain eligible investments at fair value in accordance with the fair value option, net gains and losses are recorded within Investments revenues (see Note 3).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies are carried at fair value.

The Company's significant regulated U.S. and international subsidiaries include Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Smith Barney LLC ("MSSB LLC"), Morgan Stanley & Co. International plc ("MSIP"), Morgan Stanley MUFG Securities Co., Ltd. ("MSMS"), Morgan Stanley Bank, N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA").

Consolidated Statements of Income Presentation.

The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients. In connection with the delivery of these various products and services, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in the Institutional Securities business segment, the Company considers its trading, investment banking, commissions and fees, and interest income, along with the associated interest expense, as one integrated activity.

Consolidated Statements of Cash Flows Presentation.

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks, which include highly liquid investments with original maturities of three months or less, that are held for investment purposes, and are readily convertible to known amounts of cash.

During 2015 and 2014, the Company deconsolidated approximately $244 million and $1.6 billion, respectively, in net assets previously attributable to nonredeemable noncontrolling interests that were primarily related to or associated with real estate funds sponsored by the Company. The deconsolidations resulted in non-cash reduction of assets of $222 million in 2015 and $1.3 billion in 2014.

The Company's significant non-cash activities in 2013 included assets and liabilities of approximately $3.6 billion and $3.1 billion, respectively, disposed of in connection with business dispositions.

Dispositions.

On November 1, 2015, the Company completed the sale of its global oil merchanting unit of the commodities division to Castleton Commodities International LLC. The loss on sale of approximately $71 million was recognized in Other revenues.

On July 1, 2014, the Company completed the sale of its ownership stake in TransMontaigne Inc., a U.S.-based oil storage, marketing and transportation company, as well as related physical inventory and the assumption of its obligations under certain terminal storage contracts, to NGL Energy Partners LP. The gain on sale of $112 million is recorded in Other revenues.

On March 27, 2014, the Company completed the sale of Canterm Canadian Terminals Inc., a public storage terminal operator for refined products with two distribution terminals in Canada. The gain on sale was approximately $45 million and is recorded in Other revenues.

2. Significant Accounting Policies.

Revenue Recognition.

Investment Banking.

Underwriting revenues and advisory fees from mergers, acquisitions and restructuring transactions are recorded when services for the transactions are determined to be substantially completed, generally as set forth under the terms of the engagement. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment banking transaction revenues. Underwriting revenues are presented net of related expenses. Non-reimbursed expenses associated with advisory transactions are recorded within Non-interest expenses.

Commissions and Fees.

Commission and fee revenues are recognized on trade date. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter (“OTC”) equity securities; services related to sales and trading activities; and sales of mutual funds, futures, insurance products and options.

Asset Management, Distribution and Administration Fees.

Asset management, distribution and administration fees are recognized over the relevant contract period. Sales commissions paid by the Company in connection with the sale of certain classes of shares of its open-end mutual fund products are accounted for as deferred commission assets. The Company periodically tests the deferred commission assets for recoverability based on cash flows expected to be received in future periods. In certain management fee arrangements, the Company is entitled to receive performance-based fees (also referred to as incentive fees and includes carried interest) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenues are accrued (or reversed) quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement. Performance-based fees are recorded within Investments or Asset management, distribution and administration fees depending on the nature of the arrangement. The Company’s portion of the unrealized cumulative amount of performance-based fee revenue (for which the Company is not obligated to pay compensation) at risk of reversing if fund performance falls below stated investment management agreement benchmarks was approximately $363 million and $634 million at December 31, 2015 and December 31, 2014, respectively. See Note 12 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

Trading and Investments.

See “Fair Value of Financial Instruments” below for Trading and Investments revenue recognition discussions.

Fair Value of Financial Instruments.

Instruments within Trading assets and Trading liabilities are measured at fair value, either in accordance with accounting guidance or through the fair value option election (discussed below). These financial instruments primarily represent the

Company's trading and investment positions and include both cash and derivative products. In addition, debt securities classified as available for sale ("AFS") securities and Securities received as collateral and Obligation to return securities received as collateral are measured at fair value.

Gains and losses on instruments carried at fair value are reflected in Trading revenues, Investments revenues or Investment banking revenues in the consolidated statements of income, except for AFS securities (see "Investment Securities—Available for Sale and Held to Maturity" section herein and Note 5) and derivatives accounted for as hedges (see "Hedge Accounting" section herein and Note 4). Interest income and interest expense are recorded within the consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instruments' fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense. Dividend income is recorded in Trading revenues or Investments revenues depending on the business activity. The fair value of OTC financial instruments, including derivative contracts related to financial instruments and commodities, is presented in the accompanying consolidated statements of financial condition on a net-by-counterparty basis, when appropriate. Additionally, the Company nets the fair value of cash collateral paid or received against the fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting agreement.

Fair Value Option.

The fair value option permits the irrevocable fair value option election at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company applies the fair value option for eligible instruments, including certain Securities purchased under agreements to resell, loans and lending commitments, equity method investments, Deposits (structured certificate of deposits), Short-term borrowings (primarily structured notes), Securities sold under agreements to repurchase, Other secured financings and Long-term borrowings (primarily structured notes).

Fair Value Measurement—Definition and Hierarchy.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability that are developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2. Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy (see Note 3).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

For assets and liabilities that are transferred between Levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation Techniques.

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meet its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Company applies credit-related valuation adjustments to its short-term and long-term borrowings (primarily structured notes) for which the fair value option was elected and to OTC derivatives. The Company considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for short-term and long-term borrowings. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure, the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilized. The Company also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information, but in many instances, significant judgment is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

During 2014, the Company incorporated funding valuation adjustments ("FVA") into the fair value measurements of OTC uncollateralized or partially collateralized derivatives and in collateralized derivatives where the terms of the agreement do not permit the reuse of the collateral received. The Company's implementation of FVA reflects the inclusion of FVA in the pricing and valuations by the majority of market participants involved in its principal exit market for these instruments. In general, FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Company's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

See Note 3 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis.

Certain of the Company's assets and liabilities are measured at fair value on a non-recurring basis. The Company incurs losses or gains for any adjustments of these assets to fair value.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy for inputs as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

Valuation Process.

The Valuation Review Group ("VRG") within the Company's Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value, including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

The Company's control processes apply to financial instruments categorized in Level 1, Level 2 or Level 3 of the fair value hierarchy, unless otherwise noted. These control processes include:

Model Review. VRG, in conjunction with the Market Risk Department ("MRD") and, where appropriate, the Credit Risk Management Department, both of which report to the Chief Risk Officer, independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. All of the Company's valuation models are subject to an independent annual review.

Independent Price Verification. The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

VRG uses recently executed transactions, other observable market data such as exchange data, broker-dealer quotes, third-party pricing vendors and aggregation services for validating the fair value of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analyzing the methodology and assumptions used by the external source to generate a price and/or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments categorized within Level 3 of the fair value hierarchy, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Company's three business segments (*i.e.*, Institutional Securities, Wealth Management and Investment Management), the CFO and the Chief Risk Officer on a regular basis.

Review of New Level 3 Transactions. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions, and both FCG and MRD management must approve the fair value of the trade that is initially recognized.

For further information on financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis, see Note 3.

Offsetting of Derivative Instruments.

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

However, in certain circumstances: the Company may not have such an agreement in place; the relevant insolvency regime may not support the enforceability of the master netting agreement or collateral agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures (see Note 4).

The Company's policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases, the Company may agree for such collateral to be posted to a third-party custodian under a control agreement that enables it to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits.

For information related to offsetting of derivatives and certain collateral transactions, see Notes 4 and 6, respectively.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments for the following types of hedges: hedges of changes in fair value of assets and liabilities due to the risk being hedged (fair value hedges); and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges). These financial instruments are included within Trading assets—Derivative and other contracts or Trading liabilities—Derivative and other contracts in the consolidated statements of financial condition.

For all hedges where hedge accounting is being applied, effectiveness testing and other procedures to ensure the ongoing validity of the hedges are performed at least monthly.

Fair Value Hedges—Interest Rate Risk.

The Company's designated fair value hedges consisted primarily of interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long-term borrowings. The Company uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships. A hedging relationship is deemed effective if the fair values of the hedging instrument (derivative) and the hedged item (debt liability) change inversely within a range of 80% to 125%. The Company considers the impact of valuation adjustments related to its own credit spreads and counterparty credit spreads to determine whether they would cause the hedging relationship to be ineffective.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative and the changes in the fair value of the hedged liability provide offset of one another and, together with any resulting ineffectiveness, are recorded in Interest expense. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged liability is amortized to Interest expense over the remaining life of the liability using the effective interest method.

Net Investment Hedges.

The Company uses forward foreign exchange contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency operations. To the extent that the notional amounts of the hedging instruments equal the portion of the investments being hedged and the underlying exchange rate of the derivative hedging instrument relates to the exchange rate between the functional currency of the investee and the parent's functional currency, no hedge ineffectiveness is recognized in earnings. If these exchange rates are not the same, the Company uses regression analysis to assess the prospective and retrospective effectiveness of the hedge relationships, and any ineffectiveness is recognized in Interest income. The gain or loss from revaluing hedges of net investments in foreign operations at the spot rate is deferred and reported within Accumulated other comprehensive income (loss) ("AOCI"). The forward points on the hedging instruments are excluded from hedge effectiveness testing and are recorded in Interest income.

For further information on derivative instruments and hedging activities, see Note 4.

Transfers of Financial Assets.

Transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. Any related gain or loss on sale is recorded in Net revenues. Transfers that are not accounted for as sales are treated as a collateralized financing, in certain cases referred to as "failed sales." Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Note 6). Securities purchased under agreements to resell ("reverse repurchase agreements") and Securities sold under agreements to repurchase ("repurchase agreements") are carried on the consolidated statements of financial condition at the amounts of cash paid or received, plus accrued interest, except for certain repurchase agreements for which the Company has elected the fair value option (see Note 3). Where appropriate, repurchase agreements and reverse repurchase agreements with the same counterparty are reported on a net basis. Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received.

Premises, Equipment and Software Costs.

Premises, equipment and software costs consist of buildings, leasehold improvements, furniture, fixtures, computer and communications equipment, power generation assets, terminals, pipelines and software (externally purchased and developed for internal use). Premises, equipment and software costs are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided by the straight-line method over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings—39 years; furniture and fixtures—7 years; computer and communications equipment—3 to 9 years; power generation assets—15 to 29 years; and terminals, pipelines and equipment—3 to 30 years. Estimated useful lives for software costs are generally 3 to 10 years.

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or, where applicable, the remaining term of the lease, but generally not exceeding: 25 years for building structural improvements and 15 years for other improvements.

Premises, equipment and software costs are tested for impairment whenever events or changes in circumstances suggest that an asset's carrying value may not be fully recoverable in accordance with current accounting guidance.

Income Taxes.

The Company accounts for income tax expense (benefit) using the asset and liability method. Under this method, deferred tax assets and liabilities are recorded based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income tax expense (benefit) in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority. Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes.

Earnings per Common Share.

Basic earnings per common share ("EPS") is computed by dividing earnings available to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Earnings available to Morgan Stanley common shareholders represents net income applicable to Morgan Stanley reduced by preferred stock dividends and allocations of earnings to participating securities. Common shares outstanding include common stock and vested restricted stock units ("RSUs") where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of EPS pursuant to the two-class method. Share-based payment awards that pay dividend equivalents subject to vesting are not deemed participating securities and are included in diluted shares outstanding (if dilutive) under the treasury stock method.

The Company has granted performance-based stock units ("PSUs") that vest and convert to shares of common stock only if it satisfies predetermined performance and market goals. Since the issuance of the shares is contingent upon the satisfaction of certain conditions, the PSUs are included in diluted EPS based on the number of shares (if any) that would be issuable if the end of the reporting period was the end of the contingency period.

For the calculation of basic and diluted EPS, see Note 16.

Deferred Compensation.

Stock-Based Compensation.

The Company measures compensation cost for stock-based awards at fair value and recognizes compensation cost over the service period, net of estimated forfeitures. The Company determines the fair value of RSUs (including RSUs with non-market performance conditions) based on the grant-date fair value of its common stock, measured as the volume-weighted average price on the date of grant. RSUs with market-based conditions are valued using a Monte Carlo valuation model. The fair value of stock options is determined using the Black-Scholes valuation model and the single grant life method. Under the single grant life method, option awards with graded vesting are valued using a single weighted average expected option life.

Compensation expense for stock-based compensation awards is recognized using the graded vesting attribution method. Compensation expense for awards with performance conditions is recognized based on the probable outcome of the performance condition at each reporting date. Compensation expense for awards with market-based conditions is recognized irrespective of the probability of the market condition being achieved and is not reversed if the market condition is not met.

The Company recognizes the expense for stock-based awards over the requisite service period. These awards generally contain clawback and cancellation provisions. Certain awards provide the Company discretion to cancel all or a portion of the award under specified circumstances. Compensation expense for those awards is adjusted to fair value based on the Company's common stock price or the relevant valuation model, as appropriate, until conversion, exercise or expiration. For anticipated year-end stock-based awards granted to employees expected to be retirement-eligible under award terms that do not contain a future service requirement, the Company accrues the estimated cost of these awards over the course of the calendar year preceding the grant date. The Company believes that this method of recognition for retirement-eligible employees is preferable because it better reflects the period over which the compensation is earned.

Employee Stock Trusts.

The Company maintains and utilizes at its discretion, trusts, referred to as the "Employee stock trusts," in connection with certain stock-based compensation plans. The assets of the Employee stock trusts are consolidated and, as such, are accounted for in a manner similar to treasury stock, where the shares of common stock outstanding are offset by an equal amount in Common stock issued to employee stock trusts. The Company uses the grant-date fair value of stock-based compensation as the basis for recognition of the assets in the Employee stock trusts. Subsequent changes in the fair value are not recognized as the Company's stock-based compensation plans do not permit diversification and must be settled by the delivery of a fixed number of shares of the Company's common stock.

Deferred Cash-Based Compensation.

The Company also maintains various deferred cash-based compensation plans for the benefit of certain current and former employees that provide a return to the participating employees based upon the performance of various referenced investments. The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred cash-based compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues.

Compensation expense for deferred cash-based compensation plans is calculated based on the notional value of the award granted, adjusted for upward and downward changes in the fair value of the referenced investments. For unvested awards, the expense is recognized over the service period using the graded vesting attribution method. Changes in compensation expense resulting from changes in the fair value of the referenced investments will generally be offset by changes in the fair value of investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period. For vested awards with only notional earnings on the referenced investments, the expense is fully recognized in the current period.

Translation of Foreign Currencies.

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end rates of exchange, and amounts recognized in the income statement are translated at the rate of exchange on the respective date of recognition for each amount. Gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in AOCI, a separate component of Morgan Stanley Shareholders' equity on the consolidated statements of financial condition. Gains or losses resulting from remeasurement of foreign currency transactions are included in net income.

Goodwill and Intangible Assets.

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques the Company believes market participants would use for each of the reporting units.

The estimated fair values are generally determined by utilizing a discounted cash flow methodology or methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies.

Goodwill is not amortized and is reviewed annually (or more frequently when certain events or circumstances exist) for impairment. Other intangible assets are amortized over their estimated useful lives and reviewed for impairment. Impairment losses are recorded within Other expenses in the consolidated statements of income. There are no indefinite-lived intangible assets for years 2015 and 2014.

Investment Securities—Available for Sale and Held to Maturity.

AFS securities are reported at fair value in the consolidated statements of financial condition with unrealized gains and losses reported in AOCI, net of tax. Interest and dividend income, including amortization of premiums and accretion of discounts, is included in Interest income in the consolidated statements of income. Realized gains and losses on AFS securities are reported in the consolidated statements of income (see Note 5). The Company utilizes the "first-in, first-out" method as the basis for determining the cost of AFS securities.

Held to maturity ("HTM") securities are reported at amortized cost in the consolidated statements of financial condition. Interest income, including amortization of premiums and accretion of discounts on HTM securities, is included in Interest income in the consolidated statements of income.

Other-than-temporary impairment.

AFS debt securities and HTM securities with a current fair value less than their amortized cost are analyzed as part of the Company's periodic assessment of temporary versus other-than-temporary impairment ("OTTI") at the individual security level. A temporary impairment is recognized in AOCI. OTTI is recognized in the consolidated statements of income with the exception of the non-credit portion related to a debt security that the Company does not intend to sell and is not likely to be required to sell, which is recognized in AOCI.

For AFS debt securities that the Company either has the intent to sell or that the Company is likely to be required to sell before recovery of its amortized cost basis, the impairment is considered other-than-temporary.

For those AFS debt securities that the Company does not have the intent to sell or is not likely to be required to sell, and for all HTM securities, the Company evaluates whether it expects to recover the entire amortized cost basis of the debt security. If the Company does not expect to recover the entire amortized cost of those AFS debt securities or HTM securities, the impairment is considered other-than-temporary and the Company determines what portion of the impairment relates to a credit loss and what portion relates to non-credit factors.

A credit loss exists if the present value of cash flows expected to be collected (discounted at the implicit interest rate at acquisition of the security or discounted at the effective yield for securities that incorporate changes in prepayment assumptions) is less than the amortized cost basis of the security. Changes in prepayment assumptions alone are not considered to result in a credit loss. When determining if a credit loss exists, the Company considers relevant information including the length of time and the extent to which the fair value has been less than the amortized cost basis; adverse conditions specifically related to the security, an industry or geographic area; changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors; the historical and implied volatility of the fair value of the security; the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; failure of the issuer of the security to make scheduled interest or principal payments; any changes to the rating of the security by a rating agency; and recoveries or additional declines in fair value after the balance sheet date. When estimating the present value of expected cash flows, information includes the remaining payment terms of the security, prepayment speeds, financial condition of the issuer(s), expected defaults and the value of any underlying collateral.

For AFS equity securities, the Company considers various factors, including the intent and ability to hold the equity security for a period of time sufficient to allow for any anticipated recovery in market value in evaluating whether an OTTI exists. If the equity security is considered other-than-temporarily impaired, the entire OTTI (*i.e.*, the difference between the fair value recorded on the balance sheet and the cost basis) will be recognized in the consolidated statements of income.

Loans.

The Company accounts for loans based on the following categories: loans held for investment; loans held for sale; and loans at fair value.

Loans Held for Investment.

Loans held for investment are reported as outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs for originated loans, and any unamortized premiums or discounts for purchased loans.

Interest Income. Interest income on performing loans held for investment is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the life of the loan to produce a level rate of return.

Allowance for Loan Losses. The allowance for loan losses estimates probable losses related to loans specifically identified for impairment in addition to the probable losses inherent in the held for investment loan portfolio.

The Company utilizes the U.S. banking regulators' definition of criticized exposures, which consist of the special mention substandard, doubtful and loss categories as credit quality indicators. For further information on the credit indicators, see Note 7. Substandard loans are regularly reviewed for impairment. Factors considered by management when determining impairment include payment status, fair value of collateral, and probability of collecting scheduled principal and interest payments when due. The impairment analysis required depends on the nature and type of loans. Loans classified as Doubtful or Loss are considered impaired.

There are two components of the allowance for loan losses: the specific allowance component and the inherent allowance component.

The specific allowance component of the allowance for loan losses is used to estimate probable losses for non-homogeneous exposures that have been specifically identified for impairment analysis by the Company and determined to be impaired. When a loan is specifically identified for impairment, the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient, the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. If the present value of the expected future cash flows (or alternatively, the observable market price of the loan or the fair value of the collateral) is less than the recorded investment in the loan, then the Company recognizes an allowance and a charge to the provision for loan losses within Other revenues.

The inherent allowance component of the allowance for loan losses is used to estimate the probable losses inherent in the loan portfolio and includes non-homogeneous loans that have not been identified as impaired and portfolios of smaller balance homogeneous loans. The Company maintains methodologies by loan product for calculating an allowance for loan losses that estimates the inherent losses in the loan portfolio. Generally, inherent losses in the portfolio for non-impaired loans are estimated using statistical analysis and judgment around the exposure at default, the probability of default and the loss given default. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms and volume and severity of past due loans may also be considered in the calculations. The allowance for loan losses is maintained at a level reasonable to ensure that it can adequately absorb the estimated probable losses inherent in the portfolio. The Company recognizes an allowance and a charge to the provision for loan losses within Other revenues.

Troubled Debt Restructurings. The Company may modify the terms of certain loans for economic or legal reasons related to a borrower's financial difficulties by granting one or more concessions that the Company would not otherwise consider. Such modifications are accounted for and reported as troubled debt restructurings ("TDRs"). A loan that has been modified in a TDR is generally considered to be impaired and is evaluated for the extent of impairment using the Company's specific allowance methodology. TDRs are also generally classified as nonaccrual and may only be returned to accrual status after considering the borrower's sustained repayment performance for a reasonable period.

Nonaccrual Loans. The Company places loans on nonaccrual status if principal or interest is past due for a period of 90 days or more or payment of principal or interest is in doubt, unless the obligation is well-secured and in the process of collection. A loan is considered past due when a payment due according to the contractual terms of the loan agreement has not been remitted by the borrower. Substandard loans, if identified as impaired, are categorized as nonaccrual. Loans classified as Doubtful or Loss are categorized as nonaccrual.

Payments received on nonaccrual loans held for investment are applied to principal if there is doubt regarding the ultimate collectability of principal (*i.e*., cost recovery method). If collection of the principal of nonaccrual loans held for investment is not in doubt, interest income is recognized on a cash basis. If neither principal nor interest collection is in doubt, loans are on accrual status and interest income is recognized using the effective interest method. Loans that are on nonaccrual status may not be restored to accrual status until all delinquent principal and/or interest has been brought current after a reasonable period of performance, typically a minimum of six months.

Charge-offs. The Company charges off a loan in the period that it is deemed uncollectible and records a reduction in the allowance for loan losses and the balance of the loan. In general, any portion of the recorded investment in a collateral dependent loan (including any capitalized accrued interest, net deferred loan fees or costs and unamortized premium or discount) in excess of the fair value of the collateral that can be identified as uncollectible, and is therefore deemed a confirmed loss, is charged off against the allowance for loan losses. A loan is collateral-dependent if the repayment of the loan is expected to be provided solely by the sale or operation of the underlying collateral. In addition, for loan transfers from loans held for investment to loans held for sale, at the time of transfer, any reduction in the loan value is reflected as a charge-off of the recorded investment, resulting in a new cost basis.

Loan Commitments. The Company records the liability and related expense for the credit exposure related to commitments to fund loans that will be held for investment in a manner similar to outstanding loans disclosed above. The analysis also incorporates a credit conversion factor, which is the expected utilization of the undrawn commitment. The liability is recorded in Other liabilities and accrued expenses in the consolidated statements of financial condition, and the expense is recorded in Other non-interest expenses in the consolidated statements of income. For more information regarding loan commitments, standby letters of credit and financial guarantees, see Note 12.

Loans Held for Sale.

Loans held for sale are measured at the lower of cost or fair value, with valuation changes recorded in Other revenues. The Company determines the valuation allowance on an individual loan basis, except for residential mortgage loans for which the valuation allowance is determined at the loan product level. Any decreases in fair value below the initial carrying amount and any recoveries in fair value up to the initial carrying amount are recorded in Other revenues. However, increases in fair value above initial carrying value are not recognized.

Interest income on loans held for sale is accrued and recognized based on the contractual rate of interest. Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees and discounts or premiums are an adjustment to the basis of the loan and, therefore, are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale.

Loans held for sale are subject to the nonaccrual policies described above. Because loans held for sale are recognized at the lower of cost or fair value, the allowance for loan losses and charge-off policies does not apply to these loans.

Loans at Fair Value.

Loans for which the fair value option is elected are carried at fair value, with changes in fair value recognized in earnings. Loans carried at fair value are not evaluated for purposes of recording an allowance for loan losses. For further information on loans carried at fair value and classified as Trading assets and Trading liabilities*,* see Note 3.

For further information on loans, see Note 7.

Accounting Standards Adopted.

Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures.

In June 2014, the Financial Accounting Standards Board (the "FASB") issued an accounting update requiring repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements.

This accounting update also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. This guidance became effective for the Company beginning January 1, 2015. In addition, new disclosures are required for sales of financial assets where the Company retains substantially all the exposure throughout the term and for the collateral pledged and remaining maturity of repurchase and securities lending agreements, which were effective January 1, 2015 and April 1, 2015, respectively. The adoption of this guidance did not have a material impact on the consolidated financial statements. For further information on the adoption of this guidance, see Notes 6 and 13.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).

In May 2015, the FASB issued an accounting update that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured at net asset value ("NAV") per share, or its equivalent using the practical expedient. The Company adopted this guidance retrospectively during the second quarter of 2015, as early adoption is permitted. For further information on the adoption of this guidance, see Note 3.

3. Fair Values.

Fair Value Measurements.

Valuation Techniques for Assets and Liabilities Measured at Fair Value on a Recurring Basis.

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
Trading Assets and Trading Liabilities		
U.S. Government and Agency Securities		
U.S. Treasury Securities	Fair value is determined using quoted market prices; valuation adjustments are not applied.	• Generally Level 1
U.S. Agency Securities	Composed of three main categories consisting of: 1. Agency-issued debt - Non-callable agency-issued debt securities are generally valued using quoted market prices. - Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. 2. Agency mortgage pass-through pool securities - Fair value is model-driven based on spreads of the comparable to-be-announced security. 3. Collateralized mortgage obligations - Fair value is determined based on quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities.	• Generally Level 1—actively traded non-callable agency-issued debt securities • Generally Level 2—callable agency-issued debt securities, agency mortgage pass-through pool securities and collateralized mortgage obligations
Other Sovereign Government Obligations	Fair value is determined using quoted prices in active markets when available.	• Generally Level 1 • Level 2—if the market is less active or prices are dispersed • Level 3—in instances where the inputs are unobservable

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
Corporate and Other Debt		
State and Municipal Securities	Fair value is determined using: - recently executed transactions - market price quotations - pricing models that factor in, where applicable, interest rates, bond or CDS spreads and volatility	• Generally Level 2
Residential Mortgage-Backed Securities (“RMBS”), Commercial Mortgage-Backed Securities (“CMBS”) and other Asset-Backed Securities (“ABS”)	RMBS, CMBS and other ABS may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers. When position-specific external price data are not observable, the fair value determination may require benchmarking to similar instruments, and/or analyzing expected credit losses, default and recovery rates, and/or applying discounted cash flow techniques. In evaluating the fair value of each security, the Company considers security collateral-specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity. In addition, for RMBS borrowers, Fair Isaac Corporation (“FICO”) scores and the level of documentation for the loan are considered. Market standard models, such as Intex, Trepp or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, and default and prepayment rates for each asset category. Valuation levels of RMBS and CMBS indices are used as an additional data point for benchmarking purposes or to price outright index positions. Auction Rate Securities (“ARS”) The Company primarily holds investments in Student Loan Auction Rate Securities (“SLARS”) and Municipal Auction Rate Securities (“MARS”), which are floating rate instruments for which the rates reset through periodic auctions. SLARS are ABS backed by pools of student loans. MARS are municipal bonds often wrapped by municipal bond insurance. The fair value of ARS is primarily determined using recently executed transactions and market price quotations obtained from independent external parties such as vendors and brokers, where available. The Company uses an internally developed methodology to discount for the lack of liquidity and non-performance risk where independent external market data are not available. Inputs that impact the valuation of SLARS are: - independent external market data - recently executed transactions of comparable ARS - underlying collateral types - level of seniority in the capital structure - amount of leverage in each structure - credit rating and liquidity considerations	• Generally Level 2 • Level 3 - if external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs • Generally Level 2 - as the valuation technique relies on observable external data

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
	Inputs that impact the valuation of MARS are: - recently executed transactions - the maximum rate - quality of underlying issuers/insurers - evidence of issuer calls/prepayment SLARS and MARS are presented within ABS and State and municipal securities, respectively, in the fair value hierarchy table.	
Corporate Bonds	Fair value is determined using: - recently executed transactions - market price quotations (where observable) - bond spreads - CDS spreads - at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single name CDS spreads and recovery rates as significant inputs.	• Generally Level 2 • Level 3 - if prices, spreads or any of the other aforementioned key inputs are unobservable
Collateralized Debt Obligations (“CDO”) and Collateralized Loan Obligations (“CLO”)	The Company holds cash CDOs/CLOs that typically reference a tranche of an underlying synthetic portfolio of single name CDS spreads collateralized by corporate bonds (“credit-linked notes”) or cash portfolio of asset-backed securities/loans (“asset-backed CDOs/CLOs”). Credit correlation, a primary input used to determine the fair value of credit-linked notes, is usually unobservable and derived using a benchmarking technique. The other credit-linked note model inputs such as credit spreads, including collateral spreads, and interest rates are typically observable. Asset-backed CDOs/CLOs are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each asset-backed CDO/CLO position is evaluated independently taking into consideration available comparable market levels, underlying collateral performance and pricing, deal structures and liquidity.	• Level 2 - when either the credit correlation input is insignificant or comparable market transactions are observable • Level 3 - when either the credit correlation input is deemed to be significant or comparable market transactions are unobservable
Loans and Lending Commitments	Corporate Loans and Lending Commitments Fair value of corporate loans is determined using: - recently executed transactions - market price quotations (where observable) - implied yields from comparable debt - market observable CDS spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable	• Level 2 - if value based on observable market data for identical or comparable instruments • Level 3 - in instances where prices or significant spread inputs are unobservable

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
	The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Mortgage Loans Fair value is determined using observable prices based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, fair value is estimated based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions.	• Level 2 - if value is based on observable market data for identical or comparable instruments • Level 3 - if observable prices are not available due to the subjectivity involved in the comparability assessment related to mortgage loan vintage, geographical concentration, prepayment speed and projected loss assumptions
Corporate Equities	Exchange-Traded Equity Securities Fair value is generally determined based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied. Unlisted Equity Securities Fair value is determined based on an assessment of each underlying security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Fund Units Listed fund units are generally marked to the exchange-traded price. Listed fund units if not actively traded and unlisted fund units are generally marked to NAV.	• Level 1 - if actively traded • Level 2 or Level 3 - if not actively traded • Generally Level 3 • Level 1 - listed fund units if actively traded on an exchange • Certain fund units that are measured at fair value using the NAV per share are not classified in the fair value hierarchy.
Derivative and Other Contracts	Listed Derivative Contracts Listed derivatives that are actively traded are valued based on quoted prices from the exchange. Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives.	• Level 1 - listed derivatives that are actively traded • Level 2 - listed derivatives that are not actively traded

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
	OTC Derivative Contracts OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain CDS. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. Other derivative products, including complex products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. This includes certain types of interest rate derivatives with both volatility and correlation exposure and credit derivatives, including CDS on certain mortgage-backed or asset-backed securities and basket CDS, where direct trading activity or quotes are unobservable. Derivative interests in CDS on certain mortgage-backed or asset-backed securities, for which observability of external price data is limited, are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each position is evaluated independently taking into consideration available comparable market levels as well as a cash synthetic basis or the underlying collateral performance and pricing, behavior of the tranche under various cumulative loss and prepayment scenarios, deal structures (*e.g*., non-amortizing reference obligations, call features, etc.) and liquidity. While these factors may be supported by historical and actual external observations, the determination of their value as it relates to specific positions nevertheless requires significant judgment. For basket CDS, the correlation input between reference credits is unobservable for each specific swap or position and is benchmarked to standardized proxy baskets for which correlation data are available. The other model inputs such as credit spread, interest rates and recovery rates are observable. The Company trades various derivative structures with commodity underlyings. Depending on the type of structure,	• Generally Level 2 - OTC derivative products valued using pricing models; basket CDS if the correlation input is not deemed to be significant; commodity derivatives • Level 3 - OTC derivative products with significant unobservable inputs; basket CDS if the correlation input is deemed to be significant; commodity derivatives in instances where significant inputs are unobservable

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
	the model inputs generally include interest rate yield curves, commodity underlier price curves, implied volatility of the underlying commodities and, in some cases, the implied correlation between these inputs. The fair value of these products is determined using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and data points, based on historic and/or implied observations, are employed as a technique to estimate the model input values. For further information on the valuation techniques for OTC derivative products, see Note 2. For further information on derivative instruments and hedging activities, see Note 4.	
Investments	Investments include direct investments in equity securities as well as investments in private equity funds, real estate funds and hedge funds, which include investments made in connection with certain employee deferred compensation plans. Direct investments are presented in the fair value hierarchy table as Principal investments and Other. Initially, the transaction price is generally considered by the Company as the exit price and is its best estimate of fair value. After initial recognition, in determining the fair value of non-exchange-traded internally and externally managed funds, the Company generally considers the NAV of the fund provided by the fund manager to be the best estimate of fair value. For non-exchange-traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Exchange-traded direct equity investments are generally valued based on quoted prices from the exchange.	• Level 1 - exchange-traded direct equity investments in an active market • Level 2 - non-exchange-traded direct equity investments and investments in private equity and real estate funds if valued based on rounds of financing or third-party transactions; exchange-traded direct equity investments if not actively traded • Level 3 - non-exchange-traded direct equity investments and investments in private equity and real estate funds where rounds of financing or third-party transactions are not available Certain investments that are measured at fair value using the NAV per share are not classified in the fair value hierarchy. For additional disclosure about such investments, see “Fair Value of Investments Measured at Net Asset Value” herein.
Physical Commodities	The Company trades various physical commodities, including crude oil and refined products, natural gas, base and precious metals, and agricultural products. Fair value is determined using observable inputs, including broker quotations and published indices.	• Generally Level 2 • Level 3 - in instances where significant inputs are unobservable

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
Investment Securities		
AFS Securities	AFS securities are composed of U.S. government and agency securities (*e.g.*, U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and collateralized mortgage obligations), CMBS, Federal Family Education Loan Program ("FFELP") student loan ABS, auto loan ABS, corporate bonds, CLOs and actively traded equity securities. For further information on the determination of fair value, refer to the corresponding asset/liability valuation technique described herein. For further information on AFS securities, see Note 5.	• Generally Level 1 - actively traded U.S. Treasury securities, non-callable agency-issued debt securities and equity securities • Generally Level 2 - callable agency-issued debt securities, agency mortgage pass-through securities, collateralized mortgage obligations, CMBS, FFELP student loan ABS, auto loan ABS, corporate bonds and CLOs
Deposits	Certificates of Deposit The Company issues Federal Deposit Insurance Corporation ("FDIC") insured certificates of deposit that pay either fixed coupons or that have repayment terms linked to the performance of debt or equity securities, indices or currencies. The fair value of these certificates of deposit is determined using valuation models that incorporate observable inputs referencing identical or comparable securities, including: - prices to which the deposits are linked - interest rate yield curves - option volatility and currency rates - equity prices - the impact of the Company's own credit spreads, adjusted for the impact of the FDIC insurance, which is based on vanilla deposit issuance rates	• Generally Level 2
Short-Term Borrowings/Long-Term Borrowings	Structured Notes The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including: - prices to which the notes are linked - interest rate yield curves - option volatility and currency - commodity or equity prices Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit spreads is also included based on observed secondary bond market spreads.	• Generally Level 2
Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase	Fair value is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities.	• Generally Level 2 • Level 3 - in instances where the unobservable inputs are deemed significant

Assets and Liabilities Measured at Fair Value on a Recurring Basis.

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	Balance at December 31, 2015
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 17,658	$ —	$ —	$ —	$ 17,658
U.S. agency securities	797	17,886	—	—	18,683
Total U.S. government and agency securities	18,455	17,886	—	—	36,341
Other sovereign government obligations	13,559	7,400	4	—	20,963
Corporate and other debt:					
State and municipal securities	—	1,651	19	—	1,670
Residential mortgage-backed securities	—	1,456	341	—	1,797
Commercial mortgage-backed securities	—	1,520	72	—	1,592
Asset-backed securities	—	494	25	—	519
Corporate bonds	—	9,959	267	—	10,226
Collateralized debt and loan obligations	—	284	430	—	714
Loans and lending commitments(1)	—	4,682	5,936	—	10,618
Other debt	—	2,263	448	—	2,711
Total corporate and other debt	—	22,309	7,538	—	29,847
Corporate equities(2)	106,296	379	433	—	107,108
Derivative and other contracts:					
Interest rate contracts	406	323,586	2,052	—	326,044
Credit contracts	—	22,258	661	—	22,919
Foreign exchange contracts	55	64,608	292	—	64,955
Equity contracts	653	38,552	1,084	—	40,289
Commodity contracts	3,140	10,654	3,358	—	17,152
Other	—	219	—	—	219
Netting(3)	(3,840)	(380,443)	(3,120)	(55,562)	(442,965)
Total derivative and other contracts	414	79,434	4,327	(55,562)	28,613
Investments(4):					
Principal investments	20	44	486	—	550
Other	163	310	221	—	694
Total investments	183	354	707	—	1,244
Physical commodities	—	321	—	—	321
Total trading assets(4)	138,907	128,083	13,009	(55,562)	224,437
AFS securities	34,351	32,408	—	—	66,759
Securities received as collateral	11,221	3	1	—	11,225
Securities purchased under agreements to resell	—	806	—	—	806
Intangible assets	—	—	5	—	5
Total assets measured at fair value	$ 184,479	$ 161,300	$ 13,015	$ (55,562)	$ 303,232
Liabilities at Fair Value					
Deposits	$ —	$ 106	$ 19	$ —	$ 125
Short-term borrowings	—	1,647	1	—	1,648
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	12,932	—	—	—	12,932
U.S. agency securities	854	127	—	—	981
Total U.S. government and agency securities	13,786	127	—	—	13,913
Other sovereign government obligations	10,970	2,558	—	—	13,528
Corporate and other debt:					
Commercial mortgage-backed securities	—	2	—	—	2
Corporate bonds	—	5,035	—	—	5,035
Lending commitments	—	3	—	—	3
Other debt	—	5	4	—	9
Total corporate and other debt	—	5,045	4	—	5,049
Corporate equities(2)	47,123	35	17	—	47,175
Derivative and other contracts:					
Interest rate contracts	466	305,151	1,792	—	307,409
Credit contracts	—	22,160	1,505	—	23,665
Foreign exchange contracts	22	65,177	151	—	65,350
Equity contracts	570	42,447	3,115	—	46,132
Commodity contracts	3,012	9,431	2,308	—	14,751
Other	—	43	—	—	43
Netting(3)	(3,840)	(380,443)	(3,120)	(40,473)	(427,876)
Total derivative and other contracts	230	63,966	5,751	(40,473)	29,474
Total trading liabilities	72,109	71,731	5,772	(40,473)	109,139
Obligation to return securities received as collateral	19,312	3	1	—	19,316
Securities sold under agreements to repurchase	—	532	151	—	683
Other secured financings	—	2,393	461	—	2,854
Long-term borrowings	—	31,058	1,987	—	33,045
Total liabilities measured at fair value	$ 91,421	$ 107,470	$ 8,392	$ (40,473)	$ 166,810

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	Balance at December 31, 2014
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 16,961	$ —	$ —	$ —	$ 16,961
U.S. agency securities	850	18,193	—	—	19,043
Total U.S. government and agency securities	17,811	18,193	—	—	36,004
Other sovereign government obligations	15,149	7,888	41	—	23,078
Corporate and other debt:					
State and municipal securities	—	2,049	—	—	2,049
Residential mortgage-backed securities	—	1,991	175	—	2,166
Commercial mortgage-backed securities	—	1,484	96	—	1,580
Asset-backed securities	—	583	76	—	659
Corporate bonds	—	15,800	386	—	16,186
Collateralized debt and loan obligations	—	741	1,152	—	1,893
Loans and lending commitments(1)	—	6,088	5,874	—	11,962
Other debt	—	2,167	285	—	2,452
Total corporate and other debt	—	30,903	8,044	—	38,947
Corporate equities(2)	112,490	1,357	272	—	114,119
Derivative and other contracts:					
Interest rate contracts	663	495,026	2,484	—	498,173
Credit contracts	—	30,813	1,369	—	32,182
Foreign exchange contracts	83	72,769	249	—	73,101
Equity contracts(5)	571	45,967	1,586	—	48,124
Commodity contracts	4,105	18,042	2,268	—	24,415
Other	—	376	—	—	376
Netting(3)	(4,910)	(564,127)	(4,220)	(66,720)	(639,977)
Total derivative and other contracts	512	98,866	3,736	(66,720)	36,394
Investments(4):					
Principal investments	58	3	835	—	896
Other	225	198	323	—	746
Total investments	283	201	1,158	—	1,642
Physical commodities	—	1,608	—	—	1,608
Total trading assets(4)	146,245	159,016	13,251	(66,720)	251,792
AFS securities	37,200	32,016	—	—	69,216
Securities received as collateral	21,265	51	—	—	21,316
Securities purchased under agreements to resell	—	1,113	—	—	1,113
Intangible assets	—	—	6	—	6
Total assets measured at fair value	$ 204,710	$ 192,196	$ 13,257	$ (66,720)	$ 343,443
Liabilities at Fair Value					
Short-term borrowings	$ —	$ 1,765	$ —	$ —	$ 1,765
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	14,199	—	—	—	14,199
U.S. agency securities	1,274	85	—	—	1,359
Total U.S. government and agency securities	15,473	85	—	—	15,558
Other sovereign government obligations	11,653	2,109	—	—	13,762
Corporate and other debt:					
State and municipal securities	—	1	—	—	1
Corporate bonds	—	5,943	78	—	6,021
Lending commitments	—	10	5	—	15
Other debt	—	63	38	—	101
Total corporate and other debt	—	6,017	121	—	6,138
Corporate equities(2)	31,340	326	45	—	31,711
Derivative and other contracts:					
Interest rate contracts	602	469,319	2,657	—	472,578
Credit contracts	—	29,997	2,112	—	32,109
Foreign exchange contracts	21	72,233	98	—	72,352
Equity contracts(5)	416	51,405	3,751	—	55,572
Commodity contracts	4,817	15,584	1,122	—	21,523
Other	—	172	—	—	172
Netting(3)	(4,910)	(564,127)	(4,220)	(40,837)	(614,094)
Total derivative and other contracts	946	74,583	5,520	(40,837)	40,212
Total trading liabilities	59,412	83,120	5,686	(40,837)	107,381
Obligation to return securities received as collateral	25,629	56	—	—	25,685
Securities sold under agreements to repurchase	—	459	153	—	612
Other secured financings	—	4,355	149	—	4,504
Long-term borrowings	—	29,840	1,934	—	31,774
Total liabilities measured at fair value	$ 85,041	$ 119,595	$ 7,922	$ (40,837)	$ 171,721

[1] At December 31, 2015, Loans and lending commitments held at fair value consisted of $7,286 million of corporate loans, $1,885 million of residential real estate loans and $1,447 million of wholesale real estate loans. At December 31, 2014, Loans and lending commitments held at fair value consisted of $7,093 million of corporate loans, $1,682 million of residential real estate loans and $3,187 million of wholesale real estate loans.

[2] For trading purposes, the Company holds or sells short equity securities issued by entities in diverse industries and of varying sizes.

[3] For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Counterparty and Cash Collateral Netting." For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that shared level. For further information on derivative instruments and hedging activities, see Note 4.

[4] Amounts exclude certain investments that are measured at fair value using the NAV per share, which are not classified in the fair value hierarchy. At December 31, 2015 and December 31, 2014, the fair value of these investments was $3,843 million and $5,009 million, respectively. For additional disclosure about such investments, see "Fair Value of Investments Measured at Net Asset Value" herein.

[5] The balance of Level 3 asset derivative equity contracts increased by $57 million with a corresponding decrease in the balance of Level 2 asset derivative equity contracts, and the balance of Level 3 liability derivative equity contracts increased by $842 million with a corresponding decrease in the balance of Level 2 liability derivative equity contracts to correct the fair value level assigned to these contracts at December 31, 2014. The total amount of asset and liability derivative equity contracts remained unchanged.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis.

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for 2015, 2014 and 2013, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (*e.g.*, changes in market interest rates) and unobservable (*e.g.*, changes in unobservable long-dated volatilities) inputs.

Roll-forward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis.

	Beginning Balance at December 31, 2014	Total Realized and Unrealized Gains (Losses)(1)	Purchases (2)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2015	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2015
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 41	$ (1)	$ 2	$ (30)	$ —	$ —	$ (8)	$ 4	$ —
Corporate and other debt:									
State and municipal securities	—	2	3	—	—	—	14	19	2
Residential mortgage-backed securities	175	24	176	(83)	—	—	49	341	12
Commercial mortgage-backed securities	96	(28)	27	(23)	—	—	—	72	(32)
Asset-backed securities	76	(9)	23	(30)	—	—	(35)	25	—
Corporate bonds	386	(44)	374	(381)	—	(53)	(15)	267	(44)
Collateralized debt and loan obligations	1,152	123	325	(798)	—	(344)	(28)	430	(19)
Loans and lending commitments	5,874	(42)	3,216	(207)	—	(2,478)	(427)	5,936	(76)
Other debt	285	(23)	131	(5)	—	(81)	141	448	(9)
Total corporate and other debt	8,044	3	4,275	(1,527)	—	(2,956)	(301)	7,538	(166)
Corporate equities	272	(1)	373	(333)	—	—	122	433	11
Net derivative and other contracts(3):									
Interest rate contracts	(173)	(51)	58	—	(54)	207	273	260	20
Credit contracts	(743)	(172)	19	—	(121)	196	(23)	(844)	(179)
Foreign exchange contracts	151	53	4	—	(2)	(18)	(47)	141	52
Equity contracts(4)	(2,165)	166	81	(1)	(310)	22	176	(2,031)	62
Commodity contracts	1,146	433	35	—	(222)	(116)	(226)	1,050	402
Total net derivative and other contracts	(1,784)	429	197	(1)	(709)	291	153	(1,424)	357
Investments:									
Principal investments	835	11	32	(133)	—	(188)	(71)	486	6
Other	323	(12)	1	(6)	—	—	(85)	221	(7)
Securities received as collateral	—	—	1	—	—	—	—	1	—
Intangible assets	6	—	—	—	—	(1)	—	5	—
Liabilities at Fair Value									
Deposits	$ —	$ (1)	$ —	$ —	$ 18	$ —	$ —	$ 19	$ (1)
Short-term borrowings	—	—	—	—	1	—	—	1	—
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	78	—	(19)	6	—	(65)	—	—	—
Lending commitments	5	5	—	—	—	—	—	—	5
Other debt	38	—	(1)	7	—	(39)	(1)	4	—
Total corporate and other debt	121	5	(20)	13	—	(104)	(1)	4	5
Corporate equities	45	79	(86)	32	—	—	105	17	79
Obligation to return securities received as collateral	—	—	—	1	—	—	—	1	—
Securities sold under agreements to repurchase	153	2	—	—	—	—	—	151	2
Other secured financings	149	192	—	—	327	(232)	409	461	181
Long-term borrowings	1,934	61	—	—	881	(364)	(403)	1,987	52

	Beginning Balance at December 31, 2013	Total Realized and Unrealized Gains (Losses)(1)	Purchases (2)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2014	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2014
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 27	$ 1	$ 48	$ (34)	$ —	$ —	$ (1)	$ 41	$ —
Corporate and other debt:									
Residential mortgage-backed securities	47	9	105	(14)	—	—	28	175	4
Commercial mortgage-backed securities	108	65	16	(102)	—	—	9	96	45
Asset-backed securities	103	3	66	(96)	—	—	—	76	9
Corporate bonds	522	86	106	(306)	—	—	(22)	386	66
Collateralized debt and loan obligations	1,468	142	644	(964)	—	(143)	5	1,152	27
Loans and lending commitments	5,129	(87)	3,784	(415)	—	(2,552)	15	5,874	(191)
Other debt	27	21	274	(35)	—	(2)	—	285	20
Total corporate and other debt	7,404	239	4,995	(1,932)	—	(2,697)	35	8,044	(20)
Corporate equities	190	20	146	(102)	—	—	18	272	(3)
Net derivative and other contracts(3)(5):									
Interest rate contracts	113	(258)	18	—	(14)	(43)	11	(173)	(349)
Credit contracts	(147)	(408)	68	—	(179)	(15)	(62)	(743)	(474)
Foreign exchange contracts	68	(13)	7	—	—	108	(19)	151	(17)
Equity contracts(4)	(831)	(527)	339	(2)	(562)	(46)	(536)	(2,165)	(600)
Commodity contracts	880	158	287	—	(52)	(127)	—	1,146	72
Other	(4)	—	—	—	—	4	—	—	—
Total net derivative and other contracts	79	(1,048)	719	(2)	(807)	(119)	(606)	(1,784)	(1,368)
Investments:									
Principal investments	2,160	53	36	(181)	—	(1,258)	25	835	49
Other	538	17	17	(29)	—	—	(220)	323	24
Intangible assets	8	—	—	—	—	(2)	—	6	(1)
Liabilities at Fair Value									
Short-term borrowings	$ 1	$ —	$ —	$ —	$ —	$ (1)	$ —	$ —	$ —
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	22	1	(46)	117	—	—	(14)	78	2
Lending commitments	2	(3)	—	—	—	—	—	5	(3)
Other debt	48	7	(8)	—	—	—	5	38	(2)
Total corporate and other debt	72	5	(54)	117	—	—	(9)	121	(3)
Corporate equities	8	—	(3)	39	—	—	1	45	—
Securities sold under agreements to repurchase	154	1	—	—	—	—	—	153	1
Other secured financings	278	(9)	—	—	21	(201)	42	149	(6)
Long-term borrowings	1,887	109	—	—	791	(391)	(244)	1,934	102

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases (2)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at December 31, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at December 31, 2013
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 6	$ (18)	$ 41	$ (7)	$ —	$ —	$ 5	$ 27	$ (18)
Corporate and other debt:									
Residential mortgage-backed securities	45	25	54	(51)	—	—	(26)	47	(6)
Commercial mortgage-backed securities	232	13	57	(187)	—	(7)	—	108	4
Asset-backed securities	109	—	6	(12)	—	—	—	103	—
Corporate bonds	660	(20)	324	(371)	—	(19)	(52)	522	(55)
Collateralized debt and loan obligations	1,951	363	742	(960)	—	(626)	(2)	1,468	131
Loans and lending commitments	4,694	(130)	3,744	(448)	—	(3,096)	365	5,129	(199)
Other debt	45	(1)	20	(36)	—	—	(1)	27	(2)
Total corporate and other debt	7,736	250	4,947	(2,065)	—	(3,748)	284	7,404	(127)
Corporate equities	288	(63)	113	(127)	—	—	(21)	190	(72)
Net derivative and other contracts(3):									
Interest rate contracts	(82)	28	6	—	(34)	135	60	113	36
Credit contracts	1,822	(1,674)	266	—	(703)	(295)	437	(147)	(1,723)
Foreign exchange contracts	(359)	130	—	—	—	281	16	68	124
Equity contracts	(1,144)	463	170	(74)	(318)	(11)	83	(831)	61
Commodity contracts	709	200	41	—	(36)	(29)	(5)	880	174
Other	(7)	(6)	—	—	—	9	—	(4)	(7)
Total net derivative and other contracts	939	(859)	483	(74)	(1,091)	90	591	79	(1,335)
Investments:									
Principal investments	2,833	110	111	(445)	—	—	(449)	2,160	3
Other	486	76	13	(36)	—	—	(1)	538	77
Intangible assets	7	9	—	—	—	(8)	—	8	3
Liabilities at Fair Value									
Short-term borrowings	$ 19	$ —	$ —	$ —	$ —	$ (1)	$ (17)	$ 1	$ —
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4	4	—	—	—	—	—	—	4
Corporate bonds	177	28	(64)	43	—	—	(106)	22	28
Lending commitments	46	44	—	—	—	—	—	2	44
Other debt	49	2	—	5	—	(6)	2	48	2
Total corporate and other debt	276	78	(64)	48	—	(6)	(104)	72	78
Corporate equities	5	1	(26)	29	—	—	1	8	3
Securities sold under agreements to repurchase	151	(3)	—	—	—	—	—	154	(3)
Other secured financings	406	11	—	—	19	(136)	—	278	4
Long-term borrowings	2,789	(162)	—	—	877	(606)	(1,335)	1,887	(138)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the consolidated statements of income except for Trading assets—Investments, which is included in Investments revenues.

(2) Loan originations are included in purchases.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts, net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 4.

(4) Net liability Level 3 derivative equity contracts increased by $785 million to correct the fair value level assigned to these contracts at December 31, 2014. The total amount of derivative equity contracts remained unchanged at December 31, 2014.

(5) During 2014, the Company incurred a charge of approximately $468 million related to the implementation of FVA, which was recognized in Trading revenues. For further information on the implementation of FVA, see Note 2.

Long-term borrowings.

During 2013, the Company reclassified approximately $1.3 billion of certain long-term borrowings, primarily structured notes, from Level 3 to Level 2. The Company reclassified the structured notes as the unobservable embedded derivative component became insignificant to the overall valuation.

Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements.

The disclosures below provide information on the valuation techniques, significant unobservable inputs, and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

Recurring Level 3 Fair Value Measurements Valuation Techniques and Sensitivity of Unobservable Inputs.

	Balance at December 31, 2015	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Assets at Fair Value				
Trading assets:				
Corporate and other debt:				
Residential mortgage-backed securities	$ 341	Comparable pricing:		
		Comparable bond price / (A)	0 to 75 points	32 points
Commercial mortgage-backed securities	72	Comparable pricing:		
		Comparable bond price / (A)	0 to 9 points	2 points
Corporate bonds	267	Comparable pricing(3):		
		Comparable bond price / (A)	3 to 119 points	90 points
		Comparable pricing:		
		EBITDA multiple / (A)	7 to 9 times	8 times
		Structured bond model:		
		Discount rate / (C)	15%	15%
Collateralized debt and loan obligations	430	Comparable pricing(3):		
		Comparable bond price / (A)	47 to 103 points	67 points
		Correlation model:		
		Credit correlation / (B)	39% to 60%	49%
Loans and lending commitments	5,936	Corporate loan model:		
		Credit spread / (C)	250 to 866 bps	531 bps
		Margin loan model(3):		
		Credit spread / (C)(D)	62 to 499 bps	145 bps
		Volatility skew / (C)(D)	14% to 70%	33%
		Discount rate / (C)(D)	1% to 4%	2%
		Option model:		
		Volatility skew / (C)	-1%	-1%
		Comparable pricing:		
		Comparable loan price / (A)	35 to 100 points	88 points
		Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	6% to 8%	7%
		Capitalization rate / (C)(D)	4% to 10%	4%

	Balance at December 31, 2015	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Other debt	448	Comparable pricing:		
		Comparable loan price / (A)	4 to 84 points	59 points
		Comparable pricing:		
		Comparable bond price / (A)	8 points	8 points
		Option model:		
		At the money volatility / (C)	16% to 53%	53%
		Margin loan model(3):		
		Discount rate / (C)	1%	1%
Corporate equities	433	Comparable pricing:		
		Comparable price / (A)	50% to 80%	72%
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
		Market approach:		
		EBITDA multiple / (A)	9 times	9 times
Net derivative and other contracts(4):				
Interest rate contracts	260	Option model:		
		Interest rate volatil ty concentration liquidity multiple / (C)(D)	0 to 3 times	2 times
		Interest rate-Foreign exchange correlation / (C)(D)	25% to 62%	43% / 43%(5)
		Interest rate volatil ty skew / (A)(D)	29% to 82%	43% / 40%(5)
		Interest rate quanto correlation /(A)(D)	-8% to 36%	5% / -6%(5)
		Interest rate curve correlation / (C)(D)	24% to 95%	60% / 69%(5)
		Inflation volatility / (A)(D)	58%	58% / 58%(5)
		Interest rate-Inflation correlation / (A)(D)	-41% to -39%	-41% / -41%(5)
Credit contracts	(844)	Comparable pricing:		
		Cash synthetic basis / (C)(D)	5 to 12 points	9 points
		Comparable bond price / (C)(D)	0 to 75 points	24 points
		Correlation model(3):		
		Credit correlation / (B)	39% to 97%	57%
Foreign exchange contracts(6)	141	Option model:		
		Interest rate-Foreign exchange correlation / (C)(D)	25% to 62%	43% / 43%(5)
		Interest rate volatil ty skew / (A)(D)	29% to 82%	43% / 40%(5)
		Interest rate curve / (A)(D)	0%	0% / 0%(5)
Equity contracts(6)	(2,031)	Option model:		
		At the money volatility / (A)(D)	16% to 65%	32%
		Volatility skew / (A)(D)	-3% to 0%	-1%
		Equity-Equity correlation / (C)(D)	40% to 99%	71%
		Equity-Foreign exchange correlation / (A)(D)	-60% to -11%	-39%
		Equity-Interest rate correlation /(C)(D)	-29% to 50%	16% / 8%(5)
Commodity contracts	1,050	Option model:		
		Forward power price / (C)(D)	$3 to $91 per megawatt hour	$32 per megawatt hour
		Commodity volatility / (A)(D)	10% to 92%	18%
		Cross commodity correlation / (C)(D)	43% to 99%	93%

	Balance at December 31, 2015	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Investments:				
Principal investments	486	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	16%	16%
		Exit multiple / (A)(D)	8 to 14 times	9 times
		Capitalization rate / (C)(D)	5% to 9%	6%
		Equity discount rate / (C)(D)	20% to 35%	26%
		Market approach(3):		
		EBITDA multiple / (A)(D)	8 to 20 times	11 times
		Forward capacity price / (A)(D)	$5 to $9	$7
		Comparable pricing:		
		Comparable equity price / (A)	43% to 100%	81%
Other	221	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	10%	10%
		Exit multiple / (A)(D)	13 times	13 times
		Market approach:		
		EBITDA multiple / (A)	7 to 14 times	12 times
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
Liabilities at Fair Value				
Securities sold under agreements to repurchase	151	Discounted cash flow:		
		Funding spread / (A)	86 to 116 bps	105 bps
Other secured financings	461	Option model:		
		Volatility skew / (C)	-1%	-1%
		Discounted cash flow(3):		
		Discount rate / (C)	4% to 13%	4%
		Discounted cash flow:		
		Funding spread / (A)	95 to 113 bps	104 bps
Long-term borrowings	1,987	Option model(3):		
		At the money volatility / (C)(D)	20% to 50%	29%
		Volatility skew / (A)(D)	-1% to 0%	-1%
		Equity-Equity correlation / (A)(D)	40% to 97%	77%
		Equity-Foreign exchange correlation / (C)(D)	-70% to -11%	-39%
		Option model:		
		Interest rate volatil ty skew / (A)(D)	50%	50%
		Equity volatility discount / (A)(D)	10%	10%
		Correlation model:		
		Credit correlation / (B)	40% to 60%	52%
		Comparable pricing:		
		Comparable equity price / (A)	100%	100%

	Balance at December 31, 2014	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Assets at Fair Value Trading assets:				
Corporate and other debt:				
Residential mortgage-backed securities	$ 175	Comparable pricing:		
		Comparable bond price / (A)	3 to 90 points	15 points
Commercial mortgage-backed securities	96	Comparable pricing:		
		Comparable bond price / (A)	0 to 7 points	1 point

	Balance at December 31, 2014	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Asset-backed securities	76	Comparable pricing:		
		Comparable bond price / (A)	0 to 62 points	23 points
Corporate bonds	386	Comparable pricing:		
		Comparable bond price / (A)	1 to 160 points	90 points
Collateralized debt and loan obligations	1,152	Comparable pricing(3):		
		Comparable bond price / (A)	20 to 100 points	66 points
		Correlation model:		
		Credit correlation / (B)	47% to 65%	56%
Loans and lending commitments	5,874	Corporate loan model:		
		Credit spread / (C)	36 to 753 bps	373 bps
		Margin loan model:		
		Credit spread / (C)(D)	150 to 451 bps	216 bps
		Volatility skew / (C)(D)	3% to 37%	21%
		Discount rate / (C)(D)	2% to 3%	3%
		Option model:		
		Volatility skew / (C)	-1%	-1%
		Comparable pricing(3):		
		Comparable loan price / (A)	15 to 105 points	89 points
Other debt	285	Comparable pricing(3):		
		Comparable loan price / (A)	0 to 75 points	39 points
		Comparable pricing:		
		Comparable bond price / (A)	15 points	15 points
		Option model:		
		At the money volatility / (A)	15% to 54%	15%
Corporate equities	272	Net asset value:		
		Discount to net asset value / (C)	0% to 71%	36%
		Comparable pricing:		
		Comparable price / (A)	83% to 96%	85%
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
		Market approach:		
		EBITDA multiple / (A)(D)	6 to 9 times	8 times
		Price / Book ratio / (A)(D)	0 times	0 times
Net derivative and other contracts(4):				
Interest rate contracts	(173)	Option model:		
		Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 3 times	2 times
		Interest rate-Foreign exchange correlation / (A)(D)	28% to 62%	44% / 42%(5)
		Interest rate volatility skew / (A)(D)	38% to 104%	86% / 60%(5)
		Interest rate quanto correlation / (A)(D)	-9% to 35%	6% /-6%(5)
		Interest rate curve correlation / (A)(D)	44% to 87%	73% / 80%(5)
		Inflation volatility / (A)(D)	69% to 71%	70% / 71%(5)
		Interest rate-Inflation correlation / (A)(D)	-44% to -40%	-42% / -43%(5)
Credit contracts	(743)	Comparable pricing:		
		Cash synthetic basis / (C)(D)	5 to 13 points	9 points
		Comparable bond price / (C)(D)	0 to 55 points	18 points
		Correlation model(3):		
		Credit correlation / (B)	42% to 95%	63%

	Balance at December 31, 2014	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Foreign exchange contracts(6)	151	Option model:		
		Interest rate quanto correlation / (A)(D)	-9% to 35%	6% / - 6%(5)
		Interest rate-Credit spread correlation / (A)(D)	-54% to -2%	-17% / - 11%(5)
		Interest rate curve correlation / (A)(D)	44% to 87%	73% / 80%(5)
		Interest rate-Foreign exchange correlation / (A)(D)	28% to 62%	44% /42%(5)
		Interest rate curve / (A)(D)	0% to 2%	1% / 1 %(5)
Equity contracts(6)(7)	(2,165)	Option model:		
		At the money volatility / (A)(D)	14% to 51%	29%
		Volatility skew / (A)(D)	-2% to 0%	-1%
		Equ ty-Equ ty correlation / (C)(D)	40% to 99%	72%
		Equ ty-Foreign exchange correlation / (C)(D)	-50% to 10%	-16%
		Equ ty-Interest rate correlation / (C)(D)	-18% to 81%	26% /11%(5)
Commodity contracts	1,146	Option model:		
		Forward power price / (C)(D)	$5 to $106 per megawatt hour	$38 per megawatt hour
		Commodity volatility / (A)(D)	11% to 90%	19%
		Cross commodity correlation / (C)(D)	33% to 100%	93%
Investments:				
Principal investments	835	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	11%	11%
		Exit multiple / (A)(D)	10 times	10 times
		Discounted cash flow:		
		Equ ty discount rate / (C)	25%	25%
		Market approach(3):		
		EBITDA multiple / (A)(D)	4 to 14 times	10 times
		Price / Earnings ratio / (A)(D)	23 times	23 times
		Forward capacity price / (A)(D)	$5 to $7	$7
		Comparable pricing:		
		Comparable equity price / (A)	64% to 100%	95%
Other	323	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	10% to 13%	11%
		Exit multiple / (A)(D)	6 to 9 times	9 times
		Market approach:		
		EBITDA multiple / (A)(D)	9 to 13 times	10 times
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
Liabilities at Fair Value				
Trading liabilities:				
Corporate and other debt:				
Corporate bonds	$ 78	Option model:		
		Volatility skew / (C)(D)	-1%	-1%
		At the money volatility / (C)(D)	10%	10%
Securities sold under agreements to repurchase	153	Discounted cash flow:		
		Funding spread / (A)	75 to 91 bps	86 bps
Other secured financings	149	Comparable pricing:		
		Comparable bond price / (A)	99 to 101 points	100 points
		Discounted cash flow(3):		
		Funding spread / (A)	82 to 98 bps	95 bps

	Balance at December 31, 2014	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
	(dollars in millions)			
Long-term borrowings	1,934	Option model(3):		
		At the money volatility / (C)(D)	18% to 32%	27%
		Volatility skew / (A)(D)	-1% to 0%	0%
		Equ ty - Equity correlation / (A)(D)	40% to 90%	68%
		Equ ty - Foreign exchange correlation / (C)(D)	-73% to 30%	-32%
		Option model:		
		Equ ty alpha / (A)	0% to 94%	67%
		Correlation model:		
		Credit correlation / (B)	48% to 65%	51%

bps—Basis points.

EBITDA—Earnings before interest, taxes, depreciation and amortization.

(1) The range of significant unobservable inputs is represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 75 points would be 75% of par. A basis point equals 1/100th of 1%; for example, 866 bps would equal 8.66%.

(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 5 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for collateralized debt and loan obligations, principal investments, other debt, corporate bonds, long-term borrowings and derivative instruments where some or all inputs are weighted by risk.

(3) This is the predominant valuation technique for this major asset or liability class.

(4) Credit valuation adjustments (“CVA”) and FVA are included in the balance but excluded from the Valuation Technique(s) and Significant Unobservable Input(s) in the table above. CVA is a Level 3 input when the underlying counterparty credit curve is unobservable. FVA is a Level 3 input in its entirety given the lack of observability of funding spreads in the principal market.

(5) The data structure of the significant unobservable inputs used in valuing interest rate contracts, foreign exchange contracts and certain equity contracts may be in a multi-dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.

(6) Includes derivative contracts with multiple risks (*i.e.,* hybrid products).

(7) Net liability Level 3 derivative equity contracts increased by $785 million to correct the fair value level assigned to these contracts at December 31, 2014. This correction did not result in a change to the Valuation Technique(s), Significant Unobservable Inputs, Range or Averages.

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

The following provides a description of significant unobservable inputs included in the December 31, 2015 and December 31, 2014 tables above for all major categories of assets and liabilities:

- *Capitalization rate*—the ratio between net operating income produced by an asset and its market value at the projected disposition date.

- *Cash synthetic basis*—the measure of the price differential between cash financial instruments and their synthetic derivative-based equivalents. The range disclosed in the table above signifies the number of points by which the synthetic bond equivalent price is higher than the quoted price of the underlying cash bonds.

- *Comparable bond price*—a pricing input used when prices for the identical instrument are not available. Significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable bond, then adjusting that yield (or spread) to derive a value for the bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality.

Alternatively, a price-to-price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond. Additionally, as the probability of default increases for a given bond (*i.e.*, as the bond becomes more distressed), the valuation of that bond will increasingly reflect its expected recovery level assuming default. The decision to use price-to-price or yield/spread comparisons largely reflects trading market convention for the financial instruments in question. Price-to-price comparisons are primarily employed for RMBS, CMBS, ABS, CDOs, CLOs, Other debt, interest rate contracts, foreign exchange contracts, Other secured financings and distressed corporate bonds. Implied yield (or spread over a liquid benchmark) is utilized predominately for non-distressed corporate bonds, loans and credit contracts.

- *Comparable equity price*—a price derived from equity raises, share buybacks and external bid levels, etc. A discount or premium may be included in the fair value estimate.

- *Correlation*—a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (*i.e.*, how the change in one variable influences a change in the other variable). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.

- *Credit spread*—the difference in yield between different securities due to differences in credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate, typically either U.S. Treasury or London Interbank Offered Rate (“LIBOR”).

- *EBITDA multiple / Exit multiple*—the ratio of the Enterprise Value to EBITDA, where the Enterprise Value is the aggregate value of equity and debt minus cash and cash equivalents. The EBITDA multiple reflects the value of the company in terms of its full-year EBITDA, whereas the exit multiple reflects the value of the company in terms of its full-year expected EBITDA at exit. Either multiple allows comparison between companies from an operational perspective as the effect of capital structure, taxation and depreciation/amortization is excluded.

- *Equity alpha*—a parameter used in the modeling of equity hybrid prices.

- *Funding spread*—the difference between the general collateral rate (which refers to the rate applicable to a broad class of U.S. Treasury issuances) and the specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral, such as a municipal bond). Repurchase agreements and certain other secured financings are discounted based on collateral curves. The curves are constructed as spreads over the corresponding overnight indexed swap (“OIS”) or LIBOR curves, with the short end of the curve representing spreads over the corresponding OIS curves and the long end of the curve representing spreads over LIBOR.

- *Implied weighted average cost of capital (“WACC”)*—the WACC implied by the current value of equity in a discounted cash flow model. The model assumes that the cash flow assumptions, including projections, are fully reflected in the current equity value, while the debt to equity ratio is held constant. The WACC theoretically represents the required rate of return to debt and equity investors.

- *Interest rate curve*—the term structure of interest rates (relationship between interest rates and the time to maturity) and a market’s measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate and foreign exchange derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.

- *Price / Book ratio*—the ratio used to compare a stock’s market value with its book value. The ratio is calculated by dividing the current closing price of the stock by the latest book value per share. This multiple allows comparison between companies from an operational perspective.

- *Price / Earnings ratio*—the ratio used to measure a company's equity value in relation to its earnings. The ratio is calculated by dividing the equity value per share by the latest historical or forward-looking earnings per share. The ratio results in a standardized metric that allows comparison between companies, after also considering the effects of different leverage ratios and taxation rates.

- *Volatility*—the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options, and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (*e.g.*, the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.

- *Volatility skew*—the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.

Fair Value of Investments Measured at Net Asset Value.

Investments in Certain Funds Measured at NAV per Share.

	At December 31, 2015		At December 31, 2014	
	Fair Value	Commitment	Fair Value	Commitment
	(dollars in millions)			
Private equity funds	$ 1,917	$ 538	$ 2,569	$ 613
Real estate funds	1,337	128	1,753	112
Hedge funds(1):				
Long-short equity hedge funds	422	—	433	—
Fixed income/credit-related hedge funds	71	—	76	—
Event-driven hedge funds	2	—	39	—
Multi-strategy hedge funds	94	4	139	3
Total	$ 3,843	$ 670	$ 5,009	$ 728

(1) Fixed income/credit-related hedge funds, event-driven hedge funds and multi-strategy hedge funds are redeemable at least on a three-month period basis, primarily with a notice period of 90 days or less. At December 31, 2015, approximately 34% of the fair value amount of long-short equity hedge funds was redeemable at least quarterly, 51% is redeemable every six months and 15% of these funds have a redemption frequency of greater than six months. At December 31, 2014, approximately 36% of the fair value amount of long-short equity hedge funds was redeemable at least quarterly, 47% is redeemable every six months and 17% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at December 31, 2015 and December 31, 2014 was primarily greater than six months.

Private Equity Funds and Real Estate Funds.

Private Equity Funds. Amount includes several private equity funds that pursue multiple strategies, including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments and mezzanine capital. In addition, the funds may be structured with a focus on specific domestic or foreign geographic regions.

Real Estate Funds. Amount includes several real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions.

Investments in these funds generally are not redeemable due to the closed-ended nature of these funds. Instead, distributions from each fund will be received as the underlying investments of the funds are disposed and monetized.

Fair Value of Certain Funds Estimated to Be Liquidated Over Time.

	At December 31, 2015			
Fund Type	Less than 5 years	5-10 years	Over 10 years	Total
	(dollars in millions)			
Private equity funds	$ 142	$ 1,095	$ 680	$ 1,917
Real estate funds	128	753	456	1,337

Hedge Funds.

Investments in hedge funds may be subject to initial period lock-up restrictions or gates. A hedge fund lock-up provision is a provision that provides that, during a certain initial period, an investor may not make a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

Long-Short Equity Hedge Funds. Amount includes investments in hedge funds that invest, long or short, in equities. Equity value and growth hedge funds purchase stocks perceived to be undervalued and sell stocks perceived to be overvalued.

Fixed Income / Credit-Related Hedge Funds. Amount includes investments in hedge funds that employ long-short, distressed or relative value strategies in order to benefit from investments in undervalued or overvalued securities that are primarily debt or credit related.

Event-Driven Hedge Funds. Amount includes investments in hedge funds that invest in event-driven situations such as mergers, hostile takeovers, reorganizations or leveraged buyouts. This may involve the simultaneous purchase of stock in companies being acquired and the sale of stock in its acquirer, with the expectation to profit from the spread between the current market price and the ultimate purchase price of the target company.

Multi-strategy Hedge Funds. Amount includes investments in hedge funds that pursue multiple strategies to realize short- and long-term gains. Management of the hedge funds has the ability to overweight or underweight different strategies to best capitalize on current investment opportunities.

Lock-up Restrictions and Gates by Hedge Fund Type.

	At December 31, 2015
Hedge Fund Type	Fair Value
	(dollars in millions)
Long-short equity(1)	$ 422
Fixed income/credit-related(2)	71
Event-driven	2
Multi-strategy(3)(4)	94

[1] Investments representing approximately 12% of the fair value of investments cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at December 31, 2015.

[2] Investments representing approximately 80% of the fair value of investments cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at December 31, 2015.

[3] Investments representing approximately 16% of the fair value of investments cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period subject to lock-up restrictions was primarily over three years at December 31, 2015.

[4] Investments representing approximately 3% of the fair value of investments cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at December 31, 2015.

Fair Value Option.

The Company elected the fair value option for certain eligible instruments that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models.

Impact on Earnings of Transactions Under the Fair Value Option Election.

	Trading Revenues	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
2015			
Securities purchased under agreements to resell	$ (6)	$ 10	$ 4
Short-term borrowings(1)	63	—	63
Securities sold under agreements to repurchase	13	(6)	7
Long-term borrowings(1)	2,404	(528)	1,876
2014			
Securities purchased under agreements to resell	$ (4)	$ 9	$ 5
Short-term borrowings(1)	(136)	1	(135)
Securities sold under agreements to repurchase	(5)	(6)	(11)
Long-term borrowings(1)	1,867	(638)	1,229
2013			
Securities purchased under agreements to resell	$ (1)	$ 6	$ 5
Deposits	52	(60)	(8)
Short-term borrowings(1)	181	(8)	173
Securities sold under agreements to repurchase	(3)	(6)	(9)
Long-term borrowings(1)	664	(971)	(307)

[1] Of the total gains (losses) recorded in Trading revenues for short-term and long-term borrowings for 2015, 2014 and 2013, $618 million, $651 million and $(681) million, respectively, are attributable to changes in the credit quality of the Company and other credit factors, and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for structured notes before the impact of related hedges.

In addition to the amounts in the above table, as discussed in Note 2, instruments within Trading assets or Trading liabilities are measured at fair value. The amounts in the above table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any.

Short-Term and Long-Term Borrowings Measured at Fair Value on a Recurring Basis.

Business Unit Responsible for Risk Management	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Equity	$ 17,789	$ 17,253
Interest rates	14,255	13,545
Credit and foreign exchange	2,266	2,105
Commodities	383	636
Total	$ 34,693	$ 33,539

Gains (Losses) due to Changes in Instrument-Specific Credit Risk.

	2015	2014	2013
		(dollars in millions)	
Short-term and long-term borrowings(1)	$ 618	$ 651	$ (681)
Loans and other debt(2)	(193)	179	137
Lending commitments(3)	12	30	255

[1] The change in the fair value of short-term and long-term borrowings (primarily structured notes) includes an adjustment to reflect the change in credit quality of the Company based upon observations of its secondary bond market spreads and changes in other credit factors.

(2) Loans and other debt instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.

(3) Gains (losses) on lending commitments were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period-end.

Net Difference of Contractual Principal Amount Over Fair Value.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Loans and other debt(1)	$ 14,095	$ 14,990
Loans 90 or more days past due and/or on nonaccrual status(1)(2)	11,651	12,916
Short-term and long-term borrowings(3)	508	(670)

(1) The majority of the difference between principal and fair value amounts for loans and other debt emanates from the distressed debt trading business, which purchases distressed debt at amounts well below par.

(2) The aggregate fair value of loans that were in nonaccrual status, which includes all loans 90 or more days past due, was $1,853 million and $1,367 million at December 31, 2015 and December 31, 2014, respectively. The aggregate fair value of loans that were 90 or more days past due was $885 million and $643 million at December 31, 2015 and December 31, 2014, respectively.

(3) Short-term and long-term borrowings do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.

The tables above exclude non-recourse debt from consolidated VIEs, liabilities related to failed sales of financial assets, pledged commodities and other liabilities that have specified assets attributable to them.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis.

Certain assets and liabilities were measured at fair value on a non-recurring basis and are not included in the tables above.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis.

	Carrying Value at December 31, 2015	Fair Value Measurements Using:			Total Gains (Losses) for 2015(1)
		Level 1	Level 2	Level 3	
	(dollars in millions)				
Assets:					
Loans(2)	$ 5,850	$ —	$ 3,400	$ 2,450	$ (220)
Other investments(3)	—	—	—	—	(3)
Premises, equipment and software costs(4)	—	—	—	—	(44)
Other assets(4)	31	—	31	—	(22)
Total assets	$ 5,881	$ —	$ 3,431	$ 2,450	$ (289)
Liabilities:					
Other liabilities and accrued expenses(2)	$ 476	$ —	$ 418	$ 58	$ (207)
Total liabilities	$ 476	$ —	$ 418	$ 58	$ (207)

	Carrying Value at December 31, 2014	Fair Value Measurements Using:			Total Gains (Losses) for 2014(1)
		Level 1	Level 2	Level 3	
			(dollars in millions)		
Assets:					
Loans(2)	$ 3,336	$ —	$ 2,386	$ 950	$ (165)
Other investments(3)	46	—	—	46	(38)
Premises, equipment and software costs(4)	—	—	—	—	(58)
Intangible assets(3)	46	—	—	46	(6)
Other assets(4)	—	—	—	—	(9)
Total assets	$ 3,428	$ —	$ 2,386	$ 1,042	$ (276)
Liabilities:					
Other liabilities and accrued expenses(2)	$ 219	$ —	$ 178	$ 41	$ (165)
Total liabilities	$ 219	$ —	$ 178	$ 41	$ (165)

	Carrying Value at December 31, 2013	Fair Value Measurements Using:			Total Gains (Losses) for 2013(1)
		Level 1	Level 2	Level 3	
			(dollars in millions)		
Loans(2)	$ 1,822	$ —	$ 1,616	$ 206	$ (71)
Other investments(3)	46	—	—	46	(38)
Premises, equipment and software costs(4)	8	—	—	8	(133)
Intangible assets(3)	92	—	—	92	(44)
Total assets	$ 1,968	$ —	$ 1,616	$ 352	$ (286)

(1) Changes in the fair value of Loans and losses related to Other investments are recorded within Other revenues in the consolidated statements of income. Losses related to Premises, equipment and software costs, Intangible assets and Other assets are recorded within Other expenses if not held for sale and within Other revenues if held for sale. Losses related to Other liabilities and accrued expenses are recorded within Other revenues and represent non-recurring fair value adjustments for certain lending commitments designated as held for sale.

(2) Non-recurring changes in the fair value of loans and lending commitments held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.

(3) Losses related to Other investments and Intangible assets were determined primarily using discounted cash flow models and methodologies that incorporate multiples of certain comparable companies.

(4) Losses related to Premises, equipment and software costs and Other assets were determined primarily using a default recovery analysis.

There were no significant liabilities measured at fair value on a non-recurring basis during 2013.

Financial Instruments Not Measured at Fair Value.

Valuation Techniques for Assets and Liabilities Not Measured at Fair Value.

Asset/Liability	Valuation Technique
The following longer dated instruments: -Securities purchased under agreements to resell -Securities borrowed -Securities sold under agreements to repurchase -Securities loaned -Other secured financings	Fair value is determined using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks and interest rate yield curves.
HTM securities	Fair value is determined using quoted market prices.
Loans	The fair value of consumer and residential real estate loans and lending commitments where position-specific external price data are not observable is determined based on the credit risks of the borrower using a probability of default and loss given default method, discounted at the estimated external cost of funding level. The fair value of corporate loans and lending commitments is determined using the following: -recently executed transactions -market price quotations (where observable) -implied yields from comparable debt -market observable credit default swap spread levels along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable
Long-term borrowings	The fair value is generally determined based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, fair value is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturity.

The carrying values of the remaining assets and liabilities not measured at fair value in the tables below approximate fair value due to their short-term nature.

Financial Instruments Not Measured at Fair Value.

The tables below exclude certain financial instruments such as equity method investments and all non-financial assets and liabilities such as the value of the long-term relationships with our deposit customers.

	At December 31, 2015		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 19,827	$ 19,827	$ 19,827	$ —	$ —
Interest bearing deposits with banks	34,256	34,256	34,256	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	31,469	31,469	31,469	—	—
Investment securities—HTM securities	5,224	5,188	998	4,190	—
Securities purchased under agreements to resell	86,851	86,837	—	86,186	651
Securities borrowed	142,416	142,414	—	142,266	148
Customer and other receivables(1)	41,676	41,576	—	36,752	4,824
Loans(2)	85,759	86,423	—	19,241	67,182

	At December 31, 2015		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(dollars in millions)				
Financial Liabilities:					
Deposits	$ 155,909	$ 156,163	$ —	$ 156,163	$ —
Short-term borrowings	525	525	—	525	—
Securities sold under agreements to repurchase	36,009	36,060	—	34,150	1,910
Securities loaned	19,358	19,382	—	19,192	190
Other secured financings	6,610	6,610	—	5,333	1,277
Customer and other payables(1)	183,895	183,895	—	183,895	—
Long-term borrowings	120,723	123,219	—	123,219	—

	At December 31, 2014		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(dollars in millions)				
Financial Assets:					
Cash and due from banks	$ 21,381	$ 21,381	$ 21,381	$ —	$ —
Interest bearing deposits with banks	25,603	25,603	25,603	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	40,607	40,607	40,607	—	—
Investment securities—HTM securities	100	100	100	—	—
Securities purchased under agreements to resell	82,175	82,165	—	81,981	184
Securities borrowed	136,708	136,708	—	136,696	12
Customer and other receivables(1)	45,116	45,028	—	39,945	5,083
Loans(2)	66,577	67,800	—	18,212	49,588
Financial Liabilities:					
Deposits	$ 133,544	$ 133,572	$ —	$ 133,572	$ —
Short-term borrowings	496	496	—	496	—
Securities sold under agreements to repurchase	69,337	69,433	—	63,921	5,512
Securities loaned	25,219	25,244	—	24,740	504
Other secured financings	7,581	7,881	—	5,465	2,416
Customer and other payables(1)	178,373	178,373	—	178,373	—
Long-term borrowings	120,998	124,961	—	124,150	811

(1) Accrued interest, fees, and dividend receivables and payables where carrying value approximates fair value have been excluded.

(2) Amounts include all loans measured at fair value on a non-recurring basis.

As of December 31, 2015 and December 31, 2014, notional amounts of approximately $99.5 billion and $86.8 billion, respectively, of the Company's lending commitments were held for investment and held for sale, which are not included in the above table. The estimated fair value of such lending commitments was a liability of $2,172 million and $1,178 million, respectively, as of December 31, 2015 and December 31, 2014. Had these commitments been accounted for at fair value, $1,791 million would have been categorized in Level 2 and $381 million in Level 3 as of December 31, 2015, and $928 million would have been categorized in Level 2 and $250 million in Level 3 as of December 31, 2014.

4. Derivative Instruments and Hedging Activities.

The Company trades and makes markets globally in listed futures, 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 indices, asset-backed security indices, property indices, mortgage-related and other asset-backed securities, and real estate loan products. The Company uses these instruments for market-making, foreign currency exposure management, and asset and liability management.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options).

The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis.

Fair Value and Notional of Derivative Instruments.

Fair Value and Notional of Derivative Assets and Liabilities.

Derivative Assets at December 31, 2015

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
				(dollars in millions)				
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 2,825	$ 1,442	$ —	$ 4,267	$ 36,999	$ 35,362	$ —	$ 72,361
Foreign exchange contracts	166	1	—	167	5,996	167	—	6,163
Total derivatives designated as accounting hedges	2,991	1,443	—	4,434	42,995	35,529	—	78,524
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	220,289	101,276	212	321,777	4,348,002	5,748,525	1,218,645	11,315,172
Credit contracts	19,310	3,609	—	22,919	585,731	139,301	—	725,032
Foreign exchange contracts	64,438	295	55	64,788	1,907,290	13,402	7,715	1,928,407
Equity contracts	20,212	—	20,077	40,289	316,770	—	229,859	546,629
Commodity contracts	13,114	—	4,038	17,152	67,449	—	82,313	149,762
Other	219	—	—	219	5,684	—	—	5,684
Total derivatives not designated as accounting hedges	337,582	105,180	24,382	467,144	7,230,926	5,901,228	1,538,532	14,670,686
Total derivatives	$ 340,573	$ 106,623	$ 24,382	$ 471,578	$ 7,273,921	$ 5,936,757	$ 1,538,532	$ 14,749,210
Cash collateral netting	(50,335)	(1,037)	—	(51,372)	—	—	—	—
Counterparty netting	(265,707)	(104,294)	(21,592)	(391,593)	—	—	—	—
Total derivative assets	$ 24,531	$ 1,292	$ 2,790	$ 28,613	$ 7,273,921	$ 5,936,757	$ 1,538,532	$ 14,749,210

Derivative Liabilities at December 31, 2015

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
				(dollars in millions)				
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 20	$ 250	$ —	$ 270	$ 3,560	$ 9,869	$ —	$ 13,429
Foreign exchange contracts	56	6	—	62	4,604	455	—	5,059
Total derivatives designated as accounting hedges	76	256	—	332	8,164	10,324	—	18,488
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	203,004	103,852	283	307,139	4,030,039	5,682,322	1,077,710	10,790,071
Credit contracts	19,942	3,723	—	23,665	562,027	131,388	—	693,415
Foreign exchange contracts	65,034	232	22	65,288	1,868,015	13,322	2,655	1,883,992
Equity contracts	25,708	—	20,424	46,132	332,734	—	229,266	562,000
Commodity contracts	10,864	—	3,887	14,751	59,169	—	62,974	122,143
Other	43	—	—	43	4,114	—	—	4,114
Total derivatives not designated as accounting hedges	324,595	107,807	24,616	457,018	6,856,098	5,827,032	1,372,605	14,055,735
Total derivatives	$ 324,671	$ 108,063	$ 24,616	$ 457,350	$6,864,262	$ 5,837,356	$ 1,372,605	$ 14,074,223
Cash collateral netting	(33,332)	(2,951)	—	(36,283)	—	—	—	—
Counterparty netting	(265,707)	(104,294)	(21,592)	(391,593)	—	—	—	—
Total derivative liabilities	$ 25,632	$ 818	$ 3,024	$ 29,474	$ 6,864,262	$ 5,837,356	$ 1,372,605	$ 14,074,223

	Derivative Assets at December 31, 2014							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 3,947	$ 1,053	$ —	$ 5,000	$ 44,324	$ 27,692	$ —	$ 72,016
Foreign exchange contracts	498	6	—	504	9,362	261	—	9,623
Total derivatives designated as accounting hedges	4,445	1,059	—	5,504	53,686	27,953	—	81,639
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	281,214	211,552	407	493,173	4,854,953	9,187,454	1,467,056	15,509,463
Credit contracts	27,776	4,406	—	32,182	806,441	167,390	—	973,831
Foreign exchange contracts	72,362	152	83	72,597	1,955,343	11,538	9,663	1,976,544
Equity contracts	23,208	—	24,916	48,124	299,363	—	271,164	570,527
Commodity contracts	17,698	—	6,717	24,415	115,792	—	156,440	272,232
Other	376	—	—	376	5,179	—	—	5,179
Total derivatives not designated as accounting hedges	422,634	216,110	32,123	670,867	8,037,071	9,366,382	1,904,323	19,307,776
Total derivatives	$ 427,079	$ 217,169	$ 32,123	$ 676,371	$ 8,090,757	$ 9,394,335	$ 1,904,323	$ 19,389,415
Cash collateral netting	(58,541)	(4,654)	—	(63,195)	—	—	—	—
Counterparty netting	(338,041)	(210,922)	(27,819)	(576,782)	—	—	—	—
Total derivative assets	$ 30,497	$ 1,593	$ 4,304	$ 36,394	$ 8,090,757	$ 9,394,335	$ 1,904,323	$ 19,389,415

	Derivative Liabilities at December 31, 2014							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 125	$ 99	$ —	$ 224	$ 2,024	$ 7,588	$ —	$ 9,612
Foreign exchange contracts	5	1	—	6	1,491	121	—	1,612
Total derivatives designated as accounting hedges	130	100	—	230	3,515	7,709	—	11,224
Derivatives not designated as accounting hedges(2):								
Interest rate contracts	264,579	207,482	293	472,354	4,615,886	9,138,417	1,714,021	15,468,324
Credit contracts	28,165	3,944	—	32,109	714,181	154,054	—	868,235
Foreign exchange contracts	72,156	169	21	72,346	1,947,178	11,477	1,761	1,960,416
Equity contracts	30,061	—	25,511	55,572	339,884	—	302,205	642,089
Commodity contracts	14,740	—	6,783	21,523	93,019	—	132,136	225,155
Other	172	—	—	172	5,478	—	—	5,478
Total derivatives not designated as accounting hedges	409,873	211,595	32,608	654,076	7,715,626	9,303,948	2,150,123	19,169,697
Total derivatives	$ 410,003	$ 211,695	$ 32,608	$ 654,306	$ 7,719,141	$ 9,311,657	$ 2,150,123	$ 19,180,921
Cash collateral netting	(37,054)	(258)	—	(37,312)	—	—	—	—
Counterparty netting	(338,041)	(210,922)	(27,819)	(576,782)	—	—	—	—
Total derivative liabilities	$ 34,908	$ 515	$ 4,789	$ 40,212	$ 7,719,141	$ 9,311,657	$ 2,150,123	$ 19,180,921

[1] Notional amounts include gross notionals related to open long and short futures contracts of $1,009.5 billion and $653.0 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $1,145 million and $437 million is included in Customer and other receivables and Customer and other payables, respectively, in the consolidated statements of financial condition.

[2] Notional amounts include gross notionals related to open long and short futures contracts of $685.3 billion and $1,122.3 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $472 million and $21 million is included in Customer and other receivables and Customer and other payables, respectively, in the consolidated statements of financial condition.

Offsetting of Derivative Instruments.

Offsetting of Derivative Instruments and Related Collateral.

	At December 31, 2015					
				Amounts Not Offset in the Consolidated Statements of Financial Condition(2)		
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 340,573	$ (316,042)	$ 24,531	$ (9,190)	$ (9)	$ 15,332
Cleared OTC	106,623	(105,331)	1,292	—	—	1,292
Exchange traded	24,382	(21,592)	2,790	—	—	2,790
Total derivative assets	$ 471,578	$ (442,965)	$ 28,613	$ (9,190)	$ (9)	$ 19,414
Derivative liabilities						
Bilateral OTC	$ 324,671	$ (299,039)	$ 25,632	$ (5,384)	$ (5)	$ 20,243
Cleared OTC	108,063	(107,245)	818	—	—	818
Exchange traded	24,616	(21,592)	3,024	(405)	—	2,619
Total derivative liabilities	$ 457,350	$ (427,876)	$ 29,474	$ (5,789)	$ (5)	$ 23,680

	At December 31, 2014					
				Amounts Not Offset in the Consolidated Statements of Financial Condition(2)		
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 427,079	$ (396,582)	$ 30,497	$ (9,844)	$ (19)	$ 20,634
Cleared OTC	217,169	(215,576)	1,593	—	—	1,593
Exchange traded	32,123	(27,819)	4,304	—	—	4,304
Total derivative assets	$ 676,371	$ (639,977)	$ 36,394	$ (9,844)	$ (19)	$ 26,531
Derivative liabilities						
Bilateral OTC	$ 410,003	$ (375,095)	$ 34,908	$ (11,192)	$ (179)	$ 23,537
Cleared OTC	211,695	(211,180)	515	—	(6)	509
Exchange traded	32,608	(27,819)	4,789	(726)	—	4,063
Total derivative liabilities	$ 654,306	$ (614,094)	$ 40,212	$ (11,918)	$ (185)	$ 28,109

(1) Amounts include $4.2 billion of derivative assets and $5.2 billion of derivative liabilities at December 31, 2015 and $6.5 billion of derivative assets and $6.9 billion of derivative liabilities at December 31, 2014, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also "Fair Value and Notional of Derivative Instruments" herein, for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

(2) Amounts relate to master netting agreements and collateral agreements, that have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

For information related to offsetting of certain collateralized transactions, see Note 6.

At December 31, 2015, cash collateral payables of $86 million and at December 31, 2014, cash collateral receivables and payables of $21 million and $30 million, respectively, were not offset against certain contracts that did not meet the definition of a derivative.

Gains (Losses) on Fair Value Hedges.

Product Type	Gains (Losses) Recognized in Interest Expense 2015	2014	2013
	(dollars in millions)		
Derivatives	$ (700)	$ 1,462	$ (4,332)
Borrowings	461	(1,616)	4,335
Total	$ (239)	$ (154)	$ 3

Gains (Losses) on Derivatives Designated as Net Investment Hedges.

Product Type	Gains (Losses) Recognized in Other Comprehensive Income (effective portion) 2015	2014	2013
	(dollars in millions)		
Foreign exchange contracts(1)	$434	$606	$448

(1) Losses of $149 million, $186 million and $154 million related to the forward points on the hedging instruments were excluded from hedge effectiveness testing and recognized in Interest income during 2015, 2014 and 2013, respectively.

Gains (Losses) on Trading Instruments.

The table below summarizes gains and losses included in Trading revenues in the consolidated statements of income from trading activities. These activities include revenues related to derivative and non-derivative financial instruments. The Company generally utilizes financial instruments across a variety of product types in connection with their market-making and related risk management strategies. Accordingly, the trading revenues presented below are not representative of the manner in which the Company manages its business activities and are prepared in a manner similar to the presentation of trading revenues for regulatory reporting purposes.

Product Type	Gains (Losses) Recognized in Trading Revenues 2015	2014	2013
	(dollars in millions)		
Interest rate contracts	$ 1,249	$ 1,065	$ 820
Foreign exchange contracts	984	729	963
Equity security and index contracts(1)	5,695	4,603	5,044
Commodity and other contracts(2)	793	1,055	688
Credit contracts	775	1,274	2,525
Subtotal	$ 9,496	$ 8,726	$ 10,040
Debt valuation adjustment	618	651	(681)
Total	$ 10,114	$ 9,377	$ 9,359

(1) Dividend income is included within equity security and index contracts.

(2) Other contracts represent contracts not reported as interest rate, foreign exchange, equity security and index or credit contracts.

OTC Derivative Products—Trading Assets.

Counterparty Credit Rating and Remaining Contract Maturity of the Fair Value of OTC Derivative Assets.

	At December 31, 2015(1)						
	Years to Maturity				Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-cash Collateral	Net Exposure Post-collateral(4)
Credit Rating(2)	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA	$ 203	$ 453	$ 827	$ 3,665	$ (4,319)	$ 829	$ 715
AA	2,689	2,000	1,876	9,223	(10,981)	4,807	2,361
A	9,748	8,191	4,774	20,918	(34,916)	8,715	5,448
BBB	3,614	4,863	1,948	11,801	(15,086)	7,140	4,934
Non-investment grade	3,982	2,333	1,157	3,567	(6,716)	4,323	3,166
Total	$ 20,236	$ 17,840	$ 10,582	$ 49,174	$ (72,018)	$ 25,814	$ 16,624

	At December 31, 2014(1)						
	Years to Maturity				Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-cash Collateral	Net Exposure Post-collateral(4)
Credit Rating(2)	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA	$ 499	$ 246	$ 1,313	$ 4,281	$ (5,009)	$ 1,330	$ 1,035
AA	2,679	2,811	2,704	14,137	(15,415)	6,916	4,719
A	11,733	10,833	7,585	23,968	(43,644)	10,475	6,520
BBB	5,119	3,753	2,592	13,132	(15,844)	8,752	6,035
Non-investment grade	3,196	3,089	1,541	2,499	(5,727)	4,598	3,918
Total	$ 23,226	$ 20,732	$ 15,735	$ 58,017	$ (85,639)	$ 32,071	$ 22,227

[1] Fair values shown represent the Company's net exposure to counterparties related to its OTC derivative products.

[2] Obligor credit ratings are determined by the Credit Risk Management Department.

[3] Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

[4] Fair value is shown, net of collateral received (primarily cash and U.S. government and agency securities).

Credit Risk-Related Contingencies.

In connection with certain OTC trading agreements, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties in the event of a credit rating downgrade of the Company.

Net Derivative Liabilities and Collateral Posted.

The following table presents the aggregate fair value of certain derivative contracts that contain credit risk-related contingent features that are in a net liability position for which the Company has posted collateral in the normal course of business.

	At December 31, 2015
	(dollars in millions)
Net derivative liabilities	$ 23,526
Collateral posted	19,070

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P"). The table below shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers.

Incremental Collateral or Termination Payments upon Potential Future Ratings Downgrade.

	At December 31, 2015(1)
	(dollars in millions)
One-notch downgrade	$1,224
Two-notch downgrade	1,146

(1) Amounts include $1,573 million related to bilateral arrangements between the Company and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are a risk management tool used extensively by the Company as credit exposures are reduced if counterparties are downgraded.

Credit Derivatives and Other Credit Contracts.

The Company enters into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. A majority of the Company's counterparties are banks, broker-dealers and insurance and other financial institutions.

Notional and Fair Value of Protection Sold and Protection Purchased through Credit Default Swaps.

	At December 31, 2015			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 420,806	$ 1,980	$ 405,361	$ (2,079)
Index and basket credit default swaps	199,688	(102)	173,936	(82)
Tranched index and basket credit default swaps	69,025	(1,093)	149,631	2,122
Total	$ 689,519	$ 785	$ 728,928	$ (39)

	At December 31, 2014			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 535,415	$ (2,479)	$ 509,872	$ 1,641
Index and basket credit default swaps	276,465	(1,777)	229,789	1,563
Tranched index and basket credit default swaps	96,182	(2,355)	194,343	3,334
Total	$ 908,062	$ (6,611)	$ 934,004	$ 6,538

Credit Ratings of Reference Obligation and Maturities of Credit Protection Sold.

	At December 31, 2015					
	Maximum Potential Payout/Notional					Fair Value (Asset)/ Liability(1)
	Years to Maturity					
	Less than 1	1-3	3-5	Over 5	Total	
	(dollars in millions)					
Single name credit default swaps(2):						
Investment grade	$ 84,543	$ 138,467	$ 63,754	$ 12,906	$ 299,670	$ (1,831)
Non-investment grade	38,054	56,261	24,432	2,389	121,136	3,811
Total	$ 122,597	$ 194,728	$ 88,186	$ 15,295	$ 420,806	$ 1,980
Index and basket credit default swaps(2):						
Investment grade	$ 33,507	$ 59,403	$ 45,505	$ 5,327	$ 143,742	$ (1,977)
Non-investment grade	52,590	43,899	15,480	13,002	124,971	782
Total	$ 86,097	$ 103,302	$ 60,985	$ 18,329	$ 268,713	$ (1,195)
Total credit default swaps sold	$ 208,694	$ 298,030	$ 149,171	$ 33,624	$ 689,519	$ 785
Other credit contracts	19	107	2	332	460	(24)
Total credit derivatives and other credit contracts	$ 208,713	$ 298,137	$ 149,173	$ 33,956	$ 689,979	$ 761

	At December 31, 2014					
	Maximum Potential Payout/Notional					Fair Value (Asset)/ Liability(1)
	Years to Maturity					
	Less than 1	1-3	3-5	Over 5	Total	
	(dollars in millions)					
Single name credit default swaps(2):						
Investment grade	$ 82,873	$ 199,776	$ 103,628	$ 20,490	$ 406,767	$(4,252)
Non-investment grade	29,857	66,066	29,011	3,714	128,648	1,773
Total	$ 112,730	$ 265,842	$ 132,639	$ 24,204	$ 535,415	$(2,479)
Index and basket credit default swaps(2):						
Investment grade	$ 49,877	$ 85,052	$ 78,276	$ 12,507	$ 225,712	$(4,624)
Non-investment grade	25,750	88,105	22,971	10,109	146,935	492
Total	$ 75,627	$ 173,157	$ 101,247	$ 22,616	$ 372,647	$(4,132)
Total credit default swaps sold	$ 188,357	$ 438,999	$ 233,886	$ 46,820	$ 908,062	$(6,611)
Other credit contracts	51	539	1	620	1,211	(500)
Total credit derivatives and other credit contracts	$ 188,408	$ 439,538	$ 233,887	$ 47,440	$ 909,273	$(7,111)

(1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.

(2) In order to provide an indication of the current payment status or performance risk of the credit default swaps, a breakdown of credit default swaps based on the Company's internal credit ratings by investment grade and non-investment grade is provided. During 2015, the Company began utilizing its internal credit ratings as compared with 2014 where external agency ratings, if available, were utilized. The change in the rating methodology did not have a significant impact on investment grade versus non-investment grade classifications or the fair values.

Single Name Credit Default Swaps.

A credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium (generally quarterly) over the life of the contract and is protected for the period. The Company in turn will have to perform under a credit default swap if a credit event as defined under the contract occurs. Typical credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay and restructuring of the obligations of the referenced entity.

Index and Basket Credit Default Swaps.

Index and basket credit default swaps are products where credit protection is provided on a portfolio of single name credit default swaps. Generally, in the event of a default on one of the underlying names, the Company will have to pay a pro rata portion of the total notional amount of the credit default swap.

The Company also enters into tranched index and basket credit default swaps where credit protection is provided on a particular portion of the portfolio loss distribution. The most junior tranches cover initial defaults, and once losses exceed the notional of the tranche, they are passed on to the next most senior tranche in the capital structure.

Credit Protection Sold through CLNs and CDOs.

The Company has invested in credit-linked notes ("CLNs") and CDOs, which are hybrid instruments containing embedded derivatives, in which credit protection has been sold to the issuer of the note. If there is a credit event of a reference entity underlying the instrument, the principal balance of the note may not be repaid in full to the Company.

Purchased Credit Protection with Identical Underlying Reference Obligations.

For single name credit default swaps and non-tranched index and basket credit default swaps, the Company has purchased protection with a notional amount of approximately $577.7 billion and $731.0 billion at December 31, 2015 and December 31, 2014, respectively, compared with a notional amount of approximately $619.5 billion and $804.7 billion at December 31, 2015 and December 31, 2014, respectively, of credit protection sold with identical underlying reference obligations.

The purchase of credit protection does not represent the sole manner in which the Company risk manages its exposure to credit derivatives. The Company manages its exposure to these derivative contracts through a variety of risk mitigation strategies, which include managing the credit and correlation risk across single name, non-tranched indices and baskets, tranched indices and baskets, and cash positions. Aggregate market risk limits have been established for credit derivatives, and market risk measures are routinely monitored against these limits. The Company may also recover amounts on the underlying reference obligation delivered to the Company under credit default swaps where credit protection was sold.

5. Investment Securities.

AFS and HTM Securities.

	At December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)			
AFS debt securities:				
U.S. government and agency securities:				
U.S. Treasury securities	$ 31,555	$ 5	$ 143	$ 31,417
U.S. agency securities(1)	21,103	29	156	20,976
Total U.S. government and agency securities	52,658	34	299	52,393
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	1,906	1	60	1,847
Non-agency	2,220	3	25	2,198
Auto loan asset-backed securities	2,556	—	9	2,547
Corporate bonds	3,780	5	30	3,755
Collateralized loan obligations	502	—	7	495
FFELP student loan asset-backed securities(2)	3,632	—	115	3,517
Total corporate and other debt	14,596	9	246	14,359
Total AFS debt securities	67,254	43	545	66,752
AFS equity securities	15	—	8	7
Total AFS securities	67,269	43	553	66,759
HTM securities:				
U.S. government securities:				
U.S. Treasury securities	1,001	—	3	998
U.S. agency securities(1)	4,223	1	34	4,190
Total HTM securities	5,224	1	37	5,188
Total Investment securities	$ 72,493	$ 44	$ 590	$ 71,947

	At December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)			
AFS debt securities:				
U.S. government and agency securities:				
U.S. Treasury securities	$ 35,855	$ 42	$ 67	$35,830
U.S. agency securities(1)	18,030	77	72	18,035
Total U.S. government and agency securities	53,885	119	139	53,865
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	2,288	1	76	2,213
Non-agency	1,820	11	6	1,825
Auto loan asset-backed securities	2,433	—	5	2,428
Corporate bonds	3,640	10	22	3,628
Collateralized loan obligations	1,087	—	20	1,067
FFELP student loan asset-backed securities(2)	4,169	18	8	4,179
Total corporate and other debt	15,437	40	137	15,340
Total AFS debt securities	69,322	159	276	69,205
AFS equity securities	15	—	4	11
Total AFS securities	69,337	159	280	69,216
HTM securities:				
U.S. government securities:				
U.S. Treasury securities	100	—	—	100
Total HTM securities	100	—	—	100
Total Investment securities	$ 69,437	$ 159	$ 280	$69,316

[1] U.S. agency securities are composed of three main categories consisting of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations.

[2] Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

Fair Value of Investment Securities in an Unrealized Loss Position.

	At December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in millions)					
AFS debt securities:						
U.S. government and agency securities:						
U.S. Treasury securities	$25,994	$ 126	$2,177	$ 17	$28,171	$ 143
U.S. agency securities	14,242	135	639	21	14,881	156
Total U.S. government and agency securities	40,236	261	2,816	38	43,052	299
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	1,185	44	422	16	1,607	60
Non-agency	1,479	21	305	4	1,784	25
Auto loan asset-backed securities	1,644	7	881	2	2,525	9
Corporate bonds	2,149	19	525	11	2,674	30
Collateralized loan obligations	352	5	143	2	495	7
FFELP student loan asset-backed securities	2,558	79	929	36	3,487	115
Total corporate and other debt	9,367	175	3,205	71	12,572	246
Total AFS debt securities	49,603	436	6,021	109	55,624	545
AFS equity securities	7	8	—	—	7	8
Total AFS securities	49,610	444	6,021	109	55,631	553
HTM securities:						
U.S. government and agency securities:						
U.S. Treasury securities	898	3	—	—	898	3
U.S. agency securities	3,677	34	—	—	3,677	34
Total HTM securities	4,575	37	—	—	4,575	37
Total Investment securities	$54,185	$ 481	$6,021	$ 109	$60,206	$ 590

	At December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(dollars in millions)			
AFS debt securities:						
U.S. government and agency securities:						
U.S. Treasury securities	$11,410	$ 14	$ 5,924	$ 53	$17,334	$ 67
U.S. agency securities	2,739	6	4,133	66	6,872	72
Total U.S. government and agency securities	14,149	20	10,057	119	24,206	139
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	42	—	1,822	76	1,864	76
Non-agency	706	3	346	3	1,052	6
Auto loan asset-backed securities	2,034	5	—	—	2,034	5
Corporate bonds	905	6	1,299	16	2,204	22
Collateralized loan obligations	—	—	1,067	20	1,067	20
FFELP student loan asset-backed securities	1,523	6	393	2	1,916	8
Total corporate and other debt	5,210	20	4,927	117	10,137	137
Total AFS debt securities	19,359	40	14,984	236	34,343	276
AFS equity securities	11	4	—	—	11	4
Total Investment securities	$19,370	$ 44	$14,984	$ 236	$34,354	$ 280

The Company believes that there are no securities in an unrealized loss position that are deemed to be other-than-temporarily-impaired at December 31, 2015 and December 31, 2014 for the reasons discussed below.

For AFS debt securities, the Company does not intend to sell the securities and is not likely to be required to sell the securities prior to recovery of amortized cost basis. For AFS and HTM debt securities, the securities have not experienced credit losses as the net unrealized losses reported in the table above are primarily due to higher interest rates since those securities were purchased. Additionally, the Company does not expect to experience a credit loss based on consideration of the relevant information (as discussed in Note 2), including for U.S. government and agency securities, the existence of an explicit and implicit guarantee provided by the U.S. government. The risk of credit loss on securities in an unrealized loss position is considered minimal because all of the Company’s agency securities as well as the Company’s asset-backed securities, CMBS and CLOs are highly rated and because the Company’s corporate bonds are all investment grade.

For AFS equity securities, the Company has the intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in market value.

Amortized Cost, Fair Value and Annualized Average Yield of Investment Securities by Contractual Maturity Dates.

	At December 31, 2015		
	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
AFS debt securities:			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 6,209	$ 6,205	0.7%
After 1 year through 5 years	24,900	24,765	1.0%
After 5 years through 10 years	446	447	2.1%
Total	31,555	31,417	
U.S. agency securities:			
After 1 year through 5 years	2,986	2,984	0.6%
After 5 years through 10 years	1,652	1,650	1.9%
After 10 years	16,465	16,342	1.8%
Total	21,103	20,976	
Total U.S. government and agency securities	52,658	52,393	1.2%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
Due within 1 year	49	50	0.7%
After 1 year through 5 years	570	567	0.9%
After 5 years through 10 years	213	209	1.5%
After 10 years	1,074	1,021	1.5%
Total	1,906	1,847	
Non-agency:			
After 10 years	2,220	2,198	1.9%
Total	2,220	2,198	
Auto loan asset-backed securities:			
Due within 1 year	64	64	0.9%
After 1 year through 5 years	2,302	2,294	1.2%
After 5 years through 10 years	190	189	1.7%
Total	2,556	2,547	
Corporate bonds:			
Due within 1 year	412	412	1.1%
After 1 year through 5 years	2,615	2,595	1.6%
After 5 years through 10 years	753	748	2.7%
Total	3,780	3,755	
Collateralized loan obligations:			
After 5 years through 10 years	502	495	1.5%
Total	502	495	

	At December 31, 2015		
	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
FFELP student loan asset-backed securities:			
After 1 year through 5 years	$ 88	$ 88	0.6%
After 5 years through 10 years	776	759	0.9%
After 10 years	2,768	2,670	0.9%
Total	3,632	3,517	
Total corporate and other debt	14,596	14,359	1.4%
Total AFS debt securities	67,254	66,752	1.3%
AFS equity securities	15	7	— %
Total AFS securities	67,269	66,759	1.3%
HTM securities:			
U.S. government securities:			
U.S. Treasury securities:			
After 1 year through 5 years	1,001	998	1.0%
Total	1,001	998	
U.S. agency securities:			
After 10 years	4,223	4,190	2.3%
Total	4,223	4,190	
Total HTM securities	5,224	5,188	2.1%
Total Investment securities	$ 72,493	$71,947	1.3%

See Note 13 for additional information on securities issued by VIEs, including U.S. agency mortgage-backed securities, non-agency CMBS, auto loan ABS, CLO and FFELP student loan ABS.

Gross Realized Gains and Gross Realized (Losses) on Sales of AFS Securities.

	2015	2014	2013
	(dollars in millions)		
Gross realized gains	$116	$41	$49
Gross realized (losses)	(32)	(1)	(4)
Total	$ 84	$40	$45

Gross realized gains and losses are recognized in Other revenues in the consolidated statements of income.

6. Collateralized Transactions.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance its inventory positions.

The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), with the right to net a counterparty's rights and obligations under such agreement and liquidate and set off collateral held by the Company against the net amount owed by the counterparty.

The Company's policy is generally to take possession of securities purchased under agreements to resell and securities borrowed, and to receive securities and cash posted as collateral (with rights of rehypothecation). In certain cases, the Company may agree for such collateral to be posted to a third-party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized. The risk related to a decline in the market value of collateral (pledged or received) is managed by setting appropriate market-based haircuts. Increases in collateral margin calls on secured financing due to market value declines may be mitigated by increases in collateral margin calls on reverse repurchase agreements and securities borrowed transactions with similar quality collateral. Additionally, the Company may request lower quality collateral pledged be replaced with higher quality collateral through collateral substitution rights in the underlying agreements.

The Company actively manages its secured financing in a manner that reduces the potential refinancing risk of secured financing for less liquid assets. The Company considers the quality of collateral when negotiating collateral eligibility with counterparties, as defined by its fundability criteria. The Company utilizes shorter-term secured financing for highly liquid assets and has established longer tenor limits for less liquid assets, for which funding may be at risk in the event of a market disruption.

Offsetting of Certain Collateralized Transactions.

	At December 31, 2015				
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Consolidated Statements of Financial Condition(2)	Net Exposure
	(dollars in millions)				
Assets					
Securities purchased under agreements to resell	$ 135,714	$ (48,057)	$ 87,657	$ (84,752)	$ 2,905
Securities borrowed	147,445	(5,029)	142,416	(134,250)	8,166
Liabilities					
Securities sold under agreements to repurchase	$ 84,749	$ (48,057)	$ 36,692	$ (31,604)	$ 5,088
Securities loaned	24,387	(5,029)	19,358	(18,881)	477

	At December 31, 2014				
	Gross Amounts(1)	Amounts Offset in the Consolidated Statements of Financial Condition	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Consolidated Statements of Financial Condition(2)	Net Exposure
	(dollars in millions)				
Assets					
Securities purchased under agreements to resell	$ 148,234	$ (64,946)	$ 83,288	$ (79,343)	$ 3,945
Securities borrowed	145,556	(8,848)	136,708	(128,282)	8,426
Liabilities					
Securities sold under agreements to repurchase	$ 134,895	$ (64,946)	$ 69,949	$ (56,454)	$ 13,495
Securities loaned	34,067	(8,848)	25,219	(24,252)	967

[1] Amounts include $2.6 billion of Securities purchased under agreements to resell, $3.0 billion of Securities borrowed and $4.9 billion of Securities sold under agreements to repurchase at December 31, 2015 and $3.9 billion of Securities purchased under agreements to resell, $4.2 billion of Securities borrowed, $15.6 billion of Securities sold under agreements to repurchase and $0.7 billion of Securities loaned at December 31, 2014, which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting agreements, that have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

For information related to offsetting of derivatives, see Note 4.

Secured Financing Transactions—Maturities and Collateral Pledged.

Gross Secured Financing Balances by Remaining Contractual Maturity.

	At December 31, 2015				
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
	(dollars in millions)				
Securities sold under agreements to repurchase(1)	$ 20,410	$ 25,245	$ 13,221	$ 25,873	$ 84,749
Securities loaned(1)	12,247	478	2,156	9,506	24,387
Gross amount of secured financing included in the above offsetting disclosure	$ 32,657	$ 25,723	$ 15,377	$ 35,379	$109,136
Obligation to return securities received as collateral	19,316	—	—	—	19,316
Total	$ 51,973	$ 25,723	$ 15,377	$ 35,379	$128,452

Gross Secured Financing Balances by Class of Collateral Pledged.

	At December 31, 2015
	(dollars in millions)
Securities sold under agreements to repurchase(1)	
U.S. government and agency securities	$ 36,609
State and municipal securities	173
Other sovereign government obligations	24,820
Asset-backed securities	441
Corporate and other debt	4,020
Corporate equities	18,473
Other	213
Total securities sold under agreements to repurchase	$ 84,749
Securities loaned(1)	
Other sovereign government obligations	$ 7,336
Corporate and other debt	71
Corporate equities	16,972
Other	8
Total securities loaned	$ 24,387
Gross amount of secured financing included in the above offsetting disclosure	$ 109,136
Obligation to return securities received as collateral	
Corporate equities	$ 19,313
Corporate and other debt	3
Total obligation to return securities received as collateral	$ 19,316
Total	$ 128,452

(1) Amounts are presented on a gross basis, prior to netting in the consolidated statements of financial condition.

Trading Assets Pledged.

The Company pledges its trading assets to collateralize repurchase agreements and other secured financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the consolidated statements of financial condition. At December 31, 2015 and December 31, 2014, the carrying value of Trading assets by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were $35.0 billion and $31.3 billion, respectively.

Collateral Received.

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed and derivative transactions, customer margin loans and securities-based lending. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which it is the lender. In instances where the Company is permitted to sell or repledge these securities, it reports the fair value of the collateral received and the related obligation to return the collateral in its consolidated statements of financial condition. At December 31, 2015 and December 31, 2014, the total fair value of financial instruments received as collateral where the Company is permitted to sell or repledge the securities was $522.6 billion and $545.7 billion, respectively, and the fair value of the portion that had been sold or repledged was $398.1 billion and $403.4 billion, respectively.

Concentration Risk.

The Company is subject to concentration risk by holding large positions in certain types of securities, loans or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Trading assets owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments (principally the United Kingdom ("U.K."), Japan, Brazil and Hong Kong), which, in the aggregate, represented approximately 7% of the Company's total assets at both December 31, 2015 and December 31, 2014. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 15% and 17% of the Company's total assets at December 31, 2015 and December 31, 2014, respectively, consists of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity, principal investment and lending activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. In addition, the Company may originate or purchase certain residential and commercial mortgage loans that could contain certain terms and features that may result in additional credit risk as compared with more traditional types of mortgages. Such terms and features may include loans made to borrowers subject to payment increases or loans with high loan-to-value ratios.

Other.

The Company also engages in margin lending to clients that allows the client to borrow against the value of qualifying securities and is included within Customer and other receivables in the consolidated statements of financial condition. Under these agreements and transactions, the Company receives collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activities are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral.

Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company's collateral policies significantly limits its credit exposure in the event of a customer default. The Company may request additional margin collateral from customers, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At December 31, 2015 and December 31, 2014, the amounts related to margin lending were approximately $25.3 billion and $29.0 billion, respectively.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, and certain equity-linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets (see Notes 11 and 13).

Cash and Securities Deposited with Clearing Organizations or Segregated.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(1)	$ 31,469	$ 40,607
Securities(2)	14,390	14,630
Total	$ 45,859	$ 55,237

(1) In 2015, the Company made amendments to certain arrangements by which it acts in the capacity of a clearing member to clear derivatives on behalf of customers. These amendments resulted in approximately $3.8 billion related to cash initial margin received from customers and remitted to clearing organizations or third-party custodian banks no longer qualifying for recognition in the consolidated statements of financial condition.

(2) Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Securities purchased under agreements to resell and Trading assets in the consolidated statements of financial condition.

7. Loans and Allowance for Credit Losses.

Loans.

The Company's loan portfolio consists of the following:

- *Corporate*. Corporate loans primarily include commercial and industrial lending used for general corporate purposes, working capital and liquidity, event-driven loans and asset-backed lending products. Event-driven loans support client merger, acquisition, recapitalization, or project finance activities. Corporate loans are structured as revolving lines of credit, letter of credit facilities, term loans and bridge loans. Risk factors considered in determining the allowance for corporate loans include the borrower's financial strength, seniority of the loan, collateral type, volatility of collateral value, debt cushion, covenants and counterparty type.
- *Consumer*. Consumer loans include unsecured loans and securities-based lending that allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying

securities or refinancing margin debt. The majority of consumer loans are structured as revolving lines of credit and letter of credit facilities and are primarily offered through the Company's Portfolio Loan Account ("PLA") and Liquidity Access Line ("LAL") programs. The allowance methodology for unsecured loans considers the specific attributes of the loan as well as the borrower's source of repayment. The allowance methodology for securities-based lending considers the collateral type underlying the loan (*e.g.*, diversified securities, concentrated securities or restricted stock).

- *Residential Real Estate*. Residential real estate loans mainly include non-conforming loans and home equity lines of credit. The allowance methodology for non-conforming residential mortgage loans considers several factors, including, but not limited to, loan-to-value ratio, FICO score, home price index and delinquency status. The methodology for home equity lines of credit considers credit limits and utilization rates in addition to the factors considered for non-conforming residential mortgages.

- *Wholesale Real Estate*. Wholesale real estate loans include owner-occupied loans and income-producing loans. The principal risk factors for determining the allowance for wholesale real estate loans are the underlying collateral type, loan-to-value ratio and debt service ratio.

Loans Held for Investment and Held for Sale.

	At December 31, 2015			At December 31, 2014		
Loans by Product Type	**Loans Held for Investment**	**Loans Held for Sale**	**Total Loans(1)(2)**	**Loans Held for Investment**	**Loans Held for Sale**	**Total Loans(1)(2)**
			(dollars in millions)			
Corporate loans	$ 23,554	$ 11,924	$ 35,478	$ 19,659	$ 8,200	$ 27,859
Consumer loans	21,528	—	21,528	16,576	—	16,576
Residential real estate loans	20,863	104	20,967	15,735	114	15,849
Wholesale real estate loans	6,839	1,172	8,011	5,298	1,144	6,442
Total loans, gross of allowance for loan losses	72,784	13,200	85,984	57,268	9,458	66,726
Allowance for loan losses	(225)	—	(225)	(149)	—	(149)
Total loans, net of allowance for loan losses	$ 72,559	$ 13,200	$ 85,759	$ 57,119	$ 9,458	$ 66,577

[1] Amounts include loans that are made to non-U.S. borrowers of $9,789 million and $7,017 million at December 31, 2015 and December 31, 2014, respectively.

[2] Loans at fixed interest rates and floating or adjustable interest rates were $8,471 million and $77,288 million, respectively, at December 31, 2015 and $6,663 million and $59,914 million, respectively, at December 31, 2014.

See Note 3 for further information regarding Loans and lending commitments held at fair value.

Credit Quality.

The Credit Risk Management Department evaluates new obligors before credit transactions are initially approved and at least annually thereafter for corporate and wholesale real estate loans. For corporate loans, credit evaluations typically involve the evaluation of financial statements; assessment of leverage, liquidity, capital strength, asset composition and quality; market capitalization and access to capital markets; cash flow projections and debt service requirements; and the adequacy of collateral, if applicable. The Credit Risk Management Department also evaluates strategy, market position, industry dynamics, obligor's management and other factors that could affect an obligor's risk profile. For wholesale real estate loans, the credit evaluation is focused on property and transaction metrics, including property type, loan-to-value ratio, occupancy levels, debt service ratio, prevailing capitalization rates, and market dynamics. For residential real estate and consumer loans, the initial credit evaluation typically includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan-to-value ratio and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level. Consumer loan collateral values are monitored on an ongoing basis.

The Company utilizes the following credit quality indicators, which are consistent with U.S. banking regulators' definitions of criticized exposures, in its credit monitoring process for loans held for investment:

- *Pass*. A credit exposure rated pass has a continued expectation of timely repayment, all obligations of the borrower are current, and the obligor complies with material terms and conditions of the lending agreement.
- *Special Mention*. Extensions of credit that have potential weakness that deserve management's close attention and, if left uncorrected, may, at some future date, result in the deterioration of the repayment prospects or collateral position.
- *Substandard*. Obligor has a well-defined weakness that jeopardizes the repayment of the debt and has a high probability of payment default with the distinct possibility that the Company will sustain some loss if noted deficiencies are not corrected.
- *Doubtful*. Inherent weakness in the exposure makes the collection or repayment in full, based on existing facts, conditions and circumstances, highly improbable, and the amount of loss is uncertain.
- *Loss*. Extensions of credit classified as loss are considered uncollectible and are charged off.

Loans considered as doubtful or loss are considered impaired. Substandard loans are regularly reviewed for impairment. When a loan is impaired, the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. For further information, see Note 2.

Credit Quality Indicators for Loans Held for Investment, Gross of Allowance for Loan Losses, by Product Type.

	At December 31, 2015				
	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Pass	$ 22,040	$ 21,528	$ 20,828	$ 6,839	$ 71,235
Special mention	300	—	—	—	300
Substandard	1,202	—	35	—	1,237
Doubtful	12	—	—	—	12
Loss	—	—	—	—	—
Total loans	$ 23,554	$ 21,528	$ 20,863	$ 6,839	$ 72,784

	At December 31, 2014				
	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Pass	$ 17,847	$ 16,576	$ 15,688	$ 5,298	$ 55,409
Special mention	1,683	—	—	—	1,683
Substandard	127	—	47	—	174
Doubtful	2	—	—	—	2
Loss	—	—	—	—	—
Total loans	$ 19,659	$ 16,576	$ 15,735	$ 5,298	$ 57,268

Impaired and Past Due Loans Held for Investment.

	At December 31, 2015			At December 31, 2014		
Loans by Product Type	Corporate	Residential Real Estate	Total	Corporate	Residential Real Estate	Total
	(dollars in millions)					
Impaired loans with allowance	$ 39	$ —	$ 39	$ —	$ —	$ —
Impaired loans without allowance(1)	89	17	106	2	17	19
Impaired loans unpaid principal balance	130	19	149	2	17	19
Past due 90 days loans and on nonaccrual	1	21	22	2	25	27

(1) At December 31, 2015 and December 31, 2014, no allowance was outstanding for these loans as the present value of the expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral held) equaled or exceeded the carrying value.

	At December 31, 2015				At December 31, 2014			
Loans by Region	Americas	EMEA	Asia-Pacific	Total	Americas	EMEA	Asia-Pacific	Total
	(dollars in millions)							
Impaired loans	$ 108	$ 12	$ 25	$ 145	$ 19	$ —	$ —	$ 19
Past due 90 days loans and on nonaccrual	22	—	—	22	27	—	—	27
Allowance for loan losses	183	34	8	225	121	20	8	149

EMEA—Europe, Middle East and Africa.

Troubled Debt Restructurings.

At December 31, 2015, the impaired loans and lending commitments within held for investment include TDRs of $44.0 million and $34.8 million, respectively, within corporate loans. The Company recorded an allowance of $5.1 million against these TDRs. These restructurings typically include modifications of interest rates, collateral requirements, other loan covenants, and payment extensions. At December 31, 2014, TDRs were not significant.

Allowance for Credit Losses on Lending Activities.

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for Loan Losses.					
Balance at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Gross charge-offs	—	—	(1)	—	(1)
Gross recoveries	1	—	—	—	1
Net recoveries/(charge-offs)	1	—	(1)	—	—
Provision for loan losses	58	3	10	16	87
Other(1)	(11)	—	—	—	(11)
Balance at December 31, 2015	$ 166	$ 5	$ 17	$ 37	$ 225
Allowance for Loan Losses by Impairment Methodology.					
Inherent	$ 156	$ 5	$ 17	$ 37	$ 215
Specific	10	—	—	—	10
Total allowance for loan losses at December 31, 2015	$ 166	$ 5	$ 17	$ 37	$ 225
Loans Evaluated by Impairment Methodology(2).					
Inherent	$ 23,426	$ 21,528	$ 20,846	$ 6,839	$ 72,639
Specific	128	—	17	—	145
Total loans evaluated at December 31, 2015	$ 23,554	$ 21,528	$ 20,863	$ 6,839	$ 72,784
Allowance for Lending Commitments.					
Balance at December 31, 2014	$ 147	$ —	$ —	$ 2	$ 149
Provision for lending commitments	33	1	—	2	36
Balance at December 31, 2015	$ 180	$ 1	$ —	$ 4	$ 185
Allowance for Lending Commitments by Impairment Methodology.					
Inherent	$ 173	$ 1	$ —	$ 4	$ 178
Specific	7	—	—	—	7
Total allowance for lending commitments at December 31, 2015	$ 180	$ 1	$ —	$ 4	$ 185
Lending Commitments Evaluated by Impairment Methodology(2).					
Inherent	$ 63,873	$ 4,856	$ 312	$ 381	$ 69,422
Specific	126	—	—	—	126
Total lending commitments evaluated at December 31, 2015	$ 63,999	$ 4,856	$ 312	$ 381	$ 69,548

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for Loan Losses.					
Balance at December 31, 2013	$ 137	$ 1	$ 4	$ 14	$ 156
Gross charge-offs	(3)	—	—	(3)	(6)
Gross recoveries	—	—	—	1	1
Net recoveries/(charge-offs)	(3)	—	—	(2)	(5)
Provision (release) for loan losses	(13)	1	4	9	1
Other(1)	(3)	—	—	—	(3)
Balance at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Allowance for Loan Losses by Impairment Methodology.					
Inherent	$ 118	$ 2	$ 8	$ 21	$ 149
Specific	—	—	—	—	—
Total allowance for loan losses at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Loans Evaluated by Impairment Methodology(2).					
Inherent	$ 19,657	$ 16,576	$ 15,718	$ 5,298	$ 57,249
Specific	2	—	17	—	19
Total loan evaluated at December 31, 2014	$ 19,659	$ 16,576	$ 15,735	$ 5,298	$ 57,268
Allowance for Lending Commitments.					
Balance at December 31, 2013	$ 125	$ —	$ —	$ 2	$ 127
Provision for lending commitments	22	—	—	—	22
Balance at December 31, 2014	$ 147	$ —	$ —	$ 2	$ 149
Allowance for Lending Commitments by Impairment Methodology.					
Inherent	$ 147	$ —	$ —	$ 2	$ 149
Specific	—	—	—	—	—
Total allowance for lending commitments at December 31, 2014	$ 147	$ —	$ —	$ 2	$ 149
Lending Commitments Evaluated by Impairment Methodology(2).					
Inherent	$ 65,987	$ 3,484	$ 283	$ 367	$ 70,121
Specific	26	—	—	—	26
Total lending commitments evaluated at December 31, 2014	$ 66,013	$ 3,484	$ 283	$ 367	$ 70,147

(1) Amount includes the impact related to the transfer to loans held for sale and foreign currency translation adjustments.

(2) Loan balances are gross of the allowance for loan losses, and lending commitments are gross of the allowance for lending commitments.

Employee Loans.

Employee loans are granted primarily in conjunction with a program established in the Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the consolidated statements of financial condition. These loans are full recourse, generally require periodic payments and have repayment terms ranging from 2 to 12 years. The Company establishes an allowance for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At December 31, 2015, the Company had $4,923 million of employee loans, net of an allowance of approximately $108 million. At December 31, 2014, the Company had $5,130 million of employee loans, net of an allowance of approximately $116 million.

8. Equity Method Investments.

Overview.

The Company has investments accounted for under the equity method of accounting (see Note 1) of $3,144 million and $3,332 million at December 31, 2015 and December 31, 2014, respectively, included in Other investments in the consolidated statements of financial condition. Income from equity method investments was $114 million, $156 million and $451 million for 2015, 2014 and 2013, respectively, and is included in Other revenues in the consolidated statements of income.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest ("40% interest") and Mitsubishi UFJ Financial Group, Inc. ("MUFG") holds a 60% voting interest in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS"). The Company accounts for its equity method investment in MUMSS within the Institutional Securities business segment. During 2015, 2014 and 2013, the Company recorded income from its 40% interest of $220 million, $224 million and $570 million, respectively, within Other revenues in the consolidated statements of income. At December 31, 2015 and December 31, 2014, the book value of this investment was $1,457 million and $1,415 million, respectively. The book value of this investee exceeds the Company's share of net assets, reflecting equity method intangible assets and equity method goodwill. In addition to MUMSS, the Company held other equity method investments that were not individually significant.

In 2015 and 2014, MUMSS paid a dividend of approximately $424 million and $594 million, respectively, of which the Company received its proportionate share of approximately $170 million and $238 million.

Summarized Financial Data for MUMSS.

	At December 31,	
	2015	2014
	(dollars in millions)	
Total assets	$ 135,398	$ 111,053
Total liabilities	132,492	108,263
Noncontrolling interests	29	37

	2015	2014	2013
		(dollars in millions)	
Net revenues	$ 2,961	$ 2,961	$ 3,305
Income from continuing operations before income taxes	845	908	1,325
Net income	589	595	1,459
Net income applicable to MUMSS	565	582	1,441

9. Goodwill and Net Intangible Assets.

Goodwill.

The Company completed its annual goodwill impairment testing on July 1, 2015 and July 1, 2014. The Company's impairment testing for each period did not indicate any goodwill impairment as each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value. However, adverse market or economic events could result in impairment charges in future periods.

Changes in Carrying Amount of Goodwill, Net of Accumulated Impairment Losses.

	Institutional Securities	Wealth Management	Investment Management	Total
		(dollars in millions)		
Goodwill at December 31, 2013(1)	$ 293	$ 5,533	$ 769	$ 6,595
Foreign currency translation adjustments and other	(14)	—	—	(14)
Goodwill acquired during the period	7	—	—	7
Goodwill at December 31, 2014(1)	$ 286	$ 5,533	$ 769	$ 6,588
Foreign currency translation adjustments and other	(15)	—	—	(15)
Goodwill acquired during the period	11	—	—	11
Goodwill at December 31, 2015(1)	$ 282	$ 5,533	$ 769	$ 6,584

(1) The amount of the Company's goodwill before accumulated impairments of $700 million, which included $673 million related to the Institutional Securities business segment and $27 million related to the Investment Management business segment, was $7,284 million and $7,288 million at December 31, 2015 and December 31, 2014, respectively.

Net Intangible Assets.

Changes in Carrying Amount of Net Intangible Assets.

	Institutional Securities	Wealth Management	Investment Management	Total
		(dollars in millions)		
Amortizable net intangible assets at December 31, 2013	$ 56	$ 3,182	$ 40	$ 3,278
Mortgage servicing rights	—	8	—	8
Net intangible assets at December 31, 2013	$ 56	$ 3,190	$ 40	$ 3,286
Amortizable net intangible assets at December 31, 2013	$ 56	$ 3,182	$ 40	$ 3,278
Disposal	(4)	—	—	(4)
Intangible assets acquired during the period	182	—	—	182
Amortization expense	(13)	(274)	(10)	(297)
Impairment losses(1)	—	(3)	(3)	(6)
Amortizable net intangible assets at December 31, 2014	221	2,905	27	3,153
Mortgage servicing rights	—	6	—	6
Net intangible assets at December 31, 2014	$ 221	$ 2,911	$ 27	$ 3,159
Amortizable net intangible assets at December 31, 2014	$ 221	$ 2,905	$ 27	$ 3,153
Intangible assets acquired during the period(2)	160	—	—	160
Amortization expense	(26)	(273)	(7)	(306)
Other	(28)	—	—	(28)
Amortizable net intangible assets at December 31, 2015	327	2,632	20	2,979
Mortgage servicing rights	—	5	—	5
Net intangible assets at December 31, 2015	$ 327	$ 2,637	$ 20	$ 2,984

(1) Impairment losses are recorded within Other expenses in the consolidated statements of income.

(2) Includes a $159 million net increase in Intangible assets related to a Commodities division transaction, which also resulted in a gain of $78 million recorded in Other revenues in the consolidated statements of income.

Amortizable Intangible Assets.

	At December 31, 2015		At December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(dollars in millions)			
Trademarks	$ 1	$ 0	$ 7	$ 6
Tradename	280	31	280	21
Customer relationships	4,059	1,686	4,048	1,430
Management contracts	478	250	268	170
Other	291	163	374	197
Total amortizable intangible assets	$ 5,109	$ 2,130	$ 4,977	$ 1,824

Amortization expense associated with intangible assets is estimated to be approximately $294 million per year over the next five years.

10. Deposits.

Deposits.

	At December 31, 2015(1)	At December 31, 2014(1)
	(dollars in millions)	
Savings and demand deposits	$ 153,346	$ 132,159
Time deposits(2)	2,688	1,385
Total(3)	$ 156,034	$ 133,544

(1) Total deposits subject to the FDIC insurance at December 31, 2015 and December 31, 2014 were $113 billion and $99 billion, respectively. Of the total time deposits subject to the FDIC insurance at December 31, 2015 and December 31, 2014, $14 million and $2 million, respectively, met or exceeded the FDIC insurance limit.

(2) Certain time deposit accounts are carried at fair value under the fair value option (see Note 3).

(3) The Company's deposits were primarily held in the U.S.

Interest bearing deposits at December 31, 2015 included $153,338 million of savings deposits payable upon demand and $2,599 million of time deposits maturing in 2016, $59 million of time deposits maturing in 2017 and $9 million of time deposits maturing in 2018.

The vast majority of deposits in MSBNA and MSPBNA (collectively, "U.S. Bank Subsidiaries") are sourced from the Company's retail brokerage accounts. Concurrent with the acquisition of the remaining 35% stake in the purchase of the retail securities joint venture between the Company and Citigroup Inc. ("Citi") (the "Wealth Management JV") in 2013, the deposit sweep agreement between Citi and the Company was terminated. The transfer of deposits previously held by Citi to the Company's depository institutions relating to the Company's customer accounts was completed on June 30, 2015. During 2015, $8.7 billion of deposits were transferred by Citi to the Company's depository institutions.

11. Borrowings and Other Secured Financings.

Short-Term Borrowings.

At December 31, 2015 and December 31, 2014, the Company had $2,173 million and $2,261 million, respectively, of Short-term borrowings, and the average balance was $2,187 million and $1,923 million, respectively. In 2015, the Company calculated its average balances based on daily amounts. In 2014, the Company calculated its average balances based upon weekly amounts, except where weekly balances were unavailable, month-end balances were used. These borrowings included bank loans, bank notes and structured notes with original maturities of 12 months or less. Certain structured short-term borrowings are carried at fair value under the fair value option (see Note 3).

Long-Term Borrowings.

Maturities and Terms of Long-Term Borrowings.

	Parent Company		Subsidiaries			
	Fixed Rate	Variable Rate(1)	Fixed Rate	Variable Rate(1)	At December 31, 2015(2)(3)	At December 31, 2014
	(dollars in millions)					
Due in 2015	$ —	$ —	$ —	$ —	$ —	$ 20,740
Due in 2016	9,883	8,227	24	4,262	22,396	20,643
Due in 2017	14,550	6,611	13	1,092	22,266	24,000
Due in 2018	13,118	3,981	15	823	17,937	17,679
Due in 2019	11,219	6,740	47	562	18,568	17,571
Due in 2020	11,289	4,713	14	989	17,005	8,190
Thereafter	45,173	8,586	308	1,529	55,596	43,949
Total	$ 105,232	$ 38,858	$ 421	$ 9,257	$ 153,768	$ 152,772
Weighted average coupon at period-end(4)	4.5%	1.0%	6.1%	N/M	4.0%	4.2%

N/M—Not Meaningful.

(1) Variable rate borrowings bear interest based on a variety of money market indices, including LIBOR and federal funds rates. Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.

(2) Amounts include an increase of approximately $2.7 billion at December 31, 2015 to the carrying amount of certain of the long-term borrowings associated with fair value hedges. The increase to the carrying value associated with fair value hedges by year due was approximately $0.1 billion due in 2016, $0.5 billion due in 2017, $0.3 billion due in 2018, $0.5 billion due in 2019, $0.4 billion due in 2020 and $0.9 billion due thereafter.

(3) Amounts include a decrease of approximately $0.5 billion at December 31, 2015 to the carrying amounts of certain of the long-term borrowings for which the fair value option was elected (see Note 3).

(4) Weighted average coupon was calculated utilizing U.S. and non-U.S. dollar interest rates and excludes financial instruments for which the fair value option was elected. Virtually all of the variable rate notes issued by subsidiaries are carried at fair value so a weighted average coupon is not meaningful.

Components of Long-term Borrowings.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Senior debt	$ 140,494	$ 139,565
Subordinated debt	10,404	8,339
Junior subordinated debentures	2,870	4,868
Total	$ 153,768	$ 152,772

During 2015 and 2014, the Company issued notes with a principal amount of approximately $34.2 billion and $36.7 billion, respectively, and approximately $27.3 billion and $33.1 billion, respectively, in aggregate long-term borrowings matured or retired.

Senior debt securities often are denominated in various non-U.S. dollar currencies and may be structured to provide a return that is equity-linked, credit-linked, commodity-linked or linked to some other index (*e.g.*, the consumer price index). Senior debt also may be structured to be callable by the Company or extendible at the option of holders of the senior debt securities. Debt containing provisions that effectively allow the holders to put or extend the notes aggregated $2,902 million at December 31, 2015 and $2,175 million at December 31, 2014. In addition, in certain circumstances, certain purchasers may be entitled to cause the repurchase of the notes. The aggregated value of notes subject to these arrangements was $650 million at December 31, 2015 and $551 million at December 31, 2014. Subordinated debt and junior subordinated debentures generally are issued to meet the capital requirements of the Company or its regulated subsidiaries and primarily are U.S. dollar denominated.

During 2015, Morgan Stanley Capital Trusts VI and VII redeemed all of their issued and outstanding 6.60% Capital Securities, respectively, and the Company concurrently redeemed the related underlying junior subordinated debentures.

Senior Debt—Structured Borrowings.

The Company's index-linked, equity-linked or credit-linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (*e.g.,* Standard & Poor's 500), a basket of stocks, a specific equity security, a credit exposure or basket of credit exposures. To minimize the exposure resulting from movements in the underlying index, equity, credit or other position, the Company has entered into various swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. The Company generally carries the entire structured borrowings at fair value. The swaps and purchased options used to economically hedge the embedded features are derivatives and also are carried at fair value. Changes in fair value related to the notes and economic hedges are reported in Trading revenues. See Note 3 for further information on structured borrowings.

Subordinated Debt and Junior Subordinated Debentures.

Included in the long-term borrowings are subordinated notes of $10,404 million having a contractual weighted average coupon of 4.45% at December 31, 2015 and $8,339 million having a contractual weighted average coupon of 4.57% at December 31, 2014. Junior subordinated debentures outstanding by the Company were $2,870 million at December 31, 2015 having a contractual weighted average coupon of 6.22% at December 31, 2015 and $4,868 million at December 31, 2014 having a contractual weighted average coupon of 6.37% at December 31, 2014. Maturities of the subordinated and junior subordinated notes range from 2022 to 2067, while maturities of certain junior subordinated debentures can be extended to 2052 at the Company's option.

Asset and Liability Management.

In general, securities inventories that are not financed by secured funding sources and the majority of the Company's assets are financed with a combination of deposits, short-term funding, floating rate long-term debt or fixed rate long-term debt swapped to a floating rate. Fixed assets are generally financed with fixed rate long-term debt. The Company uses interest rate swaps to more closely match these borrowings to the duration, holding period and interest rate characteristics of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Company's fixed rate borrowings into floating rate obligations. In addition, for non-U.S. dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered into currency swaps that effectively convert the borrowings into U.S. dollar obligations.

The Company's use of swaps for asset and liability management affected its effective average borrowing rate.

Effective Average Borrowing Rate.

	2015	2014	2013
Weighted average coupon of long-term borrowings at period-end(1)	4.0%	4.2%	4.4%
Effective average borrowing rate for long-term borrowings after swaps at period-end(1)	2.1%	2.3%	2.2%

(1) Included in the weighted average and effective average calculations are U.S. and non-U.S. dollar interest rates.

Other.

The Company, through several of its subsidiaries, maintains funded and unfunded committed credit facilities to support various businesses, including the collateralized commercial and residential mortgage whole loan, derivative contracts, warehouse lending, emerging market loan, structured product, corporate loan, investment banking and prime brokerage businesses.

Other Secured Financings.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, pledged commodities, certain equity-linked notes and other secured borrowings. See Note 13 for further information on other secured financings related to VIEs and securitization activities.

Other Secured Financings.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Secured financings with original maturities greater than one year	$ 7,629	$ 10,346
Secured financings with original maturities one year or less(1)	1,435	1,395
Failed sales(2)	400	344
Total	$ 9,464	$ 12,085

(1) Amounts include approximately $1,401 million of variable rate financings and approximately $34 million in fixed rate financings at December 31, 2015 and approximately $1,299 million of variable rate financings and approximately $96 million in fixed rate financings at December 31, 2014.

(2) For more information on failed sales, see Note 13.

Maturities and Terms of Secured Financings with Original Maturities Greater than One Year.

	At December 31, 2015			At December 31, 2014
	Fixed Rate	Variable Rate(1)	Total	
	(dollars in millions)			
Due in 2015	$ —	$ —	$ —	$ 3,341
Due in 2016	—	2,333	2,333	4,705
Due in 2017	—	2,122	2,122	881
Due in 2018	—	1,553	1,553	786
Due in 2019	1	1,147	1,148	194
Due in 2020	58	84	142	56
Thereafter	84	247	331	383
Total	$ 143	$ 7,486	$ 7,629	$ 10,346
Weighted average coupon rate at period-end(2)	3.9%	1.2%	1.2%	0.8%

(1) Variable rate borrowings bear interest based on a variety of indices, including LIBOR. Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.

(2) Weighted average coupon was calculated utilizing U.S. and non-U.S. dollar interest rates and excludes secured financings that are linked to non-interest indices and for which fair value option was elected.

Maturities and Terms of Failed Sales.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Due in 2015	$ —	$ 32
Due in 2016	69	90
Due in 2017	168	148
Due in 2018	1	14
Due in 2019	54	10
Due in 2020	104	—
Thereafter	4	50
Total	$ 400	$ 344

For more information on failed sales, see Note 13.

12. Commitments, Guarantees and Contingencies.

Commitments.

The Company's commitments are summarized below by years to maturity. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

Commitments.

	Years to Maturity at December 31, 2015				
	Less than 1	1-3	3-5	Over 5	Total
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 172	$ 7	$ —	$ 107	$ 286
Investment activities	544	78	36	398	1,056
Corporate lending commitments(1)	14,912	25,124	48,655	7,025	95,716
Consumer lending commitments	4,846	5	—	4	4,855
Residential real estate lending commitments	24	99	63	246	432
Wholesale real estate lending commitments	82	265	41	2	390
Forward-starting reverse repurchase agreements and securities borrowing agreements(2)(3)	33,485	—	—	—	33,485
Total	$ 54,065	$ 25,578	$ 48,795	$ 7,782	$ 136,220

(1) Due to the nature of the Company's obligations under the commitments, these amounts include certain commitments participated to third parties of $4.2 billion.

(2) The Company enters into forward-starting reverse repurchase and securities borrowing agreements that primarily settle within three business days of the trade date, and of the total amount at December 31, 2015, $25.6 billion settled within three business days.

(3) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $2.2 billion.

Type of Commitments.

Letters of Credit and Other Financial Guarantees Obtained to Satisfy Collateral Requirements. The Company has outstanding letters of credit and other financial guarantees issued by third-party banks to certain of the Company's counterparties. The Company is contingently liable for these letters of credit and other financial guarantees, which are primarily used to provide collateral for securities and commodities borrowed and to satisfy various margin requirements in lieu of depositing cash or securities with these counterparties.

Investment Activities. The Company enters into commitments associated with its real estate, private equity and principal investment activities, which include alternative products.

Lending Commitments. Lending commitments represent the notional amount of legally binding obligations to provide funding to clients for different types of loan transactions. For syndications led by the Company, the lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that the Company participates in and does not lead, lending commitments accepted by the borrower but not yet closed include only the amount that the Company expects it will be allocated from the lead, syndicate bank. Due to the nature of the Company's obligations under the commitments, these amounts include certain commitments participated to third parties. See Note 7 for further information.

Forward-Starting Reverse Repurchase Agreements. The Company has entered into forward-starting securities purchased under agreements to resell (agreements that have a trade date at or prior to December 31, 2015 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations.

The Company sponsors several non-consolidated investment funds for third-party investors where it typically acts as general partner of, and investment advisor to, these funds and typically commits to invest a minority of the capital of such funds, with subscribing third-party investors contributing the majority. The Company's employees, including its senior officers as well as the Company's Directors, may participate on the same terms and conditions as other investors in certain of these funds that the Company forms primarily for client investment, except that the Company may waive or lower applicable fees and charges for its employees. The Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to these investment funds.

Premises and Equipment. The Company has non-cancelable operating leases covering premises and equipment (excluding commodity operating leases, shown separately). At December 31, 2015, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

Operating Premises Leases.

	At December 31, 2015
	(dollars in millions)
2016	$ 612
2017	642
2018	570
2019	485
2020	438
Thereafter	3,127

The total of minimum rental income to be received in the future under non-cancelable operating subleases at December 31, 2015 was $26 million.

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges. Total rent expense, net of sublease rental income, was $705 million, $715 million and $742 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Guarantees.

Obligations Under Guarantee Arrangements at December 31, 2015.

	Maximum Potential Payout/Notional						
	Years to Maturity						
	Less than 1	1-3	3-5	Over 5	Total	Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	(dollars in millions)						
Credit derivative contracts(1)	$ 208,694	$ 298,030	$ 149,171	$ 33,624	$ 689,519	$ 785	$ —
Other credit contracts	19	107	2	332	460	(24)	—
Non-credit derivative contracts(1)	1,103,014	760,769	321,557	567,755	2,753,095	61,401	—
Standby letters of credit and other financial guarantees issued(2)	822	1,361	1,174	5,870	9,227	(175)	7,633
Market value guarantees	11	166	224	29	430	(3)	6
Liquidity facilities	3,079	—	—	—	3,079	(5)	4,875
Whole loan sales guarantees	—	—	1	23,451	23,452	9	—
Securitization representations and warranties	—	—	—	65,000	65,000	98	—
General partner guarantees	25	41	87	467	620	29	—

(1) Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 4.

(2) These amounts include certain issued standby letters of credit participated to third parties totaling $0.7 billion due to the nature of the Company's obligations under these arrangements.

The Company has obligations under certain guarantee arrangements, including contracts and indemnification agreements, that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

Types of Guarantees.

Derivative Contracts. Certain derivative contracts meet the accounting definition of a guarantee, including certain written options, contingent forward contracts and credit default swaps (see Note 4 regarding credit derivatives in which the Company has sold credit protection to the counterparty). Although the Company's derivative arrangements do not specifically identify whether the derivative counterparty retains the underlying asset, liability or equity security, the Company has disclosed information regarding all derivative contracts that could meet the accounting definition of a guarantee. The maximum potential payout for certain derivative contracts, such as written interest rate caps and written foreign currency options, cannot be estimated, as increases in interest or foreign exchange rates in the future could possibly be unlimited. Therefore, in order to provide information regarding the maximum potential amount of future payments that the Company could be required to make under certain derivative contracts, the notional amount of the contracts has been disclosed. In certain situations, collateral may be held by the Company for those contracts that meet the definition of a guarantee. Generally, the Company sets collateral requirements by counterparty so that the collateral covers various transactions and products and is not allocated specifically to individual contracts. Also, the Company may recover amounts related to the underlying asset delivered to the Company under the derivative contract.

The Company records all derivative contracts at fair value. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company also manages its exposure to these derivative contracts through a variety of risk mitigation strategies, including, but not limited to, entering into offsetting economic hedge positions. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure.

Standby Letters of Credit and Other Financial Guarantees Issued. In connection with its corporate lending business and other corporate activities, the Company provides standby letters of credit and other financial guarantees to counterparties. Such arrangements represent obligations to make payments to third parties if the counterparty fails to fulfill its obligation under a borrowing arrangement or other contractual obligation. A majority of the Company's standby letters of credit are provided on behalf of counterparties that are investment grade.

Market Value Guarantees. Market value guarantees are issued to guarantee timely payment of a specified return to investors in certain affordable housing tax credit funds. These guarantees are designed to return an investor's contribution to a fund and the investor's share of tax losses and tax credits expected to be generated by a fund. From time to time, the Company may also guarantee return of principal invested, potentially including a specified rate of return, to fund investors.

Liquidity Facilities. The Company has entered into liquidity facilities with special purpose entities ("SPEs") and other counterparties, whereby the Company is required to make certain payments if losses or defaults occur. Primarily, the Company acts as liquidity provider to municipal bond securitization SPEs and for standalone municipal bonds in which the holders of beneficial interests issued by these SPEs or the holders of the individual bonds, respectively, have the right to tender their interests for purchase by the Company on specified dates at a specified price. The Company often may have recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity facilities as well as make-whole or recourse provisions with the trust sponsors. Primarily all of the underlying assets in the SPEs are investment grade. Liquidity facilities provided to municipal tender option bond trusts are classified as derivatives.

Whole Loan Sale Guarantees. The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain whole loan sales. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties are breached. The Company's maximum potential payout related to such representations and warranties is equal to the current unpaid principal balance ("UPB") of such loans. The Company has information on the current UPB only when it services the loans. The amount included in the above table for the maximum potential payout of $23.5 billion includes the current UPB where known of $4.5 billion and the UPB at the time of sale of $18.9 billion when the current UPB is not known. The UPB at the time of the sale of all loans covered by these representations and warranties was approximately $42.7 billion. The related liability primarily relates to sales of loans to the federal mortgage agencies.

Securitization Representations and Warranties. As part of the Company's Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company. The extent and nature of the representations and warranties, if any, vary among different securitizations. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties are breached. The maximum potential amount of future payments the Company could be required to make would be equal to the current outstanding balances of, or losses associated with, the assets subject to breaches of such representations and warranties. The amount included in the above table for the maximum potential payout includes the current UPB where known and the UPB at the time of sale when the current UPB is not known.

Between 2004 and 2015, the Company sponsored approximately $148.0 billion of RMBS primarily containing U.S. residential loans that were outstanding at December 31, 2015. Of that amount, the Company made representations and warranties relating to approximately $47.0 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 $21.0 billion of loans. At December 31, 2015, the Company had recorded $101 million in its consolidated financial statements for payments owed as a result of breach of representations and warranties made in connection with these residential mortgages. At December 31, 2015, the current UPB for all the residential assets subject to such representations and warranties was approximately $13.5 billion, and the cumulative losses associated with U.S. RMBS were approximately $14.7 billion. The Company did not make, or otherwise agree to be responsible for, the representations and warranties made by third-party sellers on approximately $79.9 billion of residential loans that it securitized during that time period.

The Company also made representations and warranties in connection with its role as an originator of certain commercial mortgage loans that it securitized in CMBS. Between 2004 and 2015, the Company originated approximately $67.6 billion and $7.2 billion of U.S. and non-U.S. commercial mortgage loans, respectively, that were placed into CMBS sponsored by the Company that were outstanding at December 31, 2015. At December 31, 2015, the Company had not accrued any amounts in the consolidated financial statements for payments owed as a result of breach of representations and warranties made in connection with these commercial mortgages. At December 31, 2015, the current UPB for all U.S. commercial mortgage loans subject to such representations and warranties was $35.0 billion. For the non-U.S. commercial mortgage loans, the amount included in the above table for the maximum potential payout includes the current UPB when known of $1.3 billion and the UPB at the time of sale when the current UPB is not known of $0.4 billion.

General Partner Guarantees. As a general partner in certain private equity and real estate partnerships, the Company receives certain distributions from the partnerships related to achieving certain return hurdles according to the provisions of the partnership agreements. The Company, from time to time, may be required to return all or a portion of such distributions to the limited partners in the event the limited partners do not achieve a certain return as specified in the various partnership agreements, subject to certain limitations.

Merger and Acquisition Guarantees. The Company may, from time to time, in its role as investment banking advisor be required to provide guarantees in connection with certain European merger and acquisition transactions. If required by the regulating authorities, the Company provides a guarantee that the acquirer in the merger and acquisition transaction has or will have sufficient funds to complete the transaction and would then be required to make the acquisition payments in the event the acquirer's funds are insufficient at the completion date of the transaction. These arrangements generally cover the time frame from the transaction offer date to its closing date and, therefore, are generally short term in nature. The Company believes the likelihood of any payment by the Company under these arrangements is remote given the level of its due diligence associated with its role as investment banking advisor.

Other Guarantees and Indemnities. In the normal course of business, the Company provides guarantees and indemnifications in a variety of transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications related to trust preferred securities, indemnities, and exchange/clearinghouse member guarantees are described below:

- *Trust Preferred Securities.* The Company has established Morgan Stanley Capital Trusts for the limited purpose of issuing trust preferred securities to third parties and lending such proceeds to the Company in exchange for junior subordinated debentures. The Morgan Stanley Capital Trusts are SPEs, and only the Parent provides a guarantee for the trust preferred securities. The Company has directly guaranteed the repayment of the trust preferred securities to the holders in accordance with the terms thereof. See Note 11 for details on the Company's junior subordinated debentures.

- *Indemnities.* The Company provides standard indemnities to counterparties for certain contingent exposures and taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, certain annuity products and other financial arrangements. These indemnity payments could be required based on a change in the tax laws, a change in interpretation of applicable tax rulings or a change in factual circumstances. Certain contracts contain provisions that enable the Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated.

- *Exchange/Clearinghouse Member Guarantees.* The Company is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or derivative contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's obligations under these rules would arise only if the exchange or clearinghouse had previously exhausted its resources. In addition, some clearinghouse rules require members to assume a proportionate share of losses resulting from the clearinghouse's investment of guarantee fund contributions and initial margin, and of other losses unrelated to the default of a clearing member, if such losses exceed the specified resources allocated for such purpose by the clearinghouse. The maximum potential payout under these rules cannot be estimated. The Company has not recorded any contingent liability in its consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the Company's subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the consolidated financial statements.

Contingencies.

Legal. 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 are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis related matters. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by governmental and self-regulatory agencies 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 and, while the Company has identified below any individual proceedings where the Company believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be probable or possible and reasonably estimable losses.

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. The Company incurred legal expenses of $563 million in 2015, $3,364 million in 2014 and $1,941 million in 2013. The Company's future legal expenses may fluctuate from period to period, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Company.

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where a loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. 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 or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional range of loss can be reasonably estimated for a proceeding or investigation.

For certain other legal proceedings and investigations, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's consolidated financial statements as a whole, other than the matters referred to in the following paragraphs.

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Company, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al*., which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"). 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 February 28, 2011, the court denied the Company's motion to dismiss the complaint. Based on currently available information, the Company believes it could incur a loss in this action of up to approximately $240 million plus pre- and post-judgment interest, fees and costs.

On August 7, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL against the Company. The matter is styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v. Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On August 8, 2014, the court granted in part and denied in part the Company's motion to dismiss. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $149 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On August 8, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*., pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. On August 16, 2013, the court granted in part and denied in part the Company's motion to dismiss the complaint. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $527 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On September 28, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.,* pending in the Supreme Court of NY. The plaintiff filed an amended complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. By order dated September 30, 2014, the court granted in part and denied in part the Company's motion to dismiss the amended complaint. On July 13, 2015, the plaintiff perfected its appeal from the court's September 30, 2014 decision. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $170 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On January 10, 2013, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-10SL and Mortgage Pass-Through Certificates, Series 2006-10SL against the Company styled *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $300 million, breached various representations and warranties. The complaint seeks, among other relief, an order requiring the Company to comply with the loan breach remedy procedures in the transaction documents, unspecified damages, and interest. On August 8, 2014, the court granted in part and denied in part the Company's motion to dismiss the complaint. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $197 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On May 3, 2013, plaintiffs in *Deutsche Zentral-Genossenschaftsbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and 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 sponsored, underwritten and/or sold by the Company to plaintiff currently at issue in this action was approximately $644 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On June 10, 2014, the court granted in part and denied in part the Company's motion to dismiss the complaint. The Company perfected its appeal from that decision on June 12, 2015. At December 25, 2015, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $269 million, and the certificates had incurred actual losses of approximately $83 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $269 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, or upon sale, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses.

On July 8, 2013, U.S. Bank National Association, in its capacity as trustee, filed a complaint against the Company styled *U.S. Bank National Association, solely in its capacity as Trustee of the Morgan Stanley Mortgage Loan Trust 2007-2AX (MSM 2007-2AX) v. Morgan Stanley Mortgage Capital Holdings LLC, as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc. and Greenpoint Mortgage Fundin*g, *Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On August 22, 2013, the Company filed a motion to dismiss the complaint, which was granted in part and denied in part on November 24, 2014. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $240 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On April 28, 2014, Deutsche Bank National Trust Company, in its capacity as trustee for Morgan Stanley Structured Trust I 2007-1, filed a complaint against the Company styled *Deutsche Bank National Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC*, pending in the United States District Court for the Southern District of New York. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $735 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified compensatory and/or rescissory damages, interest and costs. On April 3, 2015, the court granted in part and denied in part the Company's motion to dismiss the complaint. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $292 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On January 23, 2015, Deutsche Bank National Trust Company, in its capacity as trustee, filed a complaint against the Company styled *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.05 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential, rescissory, equitable and punitive damages, attorneys' fees, costs and other related expenses, and interest. On October 20, 2015, the court granted in part and denied in part the Company's motion to dismiss the complaint. Based on currently available information, the Company believes that it could incur a loss in this action of up to approximately $277 million, the total original unpaid balance of the mortgage loans for which the Company received repurchase demands from a certificate holder and a monoline insurer that the Company did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

13. Variable Interest Entities and Securitization Activities.

Overview.

The Company is involved with various SPEs in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Company's variable interests in VIEs include debt and equity interests, commitments, guarantees, derivative instruments and certain fees. The Company's involvement with VIEs arises primarily from:

- Interests purchased in connection with market-making activities, securities held in its Investment securities portfolio and retained interests held as a result of securitization activities, including re-securitization transactions.
- Guarantees issued and residual interests retained in connection with municipal bond securitizations.
- Loans made to and investments in VIEs that hold debt, equity, real estate or other assets.
- Derivatives entered into with VIEs.
- Structuring of CLNs or other asset-repackaged notes designed to meet the investment objectives of clients.
- Other structured transactions designed to provide tax-efficient yields to the Company or its clients.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE. This determination is based upon an analysis of the design of the VIE, including the VIE's structure and activities, the power to make significant economic decisions held by the Company and by other parties, and the variable interests owned by the Company and other parties.

The power to make the most significant economic decisions may take a number of different forms in different types of VIEs. The Company considers servicing or collateral management decisions as representing the power to make the most significant economic decisions in transactions such as securitizations or CDOs. As a result, the Company does not consolidate securitizations or CDOs for which it does not act as the servicer or collateral manager unless it holds certain other rights to replace the servicer or collateral manager or to require the liquidation of the entity. If the Company serves as servicer or collateral manager, or has certain other rights described in the previous sentence, the Company analyzes the interests in the VIE that it holds and consolidates only those VIEs for which it holds a potentially significant interest of the VIE.

The structure of securitization vehicles and CDOs is driven by several parties, including loan seller(s) in securitization transactions, the collateral manager in a CDO, one or more rating agencies, a financial guarantor in some transactions and the underwriter(s) of the transactions, who serve to reflect specific investor demand. In addition, subordinate investors, such as the "B-piece" buyer (*i.e.,* investors in most subordinated bond classes) in commercial mortgage-backed securitizations or equity investors in CDOs, can influence whether specific loans are excluded from a CMBS transaction or investment criteria in a CDO.

For many transactions, such as re-securitization transactions, CLNs and other asset-repackaged notes, there are no significant economic decisions made on an ongoing basis. In these cases, the Company focuses its analysis on decisions made prior to the initial closing of the transaction and at the termination of the transaction. Based upon factors, which include an analysis of the nature of the assets, including whether the assets were issued in a transaction sponsored by the Company and the extent of the information available to the Company and to investors, the number, nature and involvement of investors, other rights held by the Company and investors, the standardization of the legal documentation and the level of continuing involvement by the Company, including the amount and type of interests owned by the Company and by other investors, the Company concluded in most of these transactions that decisions made prior to the initial closing were shared between the Company and the initial investors. The Company focused its control decision on any right held by the Company or investors related to the termination of the VIE. Most re-securitization transactions, CLNs and other asset-repackaged notes have no such termination rights.

Consolidated VIEs.

Except for consolidated VIEs included in other structured financings and managed real estate partnerships in the tables below, the Company accounts for the assets held by the entities primarily in Trading assets and the liabilities of the entities in Other secured financings in its consolidated statements of financial condition. For consolidated VIEs included in other structured financings, the Company accounts for the assets held by the entities primarily in Premises, equipment and software costs, and Other assets in its consolidated statements of financial condition. For consolidated VIEs included in managed real estate partnerships, the Company accounts for the assets held by the entities primarily in Trading assets in its consolidated statements of financial condition. Except for consolidated VIEs included in other structured financings, the assets and liabilities are measured at fair value, with changes in fair value reflected in earnings.

The assets owned by many consolidated VIEs cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many consolidated VIEs are non-recourse to the Company. In certain other consolidated VIEs, the Company either has the unilateral right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 12).

Consolidated VIE Assets and Liabilities.

Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a non-recourse basis:

	At December 31, 2015		At December 31, 2014	
	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities
	(dollars in millions)			
Mortgage- and asset-backed securitizations	$ 375	$ 234	$ 563	$ 337
Managed real estate partnerships(1)	38	1	288	4
Other structured financings	787	13	928	80
Credit-linked notes and Other	1,400	189	1,199	—

(1) During 2015 and 2014, the Company deconsolidated approximately $191 million and $1.6 billion, respectively, in net assets previously attributable to nonredeemable noncontrolling interests that were primarily related to or associated with real estate funds sponsored by the Company.

In general, the Company's exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE's assets recognized in its financial statements, net of losses absorbed by third-party holders of the VIE's liabilities. At December 31, 2015 and December 31, 2014, managed real estate partnerships reflected nonredeemable noncontrolling interests in the consolidated financial statements of $37 million and $240 million, respectively. The Company also had additional maximum exposure to losses of approximately $72 million and $105 million at December 31, 2015 and December 31, 2014, respectively, primarily related to certain derivatives, commitments, guarantees and other forms of involvement.

Non-consolidated VIEs.

The tables below include all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria. Most of the VIEs included in the tables below are sponsored by unrelated parties; the Company's involvement generally is the result of its secondary market-making activities and securities held in its Investment securities portfolio (see Note 5):

	At December 31, 2015				
	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
			(dollars in millions)		
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 126,872	$ 8,805	$ 4,654	$ 2,201	$ 20,775
Maximum exposure to loss:					
Debt and equity interests(2)	$ 13,361	$ 1,259	$ 1	$ 1,129	$ 3,854
Derivative and other contracts	—	—	2,834	—	67
Commitments, guarantees and other	494	231	—	361	222
Total maximum exposure to loss	$ 13,855	$ 1,490	$ 2,835	$ 1,490	$ 4,143
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 13,361	$ 1,259	$ 1	$ 685	$ 3,854
Derivative and other contracts	—	—	5	—	13
Total carrying value of exposure to loss—Assets	$ 13,361	$ 1,259	$ 6	$ 685	$ 3,867
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ —	$ —	$ —	$ —	$ 15
Commitments, guarantees and other	—	—	—	3	—
Total carrying value of exposure to loss—Liabilities	$ —	$ —	$ —	$ 3	$ 15

	At December 31, 2014				
	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(3)	$ 174,548	$ 26,567	$ 3,449	$ 2,040	$ 19,237
Maximum exposure to loss:					
Debt and equity interests(4)	$ 15,028	$ 3,062	$ 13	$ 1,158	$ 3,884
Derivative and other contracts	15	2	2,212	—	164
Commitments, guarantees and other	1,054	432	—	617	429
Total maximum exposure to loss	$ 16,097	$ 3,496	$ 2,225	$ 1,775	$ 4,477
Carrying value of exposure to loss—Assets:					
Debt and equity interests(4)	$ 15,028	$ 3,062	$ 13	$ 741	$ 3,884
Derivative and other contracts	15	2	4	—	74
Total carrying value of exposure to loss—Assets	$ 15,043	$ 3,064	$ 17	$ 741	$ 3,958
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ —	$ —	$ —	$ —	$ 57
Commitments, guarantees and other	—	—	—	5	—
Total carrying value of exposure to loss—Liabilities	$ —	$ —	$ —	$ 5	$ 57

(1) Mortgage- and asset-backed securitizations include VIE assets as follows: $13.8 billion of residential mortgages; $57.3 billion of commercial mortgages; $13.2 billion of U.S. agency collateralized mortgage obligations; and $42.5 billion of other consumer or commercial loans.

(2) Mortgage- and asset-backed securitizations include VIE debt and equity interests as follows: $1.0 billion of residential mortgages; $2.9 billion of commercial mortgages; $2.8 billion of U.S. agency collateralized mortgage obligations; and $6.7 billion of other consumer or commercial loans.

(3) Mortgage- and asset-backed securitizations include VIE assets as follows: $30.8 billion of residential mortgages; $71.9 billion of commercial mortgages; $20.6 billion of U.S. agency collateralized mortgage obligations; and $51.2 billion of other consumer or commercial loans.

(4) Mortgage- and asset-backed securitizations include VIE debt and equity interests as follows: $1.9 billion of residential mortgages; $2.4 billion of commercial mortgages; $4.0 billion of U.S. agency collateralized mortgage obligations; and $6.8 billion of other consumer or commercial loans.

The Company's maximum exposure to loss often differs from the carrying value of the variable interests held by the Company. The maximum exposure to loss is dependent on the nature of the Company's variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Company has made in the VIEs. Liabilities issued by VIEs generally are non-recourse to the Company. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value write-downs already recorded by the Company.

The Company's maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Company may utilize to hedge these risks associated with its variable interests. In addition, the Company's maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Company owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities totaled $12.9 billion and $14.0 billion at December 31, 2015 and December 31, 2014, respectively. These securities were either retained in connection with transfers of assets by the Company, acquired in connection with secondary market-making activities or held as AFS securities in its Investment securities portfolio (see Note 5). At December 31, 2015 and December 31, 2014, these securities consisted of securities backed by residential mortgage loans, commercial mortgage loans or other consumer loans, such as credit card receivables, automobile loans and student loans, and CDOs or CLOs. The Company's primary risk exposure is to the securities issued by the SPE owned by the Company, with the risk highest on the most subordinate class of beneficial interests. These securities generally are included in Trading assets—Corporate and other debt or AFS securities within its Investment securities portfolio and are measured at fair value (see Note 3). The Company does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Company's maximum exposure to loss generally equals the fair value of the securities owned.

The Company's transactions with VIEs primarily include securitizations, municipal tender option bond trusts, credit protection purchased through CLNs, other structured financings, collateralized loan and debt obligations, equity-linked notes, managed real estate partnerships and asset management investment funds. The Company's continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Company-sponsored transactions, interests purchased in the secondary market (both for Company-sponsored transactions and transactions sponsored by third parties), derivatives with securitization SPEs (primarily interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Company has purchased protection in synthetic CDOs). Such activities are further described below.

Securitization Activities.

In a securitization transaction, the Company transfers assets (generally commercial or residential mortgage loans or U.S. agency securities) to an SPE, sells to investors most of the beneficial interests, such as notes or certificates, issued by the SPE, and, in many cases, retains other beneficial interests. In many securitization transactions involving commercial mortgage loans, the Company transfers a portion of the assets to the SPE with unrelated parties transferring the remaining assets.

The purchase of the transferred assets by the SPE is financed through the sale of these interests. In some of these transactions, primarily involving residential mortgage loans in the U.S., the Company serves as servicer for some or all of the transferred loans. In many securitizations, particularly involving residential mortgage loans, the Company also enters into derivative transactions, primarily interest rate swaps or interest rate caps, with the SPE.

Although not obligated, the Company generally makes a market in the securities issued by SPEs in these transactions. As a market maker, the Company offers to buy these securities from, and sell these securities to, investors. Securities purchased through these market-making activities are not considered to be retained interests, although these beneficial interests generally are included in Trading assets—Corporate and other debt and are measured at fair value.

The Company enters into derivatives, generally interest rate swaps and interest rate caps, with a senior payment priority in many securitization transactions. The risks associated with these and similar derivatives with SPEs are essentially the same as similar derivatives with non-SPE counterparties and are managed as part of the Company's overall exposure. See Note 4 for further information on derivative instruments and hedging activities.

***Available for Sale Securities*.**

In the AFS securities within the Investment securities portfolio, the Company holds securities issued by VIEs not sponsored by the Company. These securities include government guaranteed securities issued in transactions sponsored by the federal mortgage agencies and the most senior securities issued by VIEs in which the securities are backed by student loans, automobile loans, commercial mortgage loans or CLOs (see Note 5).

Municipal Tender Option Bond Trusts.

In a municipal tender option bond transaction, the Company, generally on behalf of a client, transfers a municipal bond to a trust. The trust issues short-term securities that the Company, as the remarketing agent, sells to investors. The client retains a residual interest. The short-term securities are supported by a liquidity facility pursuant to which the investors may put their short-term interests. In some programs, the Company provides this liquidity facility; in most programs, a third-party provider will provide such liquidity facility. The Company may purchase short-term securities in its role either as remarketing agent or as liquidity provider. The client can generally terminate the transaction at any time. The liquidity provider can generally terminate the transaction upon the occurrence of certain events. When the transaction is terminated, the municipal bond is generally sold or returned to the client. Any losses suffered by the liquidity provider upon the sale of the bond are the responsibility of the client. This obligation generally is collateralized. Liquidity facilities provided to municipal tender option bond trusts are classified as derivatives. The Company consolidates any municipal tender option bond trusts in which it holds the residual interest.

Credit Protection Purchased through CLNs.

In a CLN transaction, the Company transfers assets (generally high-quality securities or money market investments) to an SPE, enters into a derivative transaction in which the SPE writes protection on an unrelated reference asset or group of assets, through a credit default swap, a total return swap or similar instrument, and sells to investors the securities issued by the SPE. In some transactions, the Company may also enter into interest rate or currency swaps with the SPE. Upon the occurrence of a credit event related to the reference asset, the SPE will deliver collateral securities as payment to the Company. The Company is generally exposed to price changes on the collateral securities in the event of a credit event and subsequent sale. These transactions are designed to provide investors with exposure to certain credit risk on the reference asset. In some transactions, the assets and liabilities of the SPE are recognized in the Company's consolidated statements of financial condition. In other transactions, the transfer of the collateral securities is accounted for as a sale of assets, and the SPE is not consolidated. The structure of the transaction determines the accounting treatment.

The derivatives in CLN transactions consist of total return swaps, credit default swaps or similar contracts in which the Company has purchased protection on a reference asset or group of assets. Payments by the SPE are collateralized. The risks associated with these and similar derivatives with SPEs are essentially the same as similar derivatives with non-SPE counterparties and are managed as part of the Company's overall exposure.

Other Structured Financings.

The Company primarily invests in equity interests issued by entities that develop and own low-income communities (including low-income housing projects) and entities that construct and own facilities that will generate energy from renewable resources. The equity interests entitle the Company to its share of tax credits and tax losses generated by these projects. In addition, the Company has issued guarantees to investors in certain low-income housing funds. The guarantees are designed to return an investor's contribution to a fund and the investor's share of tax losses and tax credits expected to be generated by the fund. The Company is also involved with entities designed to provide tax-efficient yields to the Company or its clients.

Collateralized Loan and Debt Obligations.

A CLO or a CDO is an SPE that purchases a pool of assets, consisting of corporate loans, corporate bonds, asset-backed securities or synthetic exposures on similar assets through derivatives, and issues multiple tranches of debt and equity securities to investors. The Company underwrites the securities issued in CLO transactions on behalf of unaffiliated sponsors and provides advisory services to these unaffiliated sponsors. The Company sells corporate loans to many of these SPEs, in some cases representing a significant portion of the total assets purchased. If necessary, the Company may retain unsold securities issued in these transactions. Although not obligated, the Company generally makes a market in the securities issued by SPEs in these transactions. These beneficial interests are included in Trading assets and are measured at fair value.

Equity-Linked Notes.

In an equity-linked note ("ELN") transaction, the Company typically transfers to an SPE either (1) a note issued by the Company, the payments on which are linked to the performance of a specific equity security, equity index, or other index or

(2) debt securities issued by other companies and a derivative contract, the terms of which will relate to the performance of a specific equity security, equity index or other index. These transactions are designed to provide investors with exposure to certain risks related to the specific equity security, equity index or other index. ELN transactions with SPEs were not consolidated at December 31, 2015 and at December 31, 2014.

Managed Real Estate Partnerships.

The Company sponsors funds that invest in real estate assets. Certain of these funds are classified as VIEs, primarily because the Company has provided financial support through lending facilities and other means. The Company also serves as the general partner for these funds and owns limited partnership interests in them. These funds were consolidated at December 31, 2015 and December 31, 2014.

Transfers of Assets with Continuing Involvement.

Transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment are shown below.

	At December 31, 2015			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other(1)
	(dollars in millions)			
SPE assets (unpaid principal balance)(2)	$ 22,440	$ 72,760	$ 17,978	$ 12,235
Retained interests (fair value):				
Investment grade	$ —	$ 238	$ 649	$ —
Non-investment grade	160	63	—	1,136
Total retained interests (fair value)	$ 160	$ 301	$ 649	$ 1,136
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$ 88	$ 99	$ —
Non-investment grade	60	63	—	10
Total interests purchased in the secondary market (fair value)	$ 60	$ 151	$ 99	$ 10
Derivative assets (fair value)	$ —	$ 343	$ —	$ 151
Derivative liabilities (fair value)	—	—	—	449

	At December 31, 2014			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other(1)
	(dollars in millions)			
SPE assets (unpaid principal balance)(2)	$ 26,549	$ 58,660	$ 20,826	$ 24,011
Retained interests (fair value):				
Investment grade	$ 10	$ 117	$ 1,019	$ 57
Non-investment grade	98	120	—	1,264
Total retained interests (fair value)	$ 108	$ 237	$ 1,019	$ 1,321
Interests purchased in the secondary market (fair value):				
Investment grade	$ 32	$ 129	$ 61	$ 423
Non-investment grade	32	72	—	59
Total interests purchased in the secondary market (fair value)	$ 64	$ 201	$ 61	$ 482
Derivative assets (fair value)	$ —	$ 495	$ —	$ 138
Derivative liabilities (fair value)	—	—	—	86

(1) Amounts include CLO transactions managed by unrelated third parties.

(2) Amounts include assets transferred by unrelated transferors.

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$ —	$ 886	$ 1	$ 887
Non-investment grade	—	17	1,342	1,359
Total retained interests (fair value)	$ —	$ 903	$ 1,343	$ 2,246
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$ 187	$ —	$ 187
Non-investment grade	—	112	21	133
Total interests purchased in the secondary market (fair value)	$ —	$ 299	$ 21	$ 320
Derivative assets (fair value)	$ —	$ 466	$ 28	$ 494
Derivative liabilities (fair value)	—	110	339	449

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$ —	$ 1,166	$ 37	$ 1,203
Non-investment grade	—	123	1,359	1,482
Total retained interests (fair value)	$ —	$ 1,289	$ 1,396	$ 2,685
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$ 644	$ 1	$ 645
Non-investment grade	—	129	34	163
Total interests purchased in the secondary market (fair value)	$ —	$ 773	$ 35	$ 808
Derivative assets (fair value)	$ —	$ 559	$ 74	$ 633
Derivative liabilities (fair value)	—	82	4	86

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the consolidated statements of income. The Company may act as underwriter of the beneficial interests issued by these securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these transactions. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income.

Net gains on sale of assets in securitization transactions at the time of the sale were not material in 2015, 2014 and 2013.

Proceeds from New Securitization Transactions and Retained Interests in Securitization Transactions.

	2015	2014	2013
	(dollars in millions)		
Proceeds received from new securitization transactions	$ 21,243	$ 20,553	$ 24,889
Proceeds from retained interests in securitization transactions	3,062	3,041	4,614

The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 12).

Proceeds from Sales to CLO Entities Sponsored by Non-Affiliates.

	2015	2014	2013
	(dollars in millions)		
Proceeds from sale of corporate loans sold to those SPEs	$ 1,110	$ 2,388	$ 2,347

Net gains on sale of corporate loans to CLO transactions at the time of sale were not material in 2015, 2014 and 2013.

The Company also enters into transactions in which it sells equity securities and contemporaneously enters into bilateral OTC equity derivatives with the purchasers of the securities, through which it retains the exposure to the securities. For transactions where the derivatives were outstanding at December 31, 2015, the carrying value of assets derecognized at the time of sale and the gross cash proceeds were $7.9 billion. In addition, the fair value at December 31, 2015 of the assets sold was $7.9 billion, while the fair value of derivative assets and derivative liabilities recognized in the consolidated statements of financial condition at December 31, 2015 was $97.0 million and $39.8 million, respectively (see Note 4).

Failed Sales.

For transfers that fail to meet the accounting criteria for a sale, the Company continues to recognize the assets in Trading assets at fair value, and the Company recognizes the associated liabilities in Other secured financings at fair value in the consolidated statements of financial condition (see Note 11).

The assets transferred to unconsolidated VIEs in transactions accounted for as failed sales cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities are also non-recourse to the Company. In certain other failed sale transactions, the Company has the right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

Carrying Value of Assets and Liabilities Related to Failed Sales.

	At December 31, 2015		At December 31, 2014	
	Carrying Value of:		Carrying Value of:	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Failed sales	$ 400	$ 400	$ 352	$ 344

14. Regulatory Requirements.

Regulatory Capital Framework.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Company's U.S. Bank Subsidiaries. The U.S. banking regulators have comprehensively revised their risk-based and leverage capital framework to implement many aspects of the Basel III capital standards established by the Basel Committee on Banking Supervision (the "Basel Committee"). The U.S. banking regulators' revised capital framework is referred to herein as "U.S. Basel III." The Company and its U.S. Bank Subsidiaries became subject to U.S. Basel III on January 1, 2014.

Calculation of Risk-Based Capital Ratios.

The Company is required to calculate and hold capital against credit, market and operational risk-weighted assets ("RWAs"). RWAs reflect both on- and off-balance sheet risk of the Company. Credit risk RWAs reflect capital charges attributable to the risk of loss arising from a borrower, counterparty or issuer failing to meet its financial obligations. Market risk RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. Operational risk RWAs reflect capital charges attributable to the risk of loss resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud; theft; legal, regulatory and compliance risks; or damage to physical assets). The Company may incur operational risks across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). In addition, given the evolving regulatory and litigation environment across the financial services industry and the fact that operational risk RWAs incorporate the impact of such related matters, operational risk RWAs may increase in future periods.

On February 21, 2014, the Federal Reserve and the OCC approved the Company's and its U.S. Bank Subsidiaries' respective use of the U.S. Basel III advanced internal ratings-based approach for determining credit risk capital requirements and advanced measurement approaches for determining operational risk capital requirements to calculate and publicly disclose their risk-based capital ratios beginning with the second quarter of 2014, subject to the "capital floor" discussed below (the "Advanced Approach"). As a U.S. Basel III Advanced Approach banking organization, the Company is required to compute risk-based capital ratios calculated using both (i) standardized approaches for calculating credit risk RWAs and market risk RWAs (the "Standardized Approach"); and (ii) an advanced internal ratings-based approach for calculating credit risk RWAs, an advanced measurement approach for calculating operational risk RWAs, and an advanced approach for calculating market risk RWAs under U.S. Basel III.

To implement a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act, U.S. Basel III subjects Advanced Approach banking organizations that have been approved by their regulators to exit the parallel run, such as the Company, to a permanent "capital floor." Beginning on January 1, 2015, as a result of the capital floor, the Company's binding risk-based capital ratios for regulatory purposes are the lower of the capital ratios computed under the Advanced Approach or the Standardized Approach under U.S. Basel III. The U.S. Basel III Standardized Approach modifies certain U.S. Basel I-based methods for calculating RWAs and prescribes new standardized risk weights for certain types of assets and exposures. In 2014, the Company's binding risk-based capital ratios for regulatory purposes were the lower of the capital ratios computed under the Advanced Approach under U.S. Basel III or U.S. banking regulators' U.S. Basel I-based rules ("U.S. Basel I") as supplemented by rules that implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5". The capital floor applies to the calculation of the minimum risk-based capital requirements, the capital conservation buffer, the countercyclical capital buffer (if deployed by banking regulators), and the global systemically important bank capital surcharge.

The methods for calculating each of the Company's risk-based capital ratios will change through January 1, 2022 as aspects of U.S. Basel III are phased in. These ongoing methodological changes may result in differences in the Company's reported capital ratios from one reporting period to the next that are independent of changes to its capital base, asset composition, off-balance sheet exposures or risk profile.

The Company's Regulatory Capital and Capital Ratios.

At December 31, 2015, the Company's risk-based capital ratios were lower under the Advanced Approach transitional rules; however, the risk-based capital ratios for its U.S. Bank Subsidiaries were lower under the Standardized Approach transitional rules.

Capital Measures and Minimum Regulatory Capital Ratios.

	At December 31, 2015			At December 31, 2014		
	Amount	Ratio	Minimum Regulatory Capital Ratio(1)	Amount	Ratio	Minimum Regulatory Capital Ratio(1)
	(dollars in millions)					
Regulatory capital and capital ratios:						
Common Equity Tier 1 capital	$ 59,409	15.5%	4.5%	$ 57,324	12.6%	4.0%
Tier 1 capital	66,722	17.4%	6.0%	64,182	14.1%	5.5%
Total capital	79,403	20.7%	8.0%	74,972	16.4%	8.0%
Tier 1 leverage(2)	—	8.3%	4.0%	—	7.9%	4.0%
Assets:						
Total RWAs	$ 384,162	N/A	N/A	$ 456,008	N/A	N/A
Adjusted average assets(3)	803,574	N/A	N/A	810,524	N/A	N/A

N/A—Not Applicable.

(1) Percentages represent minimum regulatory capital ratios under U.S. Basel III transitional rules.

(2) Tier 1 leverage ratios are calculated under U.S. Basel III Standardized Approach transitional rules.

(3) Beginning with the first quarter of 2015, in accordance with U.S. Basel III, adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

The Company's U.S. Bank Subsidiaries.

The Company's U.S. Bank Subsidiaries are subject to similar regulatory capital requirements as the Company. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's U.S. Bank Subsidiaries' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, each of the Company's U.S. Bank Subsidiaries must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Regulatory Capital and Capital Ratios for the Company's U.S. Bank Subsidiaries.

	Morgan Stanley Bank, N.A.					
	At December 31, 2015			At December 31, 2014		
	U.S. Basel III Transitional/ Standardized Approach		Required Capital Ratio(1)	U.S. Basel III Transitional/ Basel I + Basel 2.5 Approach		Required Capital Ratio(1)
	Amount	Ratio		Amount	Ratio	
	(dollars in millions)					
Common Equity Tier 1 capital	$ 13,333	15.1%	6.5%	$ 12,355	12.2%	6.5%
Tier 1 capital	13,333	15.1%	8.0%	12,355	12.2%	8.0%
Total capital	15,097	17.1%	10.0%	14,040	13.9%	10.0%
Tier 1 leverage	13,333	10.2%	5.0%	12,355	10.2%	5.0%

	Morgan Stanley Private Bank, National Association					
	At December 31, 2015			At December 31, 2014		
	U.S. Basel III Transitional/ Standardized Approach		Required Capital Ratio(1)	U.S. Basel III Transitional/ Basel I + Basel 2.5 Approach		Required Capital Ratio(1)
	Amount	Ratio		Amount	Ratio	
	(dollars in millions)					
Common Equity Tier 1 capital	$ 4,197	26.5%	6.5%	$ 2,468	20.3%	6.5%
Tier 1 capital	4,197	26.5%	8.0%	2,468	20.3%	8.0%
Total capital	4,225	26.7%	10.0%	2,480	20.4%	10.0%
Tier 1 leverage	4,197	10.5%	5.0%	2,468	9.4%	5.0%

[1] Capital ratios that are required in order to be considered well-capitalized for U.S. regulatory purposes.

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well-capitalized, must maintain certain minimum capital ratios. Each U.S. depository institution subsidiary of the Company must be well-capitalized in order for the Company to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At December 31, 2015 and December 31, 2014, the Company's U.S. Bank Subsidiaries maintained capital at levels sufficiently in excess of the universally mandated well-capitalized requirements to address any additional capital needs and requirements identified by the U.S. federal banking regulators.

MS&Co. and Other Broker-Dealers.

MS&Co. is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the U.S. Securities and Exchange Commission ("SEC") and the U.S. Commodity Futures Trading Commission ("CFTC"). MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co.'s net capital totaled $10,254 million and $6,593 million at December 31, 2015 and December 31, 2014, respectively, which exceeded the amount required by $8,458 million and $4,928 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1. In addition, MS&Co. is required to notify the SEC in the event that its tentative net capital is less than $5 billion. At December 31, 2015 and December 31, 2014, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

MSSB LLC is a registered broker-dealer and introducing broker for the futures business and, accordingly, is subject to the minimum net capital requirements of the SEC and the CFTC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements. MSSB LLC's net capital totaled $3,613 million and $4,620 million at December 31, 2015 and December 31, 2014, respectively, which exceeded the amount required by $3,459 million and $4,460 million, respectively.

MSIP, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Prudential Regulation Authority, and MSMS, a Tokyo-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated with capital in excess of their respective regulatory capital requirements.

Other Regulated Subsidiaries.

Certain other U.S. and non-U.S. subsidiaries of the Company are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated with capital in excess of their local capital adequacy requirements.

The regulatory capital requirements referred to above, and certain covenants contained in various agreements governing indebtedness of the Company, may restrict the Company's ability to withdraw capital from its subsidiaries. At December 31, 2015 and December 31, 2014, approximately $28.6 billion and $31.8 billion, respectively, of net assets of consolidated subsidiaries may be restricted as to the payment of cash dividends and advances to the parent company.

15. Total Equity

Morgan Stanley Shareholders' Equity.

Common Stock.

Changes in Shares of Common Stock Outstanding.

	2015	2014
	(in millions)	
Shares outstanding at beginning of period	1,951	1,945
Treasury stock purchases(1)	(78)	(46)
Other(2)	47	52
Shares outstanding at end of period	1,920	1,951

(1) Treasury stock purchases include repurchases of common stock for employee tax withholding.

(2) Other includes net shares issued to and forfeited from Employee stock trusts and issued for RSU conversions.

Dividends and Share Repurchases. In March 2015, the Company received no objection from the Federal Reserve to its 2015 capital plan. The capital plan included a share repurchase of up to $3.1 billion of the Company's outstanding common stock during the period that began April 1, 2015 through June 30, 2016. Additionally, the capital plan included an increase in the quarterly common stock dividend to $0.15 per share from $0.10 per share that began with the dividend declared on April 20, 2015. The cash dividends declared on the Company's outstanding preferred stock were $452 million, $311 million and $271 million in 2015, 2014 and 2013, respectively. During 2015 and 2014, the Company repurchased approximately $2,125 million and $900 million, respectively, of its outstanding common stock as part of its share repurchase program.

Pursuant to the share repurchase program, the Company considers, among other things, business segment capital needs as well as stock-based compensation and benefit plan requirements. Share repurchases under the program will be exercised from time to time at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans, and may be suspended at any time. Share repurchases by the Company are subject to regulatory approval.

Employee Stock Trusts.

The Company has established Employee stock trusts to provide common stock voting rights to certain employees who hold outstanding RSUs. The assets of the Employee stock trusts are consolidated with those of the Company, and the value of the stock held in the Employee stock trusts is classified in Morgan Stanley shareholders' equity and generally accounted for in a manner similar to treasury stock.

Preferred Stock.

The Company is authorized to issue 30 million shares of preferred stock. The preferred stock has a preference over the common stock upon liquidation.

Preferred Stock Outstanding.

			Carrying Value	
Series	Shares Outstanding At December 31, 2015	Liquidation Preference per Share	At December 31, 2015	At December 31, 2014
	(shares in millions)		(dollars in millions)	
A	44,000	$ 25,000	$ 1,100	$ 1,100
C(1)	519,882	1,000	408	408
E	34,500	25,000	862	862
F	34,000	25,000	850	850
G	20,000	25,000	500	500
H	52,000	25,000	1,300	1,300
I	40,000	25,000	1,000	1,000
J	60,000	25,000	1,500	—
Total			$ 7,520	$ 6,020

[1] Series C is comprised of the issuance of 1,160,791 shares of Series C Preferred Stock to MUFG for an aggregate purchase price of $911 million, less the redemption of 640,909 shares of Series C Preferred Stock of $503 million, which were converted to common shares of approximately $705 million.

The Company's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 14).

Preferred Stock Issuance Description.

Series	Issuance Date	Preferred Stock Issuance Description	Redemption Price per Share(1)	Redeemable on or after Date	Dividend per Share(2)
A(3)	July 2006	44,000,000 Depositary Shares, each representing a 1/1,000th of a share of Floating Rate Non-Cumulative Preferred Stock, $0.01 par value	$25,000	July 15, 2011	$255.56
C(3)(4)	October 13, 2008	10% Perpetual Non-Cumulative Non-Voting Preferred Stock	1,100	October 15, 2011	25.00
E(5)	September 30, 2013	34,500,000 Depositary Shares, each representing a 1/1,000th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value	25,000	October 15, 2023	445.31
F(5)	December 10, 2013	34,000,000 Depositary Shares, each representing a 1/1,000th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value	25,000	January 15, 2024	429.69
G(5)	April 29, 2014	20,000,000 Depositary Shares, each representing a 1/1,000th interest in a share of perpetual 6.625% Non-Cumulative Preferred Stock, $0.01 par value	25,000	July 15, 2019	414.06
H(5)(6)	April 29, 2014	1,300,000 Depositary Shares, each representing a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value	25,000	July 15, 2019	681.25
I(5)	September 18, 2014	40,000,000 Depositary Shares, each representing a 1/1,000th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value	25,000	October 15, 2024	398.44
J(5)(7)	March 19, 2015	1,500,000 Depositary Shares, each representing a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, $0.01 par value	25,000	July 15, 2020	693.75

[1] The redemption price per share for Series A, E, F, G and I is equivalent to $25.00 per Depositary Share. The redemption price per share for Series H and J is equivalent to $1,000 per Depositary Share.

[2] Quarterly (unless noted otherwise) dividend declared in December 2015 that was paid on January 15, 2016 to preferred shareholders of record on December 31, 2015.

[3] The preferred stock is redeemable at the Company's option, in whole or in part, on or after the redemption date.

[4] Dividends on the Series C preferred stock are payable, on a non-cumulative basis, as and if declared by the Company's Board of Directors, in cash, at the rate of 10% per annum of the liquidation preference of $1,000 per share.

(5) The preferred stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after the redemption date or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series).

(6) Dividend on Series H preferred stock is payable semiannually until July 15, 2019 and quarterly thereafter.

(7) Dividend on Series J preferred stock is payable semiannually until July 15, 2020 and quarterly thereafter. In addition to the redemption price per share, the redemption price includes any declared and unpaid dividends up to, but excluding, the date fixed for redemption, without accumulation of any undeclared dividends.

Accumulated Other Comprehensive Income (Loss).

Changes in AOCI by Component, Net of Noncontrolling Interests.

	Foreign Currency Translation Adjustments	Change in Net Unrealized Gains (Losses) on AFS Securities	Pensions, Postretirement and Other	Total
	(dollars in millions)			
Balance at December 31, 2014	$ (663)	$ (73)	$ (512)	$(1,248)
Other comprehensive income (loss) before reclassifications	(300)	(193)	132	(361)
Amounts reclassified from AOCI	—	(53)	6	(47)
Net other comprehensive income (loss) during the period	(300)	(246)	138	(408)
Balance at December 31, 2015	$ (963)	$ (319)	$ (374)	$(1,656)

	Foreign Currency Translation Adjustments	Change in Net Unrealized Gains (Losses) on AFS Securities	Pensions, Postretirement and Other	Total
	(dollars in millions)			
Balance at December 31, 2013	$ (266)	$ (282)	$ (545)	$(1,093)
Other comprehensive income (loss) before reclassifications	(397)	233	24	(140)
Amounts reclassified from AOCI	—	(24)	9	(15)
Net other comprehensive income (loss) during the period	(397)	209	33	(155)
Balance at December 31, 2014	$ (663)	$ (73)	$ (512)	$(1,248)

	Foreign Currency Translation Adjustments	Change in Net Unrealized Gains (Losses) on AFS Securities	Pensions, Postretirement and Other	Total
	(dollars in millions)			
Balance at December 31, 2012	$ (123)	$ 151	$ (544)	$ (516)
Other comprehensive income (loss) before reclassifications	(143)	(406)	(16)	(565)
Amounts reclassified from AOCI	—	(27)	15	(12)
Net other comprehensive income (loss) during the period	(143)	(433)	(1)	(577)
Balance at December 31, 2013	$ (266)	$ (282)	$ (545)	$(1,093)

The Company had no significant reclassifications out of AOCI for 2015, 2014 and 2013.

Cumulative Foreign Currency Translation Adjustments. Cumulative foreign currency translation adjustments include gains or losses resulting from translating foreign currency financial statements from their respective functional currencies to U.S. dollars, net of hedge gains or losses and related tax effects. The Company uses foreign currency contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency subsidiaries. Increases or decreases in the value of net foreign investments generally are tax deferred for U.S. purposes, but the related hedge gains and losses are taxable currently. The Company may elect not to hedge its net investments in certain foreign operations due to market conditions or other reasons, including the availability of various currency contracts at acceptable costs. Information at December 31, 2015 and December 31, 2014 relating to the effects on cumulative foreign currency translation adjustments that resulted from the translation of foreign currency financial statements and from gains and losses from hedges of the Company's net investments in non-U.S. dollar functional currency subsidiaries is summarized in the table below.

Effects on Cumulative Foreign Currency Translation Adjustments.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Net investments in non-U.S. dollar functional currency subsidiaries subject to hedges	$ 8,170	$ 9,110
Cumulative foreign currency translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ (1,996)	$ (1,262)
Cumulative foreign currency translation adjustments resulting from realized or unrealized losses on hedges, net of tax	1,033	599
Total cumulative foreign currency translation adjustments, net of tax	$ (963)	$ (663)

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests were $1,002 million and $1,204 million at December 31, 2015 and December 31, 2014, respectively. The reduction in nonredeemable noncontrolling interests was primarily due to the deconsolidation of certain legal entities associated with a real estate fund sponsored by the Company in the second quarter of 2015.

Wealth Management JV.

In June 2013, the Company purchased the remaining 35% stake in the Wealth Management JV for $4.725 billion, increasing the Company's interest from 65% to 100%. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) to reflect the difference between the purchase price for the remaining 35% interest in the Wealth Management JV and its carrying value. This adjustment negatively impacted the calculation of basic and diluted EPS in 2013 (see Note 16). Additionally, in conjunction with the purchase of the remaining 35% interest, in June 2013, the Company redeemed all of the Class A Preferred Interests in the Wealth Management JV owned by Citi and its affiliates for approximately $2.028 billion and repaid to Citi $880 million in senior debt.

Subsequent to June 2013, no results were attributed to Citi since the Company owned 100% of the Wealth Management JV. Prior to June 2013, Citi's results related to its 35% interest were reported in net income (loss) applicable to redeemable noncontrolling interests in the consolidated statements of income.

16. Earnings per Common Share.

Calculation of Basic and Diluted EPS.

	2015	2014	2013
	(in millions, except for per share data)		
Basic EPS:			
Income from continuing operations	$ 6,295	$ 3,681	$ 3,656
Income (loss) from discontinued operations	(16)	(14)	(43)
Net income	6,279	3,667	3,613
Net income applicable to redeemable noncontrolling interests	—	—	222
Net income applicable to nonredeemable noncontrolling interests	152	200	459
Net income applicable to Morgan Stanley	6,127	3,467	2,932
Less: Preferred dividends	(452)	(311)	(120)
Less: Wealth Management JV redemption value adjustment	—	—	(151)
Less: Allocation of (earnings) loss to participating RSUs(1)	(4)	(4)	(6)
Earnings applicable to Morgan Stanley common shareholders	$ 5,671	$ 3,152	$ 2,655
Weighted average common shares outstanding	1,909	1,924	1,906
Earnings per basic common share:			
Income from continuing operations	$ 2.98	$ 1.65	$ 1.42
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.03)
Earnings per basic common share	$ 2.97	$ 1.64	$ 1.39
Diluted EPS:			
Earnings applicable to Morgan Stanley common shareholders	$ 5,671	$ 3,152	$ 2,655
Weighted average common shares outstanding	1,909	1,924	1,906
Effect of dilutive securities:			
Stock options and RSUs(1)	44	47	51
Weighted average common shares outstanding and common stock equivalents	1,953	1,971	1,957
Earnings per diluted common share:			
Income from continuing operations	$ 2.91	$ 1.61	$ 1.38
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.02)
Earnings per diluted common share	$ 2.90	$ 1.60	$ 1.36

(1) RSUs that are considered participating securities participate in all of the earnings of the Company in the computation of basic EPS, and, therefore, such RSUs are not included as incremental shares in the diluted calculation.

Antidilutive Securities.

Securities that were considered antidilutive were excluded from the computation of diluted EPS.

Outstanding Antidilutive Securities at Period-End.

	2015	2014	2013
	(shares in millions)		
Stock options	11	13	33
RSUs and performance-based stock units	1	2	3
Total	12	15	36

17. Interest Income and Interest Expense.

Interest Income and Interest Expense.

	2015	2014	2013
	(dollars in millions)		
Interest income(1):			
Trading assets(2)	$ 2,262	$ 2,109	$ 2,292
Investment securities	876	613	447
Loans	2,163	1,690	1,121
Interest bearing deposits with banks	108	109	129
Securities purchased under agreements to resell and Securities borrowed(3)	(560)	(298)	(20)
Customer receivables and Other(4)	986	1,190	1,240
Total interest income	$ 5,835	$ 5,413	$ 5,209
Interest expense(1):			
Deposits	$ 78	$ 106	$ 159
Short-term borrowings	16	4	20
Long-term borrowings	3,481	3,609	3,758
Securities sold under agreements to repurchase and Securities loaned(5)	1,024	1,216	1,469
Customer payables and Other(6)	(1,857)	(1,257)	(975)
Total interest expense	$ 2,742	$ 3,678	$ 4,431
Net interest	$ 3,093	$ 1,735	$ 778

(1) Interest income and expense are recorded within the consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instrument's fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.

(2) Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.

(3) Includes fees paid on Securities borrowed.

(4) Includes interest from customer receivables and other interest earning assets.

(5) Includes fees received on Securities loaned.

(6) Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers' short positions.

18. Deferred Compensation Plans.

The Company maintains various deferred compensation plans for the benefit of certain current and former employees. The two principal forms of deferred compensation are granted under several stock-based compensation and cash-based compensation plans.

Stock-Based Compensation Plans.

Stock-Based Compensation Expense.

The components of the Company's stock-based compensation expense (net of cancellations) are presented below:

	2015	2014	2013
	(dollars in millions)		
Restricted stock units(1)	$ 1,080	$ 1,212	$ 1,140
Stock options	(3)	5	15
Performance-based stock units	26	45	29
Total	$ 1,103	$ 1,262	$ 1,184

(1) Amounts for 2015, 2014 and 2013 include $68 million, $31 million and $25 million, respectively, related to stock-based awards that were granted in 2016, 2015 and 2014, respectively, to employees who satisfied retirement-eligible requirements under award terms that do not contain a service period.

The tax benefit related to stock-based compensation expense was $369 million, $404 million and $371 million for 2015, 2014 and 2013, respectively.

At December 31, 2015, the Company had $720 million of unrecognized compensation cost related to unvested stock-based awards. Absent estimated or actual forfeitures or cancellations, this amount of unrecognized compensation cost will be recognized as $448 million in 2016, $228 million in 2017 and $44 million thereafter. These amounts do not include 2015 performance year awards granted in January 2016, which will begin to be amortized in 2016 (see "2015 Performance Year Deferred Compensation Awards" herein).

In connection with awards under its stock-based compensation plans, the Company is authorized to issue shares of its common stock held in treasury or newly issued shares. At December 31, 2015, approximately 96 million shares were available for future grants under these plans.

The Company generally uses treasury shares, if available, to deliver shares to employees and has an ongoing repurchase authorization that includes repurchases in connection with awards granted under its stock-based compensation plans. Share repurchases by the Company are subject to regulatory approval. See Note 15 for additional information on the Company's share repurchase program.

Restricted Stock Units.

RSUs are generally subject to vesting over time, generally one to three years from the date of grant, contingent upon continued employment and to restrictions on sale, transfer or assignment until conversion to common stock. All or a portion of an award may be canceled if employment is terminated before the end of the relevant vesting period, and after the relevant vesting period in certain situations. Recipients of RSUs may have voting rights, at the Company's discretion, and generally receive dividend equivalents.

Vested and Unvested RSU Activity.

	2015	
	Number of Shares	Weighted Average Grant Date Fair Value
	(shares in millions)	
RSUs at beginning of period	121	$ 25.52
Granted	34	34.76
Conversions to common stock	(47)	23.57
Canceled	(3)	28.72
RSUs at end of period(1)	105	29.26

(1) At December 31, 2015, approximately 98 million RSUs with a weighted average grant date fair value of $29.17 were vested or expected to vest.

The weighted average grant date fair value for RSUs granted during 2014 and 2013 was $32.58 and $22.72, respectively. At December 31, 2015, the weighted average remaining term until delivery for the Company's outstanding RSUs was approximately 1.1 years.

At December 31, 2015, the intrinsic value of RSUs vested or expected to vest was $3,144 million.

The total intrinsic value of RSUs converted to common stock during 2015, 2014 and 2013 was $1,646 million, $1,461 million and $939 million, respectively.

Unvested RSU Activity.

	2015	
	Number of Shares	Weighted Average Grant Date Fair Value
	(shares in millions)	
Unvested RSUs at beginning of period	87	$ 26.44
Granted	34	34.76
Vested	(48)	27.06
Canceled	(3)	28.72
Unvested RSUs at end of period(1)	70	29.91

(1) Unvested RSUs represent awards where recipients have yet to satisfy either the explicit vesting terms or retirement-eligible requirements. At December 31, 2015, approximately 63 million unvested RSUs with a weighted average grant date fair value of $29.84 were expected to vest.

The aggregate fair value of awards that vested during 2015, 2014 and 2013 was $1,693 million, $1,517 million and $842 million, respectively.

Stock Options.

Stock options generally have an exercise price not less than the fair value of the Company's common stock on the date of grant, vest and become exercisable over a three-year period and expire five to 10 years from the date of grant, subject to accelerated expiration upon certain terminations of employment. Stock options have vesting, restriction and cancellation provisions that are generally similar to those of RSUs. The weighted average fair value of the Company's stock options granted during 2013 was $5.41, utilizing the following weighted average assumptions.

Weighted Average Assumptions.

Grant Year	Risk-Free Interest Rate	Expected Life	Expected Stock Price Volatility	Expected Dividend Yield
2013	0.6%	3.9 years	32.0%	0.9%

No stock options were granted during 2015 or 2014.

The Company's expected option life has been determined based upon historical experience. The expected stock price volatility assumption was determined using the implied volatility of exchange-traded options, in accordance with accounting guidance for share-based payments. The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues.

Stock Option Activity.

	2015	
	Number of Options	Weighted Average Exercise Price
	(options in millions)	
Options outstanding at beginning of period	19	$ 51.30
Expired	(2)	45.32
Options outstanding at end of period(1)	17	52.26
Options exercisable at end of period	15	55.02

(1) At December 31, 2015, approximately 16 million options with a weighted average exercise price of $52.43 were vested.

The aggregate intrinsic value of stock options exercised in 2015 and 2014 was $2 million per year, with a weighted average exercise price of $30.01 and $24.68 for 2015 and 2014, respectively. No stock options were exercised during 2013. At December 31, 2015, the intrinsic value of in the money exercisable stock options was $28 million.

Stock Options Outstanding and Exercisable.

	At December 31, 2015					
	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Life (Years)	Number Exercisable	Weighted Average Exercise Price	Average Remaining Life (Years)
	(options in millions)					
$22.00 – $39.99	6	$26.85	2.0	4	$28.13	2.0
$50.00 – $59.99	1	52.43	0.3	1	52.43	0.3
$60.00 – $76.99	10	66.75	0.9	10	66.75	0.9
Total	17			15		

Performance-Based Stock Units.

PSUs will vest and convert to shares of common stock at the end of the performance period only if the Company satisfies predetermined performance and market-based conditions over the three-year performance period that began on January 1 of the grant year and ends three years later on December 31. Under the terms of the award, the number of PSUs that will actually vest and convert to shares will be based on the extent to which the Company achieves the specified performance goals during the performance period. PSUs have vesting, restriction and cancellation provisions that are generally similar to those of RSUs.

One-half of the award will be earned based on the Company's average return on equity, excluding the impact of the fluctuation in its credit spreads and other credit factors for certain of its long-term and short-term borrowings, primarily structured notes, that are accounted for at fair value, certain gains or losses associated with the sale of specified businesses, specified goodwill impairments, certain gains or losses associated with specified legal settlements related to business activities conducted prior to January 1, 2011 and specified cumulative catch-up adjustments resulting from changes in an existing, or application of a new, accounting principle that is not applied on a fully retrospective basis ("MS Average ROE"). The number of PSUs ultimately earned for this portion of the awards will be determined by applying a multiplier within the following ranges:

	Minimum		Maximum	
Grant Year	MS Average ROE	Multiplier	MS Average ROE	Multiplier
2015	Less than 5%	0.0	11.5% or more	1.5
2014	Less than 5%	0.0	11.5% or more	1.5
2013	Less than 5%	0.0	13% or more	2.0

On the date of award, the fair value per share of this portion was $34.58, $32.81 and $22.85 for 2015, 2014 and 2013, respectively.

One-half of the award will be earned based on the Company's total shareholder return, relative to the total shareholder return of the S&P 500 Financial Sectors Index ("Relative TSR"). The number of PSUs ultimately earned for this portion of the award will be determined by applying a multiplier within the following ranges:

	Minimum		Maximum	
Grant Year	Relative TSR	Multiplier	Relative TSR	Multiplier
2015	Less than -50%	0.0	25% or more	1.5
2014	Less than -50%	0.0	25% or more	1.5
2013	Less than -50%	0.0	50% or more	2.0

On the date of award, the fair value per share of this portion was $38.07, $37.72 and $34.65 for 2015, 2014 and 2013, respectively, estimated using a Monte Carlo simulation and the following assumptions:

Grant Year	Risk-Free Interest Rate	Expected Stock Price Volatility	Expected Dividend Yield
2015	0.9%	29.6%	0.0%
2014	0.8%	44.2%	0.0%
2013	0.4%	45.4%	0.0%

The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues. The expected stock price volatility was determined using historical volatility. The expected dividend yield was based on historical dividend payments. A correlation coefficient was developed based on historical price data of the Company and the S&P 500 Financial Sectors Index.

PSU Activity.

	2015
	Number of Shares
	(in millions)
PSUs at beginning of period	4
Awarded	2
Conversions to common stock	(2)
PSUs at end of period	4

Deferred Cash-Based Compensation Plans.

Deferred cash-based compensation plans generally provide a return to the plan participants based upon the performance of various referenced investments. The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred cash-based compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues.

Deferred Compensation Expense.

The components of the Company's deferred compensation expense (net of cancellations) are presented below:

	2015	2014	2013
	(dollars in millions)		
Deferred cash-based awards(1)	$660	$1,757	$1,490
Return on referenced investments	112	408	772
Total	$772	$2,165	$2,262

(1) Amounts for 2015, 2014 and 2013 include $144 million, $92 million and $78 million, respectively, related to deferred cash-based awards that were granted in 2016, 2015 and 2014, respectively, to employees who satisfied retirement-eligible requirements under award terms that do not contain a service period.

At December 31, 2015, the Company had approximately $541 million of unrecognized compensation cost related to unvested deferred cash-based awards (excluding unrecognized expense for returns on referenced investments). Absent actual cancellations and any future return on referenced investments, this amount of unrecognized compensation cost will be recognized as $291 million in 2016, $103 million in 2017 and $147 million thereafter. These amounts do not include 2015 performance year awards granted in January 2016, which will begin to be amortized in 2016 (see below).

2015 Performance Year Deferred Compensation Awards.

In January 2016, the Company granted approximately $0.8 billion of stock-based awards and $1.0 billion of deferred cash-based awards related to the 2015 performance year that contain a future service requirement. Absent estimated or actual forfeitures or cancellations or accelerations, and any future return on referenced investments, the annual compensation cost for these awards will be recognized as follows:

Annual Compensation Cost for 2015 Performance Year Awards.

	2016	2017	Thereafter	Total
	(dollars in millions)			
Stock-based awards	$453	$198	$162	$ 813
Deferred cash-based awards	545	298	128	971
Total	$998	$496	$290	$1,784

19. Employee Benefit Plans.

The Company sponsors various retirement plans for the majority of its U.S. and non-U.S. employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. employees.

Pension and Other Postretirement Plans.

Substantially all of the U.S. employees of the Company and its U.S. affiliates who were hired before July 1, 2007 are covered by the U.S. pension plan, a non-contributory, defined benefit pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the “U.S. Qualified Plan”). The U.S. Qualified Plan has ceased future benefit accruals.

Unfunded supplementary plans (the “Supplemental Plans”) cover certain executives. Liabilities for benefits payable under the Supplemental Plans are accrued by the Company and are funded when paid to the participant and beneficiaries. The Morgan Stanley Supplemental Executive Retirement and Excess Plan (the “SEREP”), a non-contributory defined benefit plan that is not qualified under Section 401(a) of the Internal Revenue Code, ceased future benefit accruals after September 30, 2014. Any benefits earned by participants under the SEREP prior to October 1, 2014 will be payable in the future based on the SEREP’s provisions. The amendment did not have a material impact on the consolidated financial statements.

Certain of the Company’s non-U.S. subsidiaries also have defined benefit pension plans covering substantially all of their employees.

The Company’s pension plans generally provide pension benefits that are based on each employee’s years of credited service and on compensation levels specified in the plans.

The Company has an unfunded postretirement benefit plan that provides medical and life insurance for eligible U.S. retirees and medical insurance for their dependents. The Morgan Stanley Medical Plan was amended to change the health care plans offered after December 31, 2014 for retirees who are Medicare-eligible and age 65 or older. The amendment did not have a material impact on the consolidated financial statements.

Components of the Net Periodic Benefit Expense (Income).

	Pension Plans			Other Postretirement Plans		
	2015	2014	2013	2015	2014	2013
	(dollars in millions)					
Service cost, benefits earned during the period	$ 19	$ 20	$ 23	$ 1	$ 2	$ 4
Interest cost on projected benefit obligation	152	154	151	3	5	7
Expected return on plan assets	(120)	(110)	(114)	—	—	—
Net amortization of prior service credit	(1)	—	—	(18)	(14)	(13)
Net amortization of actuarial loss	26	22	36	—	—	3
Curtailment loss	—	3	—	—	—	—
Settlement loss	2	2	1	—	—	—
Net periodic benefit expense (income)	$ 78	$ 91	$ 97	$(14)	$ (7)	$ 1

Pre-Tax Amounts Recognized in Other Comprehensive Loss (Income).

	Pension Plans			Other Postretirement Plans		
	2015	2014	2013	2015	2014	2013
	(dollars in millions)					
Net loss (gain)	$(212)	$ 18	$ 87	$ 3	$ 9	$(52)
Prior service cost (credit)	(1)	2	3	9	(64)	—
Amortization of prior service credit	1	—	—	18	14	13
Amortization of net loss	(28)	(27)	(37)	—	—	(3)
Total recognized in other comprehensive loss (income)	$(240)	$ (7)	$ 53	$30	$(41)	$(42)

The Company generally amortizes unrecognized net gains and losses into net periodic benefit expense to the extent that the gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. The amortization of the unrecognized net gains and losses is generally over the future service of active participants. The U.S. Qualified Plan and, effective October 1, 2014, the SEREP amortize the unrecognized net gains and losses over the average life expectancy of participants.

Weighted Average Assumptions Used to Determine Net Periodic Benefit Expense.

	Pension Plans			Other Postretirement Plans		
	2015	2014	2013	2015	2014	2013
Discount rate(1)	3.86%	4.74%	3.95%	3.77%	3.77%	3.88%
Expected long-term rate of return on plan assets	3.59%	3.75%	3.73%	N/A	N/A	N/A
Rate of future compensation increases	2.85%	1.06%	0.98%	N/A	N/A	N/A

N/A—Not Applicable.

[1] The Other postretirement plans' discount rate for 2015 changed to 3.77% from 3.69% effective April 30, 2015 with the amendment and remeasurement of the Morgan Stanley Medical Plan.

The accounting for pension and postretirement plans involves certain assumptions and estimates. The expected long-term rate of return on plan assets is a long-term assumption that generally is expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions. The expected long-term rate of return for the U.S. Qualified Plan was estimated by computing a weighted average of the underlying long-term expected returns based on the investment managers' target allocations. The U.S. Qualified Plan is primarily invested in fixed income securities and related derivative instruments, including interest rate swap contracts. This asset allocation is expected to help protect the plan's funded status and limit volatility of the Company's contributions. Total

U.S. Qualified Plan investment portfolio performance is assessed by comparing actual investment performance to changes in the estimated present value of the U.S. Qualified Plan's benefit obligation.

Benefit Obligations and Funded Status.

Reconciliation of the Changes in the Benefit Obligation and Fair Value of Plan Assets.

	Pension Plans		Other Postretirement Plans	
	2015	2014	2015	2014
	(dollars in millions)			
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$4,007	$3,330	$ 75	$128
Service cost	19	20	1	2
Interest cost	152	154	3	5
Actuarial loss (gain)(1)	(267)	555	4	5
Plan amendments	(1)	2	9	(64)
Plan curtailments	(9)	(1)	—	—
Plan settlements	(29)	(8)	—	—
Change in mortality assumptions(2)	(46)	203	(1)	4
Benefits paid	(194)	(213)	(4)	(5)
Other, including foreign currency exchange rate changes	(28)	(35)	—	—
Benefit obligation at end of year	$3,604	$4,007	$ 87	$ 75
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$3,705	$2,867	$ —	$ —
Actual return on plan assets	9	850	—	—
Employer contributions(3)	31	244	4	5
Benefits paid	(194)	(213)	(4)	(5)
Plan settlements	(29)	(8)	—	—
Other, including foreign currency exchange rate changes	(25)	(35)	—	—
Fair value of plan assets at end of year	$3,497	$3,705	$ —	$ —
Funded (unfunded) status	$ (107)	$ (302)	$(87)	$ (75)

(1) Amounts primarily reflect impact of year-over-year discount rate fluctuations.

(2) Amounts represent adoption of new mortality tables published by the Society of Actuaries.

(3) In December 2014, an elective $200 million contribution was made to the U.S. Qualified Plan primarily to offset the increase in liability due to the plan's adoption of new mortality tables.

Summary of Funded Status.

	Pension Plans		Other Postretirement Plans	
	At December 31, 2015	At December 31, 2014	At December 31, 2015	At December 31, 2014
	(dollars in millions)			
Amounts recognized in the consolidated statements of financial condition consist of:				
Assets	$ 382	$ 224	$ —	$ —
Liabilities	(489)	(526)	(87)	(75)
Net amount recognized	$(107)	$(302)	$(87)	$(75)
Amounts recognized in accumulated other comprehensive loss consist of:				
Prior service cost (credit)	$ (1)	$ (1)	$(34)	$(61)
Net loss (gain)	626	866	(2)	(5)
Net loss (gain) recognized	$ 625	$ 865	$(36)	$(66)

The estimated prior service credit that will be amortized from accumulated other comprehensive loss into net periodic benefit expense over 2016 is approximately $1 million for defined benefit pension plans and $17 million for other postretirement plans. The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic benefit expense over 2016 is approximately $12 million for defined benefit pension plans.

The accumulated benefit obligation for all defined benefit pension plans was $3,592 million and $3,988 million at December 31, 2015 and December 31, 2014, respectively.

Pension Plans with Projected Benefit Obligations in Excess of the Fair Value of Plan Assets.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Projected benefit obligation	$543	$626
Fair value of plan assets	54	100

Pension Plans with Accumulated Benefit Obligations in Excess of the Fair Value of Plan Assets.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Accumulated benefit obligation	$531	$588
Fair value of plan assets	54	82

Weighted Average Assumptions Used to Determine Benefit Obligations.

	Pension Plans		Other Postretirement Plans	
	At December 31, 2015	At December 31, 2014	At December 31, 2015	At December 31, 2014
Discount rate	4.27%	3.86%	4.13%	3.69%
Rate of future compensation increase	3.19%	2.85%	N/A	N/A

N/A—Not Applicable.

The discount rates used to determine the benefit obligations for the U.S. pension and the U.S. postretirement plans were selected by the Company, in consultation with its independent actuaries, using a pension discount yield curve based on the characteristics of the plans, each determined independently. The pension discount yield curve represents spot discount yields based on duration implicit in a representative broad-based Aa rated corporate bond universe of high-quality fixed income investments. For all non-U.S. pension plans, the Company set the assumed discount rates based on the nature of liabilities, local economic environments and available bond indices.

Assumed Health Care Cost Trend Rates Used to Determine the U.S. Postretirement Benefit Obligations.

	At December 31, 2015	At December 31, 2014
Health care cost trend rate assumed for next year:		
Medical	6.25%	6.88-7.23%
Prescription	11.00%	7.87%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2038	2029

Assumed health care cost trend rates can have a significant effect on the amounts reported for the Company's postretirement benefit plan.

Effect of Changes in Assumed Health Care Cost Trend Rates.

	One-Percentage Point Increase	One-Percentage Point (Decrease)
	(dollars in millions)	
Total 2015 postretirement service and interest cost	N/M	N/M
December 31, 2015 postretirement benefit obligation	$ 3	$ (3)

N/M—Not Meaningful.

No impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 has been reflected in the consolidated statements of income as Medicare prescription drug coverage was deemed to have no material effect on the Company's postretirement benefit plan.

Plan Assets.

The U.S. Qualified Plan assets represent 89% of the Company's total pension plan assets. The U.S. Qualified Plan uses a combination of active and risk-controlled fixed income investment strategies. The fixed income asset allocation consists primarily of fixed income securities and related derivative instruments designed to approximate the expected cash flows of the plan's liabilities in order to help reduce plan exposure to interest rate variation and to better align assets with obligations. The longer duration fixed income allocation is expected to help protect the plan's funded status and maintain the stability of plan contributions over the long run.

Derivative instruments are permitted in the U.S. Qualified Plan's investment portfolio only to the extent that they comply with all of the plan's investment policy guidelines and are consistent with the plan's risk and return objectives. In addition, any investment in derivatives must meet the following conditions:

- Derivatives may be used only if they are deemed by the investment manager to be more attractive than a similar direct investment in the underlying cash market or if the vehicle is being used to manage risk of the portfolio.
- Derivatives may not be used in a speculative manner or to leverage the portfolio under any circumstances.
- Derivatives may not be used as short-term trading vehicles. The investment philosophy of the U.S. Qualified Plan is that investment activity is undertaken for long-term investment rather than short-term trading.

- Derivatives may be used in the management of the U.S. Qualified Plan's portfolio only when their possible effects can be quantified, shown to enhance the risk-return profile of the portfolio, and reported in a meaningful and understandable manner.

As a fundamental operating principle, any restrictions on the underlying assets apply to a respective derivative product. This includes percentage allocations and credit quality. Derivatives are used solely for the purpose of enhancing investment in the underlying assets and not to circumvent portfolio restrictions.

Plan assets are measured at fair value using valuation techniques that are consistent with the valuation techniques applied to the Company's major categories of assets and liabilities as described in Note 3. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units multiplied by the market price. If a quoted market price is not available, the estimate of fair value is based on the valuation approaches that maximize use of observable inputs and minimize use of unobservable inputs.

The fair value of OTC derivative contracts is derived primarily using pricing models, which may require multiple market input parameters. Derivative contracts are presented on a gross basis prior to cash collateral or counterparty netting. Derivatives consist of investments in interest rate swap contracts and are categorized in Level 2 of the fair value hierarchy.

Commingled trust funds are privately offered funds available to institutional clients that are regulated, supervised and subject to periodic examination by a U.S. federal or state agency. The trust must be maintained for the collective investment or reinvestment of assets contributed to it from U.S. tax-qualified employee benefit plans maintained by more than one employer or controlled group of corporations. The sponsor of the commingled trust funds values the funds' NAV based on the fair value of the underlying securities. The underlying securities of the commingled trust funds consist of mainly long-duration fixed income instruments. Commingled trust funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

Some non-U.S.-based plans hold foreign funds that consist of investments in foreign corporate equity funds, foreign fixed income funds, foreign target cash flow funds and foreign liquidity funds. Foreign corporate equity funds and foreign fixed income funds invest in individual securities quoted on a recognized stock exchange or traded in a regulated market. Certain fixed income funds aim to produce returns consistent with certain Financial Times Stock Exchange indexes. Foreign target cash flow funds are designed to provide a series of fixed annual cash flows over five or 10 years achieved by investing in government bonds and derivatives. Foreign liquidity funds place a high priority on capital preservation, stable value and a high liquidity of assets. Foreign funds are generally categorized in Level 2 of the fair value hierarchy as they are readily redeemable at their NAV. Corporate equity funds actively traded on an exchange are categorized in Level 1 of the fair value hierarchy.

Other investments held by non-U.S.-based plans consist of real estate funds, hedge funds and pledged insurance annuity contracts. These real estate and hedge funds are categorized in Level 2 of the fair value hierarchy to the extent that they are readily redeemable at their NAV; otherwise, they are categorized in Level 3 of the fair value hierarchy. The pledged insurance annuity contracts are valued based on the premium reserve of the insurer for a guarantee that the insurer has given to the employee benefit plan that approximates fair value. The pledged insurance annuity contracts are categorized in Level 3 of the fair value hierarchy.

Fair Value of Net Pension Plan Assets.

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Assets:				
Investments:				
Cash and cash equivalents(1)	$ 28	$ —	$ —	$ 28
U.S. government and agency securities:				
U.S. Treasury securities	1,398	—	—	1,398
U.S. agency securities	—	263	—	263
Total U.S. government and agency securities	1,398	263	—	1,661
Corporate and other debt:				
State and municipal securities	—	2	—	2
Collateralized debt obligations	—	22	—	22
Total corporate and other debt	—	24	—	24
Derivative contracts	—	224	—	224
Commingled trust funds(2)	—	1,298	—	1,298
Foreign funds(3)	—	338	—	338
Other investments	—	—	35	35
Total investments	1,426	2,147	35	3,608
Receivables:				
Other receivables(1)	—	54	—	54
Total receivables	—	54	—	54
Total assets	$ 1,426	$ 2,201	$ 35	$ 3,662
Liabilities:				
Derivative contracts	$ —	$ 65	$ —	$ 65
Other liabilities(1)	—	100	—	100
Total liabilities	$ —	$ 165	$ —	$ 165
Net pension assets	$ 1,426	$ 2,036	$ 35	$ 3,497

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
		(dollars in millions)		
Assets:				
Investments:				
Cash and cash equivalents(1)	$ 63	$ —	$ —	$ 63
U.S. government and agency securities:				
U.S. Treasury securities	1,332	—	—	1,332
U.S. agency securities	—	265	—	265
Total U.S. government and agency securities	1,332	265	—	1,597
Corporate and other debt:				
State and municipal securities	—	2	—	2
Collateralized debt obligations	—	62	—	62
Total corporate and other debt	—	64	—	64
Derivative contracts	—	292	—	292
Derivative-related cash collateral receivable	—	2	—	2
Commingled trust funds(2)	—	1,432	—	1,432
Foreign funds(3)	—	347	—	347
Other investments	—	—	36	36
Total investments	1,395	2,402	36	3,833
Receivables:				
Other receivables(1)	—	27	—	27
Total receivables	—	27	—	27
Total assets	$ 1,395	$ 2,429	$ 36	$ 3,860
Liabilities:				
Derivative contracts	$ —	$ 33	$ —	$ 33
Derivative-related cash collateral payable	—	2	—	2
Other liabilities(1)	—	120	—	120
Total liabilities	$ —	$ 155	$ —	$ 155
Net pension assets	$ 1,395	$ 2,274	$ 36	$ 3,705

[1] Cash and cash equivalents, other receivables and other liabilities are valued at their carrying value, which approximates fair value.

[2] Commingled trust funds consist of investments in fixed income funds and money market funds of $1,239 million and $59 million, respectively, at December 31, 2015 and $1,280 million and $152 million, respectively, at December 31, 2014.

[3] Foreign funds include investments in fixed income funds, liquidity funds and targeted cash flow funds of $149 million, $98 million and $91 million, respectively, at December 31, 2015 and $158 million, $53 million and $136 million, respectively, at December 31, 2014.

There were no transfers between levels during 2015 and 2014.

Changes in Level 3 Pension Assets.

	2015	2014
	(dollars in millions)	
Balance at beginning of period	$ 36	$ 38
Actual return on plan assets related to assets held at end of period	(4)	(5)
Actual return on plan assets related to assets sold during the year	—	—
Purchases, sales, other settlements and issuances, net	3	3
Net transfer in and/or (out) of Level 3	—	—
Balance at end of period	$ 35	$ 36

Cash Flows.

The Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax laws. At December 31, 2015, the Company expected to contribute approximately $50 million to its pension and postretirement benefit plans in 2016 based upon the plans' current funded status and expected asset return assumptions for 2016.

Expected Future Benefit Payments.

	At December 31, 2015	
	Pension Plans	Other Postretirement Plans
	(dollars in millions)	
2016	$153	$ 5
2017	139	6
2018	136	6
2019	141	6
2020	150	7
2021-2025	858	32

Morgan Stanley 401(k) Plan.

U.S. employees meeting certain eligibility requirements may participate in the Morgan Stanley 401(k) Plan. Eligible U.S. employees receive discretionary 401(k) matching cash contributions as determined annually by the Company. For 2015 and 2014, the Company made a $1 for $1 Company match up to 4% of eligible pay, up to the Internal Revenue Service ("IRS") limit. Matching contributions for 2015 and 2014 were invested according to participants' investment direction. Eligible U.S. employees with eligible pay less than or equal to $100,000 also received a fixed contribution under the 401(k) Plan that equaled 2% of eligible pay. Transition contributions are allocated to certain eligible employees. The Company match, fixed contribution and transition contribution are included in the Company's 401(k) expense. The pre-tax 401(k) expense for 2015, 2014 and 2013 was $255 million, $256 million and $242 million, respectively.

Defined Contribution Pension Plans.

The Company maintains separate defined contribution pension plans that cover substantially all employees of certain non-U.S. subsidiaries. Under such plans, benefits are determined based on a fixed rate of base salary with certain vesting requirements. In 2015, 2014 and 2013, the Company's expense related to these plans was $111 million, $117 million and $111 million, respectively.

20. Income Taxes.

Provision for (Benefit from) Income Taxes.

Components of Provision for (Benefit from) Income Taxes.

	2015	2014	2013
		(dollars in millions)	
Current:			
U.S. federal	$ 239	$ (604)	$ 229
U.S. state and local	144	260	164
Non-U.S.:			
U.K.	247	88	178
Japan	19	114	88
Hong Kong	24	34	36
Other(1)	333	258	301
Total	$ 1,006	$ 150	$ 996
Deferred:			
U.S. federal	$ 1,031	$ (207)	$ (3)
U.S. state and local	43	(56)	1
Non-U.S.:			
U.K.	(56)	(31)	(75)
Japan	58	56	262
Hong Kong	50	9	(14)
Other(1)	68	(11)	(265)
Total	$ 1,194	$ (240)	$ (94)
Provision for (benefit from) income taxes from continuing operations	$ 2,200	$ (90)	$ 902
Provision for (benefit from) income taxes from discontinued operations	$ (7)	$ (5)	$ (29)

(1) For 2015, Non-U.S. other jurisdictions included significant total tax provisions of $68 million, $62 million, $58 million, $45 million and $42 million from Mexico, Brazil, Netherlands, India and France, respectively. For 2014, Non-U.S. other jurisdictions included significant total tax provisions of $44 million, $38 million and $38 million from Brazil, India and Mexico, respectively. For 2013, Non-U.S. other jurisdictions included significant total tax provisions (benefits) of $59 million, $54 million and $(156) million from Brazil, India and Luxembourg, respectively.

The Company recorded net income tax provision (benefit) to Additional paid-in capital related to employee stock-based compensation transactions of $(203) million, $(6) million and $121 million in 2015, 2014 and 2013, respectively.

Effective Income Tax Rate.

Reconciliation of the U.S. Federal Statutory Income Tax Rate to the Effective Income Tax Rate.

	2015	2014	2013
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	1.4	6.5	2.3
Domestic tax credits	(1.5)	(5.0)	(3.2)
Tax exempt income	(0.2)	(3.5)	(2.5)
Non-U.S. earnings:			
Foreign tax rate differential	(8.7)	(22.5)	(6.0)
Change in reinvestment assertion	0.2	1.4	(1.4)
Change in foreign tax rates	—	—	0.1
Wealth Management legal entity restructuring	—	(38.7)	—
Non-deductible legal expenses	—	25.5	0.9
Other	(0.3)	(1.2)	(5.4)
Effective income tax rate	25.9%	(2.5)%	19.8%

The Company's effective tax rate from continuing operations for 2015 included net discrete tax benefits of $564 million. These net discrete tax benefits were primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated due to an internal restructuring to simplify the Company's legal entity organization in the U.K. Excluding these net discrete tax benefits, the effective tax rate from continuing operations for 2015 would have been 32.5%.

The Company's effective tax rate from continuing operations for 2014 included net discrete tax benefits of $2,226 million. These net discrete tax benefits consisted of: $1,380 million primarily due to the release of a deferred tax liability, previously established as part of the acquisition of Smith Barney in 2009 through a charge to Additional paid-in capital, as a result of the legal entity restructuring that included a change in tax status of Morgan Stanley Smith Barney Holdings LLC from a partnership to a corporation; $609 million principally associated with remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination; and $237 million primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated. Excluding these net discrete tax benefits, the effective tax rate from continuing operations for 2014 would have been 59.5%, which is primarily attributable to approximately $900 million of tax provision from non-deductible expenses for litigation and regulatory matters.

The Company's effective tax rate from continuing operations for 2013 included net discrete tax benefits of $407 million. These net discrete tax benefits consisted of: $161 million related to the remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination; $92 million related to the establishment of a previously unrecognized deferred tax asset from a legal entity reorganization; $73 million attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non-U.S. subsidiaries; and $81 million due to the enactment of the American Taxpayer Relief Act of 2012, which retroactively extended a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside the U.S. until such income is repatriated to the U.S. as a dividend. Excluding these net discrete tax benefits, the effective tax rate from continuing operations in 2013 would have been 28.7%.

Deferred Tax Assets and Liabilities.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse.

Significant Components of the Deferred Tax Assets and Liabilities Balance.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Gross deferred tax assets:		
Tax credits and loss carryforwards	$ 1,987	$ 3,833
Employee compensation and benefit plans	3,514	3,715
Valuation and liability allowances	846	661
Valuation of inventory, investments and receivables	738	586
Other	35	—
Total deferred tax assets	7,120	8,795
Deferred tax assets valuation allowance	139	34
Deferred tax assets after valuation allowance	$ 6,981	$ 8,761
Gross deferred tax liabilities:		
Non-U.S. operations	$ 269	$ 925
Fixed assets	716	565
Other	—	65
Total deferred tax liabilities	$ 985	$ 1,555
Net deferred tax assets	$ 5,996	$ 7,206

The Company had tax credit carryforwards for which a related deferred tax asset of $1,647 million and $3,740 million was recorded at December 31, 2015 and December 31, 2014, respectively. These carryforwards are subject to annual limitations on utilization, with a significant amount scheduled to expire in 2020, if not utilized.

The Company believes the recognized net deferred tax asset (after valuation allowance) of $5,996 million at December 31, 2015 is more likely than not to be realized based on expectations as to future taxable income in the jurisdictions in which it operates.

The Company had $10,209 million and $7,364 million of cumulative earnings at December 31, 2015 and December 31, 2014, respectively, attributable to foreign subsidiaries for which no U.S. provision has been recorded for income tax that could occur upon repatriation. Accordingly, $893 million and $841 million of deferred tax liabilities were not recorded with respect to these earnings at December 31, 2015 and December 31, 2014, respectively. The increase in indefinitely reinvested earnings is attributable to regulatory and other capital requirements in foreign jurisdictions.

Unrecognized Tax Benefits.

The total amount of unrecognized tax benefits was approximately $1.8 billion, $2.2 billion and $4.1 billion at December 31, 2015, December 31, 2014 and December 31, 2013, respectively. Of this total, approximately $1.1 billion, $1.0 billion and $1.4 billion, respectively (net of federal benefit of state issues, competent authority and foreign tax credit offsets), represent the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes. The Company recognized $18 million, $(35) million and $50 million of interest expense (benefit) (net of federal and state income tax benefits) in the consolidated statements of income for 2015, 2014 and 2013, respectively. Interest expense accrued at December 31, 2015, December 31, 2014 and December 31, 2013 was approximately $122 million, $258 million and $293 million, respectively, net of federal and state income tax benefits. The decrease as of December 31, 2015 is primarily attributable to a balance sheet reclassification related to certain multi-year tax authority examinations. Penalties related to unrecognized tax benefits for the years mentioned above were immaterial.

Reconciliation of the Beginning and Ending Amount of Unrecognized Tax Benefits.

	Unrecognized Tax Benefits
	(dollars in millions)
Balance at December 31, 2012	$ 4,065
Increase based on tax positions related to the current period	51
Increase based on tax positions related to prior periods	267
Decrease based on tax positions related to prior periods	(141)
Decrease related to settlements with taxing authorities	(146)
Balance at December 31, 2013	$ 4,096
Increase based on tax positions related to the current period	$ 135
Increase based on tax positions related to prior periods	100
Decrease based on tax positions related to prior periods	(2,080)
Decrease related to settlements with taxing authorities	(19)
Decrease related to a lapse of applicable statute of limitations	(4)
Balance at December 31, 2014	$ 2,228
Increase based on tax positions related to the current period	$ 230
Increase based on tax positions related to prior periods	114
Decrease based on tax positions related to prior periods	(753)
Decrease related to settlements with taxing authorities	(7)
Decrease related to a lapse of applicable statute of limitations	(8)
Balance at December 31, 2015	$ 1,804

Tax Authority Examinations.

The Company is under continuous examination by the IRS and other tax authorities in certain countries, such as Japan and the U.K., and in states in which it has significant business operations, such as New York. The Company is currently at various levels of field examination with respect to audits by the IRS, as well as New York State and New York City, for tax years 2009-2012 and 2007-2009, respectively. The IRS has substantially completed the field examination for the audit of tax years 2006-2008. The Company believes that the resolution of these tax matters will not have a material effect on the consolidated statements of financial condition, although a resolution could have a material impact on the consolidated statements of income for a particular future period and on the effective tax rate for any period in which such resolution occurs.

During the third quarter of 2015, the IRS completed an Appeals Office review of matters from tax years 1999-2005 and submitted a final report to the Congressional Joint Committee on Taxation for approval. The Company has reserved the right to contest certain items, the resolution of which is not expected to have a material impact on the effective tax rate or the consolidated financial statements.

During 2016, the Company expects to reach a conclusion with the U.K. tax authorities on substantially all issues through tax year 2010, the resolution of which is not expected to have a material impact on the effective tax rate or the consolidated financial statements.

The Company has established a liability for unrecognized tax benefits that it believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from the expiration of the applicable statute of limitations or new information regarding the status of current and subsequent years' examinations. As part of the Company's periodic review, federal and state unrecognized tax benefits were released or remeasured. As a result of this remeasurement, the income tax provision included net discrete tax benefits of $609 million and $161 million in 2014 and 2013, respectively. Additionally, due to new information regarding the status of the IRS field examinations referred to above, the 2014 total amount of unrecognized tax benefits decreased by $2.0 billion.

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months related to certain tax authority examinations referred to above. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the Company's effective tax rate over the next 12 months.

Earliest Tax Year Subject to Examination in Major Tax Jurisdictions.

Jurisdiction	Tax Year
U.S.	1999
New York State and New York City	2007
Hong Kong	2009
U.K.	2010
Japan	2013

Income from Continuing Operations before Income Tax Expense (Benefit).

	2015	2014	2013
	(dollars in millions)		
U.S.	$ 5,360	$ 1,805	$ 1,738
Non-U.S.(1)	3,135	1,786	2,820
	$ 8,495	$ 3,591	$ 4,558

(1) Non-U.S. income is defined as income generated from operations located outside the U.S.

21. Segment and Geographic Information.

Segment Information.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and its management organization. The Company provides a wide range of financial products and services to its customers in each of the business segments: Institutional Securities, Wealth Management and Investment Management. For a further discussion of the business segments, see Note 1.

Revenues and expenses directly associated with each respective business segment are included in determining its operating results. Other revenues and expenses that are not directly attributable to a particular business segment are allocated based upon the Company's allocation methodologies, generally based on each business segment's respective net revenues, non-interest expenses or other relevant measures.

As a result of revenues and expenses from transactions with other operating segments being treated as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the consolidated results.

Selected Financial Information.

	2015				
	Institutional Securities	Wealth Management	Investment Management	Intersegment Eliminations	Total
	(dollars in millions)				
Total non-interest revenues	$ 17,800	$ 12,144	$ 2,331	$ (213)	$32,062
Interest income	3,190	3,105	2	(462)	5,835
Interest expense	3,037	149	18	(462)	2,742
Net interest	153	2,956	(16)	—	3,093
Net revenues	$ 17,953	$ 15,100	$ 2,315	$ (213)	$35,155
Income from continuing operations before income taxes	$ 4,671	$ 3,332	$ 492	$ —	$ 8,495
Provision for income taxes(1)	825	1,247	128	—	2,200
Income from continuing operations	3,846	2,085	364	—	6,295
Discontinued operations:					
Income (loss) from discontinued operations before income taxes	(24)	—	1	—	(23)
Provision for (benefit from) income taxes	(7)	—	—	—	(7)
Income (loss) from discontinued operations	(17)	—	1	—	(16)
Net income	3,829	2,085	365	—	6,279
Net income applicable to nonredeemable noncontrolling interests	133	—	19	—	152
Net income applicable to Morgan Stanley	$ 3,696	$ 2,085	$ 346	$ —	$ 6,127

	2014				
	Institutional Securities(2)	Wealth Management	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues(3)(4)	$ 17,463	$ 12,549	$ 2,728	$ (200)	$32,540
Interest income	3,389	2,516	2	(494)	5,413
Interest expense	3,981	177	18	(498)	3,678
Net interest	(592)	2,339	(16)	4	1,735
Net revenues	$ 16,871	$ 14,888	$ 2,712	$ (196)	$34,275
Income (loss) from continuing operations before income taxes	$ (58)	$ 2,985	$ 664	$ —	$ 3,591
Provision for (benefit from) income taxes(5)	(90)	(207)	207	—	(90)
Income from continuing operations	32	3,192	457	—	3,681
Discontinued operations:					
Income (loss) from discontinued operations before income taxes	(26)	—	7	—	(19)
Provision for (benefit from) income taxes	(7)	—	2	—	(5)
Income (loss) from discontinued operations	(19)	—	5	—	(14)
Net income	13	3,192	462	—	3,667
Net income applicable to nonredeemable noncontrolling interests	109	—	91	—	200
Net income (loss) applicable to Morgan Stanley	$ (96)	$ 3,192	$ 371	$ —	$ 3,467

	2013				
	Institutional Securities	Wealth Management	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$ 16,620	$ 12,268	$ 3,060	$ (233)	$31,715
Interest income	3,572	2,100	9	(472)	5,209
Interest expense	4,673	225	10	(477)	4,431
Net interest	(1,101)	1,875	(1)	5	778
Net revenues	$ 15,519	$ 14,143	$ 3,059	$ (228)	$32,493
Income from continuing operations before income taxes	$ 946	$ 2,604	$ 1,008	$ —	$ 4,558
Provision for (benefit from) income taxes(6)	(315)	910	307	—	902
Income from continuing operations	1,261	1,694	701	—	3,656
Discontinued operations:					
Income (loss) from discontinued operations	(81)	(1)	9	1	(72)
Provision for (benefit from) income taxes	(29)	—	—	—	(29)
Income (loss) from discontinued operations	(52)	(1)	9	1	(43)
Net income	1,209	1,693	710	1	3,613
Net income applicable to redeemable noncontrolling interests	1	221	—	—	222
Net income applicable to nonredeemable noncontrolling interests	277	—	182	—	459
Net income applicable to Morgan Stanley	$ 931	$ 1,472	$ 528	$ 1	$ 2,932

(1) The Company's effective tax rate from continuing operations for 2015 included net discrete tax benefits of $564 million attributable to the Institutional Securities business segment (see Note 20).

(2) The Institutional Securities business segment Net loss in 2014 was primarily driven by higher legal expenses (see Note 12).

(3) In September 2014, the Company sold a retail property space resulting in a gain on sale of $141 million (within Institutional Securities $84 million, Wealth Management $40 million and Investment Management $17 million), which was included within Other revenues on the consolidated statements of income.

(4) On July 1, 2014, the Company completed the sale of its ownership stake in TransMontaigne Inc. The gain on sale, which was included in continuing operations, was approximately $112 million within the Institutional Securities business segment for 2014.

(5) The Company's effective tax rate from continuing operations for 2014 included net discrete tax benefits of $1,390 million and $839 million attributable to the Wealth Management and Institutional Securities business segments, respectively (see Note 20).

(6) The Company's effective tax rate from continuing operations for 2013 included net discrete tax benefits of $407 million attributable to the Institutional Securities business segment (see Note 20).

Total Assets by Business Segment.

	Institutional Securities	Wealth Management	Investment Management(1)	Total(2)
		(dollars in millions)		
At December 31, 2015	$ 602,714	$ 179,708	$ 5,043	$ 787,465
At December 31, 2014	$ 630,341	$ 165,147	$ 6,022	$ 801,510

(1) During 2015 and 2014, the Company deconsolidated approximately $244 million and $1.6 billion, respectively, in net assets previously attributable to nonredeemable noncontrolling interests that were primarily related to or associated with real estate funds sponsored by the Company (see Note 13).

(2) Corporate assets have been fully allocated to the business segments.

Geographic Information.

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted and managed through EMEA and Asia-Pacific locations. The net revenues disclosed in the following table reflect the regional view of the Company's consolidated net revenues on a managed basis, based on the following methodology:

- *Institutional Securities:* advisory and equity underwriting—client location, debt underwriting—revenue recording location, sales and trading—trading desk location.
- *Wealth Management:* Wealth Management representatives operate in the Americas.
- *Investment Management:* client location, except for Merchant Banking and Real Estate Investing businesses, which are based on asset location.

Net Revenues by Region.

	2015	2014	2013
		(dollars in millions)	
Americas	$ 25,080	$ 25,140	$ 23,358
EMEA	5,353	4,772	4,542
Asia-Pacific	4,722	4,363	4,593
Net revenues	$ 35,155	$ 34,275	$ 32,493

Total Assets by Region.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Americas	$ 569,369	$ 622,556
EMEA	146,177	104,152
Asia-Pacific	71,919	74,802
Total	$ 787,465	$ 801,510

22. Parent Company.

Parent Company Only
Condensed Statements of Income and Comprehensive Income
(dollars in millions)

	2015	2014	2013
Revenues:			
Dividends from non-bank subsidiaries	$ 4,942	$ 2,641	$ 1,113
Trading	574	601	(635)
Investments	—	(1)	—
Other	53	10	27
Total non-interest revenues	5,569	3,251	505
Interest income	3,055	2,594	2,783
Interest expense	4,073	3,970	4,053
Net interest	(1,018)	(1,376)	(1,270)
Net revenues	4,551	1,875	(765)
Non-interest expenses:			
Non-interest expenses	(195)	214	185
Income (loss) before income taxes	4,746	1,661	(950)
Provision for (benefit from) income taxes	(83)	(423)	(354)
Net income (loss) before undistributed gain of subsidiaries	4,829	2,084	(596)
Undistributed gain of subsidiaries	1,298	1,383	3,528
Net income	6,127	3,467	2,932
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(300)	(397)	(143)
Change in net unrealized gains (losses) on AFS securities	(246)	209	(433)
Pensions, postretirement and other	138	33	(1)
Comprehensive income	$ 5,719	$ 3,312	$ 2,355
Net income	$ 6,127	$ 3,467	$ 2,932
Preferred stock dividends and other	456	315	277
Earnings applicable to Morgan Stanley common shareholders	$ 5,671	$ 3,152	$ 2,655

Parent Company Only
Condensed Statements of Financial Condition
(dollars in millions, except share data)

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 5,169	$ 5,068
Deposits with banking subsidiaries	4,311	4,556
Interest bearing deposits with banks	2,421	1,126
Trading assets, at fair value	354	5,014
Securities purchased under agreement to resell with affiliates	47,060	41,601
Advances to subsidiaries:		
Bank and bank holding company	18,380	19,982
Non-bank	106,192	112,863
Equity investments in subsidiaries:		
Bank and bank holding company	25,787	24,573
Non-bank	34,927	34,649
Other assets	6,259	7,805
Total assets	$ 250,860	$ 257,237
Liabilities		
Short-term borrowings	$ 40	$ 695
Trading liabilities, at fair value	138	4,042
Payables to subsidiaries	29,220	35,517
Other liabilities and accrued expenses	2,189	2,342
Long-term borrowings	144,091	143,741
Total liabilities	175,678	186,337
Equity		
Preferred stock (see Note 15)	7,520	6,020
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at December 31, 2015 and December 31, 2014;		
Shares issued: 2,038,893,979 at December 31, 2015 and December 31, 2014;		
Shares outstanding: 1,920,024,027 and 1,950,980,142 at December 31, 2015 and December 31, 2014, respectively	20	20
Additional paid-in capital	24,153	24,249
Retained earnings	49,204	44,625
Employee stock trusts	2,409	2,127
Accumulated other comprehensive loss	(1,656)	(1,248)
Common stock held in treasury, at cost, $0.01 par value:		
Shares outstanding: 118,869,952 and 87,913,837 at December 31, 2015 and December 31, 2014, respectively	(4,059)	(2,766)
Common stock issued to employee stock trusts	(2,409)	(2,127)
Total shareholders' equity	75,182	70,900
Total liabilities and equity	$ 250,860	$ 257,237

Parent Company Only
Condensed Statements of Cash Flows
(dollars in millions)

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 6,127	$ 3,467	$ 2,932
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Deferred income taxes	63	98	(303)
Compensation payable in common stock and options	1,104	1,260	1,180
Amortization	(83)	(182)	(47)
Undistributed gain of subsidiaries	(1,298)	(1,383)	(3,528)
Changes in assets and liabilities:			
Trading assets, net of Trading liabilities	(2,958)	2,307	(7,332)
Other assets	1,474	(490)	(165)
Other liabilities and accrued expenses	(1,711)	488	(4,192)
Net cash provided by (used for) operating activities	2,718	5,565	(11,455)
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to and investments in subsidiaries	1,364	(7,790)	7,458
Securities purchased under agreement to resell with affiliates	(5,459)	(7,853)	14,745
Net cash provided by (used for) investing activities	(4,095)	(15,643)	22,203
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	(655)	189	279
Proceeds from:			
Excess tax benefits associated with stock-based awards	211	101	10
Issuance of preferred stock, net of issuance costs	1,493	2,782	1,696
Issuance of long-term borrowings	28,575	33,031	22,944
Payments for:			
Long-term borrowings	(22,803)	(28,917)	(31,928)
Repurchases of common stock and employee tax withholdings	(2,773)	(1,458)	(691)
Cash dividends	(1,455)	(904)	(475)
Net cash provided by (used for) financing activities	2,593	4,824	(8,165)
Effect of exchange rate changes on cash and cash equivalents	(65)	(208)	(100)
Net increase (decrease) in cash and cash equivalents	1,151	(5,462)	2,483
Cash and cash equivalents, at beginning of period	10,750	16,212	13,729
Cash and cash equivalents, at end of period	$ 11,901	$ 10,750	$ 16,212
Cash and cash equivalents include:			
Cash and due from banks	$5,169	$ 5,068	$ 2,296
Deposits with banking subsidiaries	4,311	4,556	7,070
Interest bearing deposits with banks	2,421	1,126	6,846
Cash and cash equivalents, at end of period	$ 11,901	$ 10,750	$ 16,212

Supplemental Disclosure of Cash Flow Information.

Cash payments for interest were $3,959 million, $3,652 million and $3,733 million for 2015, 2014 and 2013, respectively.

Cash payments for income taxes, net of refunds, were $255 million, $187 million and $268 million for 2015, 2014 and 2013, respectively.

Transactions with Subsidiaries.

The Parent Company has transactions with its consolidated subsidiaries determined on an agreed-upon basis and has guaranteed certain unsecured lines of credit and contractual obligations on certain of its consolidated subsidiaries. Certain reclassifications have been made to prior-period amounts to conform to the current year's presentation.

Parent Company's Long-Term Borrowings.

	At December 31, 2015	At December 31, 2014
	(dollars in millions)	
Senior debt	$ 130,817	$ 130,533
Subordinated debt	13,274	13,208
Total	$ 144,091	$ 143,741

Guarantees.

In the normal course of its business, the Parent Company guarantees certain of its subsidiaries' obligations under derivative and other financial arrangements. The Parent Company records Trading assets and Trading liabilities, which include derivative contracts, at fair value on its condensed statements of financial condition.

The Parent Company also, in the normal course of its business, provides standard indemnities to counterparties on behalf of its subsidiaries for taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, and certain annuity products. These indemnity payments could be required based on a change in the tax laws or change in interpretation of applicable tax rulings. Certain contracts contain provisions that enable the Parent Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Parent Company could be required to make under these indemnifications cannot be estimated. The Parent Company has not recorded any contingent liability in its condensed financial statements for these indemnifications and believes that the occurrence of any events that would trigger payments under these contracts is remote.

The Parent Company has issued guarantees on behalf of its subsidiaries to various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or futures contracts. Under these guarantee arrangements, the Parent Company may be required to pay the financial obligations of its subsidiaries related to business transacted on or with the exchanges and clearinghouses in the event of a subsidiary's default on its obligations to the exchange or the clearinghouse. The Parent Company has not recorded any contingent liability in its condensed financial statements for these arrangements and believes that any potential requirements to make payments under these arrangements are remote.

The Parent Company guarantees certain debt instruments and warrants issued by subsidiaries. The debt instruments and warrants totaled $9.1 billion and $10.0 billion at December 31, 2015 and December 31, 2014, respectively. In connection with subsidiary lease obligations, the Parent Company has issued guarantees to various lessors. At December 31, 2015 and December 31, 2014, the Parent Company had $1.1 billion and $1.3 billion of guarantees outstanding, respectively, under subsidiary lease obligations, primarily in the U.K.

Finance Subsidiary.

The Parent Company fully and unconditionally guarantees the securities issued by Morgan Stanley Finance LLC, a 100%-owned finance subsidiary.

23. Quarterly Results (Unaudited).

	2015 Quarter				2014 Quarter			
	First(1)	Second	Third	Fourth(2)	First	Second(3)	Third(4)	Fourth(5)
	(dollars in millions, except per share data)							
Total non-interest revenues	$ 9,311	$ 9,045	$ 7,005	$ 6,701	$ 8,688	$ 8,341	$ 8,350	$ 7,161
Net interest	596	698	762	1,037	308	267	557	603
Net revenues	9,907	9,743	7,767	7,738	8,996	8,608	8,907	7,764
Total non-interest expenses	7,052	7,016	6,293	6,299	6,626	6,676	6,687	10,695
Income (loss) from continuing operations before income taxes	2,855	2,727	1,474	1,439	2,370	1,932	2,220	(2,931)
Provision for (benefit from) income taxes	387	894	423	496	785	15	463	(1,353)
Income (loss) from continuing operations	2,468	1,833	1,051	943	1,585	1,917	1,757	(1,578)
Discontinued operations:								
Income (loss) from discontinued operations before income taxes	(8)	(2)	(4)	(10)	(2)	(1)	(8)	(8)
Provision for (benefit from) income taxes	(3)	—	(2)	(3)	(1)	(1)	(3)	—
Income (loss) from discontinued operations	(5)	(2)	(2)	(7)	(1)	—	(5)	(8)
Net income (loss)	2,463	1,831	1,049	936	1,584	1,917	1,752	(1,586)
Net income applicable to nonredeemable noncontrolling interests	69	24	31	28	79	18	59	44
Net income (loss) applicable to Morgan Stanley	$ 2,394	$ 1,807	$ 1,018	$ 908	$ 1,505	$ 1,899	$ 1,693	$(1,630)
Preferred stock dividends and other	80	142	79	155	56	79	64	119
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 2,314	$ 1,665	$ 939	$ 753	$ 1,449	$ 1,820	$ 1,629	$(1,749)
Earnings (loss) per basic common share(6):								
Income (loss) from continuing operations	$ 1.21	$ 0.87	$ 0.49	$ 0.40	$ 0.75	$ 0.94	$ 0.85	$ (0.91)
Income (loss) from discontinued operations	(0.01)	—	—	—	—	—	—	—
Earnings (loss) per basic common share	$ 1.20	$ 0.87	$ 0.49	$ 0.40	$ 0.75	$ 0.94	$ 0.85	$ (0.91)
Earnings (loss) per diluted common share(6):								
Income (loss) from continuing operations	$ 1.18	$ 0.85	$ 0.48	$ 0.39	$ 0.74	$ 0.92	$ 0.83	$ (0.91)
Income (loss) from discontinued operations	—	—	—	—	—	—	—	—
Earnings (loss) per diluted common share	$ 1.18	$ 0.85	$ 0.48	$ 0.39	$ 0.74	$ 0.92	$ 0.83	$ (0.91)
Dividends declared per common share(7)	$ 0.10	$ 0.15	$ 0.15	$ 0.15	$ 0.05	$ 0.10	$ 0.10	$ 0.10
Book value per common share	$ 33.80	$ 34.52	$ 34.97	$ 35.24	$ 32.38	$ 33.46	$ 34.16	$ 33.25

(1) The first quarter of 2015 included net discrete tax benefits of $564 million, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated due to an internal restructuring to simplify the Company's legal entity organization in the U.K. (see Note 20).

(2) During the fourth quarter of 2015, the Company incurred specific severance costs of approximately $155 million, which is included in Compensation and benefits expenses in the consolidated statements of income, associated with the Company's restructuring actions, which were recorded in the business segments, approximately, as follows: Institutional Securities: $125 million, Wealth Management: $20 million and Investment Management: $10 million.

(3) The second quarter of 2014 included net discrete tax benefits of $609 million, principally associated with the remeasurement of reserves and related interest due to new information regarding the status of a multi-year tax authority examination (see Note 20).

(4) The third quarter of 2014 included net discrete tax benefits of $237 million, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated (see Note 20). The third quarter of 2014 also included a gain on sale of a retail property space of $141 million, which was included within Other revenues in the consolidated statements of income and a gain on sale of its ownership stake in TransMontaigne Inc.

(5) The fourth quarter of 2014 included: an increase of legal reserves of approximately $3.1 billion (see Note 12); net discrete tax benefits of $1,380 million, primarily due to the release of a deferred tax liability as a result of a legal entity restructuring, partially offset by approximately $900 million of tax provision from non-deductible expenses for litigation and regulatory matters (see Note 20); compensation expense deferral adjustments of $1.1 billion (see Note 18); and a charge of approximately $468 million related to the implementation of FVA (see Note 2), which was reflected as a reduction of the Institutional Securities business segment Trading revenues.

(6) Summation of the quarters' earnings per common share may not equal the annual amounts due to the averaging effect of the number of shares and share equivalents throughout the year.

(7) Beginning with the dividend declared on April 20, 2015, the Company increased the quarterly common stock dividend to $0.15 per share from $0.10 per share.

24. Subsequent Events.

The Company has evaluated subsequent events for adjustment to or disclosure in its consolidated financial statements through the date of this report and has not identified any recordable or disclosable events, not otherwise reported in these consolidated financial statements or the notes thereto, except for the following:

Common Stock Dividend.

On January 19, 2016, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.15. The dividend was paid on February 15, 2016 to common shareholders of record on January 29, 2016 (see Note 15).

Long-Term Borrowings.

Subsequent to December 31, 2015 and through February 19, 2016, long-term borrowings increased by approximately $5.2 billion, net of maturities and repayments. This amount includes the issuance of $5.5 billion of senior debt on January 27, 2016 and $400 million of senior debt on February 17, 2016.

Legal Settlement.

On February 10, 2016 the Company reached agreements to settle its pending investigations with the United States Department of Justice, Civil Division (the “Civil Division”), the New York Attorney General (“NYAG”), and the Illinois Attorney General (“ILAG”). The Company’s agreement in principle to settle with the Department of Justice for $2,600 million was reached on February 25, 2015 and was disclosed in the 2014 Form 10-K. All amounts associated with the Civil Division, NYAG and ILAG settlements had been previously accrued.

FINANCIAL DATA SUPPLEMENT (Unaudited)
Average Balances and Interest Rates and Net Interest Income

	2015		
	Average Daily Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 100,066	$ 1,874	1.9%
Non-U.S.	108,664	388	0.4
Investment securities:			
U.S.	67,993	876	1.3
Loans:			
U.S.	74,868	2,130	2.8
Non-U.S.	242	33	13.6
Interest bearing deposits with banks:			
U.S.	25,531	77	0.3
Non-U.S.	1,119	31	2.8
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	172,481	(618)	(0.4)
Non-U.S.	80,490	58	0.1
Customer receivables and Other(3):			
U.S.	53,887	857	1.6
Non-U.S.	26,836	129	0.5
Total	$ 712,177	$ 5,835	0.8%
Non-interest earning assets	119,647		
Total assets	$ 831,824		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 139,242	$ 65	—%
Non-U.S.	2,260	13	0.6
Short-term borrowings(4):			
U.S.	1,162	1	0.1
Non-U.S.	1,025	15	1.5
Long-term borrowings(4):			
U.S.	150,005	3,448	2.3
Non-U.S.	7,589	33	0.4
Trading liabilities(1):			
U.S.	31,993	—	—
Non-U.S.	52,083	—	—
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	51,115	437	0.9
Non-U.S.	34,306	587	1.7
Customer payables and Other(6):			
U.S.	117,358	(1,529)	(1.3)
Non-U.S.	63,759	(328)	(0.5)
Total	$ 651,897	$ 2,742	0.4
Non-interest bearing liabilities and equity	179,927		
Total liabilities and equity	$ 831,824		
Net interest income and net interest rate spread		$ 3,093	0.4%

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	2014		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 104,640	$ 1,643	1.6 %
Non-U.S.	113,580	466	0.4
Investment securities:			
U.S.	62,240	613	1.0
Loans:			
U.S.	53,210	1,639	3.1
Non-U.S.	357	51	14.3
Interest bearing deposits with banks:			
U.S.	29,273	73	0.2
Non-U.S.	2,953	36	1.2
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	177,444	(507)	(0.3)
Non-U.S.	77,139	209	0.3
Customer receivables and Other(3):			
U.S.	73,244	655	0.9
Non-U.S.	18,635	535	2.9
Total	$ 712,715	$ 5,413	0.8 %
Non-interest earning assets	114,558		
Total assets	$ 827,273		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 118,580	$ 94	0.1 %
Non-U.S.	1,239	12	1.0
Short-term borrowings(4):			
U.S.	1,356	—	—
Non-U.S.	568	4	0.7
Long-term borrowings(4):			
U.S.	143,118	3,572	2.5
Non-U.S.	8,771	37	0.4
Trading liabilities(1):			
U.S.	25,587	—	—
Non-U.S.	54,112	—	—
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	86,063	548	0.6
Non-U.S.	50,843	668	1.3
Customer payables and Other(6):			
U.S.	119,153	(1,366)	(1.1)
Non-U.S.	49,555	109	0.2
Total	$ 658,945	$ 3,678	0.6
Non-interest bearing liabilities and equity	168,328		
Total liabilities and equity	$ 827,273		
Net interest income and net interest rate spread		$ 1,735	0.2 %

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	2013		
	Average Weekly Balance	Interest	Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 119,549	$ 1,948	1.6 %
Non-U.S.	103,774	344	0.3
Investment securities:			
U.S.	44,112	447	1.0
Loans:			
U.S.	33,939	1,052	3.1
Non-U.S.	489	69	14.1
Interest bearing deposits with banks:			
U.S.	34,636	86	0.2
Non-U.S.	7,609	43	0.6
Securities purchased under agreements to resell and Securities borrowed(2):			
U.S.	203,742	(217)	(0.1)
Non-U.S.	77,713	197	0.3
Customer receivables and Other(3):			
U.S.	62,028	751	1.2
Non-U.S.	19,077	489	2.6
Total	$ 706,668	$ 5,209	0.7 %
Non-interest earning assets	121,793		
Total assets	$ 828,461		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 91,713	$ 159	0.2 %
Non-U.S.	260	—	—
Short-term borrowings(4):			
U.S.	964	2	0.2
Non-U.S.	1,063	18	1.7
Long-term borrowings(4):			
U.S.	152,532	3,696	2.4
Non-U.S.	9,857	62	0.6
Trading liabilities(1):			
U.S.	31,861	—	—
Non-U.S.	59,200	—	—
Securities sold under agreements to repurchase and Securities loaned(5):			
U.S.	108,896	681	0.6
Non-U.S.	66,697	788	1.2
Customer payables and Other(6):			
U.S.	98,335	(1,117)	(1.1)
Non-U.S.	37,679	142	0.4
Total	$ 659,057	$ 4,431	0.7
Non-interest bearing liabilities and equity	169,404		
Total liabilities and equity	$ 828,461		
Net interest income and net interest rate spread		$ 778	— %

[1] Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

[2] Includes fees paid on securities borrowed.

[3] Includes interest from customer receivables and other interest earning assets.

[4] The Company also issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities, which are recorded within Trading revenues (see Note 3).

[5] Includes fees received on Securities loaned.

[6] Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers' short positions.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

Effect on Net Interest Income of Volume and Rate Changes.

	2015 versus 2014		
	Increase (Decrease) due to Change in:		
	Volume	Rate	Net Change
		(dollars in millions)	
Interest earning assets			
Trading assets:			
U.S.	$ (72)	$ 303	$ 231
Non-U.S.	(20)	(58)	(78)
Investment securities:			
U.S.	57	206	263
Loans:			
U.S.	667	(176)	491
Non-U.S.	(16)	(2)	(18)
Interest bearing deposits with banks:			
U.S.	(9)	13	4
Non-U.S.	(22)	17	(5)
Securities purchased under agreements to resell and Securities borrowed:			
U.S.	14	(125)	(111)
Non-U.S.	9	(160)	(151)
Customer receivables and Other:			
U.S.	(173)	375	202
Non-U.S.	235	(641)	(406)
Change in interest income	$ 670	$ (248)	$ 422
Interest bearing liabilities			
Deposits:			
U.S.	$ 16	$ (45)	$ (29)
Non-U.S.	10	(9)	1
Short-term borrowings:			
U.S.	—	1	1
Non-U.S.	3	8	11
Long-term borrowings:			
U.S.	172	(296)	(124)
Non-U.S.	(5)	1	(4)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(223)	112	(111)
Non-U.S.	(217)	136	(81)
Customer payables and Other:			
U.S.	21	(184)	(163)
Non-U.S.	31	(468)	(437)
Change in interest expense	$ (192)	$ (744)	$ (936)
Change in net interest income	$ 862	$ 496	$ 1,358

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

	2014 versus 2013		
	Increase (Decrease) due to Change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$ (243)	$ (62)	$ (305)
Non-U.S.	33	89	122
Investment securities:			
U.S.	184	(18)	166
Loans:			
U.S.	597	(10)	587
Non-U.S.	(19)	1	(18)
Interest bearing deposits with banks:			
U.S.	(13)	—	(13)
Non-U.S.	(26)	19	(7)
Securities purchased under agreements to resell and Securities borrowed:			
U.S.	28	(318)	(290)
Non-U.S.	(1)	13	12
Customer receivables and Other:			
U.S.	136	(232)	(96)
Non-U.S.	(11)	57	46
Change in interest income	$ 665	$ (461)	$ 204
Interest bearing liabilities			
Deposits:			
U.S.	$ 47	$ (112)	$ (65)
Non-U.S.	—	12	12
Short-term borrowings:			
U.S.	1	(3)	(2)
Non-U.S.	(8)	(6)	(14)
Long-term borrowings:			
U.S.	(228)	104	(124)
Non-U.S.	(7)	(18)	(25)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(143)	10	(133)
Non-U.S.	(187)	67	(120)
Customer payables and Other:			
U.S.	(236)	(13)	(249)
Non-U.S.	45	(78)	(33)
Change in interest expense	$ (716)	$ (37)	$ (753)
Change in net interest income	$ 1,381	$ (424)	$ 957

Deposits.

	Average Deposits(1)					
	2015		2014		2013	
	Average Amount(1)	Average Rate	Average Amount(1)	Average Rate	Average Amount(1)	Average Rate
	(dollars in millions)					
Deposits(2):						
Savings deposits	$ 139,169	0.1%	$ 118,086	0.1%	$ 90,447	0.1%
Time deposits	2,333	0.6%	1,733	0.7%	1,526	3.9%
Total	$ 141,502	0.6%	$ 119,819	0.1%	$ 91,973	0.2%

(1) In 2015, the Company calculated its average balances based on daily amounts. In 2014 and 2013, the Company calculated its average balances based upon weekly amounts, except where weekly balances were unavailable, month-end balances were used.

(2) The Company's deposits were primarily held in U.S. offices.

Ratios.

	2015	2014	2013
Net income to average assets	0.7%	0.4%	0.4%
Return on average common equity(1)	8.5%	4.8%	4.3%
Return on total equity(2)	8.3%	4.9%	4.6%
Dividend payout ratio(3)	5.2%	21.9%	14.7%
Total average common equity to average assets	8.0%	7.9%	7.5%
Total average equity to average assets	8.9%	8.5%	7.7%

(1) Percentage is based on net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity.

(2) Percentage is based on net income as a percentage of average total equity.

(3) Percentage is based on dividends declared per common share as a percentage of net income per diluted share.

Short-Term Borrowings.

	2015	2014	2013
		(dollars in millions)	
Securities sold under repurchase agreements:			
Period-end balance	$ 36,692	$ 69,949	$ 145,676
Average balance(1)(2)	61,338	103,640	136,151
Maximum balance at any month-end	81,346	129,265	145,676
Weighted average interest rate during the period(3)	0.9%	0.8%	0.7%
Weighted average interest rate on period-end balance(4)	0.8%	0.7%	0.4%
Securities loaned:			
Period-end balance	$ 19,358	$ 25,219	$ 32,799
Average balance(1)(2)	24,083	33,266	39,442
Maximum balance at any month-end	29,674	35,700	44,182
Weighted average interest rate during the period(3)	2.1%	1.3%	1.2%
Weighted average interest rate on period-end balance(4)	2.4%	1.6%	1.2%

(1) In 2015, the Company calculated its average balances based upon daily amounts. In 2014 and 2013, the Company calculated its average balances based upon weekly amounts, except where weekly balances were unavailable, month-end balances were used.

(2) Securities sold under agreements to repurchase and Securities loaned period-end balances at December 31, 2015 were lower than the annual average balances during 2015. The balances moved in line with client financing and with general movements in firm inventory.

(3) The approximated weighted average interest rate was calculated using (a) interest expense incurred on all securities sold under repurchase agreements and securities loaned transactions, whether or not such transactions were reported in the consolidated statements of financial condition and (b) average balances that were reported on a net basis where certain criteria were met in accordance with applicable offsetting guidance. In addition, securities-for-securities transactions in which the Company was the borrower were not included in the average balances since they were not reported in the consolidated statements of financial condition.

(4) The approximated weighted average interest rate was calculated using (a) interest expense incurred on all securities sold under repurchase agreements and securities loaned transactions, whether or not such transactions were reported in the consolidated statements of financial condition and (b) period-end balances that were reported on a net basis where certain criteria were met in accordance with applicable offsetting guidance. In addition, securities-for-securities transactions in which the Company was the borrower were not included in the period-end balances since they were not reported in the consolidated statements of financial condition.

Cross-Border Outstandings.

Cross-border outstandings are based upon the Federal Financial Institutions Examination Council's ("FFIEC") regulatory guidelines for reporting cross-border risk. Claims include cash, customer and other receivables, securities purchased under agreements to resell, securities borrowed and cash trading instruments, but exclude commitments. Securities purchased under agreements to resell and securities borrowed are presented based on the domicile of the counterparty, without reduction for related securities collateral held. For information regarding the Company's country risk exposure, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk—Country Risk Exposure" in Part II, Item 7A.

The following tables set forth cross-border outstandings for each country in which cross-border outstandings exceed 1% of the Company's consolidated assets or 20% of the Company's total capital, whichever is less, at December 31, 2015, December 31, 2014 and December 31, 2013, respectively, in accordance with the FFIEC guidelines:

	At December 31, 2015				
Country	Banks	Governments	Non-banking Financial Institutions	Other	Total
			(dollars in millions)		
United Kingdom	$ 9,556	$ 36	$ 53,039	$11,273	$73,904
Japan	6,784	9,903	18,432	9,076	44,195
France	15,321	18	7,217	6,087	28,643
Cayman Islands	349	—	19,582	4,848	24,779
Germany	5,089	6,516	4,240	6,158	22,003
Ireland	411	3	7,058	5,387	12,859
Switzerland	1,430	501	719	7,794	10,444
Canada	2,667	2,328	3,068	2,354	10,417
India	2,514	355	770	5,620	9,259
Singapore	2,185	5,980	36	770	8,971
Netherlands	669	—	4,244	3,542	8,455
China	1,999	1,134	914	4,431	8,478

	At December 31, 2014				
Country	Banks	Governments	Non-banking Financial Institutions	Other	Total
			(dollars in millions)		
United Kingdom	$ 8,514	$ 948	$ 50,855	$9,170	$69,487
Cayman Islands	144	—	38,223	5,249	43,616
Japan	14,860	5,645	15,814	7,162	43,481
France	18,838	218	2,349	5,591	26,996
Germany	6,650	6,679	3,991	3,304	20,624
Singapore	2,117	7,761	18	788	10,684
China	1,738	3,259	64	5,546	10,607
Canada	2,741	286	4,261	2,694	9,982
South Korea	149	6,081	721	3,012	9,963
Ireland	304	20	5,793	3,203	9,320
Netherlands	910	—	3,509	3,890	8,309

	At December 31, 2013				
Country	Banks	Governments	Non-banking Financial Institutions	Other	Total
			(dollars in millions)		
United Kingdom	$ 11,874	$ 911	$ 45,787	$ 11,807	$ 70,379
Japan	27,251	3,622	12,285	14,141	57,299
Cayman Islands	1	—	38,476	6,565	45,042
Germany	8,844	10,312	4,985	5,628	29,769
France	22,408	264	2,194	4,053	28,919
Canada	2,988	2,012	4,878	2,230	12,108
Netherlands	1,474	—	6,111	3,904	11,489
South Korea	65	4,307	368	3,008	7,748

For cross-border exposure including derivative contracts that exceeds 0.75% but does not exceed 1% of the Company's consolidated assets, South Korea, Spain and Australia had a total cross-border exposure of $20,527 million at December 31, 2015, Saudi Arabia, Switzerland, Luxembourg and Australia had a total cross-border exposure of $28,637 million at December 31, 2014; and Ireland, Italy and Luxembourg had a total cross-border exposure of $21,026 million at December 31, 2013.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States, and that our receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013).* Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2015.

The Company's independent registered public accounting firm has audited and issued a report on the Company's internal control over financial reporting, which appears below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the internal control over financial reporting of Morgan Stanley and subsidiaries (the “Company”) as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of December 31, 2015, and for the year then ended, and our report dated February 23, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
New York, New York
February 23, 2016

Changes in Internal Control Over Financial Reporting.

No change in the Company's internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the quarter ended December 31, 2015 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Information relating to the Company's directors and nominees in the Company's definitive proxy statement for its 2016 annual meeting of shareholders ("Morgan Stanley's Proxy Statement") is incorporated by reference herein.

Information relating to the Company's executive officers is contained in Part I, Item 1 of this report under "Executive Officers of Morgan Stanley."

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. You can find our Code of Ethics and Business Conduct on our internet site, *www.morganstanley.com/about-us-governance/ethics.html*. We 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 Securities and Exchange Commission or the New York Stock Exchange, on our internet site.

Item 11. Executive Compensation.

Information relating to director and executive officer compensation in Morgan Stanley's Proxy Statement is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information relating to equity compensation plans and security ownership of certain beneficial owners and management in Morgan Stanley's Proxy Statement is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions in Morgan Stanley's Proxy Statement is incorporated by reference herein.

Information regarding director independence in Morgan Stanley's Proxy Statement is incorporated by reference herein.

Item 14. Principal Accounting Fees and Services.

Information regarding principal accounting fees and services in Morgan Stanley's Proxy Statement is incorporated by reference herein.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

Documents filed as part of this report.

- The consolidated financial statements required to be filed in this Annual Report on Form 10-K are included in Part II, Item 8 hereof.
- An exhibit index has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 23, 2016.

MORGAN STANLEY
(REGISTRANT)
By: /s/ JAMES P. GORMAN
(James P. Gorman)
Chairman of the Board and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned, hereby severally constitute Jonathan Pruzan, Eric F. Grossman and Martin M. Cohen, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 23rd day of February, 2016.

Signature	Title
/s/ [redacted] (James P. Gorman)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s [redacted] (Jonathan Pruzan)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ [redacted] (Paul C. Wirth)	Deputy Chief Financial Officer (Principal Accounting Officer)
/s/ [redacted] (Erskine B. Bowles)	Director
/s/ [redacted] (Alistair Darling)	Director
/s/ [redacted] (Thomas H. Glocer)	Director
/s/ [redacted] (Robert H. Herz)	Director
/s/ [redacted] (Nobuyuki Hirano)	Director
/s/ [redacted] (Klaus Kleinfeld)	Director

Signature	Title
/s/ [redacted] (Jami Miscik)	Director
/s/ [redacted] (Donald T. Nicolaisen)	Director
/s [redacted] (Hutham S. Olayan)	Director
/s/ [redacted] (James W. Owens)	Director
/s/ [redacted] (Ryosuke Tamakoshi)	Director
/s/ [redacted] (Perry M. Traquina)	Director
/s [redacted] (Laura D’Andrea Tyson)	Director
/s/ [redacted] (Rayford Wilkins, Jr.)	Director

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS TO FORM 10-K

For the year ended December 31, 2015
Commission File No. 1-11758

Morgan Stanley

Exhibit Index

Certain of the following exhibits, as indicated parenthetically, were previously filed as exhibits to registration statements filed by Morgan Stanley or its predecessor companies under the Securities Act or to reports or registration statements filed by Morgan Stanley or its predecessor companies under the Exchange Act and are hereby incorporated by reference to such statements or reports. Morgan Stanley's Exchange Act file number is 1-11758. The Exchange Act file number of Morgan Stanley Group Inc., a predecessor company ("MSG"), was 1-9085.[1]

Exhibit No.	Description
2.1	Integration and Investment Agreement dated as of March 30, 2010 by and between Mitsubishi UFJ Financial Group, Inc. and Morgan Stanley (Exhibit 2.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
3.1*	Amended and Restated Certificate of Incorporation of Morgan Stanley, as amended to date.
3.2	Amended and Restated Bylaws of Morgan Stanley, as amended to date (Exhibit 3.1 to Morgan Stanley's Current Report on Form 8-K dated October 29, 2015).
4.1	Indenture dated as of February 24, 1993 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4 to Morgan Stanley's Registration Statement on Form S-3 (No. 33-57202)).
4.2	Amended and Restated Senior Indenture dated as of May 1, 1999 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-e to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289) as amended by Fourth Supplemental Senior Indenture dated as of October 8, 2007 (Exhibit 4.3 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
4.3	Senior Indenture dated as of November 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752), as amended by First Supplemental Senior Indenture dated as of September 4, 2007 (Exhibit 4.5 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007), Second Supplemental Senior Indenture dated as of January 4, 2008 (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated January 4, 2008), Third Supplemental Senior Indenture dated as of September 10, 2008 (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008), Fourth Supplemental Senior Indenture dated as of December 1, 2008 (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated December 1, 2008), Fifth Supplemental Senior Indenture dated as of April 1, 2009 (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009), Sixth Supplemental Senior Indenture dated as of September 16, 2011 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011), Seventh Supplemental Senior Indenture dated as of November 21, 2011 (Exhibit 4.4 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011), Eighth Supplemental Senior Indenture dated as of May 4, 2012 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012), and Ninth Supplemental Senior Indenture dated as of March 10, 2014 (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
4.4	The Unit Agreement Without Holders' Obligations, dated as of August 29, 2008, between Morgan Stanley and The Bank of New York Mellon, as Unit Agent, as Trustee and Paying Agent under the Senior Indenture referred to therein and as Warrant Agent under the Warrant Agreement referred to therein (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated August 29, 2008).

(1) For purposes of this Exhibit Index, references to "The Bank of New York" mean in some instances the entity successor to JPMorgan Chase Bank, N.A. or J.P. Morgan Trust Company, National Association; references to "JPMorgan Chase Bank, N.A." mean the entity formerly known as The Chase Manhattan Bank, in some instances as the successor to Chemical Bank; references to "J.P. Morgan Trust Company, N.A." mean the entity formerly known as Bank One Trust Company, N.A., as successor to The First National Bank of Chicago.

Exhibit No.	Description
4.5	Amended and Restated Subordinated Indenture dated as of May 1, 1999 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289)).
4.6	Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-g to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752)).
4.7	Junior Subordinated Indenture dated as of March 1, 1998 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998).
4.8	Junior Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4-ww to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-117752)).
4.9	Junior Subordinated Indenture dated as of October 12, 2006 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated October 12, 2006).
4.10	Deposit Agreement dated as of July 6, 2006 among Morgan Stanley, JPMorgan Chase Bank, N.A. and the holders from time to time of the depositary receipts described therein (Exhibit 4.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2006).
4.11	Form of Deposit Agreement among Morgan Stanley, JPMorgan Chase Bank, N.A. and the holders from time to time of the depositary receipts representing interests in the Series A Preferred Stock described therein (Exhibit 2.4 to Morgan Stanley's Registration Statement on Form 8-A dated July 5, 2006).
4.12	Depositary Receipt for Depositary Shares, representing Floating Rate Non-Cumulative Preferred Stock, Series A (included in Exhibit 4.11 hereto).
4.13	Form of Deposit Agreement among Morgan Stanley, The Bank of New York Mellon and the holders from time to time of the depositary receipts representing interests in the Series E Preferred Stock described therein (Exhibit 2.6 to Morgan Stanley's Registration Statement on Form 8-A dated September 27, 2013).
4.14	Depositary Receipt for Depositary Shares, representing Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E (included in Exhibit 4.13 hereto).
4.15	Form of Deposit Agreement among Morgan Stanley, The Bank of New York Mellon and the holders from time to time of the depositary receipts representing interests in the Series F Preferred stock described therein (Exhibit 2.4 to Morgan Stanley's Registration Statement on Form 8-A dated December 9, 2013).
4.16	Depositary Receipt for Depositary Shares, representing Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F (included in Exhibit 4.15 hereto).
4.17	Form of Deposit Agreement among Morgan Stanley, The Bank of New York Mellon and the holders from time to time of the depositary receipts representing interests in the Series G Preferred stock described therein (Exhibit 2.4 to Morgan Stanley's Registration Statement on Form 8-A dated April 28, 2014).
4.18	Depositary Receipt for Depositary Shares, representing 6.625% Non-Cumulative Preferred Stock, Series G (included in Exhibit 4.17 hereto).
4.19	Form of Deposit Agreement among Morgan Stanley, The Bank of New York Mellon and the holders from time to time of the depositary receipts representing interests in the Series H Preferred stock described therein (Exhibit 4.6 to Morgan Stanley's Current Report on Form 8-K dated April 29, 2014).

Exhibit No.	Description
4.20	Depositary Receipt for Depositary Shares, representing Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series H (included in Exhibit 4.19 hereto).
4.21	Form of Deposit Agreement among Morgan Stanley, The Bank of New York Mellon and the holders from time to time of the depositary receipts representing interests in the Series I Preferred stock described therein (Exhibit 2.4 to Morgan Stanley's Registration Statement on Form 8-A dated September 17, 2014).
4.22	Depositary Receipt for Depositary Shares, representing Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I (included in Exhibit 4.21 hereto).
4.23	Form of Deposit Agreement among Morgan Stanley, The Bank of New York Mellon and the holders from time to time of the depositary receipts representing interests in the Series J Preferred Stock described therein (Exhibit 4.3 to Morgan Stanley's Current Report on Form 8-K dated March 18, 2015).
4.24	Depositary Receipt for Depositary Shares, representing Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series J (included in Exhibit 4.23 hereto).
4.25	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust III dated as of February 27, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee, and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2003).
4.26	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust IV dated as of April 21, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware Trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2003).
4.27	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust V dated as of July 16, 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2003).
4.28	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VIII dated as of April 26, 2007 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley's Current Report on Form 8-K dated April 26, 2007).
4.29	Instruments defining the Rights of Security Holders, Including Indentures—Except as set forth in Exhibits 4.1 through 4.18 above, the instruments defining the rights of holders of long-term debt securities of Morgan Stanley and its subsidiaries are omitted pursuant to Section (b)(4)(iii) of Item 601 of Regulation S-K. Morgan Stanley hereby agrees to furnish copies of these instruments to the SEC upon request.
10.1	Amended and Restated Trust Agreement dated as of October 18, 2011 by and between Morgan Stanley and State Street Bank and Trust Company (Exhibit 10.1 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2011).
10.2	Transaction Agreement dated as of April 21, 2011 between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated April 21, 2011).
10.3	Amended and Restated Investor Agreement dated as of June 30, 2011 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated June 30, 2011), as amended by Third Amendment, dated October 3, 2013 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

Exhibit No.	Description
10.4†	Morgan Stanley 401(k) Plan, amended and restated as of January 1, 2013 (Exhibit 10.6 to Morgan Stanley Annual Report on Form 10-K for the year ended December 31, 2012), as amended by Amendment (Exhibit 10.5 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2013), Amendment (Exhibit 10.6 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2013) and Amendment (Exhibit 10.5 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2014).
10.5†*	Amendment to Morgan Stanley 401(k) Plan, dated as of December 22, 2015.
10.6†	Tax Deferred Equity Participation Plan as amended and restated as of November 26, 2007 (Exhibit 10.9 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.7†	Directors' Equity Capital Accumulation Plan as amended and restated as of March 22, 2012 (Exhibit 10.2 to Morgan Stanley's Current Report on Form 8-K dated May 15, 2012).
10.8†	Employees' Equity Accumulation Plan as amended and restated as of November 26, 2007 (Exhibit 10.12 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.9†	Employee Stock Purchase Plan as amended and restated as of February 1, 2009 (Exhibit 10.20 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.10†	Morgan Stanley Supplemental Executive Retirement and Excess Plan, amended and restated effective December 31, 2008 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009) as amended by Amendment (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009), Amendment (Exhibit 10.19 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2010), Amendment (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011) and Amendment (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).
10.11†	1995 Equity Incentive Compensation Plan (Annex A to MSG's Proxy Statement for its 1996 Annual Meeting of Stockholders) as amended by Amendment (Exhibit 10.39 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000), Amendment (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2005), Amendment (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006), Amendment (Exhibit 10.24 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006) and Amendment (Exhibit 10.22 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.12†	Form of Management Committee Equity Award Certificate for Discretionary Retention Award of Stock Units and Stock Options (Exhibit 10.30 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2006).
10.13†	Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program 2 (Exhibit 10.12 to MSG's Annual Report for the fiscal year ended November 30, 1996).
10.14†	Key Employee Private Equity Recognition Plan (Exhibit 10.43 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).
10.15†	Morgan Stanley Financial Advisor and Investment Representative Compensation Plan as amended and restated as of November 26, 2007 (Exhibit 10.34 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2007).
10.16†	Morgan Stanley UK Share Ownership Plan (Exhibit 4.1 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-146954)).

Exhibit No.	Description
10.17†	Supplementary Deed of Participation for the Morgan Stanley UK Share Ownership Plan, dated as of November 5, 2009 (Exhibit 10.36 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2009).
10.18†	Aircraft Time Sharing Agreement, dated as of January 1, 2010, by and between Corporate Services Support Corp. and James P. Gorman (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
10.19†	Agreement between Morgan Stanley and James P. Gorman, dated August 16, 2005, and amendment dated December 17, 2008 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010), as amended by Amendment (Exhibit 10.25 to Morgan Stanley's Annual Report on Form 10-K for the year ended December 31, 2013).
10.20†	Form of Restrictive Covenant Agreement (Exhibit 10 to Morgan Stanley's Current Report on Form 8-K dated November 22, 2005).
10.21†	Morgan Stanley Performance Formula and Provisions (Exhibit 10.2 to Morgan Stanley's Current Report on Form 8-K dated May 14, 2013).
10.22†	2007 Equity Incentive Compensation Plan, as amended and restated as of March 26, 2015 (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated May 19, 2015).
10.23†	Morgan Stanley 2006 Notional Leveraged Co-Investment Plan, as amended and restated as of November 28, 2008 (Exhibit 10.47 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.24†	Form of Award Certificate under the 2006 Notional Leveraged Co-Investment Plan (Exhibit 10.7 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.25†	Morgan Stanley 2007 Notional Leveraged Co-Investment Plan, amended as of June 4, 2009 (Exhibit 10.6 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.26†	Form of Award Certificate under the 2007 Notional Leveraged Co-Investment Plan for Certain Management Committee Members (Exhibit 10.8 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008).
10.27†	Morgan Stanley Compensation Incentive Plan (Exhibit 10.54 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2008).
10.28†	Morgan Stanley 2009 Replacement Equity Incentive Compensation Plan for Morgan Stanley Smith Barney Employees (Exhibit 4.2 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-159504)).
10.29†	Form of Award Certificate for Special Discretionary Retention Awards of Stock Options (Exhibit 10.4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
10.30†	Morgan Stanley Schedule of Non-Employee Directors Annual Compensation, effective as of August 1, 2014 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).
10.31†	Memorandum to Colm Kelleher Regarding Repatriation to London (Exhibit 10.4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.32†	Morgan Stanley U.S. Tax Equalization Program (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).

Exhibit No.	Description
10.33†	Morgan Stanley UK Limited Alternative Retirement Plan, dated as of October 8, 2009 (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.34†	Form of Award Certificate for Discretionary Retention Awards of Stock Options (Exhibit 10.5 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.35†	Form of Award Certificate for Long-Term Incentive Program Awards (Exhibit 10.6 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.36†	Agreement between Morgan Stanley and Colm Kelleher, dated January 5, 2015 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
10.37†	Description of Operating Committee Medical Coverage (Exhibit 10.2 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
10.38†*	Form of Award Certificate for Discretionary Retention Awards of Stock Units.
10.39†*	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan.
10.40†*	Form of Award Certificate for Long-Term Incentive Program Awards.
10.41†*	Agreement between Morgan Stanley and Gregory J. Fleming, dated January 22, 2016.
12*	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	Subsidiaries of Morgan Stanley.
23.1*	Consent of Deloitte & Touche LLP.
24	Powers of Attorney (included on signature page).
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Income—Twelve Months Ended December 31, 2015, December 31, 2014 and December 31, 2013, (ii) the Consolidated Statements of Comprehensive Income—Twelve Months Ended December 31, 2015, December 31, 2014 and December 31, 2013, (iii) the Consolidated Statements of Financial Condition—December 31, 2015 and December 31, 2014, (iv) the Consolidated Statements of Changes in Total Equity—Twelve Months Ended December 31, 2015, December 31, 2014 and December 31, 2013, (v) the Consolidated Statements of Cash Flows—Twelve Months Ended December 31, 2015, December 31, 2014 and December 31, 2013, and (vi) Notes to Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

Section 8

Pricing

Tab 8 Pricing

Pricing submitted separately in a separate, sealed envelope with disc or USB in Packet #2.

Section 9

Deal Lists, Resumes and References

Morgan Stanley Transportation Revenue Bond Select Underwriting Experience

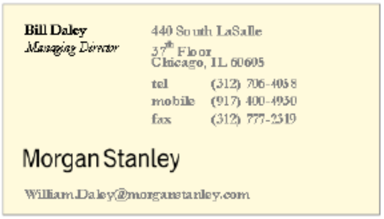
January 1, 2014 to Present

Issuer	Sale Date	Par ($MM)	Security	Interest Rate Type	Credit Ratings (M/S/F)	Role of Firm	Takedown Compensation (%)
Metropolitan Transport Auth (MTA)	2/21/2014	400.00	Transportation Revenue & Ref Bonds	Fixed	A2 / A+ / A	Senior Manager	17.60%
Pennsylvania Turnpike Commission	4/23/2014	208.04	Turnpike Subordinate Revenue Bonds	Fixed / Con. CABs / CABs	A3 / A- / A-	Senior Manager	40.00%
Miami-Dade Co Expressway Auth	6/4/2014	314.05	Toll System Revenue Bonds	Fixed	A3 / A- / A-	Senior Manager	60.00%
Dallas & Fort Worth Cities-Texas	6/25/2014	124.29	Jt Revenue Improvement Bonds	Fixed	NR / A / A+	Senior Manager	45.00%
Oregon Dept of Transportation	6/25/2014	194.53	Hwy User Tax Rev Sr Ln Ref Bonds	Fixed	Aa1 / AAA / AA+	Senior Manager	37.50%
Louisiana	7/10/2014	239.91	Gasoline & Fuels Tax Ref Bonds	Fixed	Aa1 / AAA / NR	Senior Manager	60.00%
Kansas Dept of Transportation	7/15/2014	250.00	Highway Revenue Bonds	Fixed	Aa2 / AAA / AA+	Senior Manager	60.00%
Illinois State Toll Highway Auth	10/30/2014	400.00	Toll Highway Senior Revenue Bonds	Fixed	Aa3 / AA- / AA-	Senior Manager	25.00%
North Texas Tollway Auth (NTTA)	12/11/2014	223.90	System 1st Tier Rev Ref Bonds	Variable	A2 / A- / NR	Senior Manager	51.00%
Oregon Dept of Transportation	1/14/2015	381.31	Hway User Tax Rev Sr Ln Ref Bonds	Fixed	Aa1 / AAA / AA+	Senior Manager	37.50%
Utah Transit Authority	1/27/2015	860.66	Sr & Sub Sales Tax Rev Ref Bonds	Fixed	Senior: Aa2 / AAA / AA Sub: A1 / A+ / A+	Senior Manager	50.00%
Long Beach City-California	5/20/2015	114.02	Marina Revenue Bonds	Fixed	NR / NR / BBB	Senior Manager	70.00%
Kentucky Turnpike Authority	6/17/2015	190.89	Eco Dev Road Rev & Ref Bonds	Fixed	Aa2 / AA / A+	Senior Manager	65.00%
Metro Washington Airports Auth	6/30/2015	345.70	Airport System Rev & Ref Bonds	Fixed	A1 / AA- / AA-	Senior Manager	50.00%
NYS Dorm Authority	7/23/2015	1,523.10	Sales Tax Revenue Bonds	Fixed	NR / AAA / AA+	Senior Manager	34.00%
Metropolitan Transport Auth (MTA)	7/24/2015	477.11	Transportation Rev Ref Bonds	Fixed	A1 / AA- / A	Joint Senior Manager	18.65%
Delaware Co Industrial Dev Auth	8/21/2015	100.00	Airport Facilities Ref Rev Bonds	Variable	NR / NR / NR	Sole Remarketing Agent	100.00%
Mississippi	9/23/2015	200.00	Gaming Tax Revenue Bonds	Fixed	A3 / A+ /A+	Senior Manager	70.00%
Hawaii	11/5/2015	235.14	Airport System Revenue Bonds	Fixed	A1 / A+ / A	Senior Manager	60.00%
Kansas Dept of Transportation	12/2/2015	400.00	Highway Revenue Bonds	Fixed	Aa2 / AAA / AA+	Senior Manager	58.00%
Dallas Area Rapid Transit Auth	2/4/2016	482.53	Sr Lien Sales Tax Rev Ref Bonds	Fixed	Aa2 / AA+ / NR	Senior Manager	34.75%
Fairfax Co Economic Dev Auth	3/3/2016	173.96	Transport Dt Imp Rev Ref Bonds	Fixed	Aa1 / AA / AA	Senior Manager	60.00%
Kentucky Turnpike Authority	3/22/2016	222.67	Eco Dev Road Rev Ref Bonds	Fixed	Aa2 / AA- / A+	Senior Manager	65.00%
Pennsylvania Turnpike Commission	3/31/2016	389.16	Turnpike Subordinate Rev Bonds	Fixed	A3 / NR / A-	Senior Manager	45.00%
Alamo Regional Mobility Auth (RMA)	5/18/2016	114.43	Vehicle Registration Fee Bonds	Fixed	Aa2 / NR / AA+	Senior Manager	50.00%
Illinois State Toll Highway Auth	5/18/2016	300.00	Toll Highway Senior Revenue Bonds	Fixed	Aa3 / AA- / AA-	Joint Senior Manager	24.00%
Metropolitan Transport Auth (MTA)	6/23/2016	625.51	Transportation Revenue Ref Bonds	Fixed	A1 / AA- / AA-	Senior Manager	19.00%
Massachusetts	9/29/2016	240.79	Transportation Fund & Ref Bonds	Fixed	Aa1 / AAA / NR	Senior Manager	50.00%
Texas Transportation Commission	10/6/2016	601.21	St Highway Fund 1st Tier Bonds	Fixed	Aaa / AAA / NR	Senior Manager	32.00%
Chicago City- Ilinois	11/30/2016	1,117.25	Gen Airport Sr Lien Rev bonds	Fixed	NR / A / A	Senior Manager	40.00%

Resumes

William Daley, Managing Director and Co-Head of National Infrastructure Group.

[redacted]



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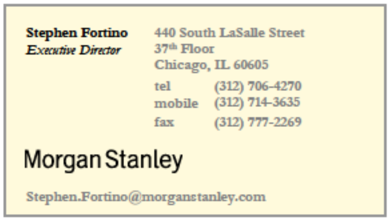
Stephen Fortino, Executive Director.

[redacted]



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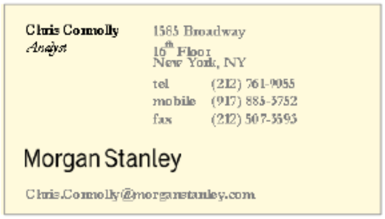
Chris Connolly, Analyst.

[redacted]



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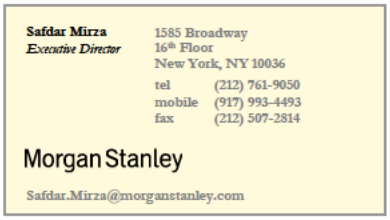
Safdar Mirza, Executive Director and Head of Public Finance Capital Markets.

[redacted]



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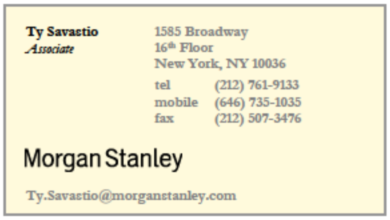
Ty Savastio, Associate. [redacted]



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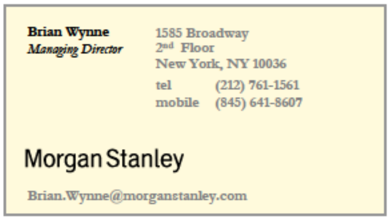
Brian Wynne, Managing Director, Head of Long-Term Syndicate and Co-Head of Public Finance [redacted]



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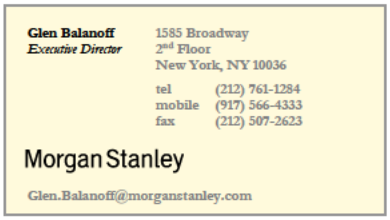
Glen Balanoff, Executive Director. [redacted]



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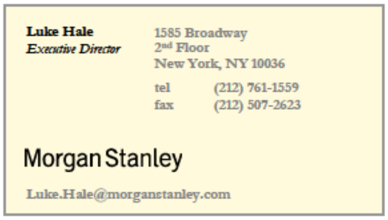
Luke Hale, Executive Director. [redacted]



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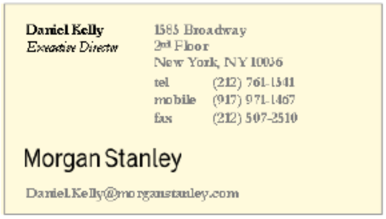
Daniel Kelly, Executive Director and Co-Head of Municipal Short-Term Syndicate. [redacted]



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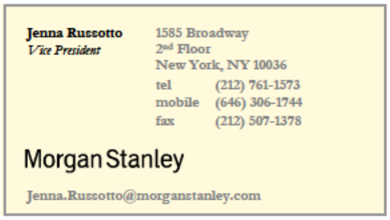
Jenna Russotto, Vice President. [redacted]



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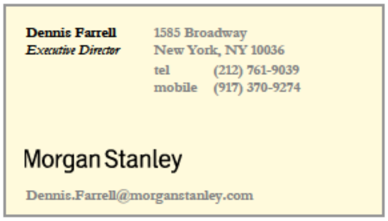
Dennis Farrell, Executive Director and Head of Municipal Credit. [redacted]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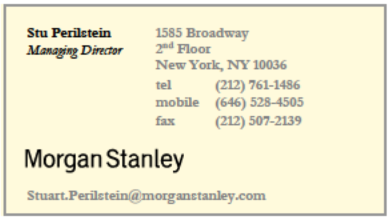
Stu Perilstein, Managing Director and Co-Head of Municipal Institutional Sales. [redacted]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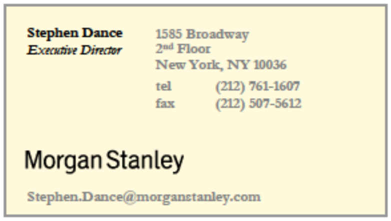
Stephen Dance, Executive Director and Co-Head of Municipal Institutional Sales. [redacted]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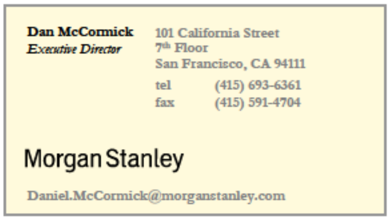
Stephen.Dance@morganstanley.com

Dan McCormick, Managing Director and Head of Municipal Retail Sales. [redacted]


Dan McCormick
Executive Director

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tel (415) 693-6361
fax (415) 591-4704

Morgan Stanley

Daniel.McCormick@morganstanley.com

STATE OF ILLINOIS
REFERENCES

Provide references from established firms or government agencies (Click here to enter text.) other than the procuring agency/university that can attest to Offeror's experience and ability to perform the contract that is the subject of this solicitation.

J.1. Firm/Government Agency/University (name): City of Chicago, IL

Contact Person (name, title, email address, address, and phone): Carole Brown, CFO
Carole.Brown@cityofchicago.org; 121 N. LaSalle St. Chicago, IL 60602; (312) 744-7159

Date of Supplies/Services Provided: 11/30/2016 / Senior Managing Underwriter

Type of Supplies/Services Provided: Municipal Bond Underwriting

J.2. Firm/Government Agency/University (name): Commonwealth of Massachusetts

Contact Person (name, title, email address, address, and phone): Sue Perez, Assistant Treasurer
sperez@tre.state.ma.us; One Ashburton Place Boston, MA 02108; (617) 367-9333 x816

Date of Supplies/Services Provided: 9/29/2016 / Senior Managing Underwriter

Type of Supplies/Services Provided: Municipal Bond Underwriting **J.3.**

Firm/Government Agency/University (name): Ohio Water Development Authority

Contact Person (name, title, email address, address, and phone): Scott Campbell, COO
scampbell@owda.org; 480 South High Street Columbus, OH 43215; (614) 466-0170

Date of Supplies/Services Provided: 5/3/2016 / Senior Managing Underwriter

Type of Supplies/Services Provided: Municipal Bond Underwriting

J.4. Firm/Government Agency/University (name): N/A

Contact Person (name, title, email address, address, and phone): N/A

Date of Supplies/Services Provided: N/A

Type of Supplies/Services Provided: N/A

Offeror Name: Morgan Stanley & Co. LLC

Return Mailing Address: 1585 Broadway
New York, NY 10036

Appendix A

Statement Where Services Are to be Performed

the expected amount of money each will receive in the Subcontractor Disclosure form found in Section 3 Part I.

D.6.2. The Offeror shall notify the State of any additional or substitute subcontractors hired during the term of the contract. If required, Offeror shall provide the State a copy of all such subcontracts within fifteen (15) days after execution of the contract or the subcontract, whichever occurs later.

D.6.3. Any subcontracts entered into prior to award of the contract are done at the sole risk of the Offeror and subcontractor(s).

D.7. WHERE SERVICES ARE TO BE PERFORMED

D.7.1. Unless otherwise disclosed in this section, all services shall be performed in the United States. This information and the economic impact on Illinois and its residents may be considered in the evaluation. If the Offeror performs the services purchased hereunder in another country in violation of this provision, such action may be deemed by the State as a breach of the contract by Offeror.

D.7.2. Offeror shall disclose the locations where the services required shall be performed and the known or anticipated value of the services to be performed at each location. If the Offeror received additional consideration in the evaluation based on work being performed in the United States, it shall be a breach of contract if the Offeror shifts any such work outside the United States.

D.7.3. Location where services will be performed: 440 South LaSalle St., 37th Floor Chicago, IL

D.7.4. Percentage of contract of services performed at this location: 80%

D.8. OFFEROR'S PROPOSED SOLUTION TO MEET THE STATE'S REQUIREMENTS (Packet 1): Please respond in the following prescribed format:

The Proposal volumes shall be organized and formatted in separately bound volumes (using three-ring or loose-leaf binders). All hardcopies shall be submitted on 8.5-inch by 11-inch paper. Legibility, clarity, and completeness are essential. Any page limits must be strictly adhered to. Respondents are advised to adhere to the submittal requirements of this RFP. Failure to comply with the instructions of this RFP may be cause for rejection of a non-compliant proposal. Offerors are encouraged to provide adequate details for any request for information as noted in this RFP.

The Offeror shall tab and title the sections of their response as noted below. **PAGE LIMIT: The sum of the pages in Tabs 3, 4, 5 and 6 may not exceed 17 pages – exceeding the page limit may result in disqualification.** Proposal scoring will be based on the Respondent's submittal for the following elements:

Tab 1 - Table of Contents: The Offeror shall include a table of contents in its Offer. Offers shall be page numbered sequentially from front to back.

Tab 2 - Transmittal Letter: An individual authorized to legally bind the Offeror shall sign the transmittal letter. The person who signs the transmittal letter will be considered the contact person for all matters pertaining to the Offer unless the Offeror designates another person as such contact in the letter. The letter shall include the Offeror's mailing address, e-mail address, fax number and telephone number.

Appendix B

G-17 Disclosure Letter

Morgan Stanley

Morgan Stanley

440 South LaSalle St.
37th Floor
Chicago, IL 60605

The Illinois State Toll Highway Authority
2700 Ogden Avenue
Downers Grove, IL 60515

February 3, 2017

Attn: Mr. Michael Colsch, Chief of Finance

Re: Disclosures by Morgan Stanley & Co. LLC
Pursuant to MSRB Rule G-17
Response to Request for Proposal for Bond Underwriting Services

Dear Mr. Colsch:

We are writing to provide you, as Chief of Finance, with certain disclosures relating to the proposed issuance of Bonds, as required by the Municipal Securities Rulemaking Board (MSRB) Rule G-17 as set forth in MSRB Notice 2012-25 (May 7, 2012).[1]

As part of our services as a senior managing underwriter, Morgan Stanley & Co. LLC may provide advice concerning the structure, timing, terms, and other similar matters concerning the issuance of the Bonds. As senior managing underwriter, we are providing this letter on behalf of the underwriters that are members of the underwriting syndicate for the Bonds. You also may receive additional separate disclosure letters pursuant to Rule G-17 from one or more co-managing underwriters for the Bonds.

I. Disclosures Concerning the Underwriters' Role:

(i) MSRB Rule G-17 requires an underwriter to deal fairly at all times with both municipal issuers and investors.

(ii) The underwriters' primary role is to purchase the Bonds with a view to distribution in an arm's-length commercial transaction with the Issuer. The underwriters have financial and other interests that differ from those of the Issuer.

(iii) Unlike a municipal advisor, the underwriters do not have a fiduciary duty to the Issuer under the federal securities laws and are, therefore, not required by federal law to act in the best interests of the Issuer without regard to their own financial or other interests.

[1] Interpretive Notice Concerning the Application of MSRB Rule G-17 to Underwriters of Municipal Securities (effective August 2, 2012).

(iv) The underwriters have a duty to purchase the Bonds from the Issuer at a fair and reasonable price, but must balance that duty with their duty to sell the Bonds to investors at prices that are fair and reasonable.

(v) The underwriters will review the official statement for the Bonds in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of this transaction.[2]

II. Disclosures Concerning the Underwriters' Compensation:

The underwriters will be compensated by a fee and/or an underwriting discount that will be set forth in the bond purchase agreement to be negotiated and entered into in connection with the issuance of the Bonds. Payment or receipt of the underwriting fee or discount will be contingent on the closing of the transaction and the amount of the fee or discount may be based, in whole or in part, on a percentage of the principal amount of the Bonds. While this form of compensation is customary in the municipal securities market, it presents a conflict of interest since the underwriters may have an incentive to recommend to the Issuer a transaction that is unnecessary or to recommend that the size of the transaction be larger than is necessary.

III. Additional Conflicts Disclosures:

Morgan Stanley & Co. LLC has identified the following additional potential or actual material conflicts (within the meaning of MSRB Rule G-17) specific to Morgan Stanley & Co. LLC's participation in the underwriting of the Bonds:

- Conflicts of Interest/Payments to or from Third Parties
    - Morgan Stanley & Co. LLC has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC ("MSSB"), whereby Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of MSSB. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate MSSB for its selling efforts with respect to the Bonds.
    - In the ordinary course of their various business activities, Morgan Stanley & Co. LLC and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and may actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Issuer (whether directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Issuer. Morgan Stanley & Co. LLC and its affiliates also may communicate independent

[2] Under federal securities law, an issuer of securities has the primary responsibility for disclosure to investors. The review of the official statement by the underwriters is solely for purposes of satisfying the underwriters' obligations under the federal securities laws and such review should not be construed by an issuer as a guarantee of the accuracy or completeness of the information in the official statement.

investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

- In the ordinary course of business Morgan Stanley & Co. LLC and its affiliates have engaged and may engage in the future in transactions with the Issuer, including the provision of certain commercial and investment banking services, financial advisory services and hedging and other services to the Issuer, for which they may have received and may continue to receive customary fees and commissions.

IV. Disclosures Concerning Complex Municipal Securities Financing:

In accordance with the requirements of MSRB Rule G-17, if Morgan Stanley & Co. LLC recommends a “complex municipal securities financing” to the Issuer, this letter will be supplemented to provide disclosure of the material financial characteristics of that financing structure as well as the material financial risks of the financing that are known to us and reasonably foreseeable at that time.

If you or any other Issuer officials have any questions or concerns about these disclosures, please make those questions or concerns known immediately to the undersigned. In addition, you should consult with the Issuer’s own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate.

It is our understanding that you have the authority to bind the Issuer by contract with us, and that you are not a party to any conflict of interest relating to the subject transaction. If our understanding is incorrect, please notify the undersigned immediately.

We are required to seek your acknowledgement that you have received this letter. Accordingly, please send me an email to that effect, or sign and return the enclosed copy of this letter to me at the address set forth above. As noted above, depending on the structure of the transaction that the Issuer decides to pursue, or if additional potential or actual material conflicts are identified, we may be required to send you additional disclosures regarding the material financial characteristics and risks of such transaction and/or describing those conflicts. At that time, we also will seek your acknowledgement of receipt of any such additional disclosures.

We look forward to working with you and the Issuer in connection with the issuance of the Bonds. Thank you.

Sincerely,

[redacted]

Bill Daley, Managing Director
MORGAN STANLEY & CO. LLC

Acknowledgement of Receipt:

By: ______________________
Mr. Michael Colsch

Date: ______________________

Appendix C

Disclaimer

Morgan Stanley

Disclaimer

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Disclaimer (cont'd)

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Morgan Stanley

C. Project Title / Reference #22039948: Bond Underwriting Services, RFP #16-0155

The undersigned authorized representative of the identified Offeror hereby submits this Offer to perform in full compliance with the subject solicitation. By completing and signing this Form, the Offeror makes an Offer to the State of Illinois that the State may accept.

Offeror should use this Form as a final check to ensure that all required documents are completed and included with the Offer. Offeror must mark each blank below as appropriate; mark N/A when a section is not applicable to this solicitation. Offeror understands that failure to meet all requirements is cause for disqualification.

C.1. SOLICITATION AND CONTRACT REVIEW: Offeror reviewed the Request for Proposal, including all referenced documents and instructions, completed all blanks, provided all required information, and demonstrated how it will meet the requirements of the State of Illinois.

□ Yes □ No

C.2. ADDENDA: Offeror acknowledges receipt of any and all addenda to the solicitation and has taken those into account in making this Offer.

□ Yes □ No□ N/A

C.3. OFFEROR CONFERENCE: If attendance was mandatory, Offeror attended the Offeror's Conference.

□ Yes □ No □ N/A

C.4. OFFER SUBMISSION: Offeror is submitting the correct number of copies, in a properly labeled container(s), to the correct location, and by the due date and time.

□ Yes □ No

C.5. FORMS A or FORMS B: Offeror is properly submitting either Forms A or Forms B, but not both.

□ Yes □ No

C.6. BOND: If applicable, Offeror is submitting its Bid Bond or Performance Bond.

□ Yes □ No ☒ N/A

C.7. SMALL BUSINESS SET-ASIDE: Offeror is a qualified small business in the Small Business Set-Aside Program at the time Offers are due.

□ Yes □ No ☒ N/A

C.8. PACKET 1 – SPECIFICATIONS/QUALIFICATIONS/STATEMENT OF WORK

□ Yes □ No

C.8.1	Offeror's Proposed Solution to Meet the State's Requirements	□ Yes □ No
C.8.2	Milestones and Deliverables	□ Yes □ No
C.8.3	Offeror/Staff Specifications	□ Yes □ No
C.8.4	Transportation and Delivery Terms	□ Yes □ No□ N/A
C.8.5	Where Services Are to Be Performed	□ Yes □ No□ N/A

C.9. PACKET 2 – PRICING

□ Yes □ No

C.10. PACKET 3 – OFFER

□ Yes □ No

C.10.1	Offer	□ Yes □ No
C.10.2	Exceptions to Solicitation Contract Terms and Conditions	□ Yes □ No□ N/A
C.10.3	Supplemental Provisions	□ Yes □ No□ N/A
C.10.4	Subcontractor Disclosures	□ Yes □ No□ N/A
C.10.5	References	□ Yes □ No□ N/A

C.11. PACKET 4 – FORMS A

□ Yes □ No

C.11.1	Business and Directory Information	□ Yes □ No
C.11.2	Illinois Department of Human Rights Public Contracts Number	□ Yes □ No
C.11.3	Authorized to do Business in Illinois	□ Yes □ No
C.11.4	Standard Certifications	□ Yes □ No
C.11.5	State Board of Elections	□ Yes □ No
C.11.6	Disclosure of Business Operations in Iran	□ Yes □ No
C.11.7	Financial Disclosures and Conflicts of Interest	□ Yes □ No
C.11.8	Taxpayer Identification Number	□ Yes □ No

C.12. PACKET 4 – FORMS B

□ Yes □ No

C.12.1	Illinois Procurement Gateway Registration # with expiration date	□ Yes □ No
C.12.2	Certifications Timely to this Solicitation	□ Yes □ No
C.12.3	Replacement Certification to IPG Certification #6 (supersedes response in IPG)	□ Yes □ No
C.12.4	Disclosure of Lobbyists for Bidder and parent entity(ies)	□ Yes □ No
C.12.5	Disclosure of current and pending contract	□ Yes □ No
C.12.6	Signature	□ Yes □ No
C.12.7	Taxpayer Identification Number	□ Yes □ No

C.13. PACKET 5 – REDACTED OFFER

□ Yes □ No

C.14. PACKET 6 – BEP UTILIZATION PLAN

C.14.1	Does this solicitation contain a BEP goal?	□ Yes ☒ No
C.14.2	Minorities, Females, Persons with Disabilities Participation and Utilization Plan	□ Yes ☒ No □ N/A

C.15. PACKET 7 – VSB UTILIZATION PLAN

C.15.1	Does this solicitation contain a VSB goal?	□ Yes ☒ No
C.15.2	Veteran Small Business Participation and Utilization Plan	□ Yes ☒ No □ N/A

C.16. PREFERENCES

The Illinois Procurement Code provides various preferences to promote business opportunities in Illinois.

Does Offeror make any claims for preferences? If so, please mark the applicable preference(s) and include a listing of the items that qualify for the preference at the end of this Section and a description of why the preference applies. Agency reserves the right to determine whether the preference indicated applies to Offeror.

□ Resident Bidder (30 ILCS 500/45-10).

□ Soybean Oil-Based Ink (30 ILCS 500/45-15).

□ Recycled Materials (30 ILCS 500/45-20).

□ Recycled Paper (30 ILCS 500/45-25).

□ Environmentally Preferable Supplies (30 ILCS 500/45-26).

□ Correctional Industries (30 ILCS 500/45-30).

□ Sheltered Workshops for the Severely Handicapped (30 ILCS 500/45-35).

□ Gas Mileage (30 ILCS 500/45-40).

□ Small Businesses (30 ILCS 500/45-45).

□ Illinois Agricultural Products (30 ILCS 500/45-50).

□ Corn-Based Plastics (30 ILCS 500/45-55).

□ Disabled Veterans (30 ILCS 500/45-57).

□ Vehicles Powered by Agricultural Commodity-Based Fuel (30 ILCS 500/45-6)

□ Biobased Products (30 ILCS 500/45-75).

□ Historic Preference Area (30 ILCS 500/45-80).

□ Procurement of Domestic Products (30 ILCS 517).

□ Public Purchases in Other States (30 ILCS 520).

□ Illinois Mined Coal (30 ILCS 555).

□ Steel Products Procurement (30 ILCS 565).

□ Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575).

□ Veterans Preference (330 ILCS 55).

Items that Qualify and Explanation: N/A

Signature of Authorized Representative: [redacted]

Printed Name of Signatory: William Daley

Offeror's Name: Morgan Stanley & Co. LLC

Date: 2/3/2017

STATE OF ILLINOIS
EXCEPTIONS TO SOLICITATION AND CONTRACT TERMS AND CONDITIONS

G. Morgan Stanley & Co. LLC agrees with the terms and conditions set forth in the State of Illinois Request for Proposal (Reference Number: 16-0155), including the standard terms and conditions, Illinois Tollway's supplemental provisions, certifications, and disclosures, with the following exceptions:

	Excluding certifications required by statute to be made by the Offeror, both Parties agree that all of the duties and obligations that the Offeror owes to Tollway for the work performed shall be pursuant to the solicitation, resulting contract, and Offeror's exceptions accepted by the State thereto as set forth below.
	STANDARD TERMS AND CONDITIONS
Section/ Subsection #	State the exception such as "add," "replace," and/or "delete." It should be noted that the provisions set forth in the Contract contained in this Request for Proposal would appear to be more relevant to the purchase of goods or materials than for financial services of the type contemplated by the Request for Proposal. Indeed such a contract would be extremely atypical in establishing an investment banking or underwriting/dealer relationship and would, in its current form, be inconsistent with our firm's policies concerning transaction documentation. In accordance with customary practice in the underwriting and dealer community, Morgan Stanley & Co LLC is prepared to sign underwriting documentation and provide the type of indemnification typically found in an underwriting agreement.
1.3- (Termination for Cause) would conflict with typical bond purchase agreement termination provisions. 1.4 (Termination for Convenience) is inapplicable to a situation where our firm would be underwriting bonds.	
F.25- Dealing with warranties for supplies, are also inapplicable to the underwriting of bonds. F.11-The indemnity in is extremely atypical of the indemnities given in the context of a bond purchase agreement, where an underwriter would only indemnify for errors & omissions based on information provided by and about the underwriter for use in the Official Statement.	
	ADDITIONAL OFFEROR PROVISIONS
New Provision(s), # et. seq.	**Section/Subsection New Number, Title of New Subsection:** State the new additional term or condition.

By: William Daley

Signed: [redacted]

Position: Managing Director [redacted]

Date: 2/3/2017

STATE OF ILLINOIS
STATE SUPPLEMENTAL PROVISIONS

H.1. State Supplemental Provisions:

□ Illinois Tollway Definitions

Click here to enter text.

□ Required Federal Clauses, Certifications and Assurances

Click here to enter text.

□ American Recovery and Reinvestment Act of 2009 (ARRA) Requirements

Click here to enter text.

□ Public Works Requirements (construction and maintenance of a public work) 820 ILCS 130/4.

Click here to enter text.

□ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, security services, and printing, if valued at more than $200 per month or $2,000 per year) 30 ILCS 500/25-60.

Click here to enter text.

□ Illinois Tollway Specific Terms and Conditions

Click here to enter text.

□ Other (describe)

Click here to enter text.

1.1 TOLLWAY SUPPLEMENTAL PROVISIONS:

□ Definitions

□ Required Federal Clauses, Certifications and Assurances

□ ARRA Requirements (American Recovery and Reinvestment Act of 2009)

□ Public Works Requirements (construction and maintenance of a public work) (820 ILCS 130/4)

□ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, and security services, if valued at more than $200 per month or $2000 per year (30 ILCS 500/25-60)

□ Prevailing Wage (all printing contracts) (30 ILCS 500/25-60)

□ BEP Subcontracting Requirements (Utilization Plan and Letter of Intent)

☒ PAYMENT OF TOLLS: The Vendor shall be required to pay the full amount of tolls, if any, incurred by it during the duration of the contract. Said tolls will not be refunded by the Illinois Tollway. Furthermore, in the event that a final determination is made by the Illinois Tollway that the Contractor has failed to pay any required tolls and associated fines, the Illinois Tollway is authorized to take steps necessary to withhold the amounts of the unpaid tolls and fines from any payment due the contractor by the Illinois Tollway and/or other Tollway of Illinois office, department, commission, board or agency.

1.2 AGENCY SUPPLEMENTAL TERMS AND CONDITIONS:

1.2.1 Order of Precedence:
This contract Request for Proposal (RFP), taken together, comprises the Contract between the parties. With respect to any inconsistency or conflict among these documents the following order of precedence shall prevail:

1. This Contract
2. The RFP
3. Other submissions received after the initial proposal as part of the renegotiation process, if applicable and agreed upon

1.2.2 Agents and Employees:
Vendor shall be responsible for the negligent acts and omissions of its agents, employees and if applicable, subcontractors in their performance of Vendor’s duties under this Contract. Vendor represents that it shall utilize the services of individuals skilled in the profession for which they will be used in performing services or supplying goods hereunder. In the event that the Tollway/Buyer determines that any individual performing services or supplying goods for Vendor hereunder is not providing such skilled services or delivery of goods, it shall promptly notify the Vendor and the Vendor shall replace that individual.

1.2.3 Publicity:
Vendor shall not, in any advertisement or any other type of solicitation for business, state, indicate or otherwise imply that it is under contract to the Tollway/Buyer nor shall the Tollway/Buyer’s name be used in any such advertisement or solicitation without prior written approval except as required by law.

1.2.4 Consultation:
Vendor shall keep the Tollway/Buyer fully informed as to the progress of matters covered by this Contract. Where time permits and Vendor is not otherwise prohibited from so doing, Vendor shall offer the Tollway/Buyer the opportunity to review relevant documents prior to filing with any public body or adversarial party.

1.2.5 Third Party Beneficiaries:
There are no third party beneficiaries to this Contract. This Contract is intended only to benefit the Tollway/Buyer and the Vendor.

1.2.6 Successors In Interest:
All the terms, provisions, and conditions of the Contract shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives.

1.2.7 Vendor’s Termination Duties**:**
The Vendor, upon receipt of notice of termination or upon request of the Tollway/Buyer, shall:

1.2.7.1 Cease work under this Contract and take all necessary or appropriate steps to limit disbursements and minimize costs, and furnish a report within thirty (30) days of the date of notice of termination, describing the status of all work under the Contract, including, without limitation, results accomplished, conclusions resulting there from, any other matters the Tollway/Buyer may require;

1.2.7.2 Immediately cease using and return to the Tollway/Buyer any personal property or materials, whether tangible or intangible, provided by the Tollway/Buyer to the Vendor;

1.2.7.3 Comply with the Tollway/Buyer's instructions for the timely transfer of any active files and work product produced by the Vendor under this Contract;

1.2.7.4 Cooperate in good faith with the Tollway/Buyer, its employees, agents and contractors during the transition period between the notification of termination and the substitution of any replacement contractor;

1.2.7.5 Immediately return to the Tollway/Buyer any payments made by the Tollway/Buyer for services that were not rendered by the Vendor.

1.3 OVERTIME:

If overtime is contemplated and provided for in this contract, all work performed by Vendor at overtime rates shall be pre-approved by the Tollway/Buyer.

1.4 VENUE AND ILLINOIS LAW:

Any claim against the Tollway arising out of this contract must be filed exclusively with Circuit Court for the Eighteenth Judicial Circuit, DuPage County, Illinois for State claims and the U.S. District Court for the Northern District of Illinois for Federal claims.

1.4.1 Whenever "State" is used or referenced in this Contract, it shall be interpreted to mean the Illinois State Toll Highway Authority.

1.4.2 The State Prompt Payment Act (30 ILCS 40) does not apply to the Tollway. Therefore, the first two sentences of paragraph 2.1 are deleted.

1.4.3. The Tollway is not currently an appropriated agency. Therefore, to the extent paragraph 1.5 concerns the Tollway being an appropriated agency, it does not apply.

1.4.4. The invoice submission deadline included in the second sentence of above paragraph 2.6 does not apply to the Tollway. Therefore, the second sentence of this paragraph is stricken. However, the remainder of the paragraph remains in effect.

1.5 REPORT OF A CHANGE IN CIRCUMSTANCES:

The (Contractor/Vendor) agrees to report to the TOLLWAY as soon as practically possible, but no later than 21 days following any change in facts or circumstances that might impact the (CONTRACTOR/VENDOR)'s ability to satisfy its legal or contractual responsibilities and obligations under this contract. Required reports include, but are not limited to changes in the (CONTRACTOR/VENDOR)'s Certification/Disclosure Forms, the (CONTRACTOR/VENDOR)'s IDOT pre-qualification, or any certification or licensing required for this project. Additionally, (CONTRACTOR/VENDOR) agrees to report to the Tollway within the above timeframe any arrests, indictments, convictions or other matters involving the (CONTRACTOR/VENDOR), or any of its principals, that might occur while this contract is in effect. This reporting requirement does not apply to common offenses, including but not limited to minor traffic/vehicle offenses.

Further, the (CONTRACTOR/VENDOR) agrees to incorporate substantially similar reporting requirements into the terms of any and all subcontracts relating to work performed under this agreement. The (CONTRACTOR/VENDOR) agrees to forward or relay to the Tollway any reports received from subcontractors pursuant to this paragraph within 21 days.

Finally, the (CONTRACTOR/VENDOR) acknowledges and agrees that the failure of the (CONTRACTOR/VENDOR) to comply with this reporting requirement shall constitute a material breach of contract which may result in this contract being declared void.

STATE OF ILLINOIS
REFERENCES

Provide references from established firms or government agencies (Click here to enter text.) other than the procuring agency/university that can attest to Offeror's experience and ability to perform the contract that is the subject of this solicitation.

J.1. Firm/Government Agency/University (name): City of Chicago, IL

Contact Person (name, title, email address, address, and phone): Carole Brown, CFO
Carole.Brown@cityofchicago.org; 121 N. LaSalle St. Chicago, IL 60602; (312) 744-7159

Date of Supplies/Services Provided: 11/30/2016 / Senior Managing Underwriter

Type of Supplies/Services Provided: Municipal Bond Underwriting

J.2. Firm/Government Agency/University (name): Commonwealth of Massachusetts

Contact Person (name, title, email address, address, and phone): Sue Perez, Assistant Treasurer
sperez@tre.state.ma.us; One Ashburton Place Boston, MA 02108; (617) 367-9333 x816

Date of Supplies/Services Provided: 9/29/2016 / Senior Managing Underwriter

Type of Supplies/Services Provided: Municipal Bond Underwriting **J.3.**

Firm/Government Agency/University (name): Ohio Water Development Authority

Contact Person (name, title, email address, address, and phone): Scott Campbell, COO
scampbell@owda.org; 480 South High Street Columbus, OH 43215; (614) 466-0170

Date of Supplies/Services Provided: 5/3/2016 / Senior Managing Underwriter

Type of Supplies/Services Provided: Municipal Bond Underwriting

J.4. Firm/Government Agency/University (name): N/A

Contact Person (name, title, email address, address, and phone): N/A

Date of Supplies/Services Provided: N/A

Type of Supplies/Services Provided: N/A

Offeror Name: Morgan Stanley & Co. LLC

Return Mailing Address: 1585 Broadway
New York, NY 10036

STATE OF ILLINOIS
FORMS A

A vendor responding to a solicitation by the State of Illinois must return the information requested within this section with their bid or offer if they are not registered in the Illinois Procurement Gateway (IPG). Failure to do so may render their bid or offer non-responsive and result in disqualification.

Please read this entire Forms A and provide the requested information as applicable and per the instructions. All forms and signature areas contained in this Forms A must be completed in full and submitted along with the bid in an Invitation for Bid; and completed in full and submitted along with the technical response and price proposal, which combined will constitute the Offer, in a Request for Proposal.

Vendor Name: Morgan Stanley & Co., LLC (dba Morgan Stanley & Company LLC)	Phone: 312-706-4058
Street Address: 440 S. LaSalle Street	Email: William.Daley@morganstanley.com
City, State Zip: Chicago, IL 60601	Vendor Contact: William Daley

In compliance with the State and Federal Constitutions, the Illinois Human Rights Act, the U.S. Civil Rights Act, and Section 504 of the Federal Rehabilitation Act, the State of Illinois does not discriminate in employment, contracts, or any other activity.

The State of Illinois encourages prospective vendors to consider hiring qualified veterans and Illinois residents discharged from any Illinois adult correctional center, in appropriate circumstances.

OUTLINE

FORMS A

Complete this section if you are not using an IPG (Illinois Procurement Gateway) Registration #

Part

Business and Directory Information .... 1.

Illinois Department of Human Rights Public Contracts Number .... 2.

Authorized to Do Business in Illinois .... 3.

Standard Certifications .... 4.

State Board of Elections .... 5.

Disclosure of Business Operations in Iran .... 6.

Financial Disclosures and Conflicts of Interest .... 7.

Taxpayer Identification Number .... 8.

STATE OF ILLINOIS
BUSINESS AND DIRECTORY INFORMATION

1.1. Name of Business (official name and DBA)

Morgan Stanley & Co. LLC DBA Morgan Stanley & Company LLC

1.2. Business Headquarters (address, phone and fax)

1585 Broadway, New York, NY 10036

(212) 761-4000

(212) 507-3756

1.3. If a Division or Subsidiary of another organization provide the name and address of the parent

Morgan Stanley & Co. LLC is a subsidiary of Morgan Stanley Domestic Holdings Inc., which is a subsidiary of Morgan Stanly Capital Management LLC, which is a subsidiary of Morgan Stanley which is located at 1585 Broadway, New York, New York 10036

1.4. Billing Address

1585 Broadway

New York, NY 10036

1.5. Name of Chief Executive Officer

Matthew E. Berke, Co-CEO

Brian C. Healy, Co-CEO

1.6. Company Web Site Address

www.morganstanley.com

1.7. Type of Organization (sole proprietor, corporation, etc.--should be same as on Taxpayer ID form below)

Limited Liability Company

1.8. Length of time in business

47 Years

1.9. Annual Sales for Offeror's most recently completed fiscal year

According to Morgan Stanley's 10-K, FY 2015 revenues were $32.06 billion

1.10. Show number of full-time employees, on average, during the most recent fiscal year

According to Morgan Stanley's 10-K, there were 56,218 employees as of December 31, 2015

1.11. Is your company at least 51% owned and controlled by individuals in one of the following categories? If "Yes," please check the category that applies:

1.11.1. Minority (30 ILCS 575/2(A)(1) & (3)) □ Yes

1.11.2. Female (30 ILCS 575/2(A)(2) & (4)) □ Yes

1.11.3. Person with Disability (30 ILCS 575/2(A)(2.05) & (2.1)) □ Yes

1.11.4. Disadvantaged (49 CFR 26) □ Yes

1.11.5. Veteran (30 ILCS 500/45-57) □ Yes

STATE OF ILLINOIS
ILLINOIS DEPARTMENT OF HUMAN RIGHTS PUBLIC CONTRACT NUMBER

2.1. If Offeror employed fifteen or more full-time employees at the time of submission of their response to this solicitation or any time during the previous 365-day period leading up to submission, it must have a current IDHR Public Contract Number or have proof of having submitted a completed application for one **prior** to the solicitation opening date. 775 ILCS 5/2-101. If the Agency/University cannot confirm compliance, it will not be able to consider a Vendor's bid or offer. Please complete the appropriate sections below:

Name of Company (and DBA): Morgan Stanley & Co. LLC DBA Morgan Stanley & Company LLC.

□ (check if applicable) The number is not required as the company has not met or exceeded the number of employees that makes registration necessary under the requirements of the Human Rights Act described above.

IDHR Public Contracts Number: 13559700 Expiration Date: 2/13/2018.

2.2. If number has not yet been issued, provide the date a completed application for the number was submitted to IDHR:

2.3. Upon expiration and until their Contractor Identification Number is renewed, companies will not be eligible to be awarded contracts by the State of Illinois or other jurisdictions that require a current IDHR number as a condition of contract eligibility. 44 ILL. ADM. CODE 750.210(a).

2.4. Numbers issued by the Department of Human Rights (or its predecessor agency, the Illinois Fair Employment Practices Commission) prior to July 1, 1998 are no longer valid. This affects numbers below 89999-00-0. Valid numbers begin with 900000-00-0.

2.5. If Offeror's organization holds an expired number, it must re-register with the Department of Human Rights.

2.6. Offeror may obtain an application form by:

2.6.1. Telephone: Call the IDHR Public Contracts Unit at (312) 814-2431 between Monday and Friday, 8:30 AM - 5:00 PM, CST. (TDD (312) 263-1579).

2.6.2. Internet: You may download the form from the Department of Human Rights' website at (http://www2.illinois.gov/dhr/PublicContracts/Pages/default.aspx).

2.6.3. Mail: Write to the Department of Human Rights, Public Contracts Unit, 100 West Randolph Street, Suite 10-100, Chicago, IL 60601**.**

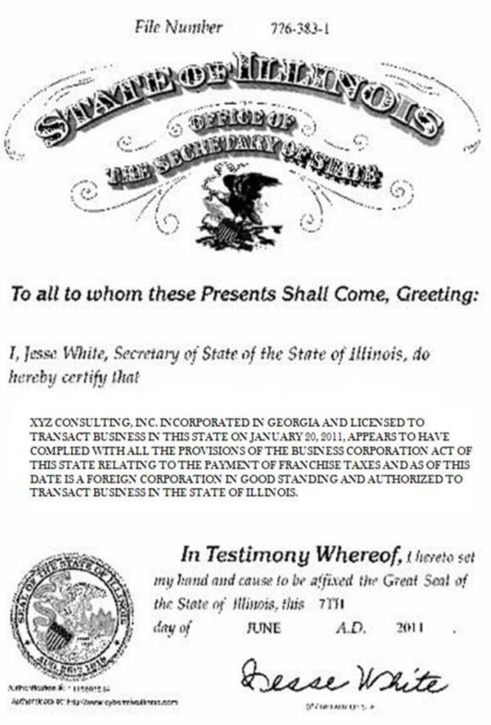
STATE OF ILLINOIS
AUTHORIZED TO TRANSACT BUSINESS OR CONDUCT AFFAIRS IN ILLINOIS

3. A person, other than an individual acting as a sole proprietor, must be a duly constituted legal entity and authorized to transact business or conduct affairs in Illinois prior to submitting an offer. 30 ILCS 500/20-43. Offerors must review and complete certification #4.32 in the Standard Certifications found in Forms A, Part 4.

   Certification #4.32 requires Vendor to check one of two boxes representing its status. The State may request evidence from a vendor that certifies it is authorized to do business in Illinois proving such authorization. Failure to produce evidence in a timely manner may be considered grounds for determining Vendor non-responsive or not responsible.

   For information on registering to transact business or conduct affairs in Illinois, please visit the Illinois Secretary of State's Department of Business Services at their website at (http://cyberdriveillinois.com/departments/business_services/home.html) or your home county clerk.

EVIDENCE OF BEING AUTHORIZED TO TRANSACT BUSINESS OR CONDUCT AFFAIRS IS THE SECRETARY OF STATE'S CERTIFICATE OF GOOD STANDING



File Number 776-383-1

STATE OF ILLINOIS
OFFICE OF
THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

XYZ CONSULTING, INC. INCORPORATED IN GEORGIA AND LICENSED TO TRANSACT BUSINESS IN THIS STATE ON JANUARY 20, 2011, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE BUSINESS CORPORATION ACT OF THIS STATE RELATING TO THE PAYMENT OF FRANCHISE TAXES AND AS OF THIS DATE IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 7TH *day of* JUNE *A.D.* 2011 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: [illegible]
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

[illegible]

File Number 0356846-6

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

MORGAN STANLEY & CO. LLC, A DELAWARE LIMITED LIABILITY COMPANY HAVING OBTAINED ADMISSION TO TRANSACT BUSINESS IN ILLINOIS ON JUNE 01, 2011, UNDER THE ASSUMED NAME OF MORGAN STANLEY & COMPANY LLC, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A FOREIGN LIMITED LIABILITY COMPANY ADMITTED TO TRANSACT BUSINESS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 18TH *day of* JANUARY *A.D.* 2017 .

SEAL OF THE STATE OF ILLINOIS
AUG. 26TH 1818

Authentication #: 1701802444 verifiable until 01/18/2018
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

Vendor acknowledges and agrees that compliance with this subsection in its entirety for the term of the contract and any renewals is a material requirement and condition of this contract. By executing this contract Vendor certifies compliance with this subsection in its entirety, and is under a continuing obligation to remain in compliance and report any non-compliance.

This subsection, in its entirety, applies to subcontractors used on this contract. Vendor shall include these Standard Certifications in any subcontract used in the performance of the contract using the Standard Certification form provided by the State.

If this contract extends over multiple fiscal years, including the initial term and all renewals, Vendor and its subcontractors shall confirm compliance with this section in the manner and format determined by the State by the date specified by the State and in no event later than July 1 of each year that this contract remains in effect.

If the Parties determine that any certification in this section is not applicable to this contract it may be stricken without affecting the remaining subsections.

4.1. As part of each certification, Vendor acknowledges and agrees that should Vendor or its subcontractors provide false information, or fail to be or remain in compliance with the Standard Certification requirements, one or more of the following sanctions will apply:

- the contract may be void by operation of law,
- the State may void the contract, and
- the Vendor and it subcontractors may be subject to one or more of the following: suspension, debarment, denial of payment, civil fine, or criminal penalty.

Identifying a sanction or failing to identify a sanction in relation to any of the specific certifications does not waive imposition of other sanctions or preclude application of sanctions not specifically identified.

4.2. Vendor certifies it and its employees will comply with applicable provisions of the United States Civil Rights Act, Section 504 of the Federal Rehabilitation Act, the Americans with Disabilities Act, and applicable rules in performance of this contract.

4.3. Vendor, if an individual, sole proprietor, partner or an individual as member of a LLC, certifies he/she is not in default on an educational loan. 5 ILCS 385/3.

4.4. Vendor, if an individual, sole proprietor, partner or an individual as member of a LLC, certifies it he/she has not received (i) an early retirement incentive prior to 1993 under Section 14-108.3 or 16-133.3 of the Illinois Pension Code or (ii) an early retirement incentive on or after 2002 under Section 14-108.3 or 16-133.3 of the Illinois Pension Code. 30 ILCS 105/15a; 40 ILCS 5/14-108.3; 40 ILCS 5/16-133.

4.5. Vendor certifies that it is a legal entity authorized to do business in Illinois prior to submission of a bid, offer, or proposal. 30 ILCS 500/1-15.80, 20-43.

4.6. To the extent there was a current Vendor providing the services covered by this contract and the employees of that Vendor who provided those services are covered by a collective bargaining agreement, Vendor certifies (i) that it will offer to assume the collective bargaining obligations of the prior employer, including any existing collective bargaining agreement with the bargaining representative of any existing collective bargaining unit or units performing substantially similar work to the services covered by the contract subject to its bid or offer; and (ii) that it shall offer employment to all employees currently employed in any existing bargaining unit who perform substantially similar work to the work that will be performed pursuant to this contract. This does not apply to heating, air conditioning, plumbing and electrical service contracts. 30 ILCS 500/25-80.

4.7. Vendor certifies it has neither been convicted of bribing or attempting to bribe an officer or employee of the State of Illinois or any other State, nor made an admission of guilt of such conduct that is a matter of record. 30 ILCS 500/50-5.

4.8. If Vendor has been convicted of a felony, Vendor certifies at least five years have passed after the date of completion of the sentence for such felony, unless no person held responsible by a prosecutor's office for the facts upon which the conviction was based continues to have any involvement with the business. 30 ILCS 500/50-10.

4.9. If Vendor or any officer, director, partner, or other managerial agent of Vendor has been convicted of a felony under the Sarbanes-Oxley Act of 2002, or a Class 3 or Class 2 felony under the Illinois Securities Law of 1953, Vendor certifies at least five years have passed since the date of the conviction. Vendor further certifies that it is not barred from being awarded a contract and acknowledges that the State shall declare the contract void if this certification is false. 30 ILCS 500/50-10.5.

4.10. Vendor certifies it is not barred from having a contract with the State based upon violating the prohibitions related to either submitting/writing specifications or providing assistance to an employee of the State of Illinois by reviewing, drafting, directing, or preparing any invitation for bids, a request for proposal, or request of information, or similar assistance (except as part of a public request for such information). 30 ILCS 500/50-10.5(e), *amended* by Pub. Act No. 97-0895 (August 3, 2012).

4.11. Vendor certifies that it and its affiliates are not delinquent in the payment of any debt to the State (or if delinquent has entered into a deferred payment plan to pay the debt), and Vendor and its affiliates acknowledge the State may declare the contract void if this certification is false or if Vendor or an affiliate later becomes delinquent and has not entered into a deferred payment plan to pay off the debt. 30 ILCS 500/50-11, 50-60.

4.12. Vendor certifies that it and all affiliates shall collect and remit Illinois Use Tax on all sales of tangible personal property into the State of Illinois in accordance with provisions of the Illinois Use Tax Act and acknowledges that failure to comply may result in the contract being declared void. 30 ILCS 500/50-12.

4.13. Vendor certifies that it has not been found by a court or the Pollution Control Board to have committed a willful or knowing violation of the Environmental Protection Act within the last five years, and is therefore not barred from being awarded a contract. 30 ILCS 500/50-14.

4.14. Vendor certifies it has neither paid any money or valuable thing to induce any person to refrain from bidding on a State contract, nor accepted any money or other valuable thing, or acted upon the promise of same, for not bidding on a State contract. 30 ILCS 500/50-25.

4.15. Vendor certifies it is not in violation of the "Revolving Door" provisions of the Illinois Procurement Code. 30 ILCS 500/50-30.

4.16. Vendor certifies that it has not retained a person or entity to attempt to influence the outcome of a procurement decision for compensation contingent in whole or in part upon the decision or procurement. 30 ILCS 500/50-38.

4.17. Vendor certifies that if it has hired a person required to register under the Lobbyist Registration Act to assist in obtaining any State contract, that none of the lobbyist's costs, fees, compensation, reimbursements, or other remuneration were billed to the State. 30 ILCS 500\50-38.

4.18. Vendor certifies it will report to the Illinois Attorney General and the Chief Procurement Officer any suspected collusion or other anti-competitive practice among any bidders, offerors, contractors, proposers, or employees of the State. 30 ILCS 500/50-40, 50-45, 50-50.

4.19. Vendor certifies steel products used or supplied in the performance of a contract for public works shall be manufactured or produced in the United States, unless the executive head of the procuring Agency/University grants an exception. 30 ILCS 565.

4.20. Drug Free Workplace

4.20.1. If Vendor employs 25 or more employees and this contract is worth more than $5,000, Vendor certifies it will provide a drug free workplace pursuant to the Drug Free Workplace Act.

4.20.2. If Vendor is an individual and this contract is worth more than $5000, Vendor certifies it shall not engage in the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance during the performance of the contract. 30 ILCS 580.

4.21. Vendor certifies that neither Vendor nor any substantially owned affiliate is participating or shall participate in an international boycott in violation of the U.S. Export Administration Act of 1979 or the applicable regulations of the United States. Department of Commerce. 30 ILCS 582.

4.22. Vendor certifies it has not been convicted of the offense of bid rigging or bid rotating or any similar offense of any state or of the United States. 720 ILCS 5/33 E-3, E-4.

4.23. Vendor certifies it complies with the Illinois Department of Human Rights Act and rules applicable to public contracts, which include providing equal employment opportunity, refraining from unlawful discrimination, and having written sexual harassment policies. 775 ILCS 5/2-105.

4.24. Vendor certifies it does not pay dues to or reimburse or subsidize payments by its employees for any dues or fees to any "discriminatory club." 775 ILCS 25/2.

4.25. Vendor certifies that no foreign-made equipment, materials, or supplies furnished to the State under the contract have been or will be produced in whole or in part by forced labor or indentured labor under penal sanction. 30 ILCS 583.

4.26. Vendor certifies that no foreign-made equipment, materials, or supplies furnished to the State under the contract have been produced in whole or in part by the labor of any child under the age of 12. 30 ILCS 584.

4.27. Vendor certifies that any violation of the Lead Poisoning Prevention Act, as it applies to owners of residential buildings, has been mitigated. 410 ILCS 45.

4.28. Vendor warrants and certifies that it and, to the best of its knowledge, its subcontractors have and will comply with Executive Order No. 1 (2007). The Order generally prohibits Vendors and subcontractors from hiring the then-serving Governor's family members to lobby procurement activities of the State, or any other unit of government in Illinois including local governments if that procurement may result in a contract valued at over $25,000. This prohibition also applies to hiring for that same purpose any former State employee who had procurement authority at any time during the one-year period preceding the procurement lobbying activity.

4.29. Vendor certifies that information technology, including electronic information, software, systems and equipment, developed or provided under this contract comply with the applicable requirements of the Illinois Information Technology Accessibility Act Standards as published at (www.dhs.state.il.us/iitaa) 30 ILCS 587.

4.30. Vendor certifies that it has read, understands, and is in compliance with the registration requirements of the Elections Code (10 ILCS 5/9-35) and the restrictions on making political contributions and related requirements of the Illinois Procurement Code. 30 ILCS 500/20-160 and 50-37. Vendor will not make a political contribution that will violate these requirements.

In accordance with section 20-160 of the Illinois Procurement Code, Vendor certifies as applicable:

□ Vendor is not required to register as a business entity with the State Board of Elections.

or

☒ Vendor has registered with the State Board of Elections. As a registered business entity, Vendor acknowledges a continuing duty to update the registration as required by the Act.

4.31. Vendor certifies that if it is awarded a contract through the use of the preference required by the Procurement of Domestic Products Act, then it shall provide products pursuant to the contract or a subcontract that are manufactured in the United States. 30 ILCS 517.

4.32. A person (other than an individual acting as a sole proprietor) must be a duly constituted legal entity and authorized to transact business or conduct affairs in Illinois prior to submitting a bid or offer. 30 ILCS 500/20-43. If you do not meet these criteria, then your bid or offer will be disqualified.

Vendor must make one of the following two certifications by checking the appropriate box.

A. □ Vendor certifies it is an individual acting as a sole proprietorand is therefore not subject to the requirements of section 20-43 of the Procurement Code.

B. ☒ Vendor certifies that it is a legal entity, and was authorized to transact business or conduct affairs in Illinois as of the date for submitting this bid or offer. The State may require Vendor to provide evidence of compliance before award.

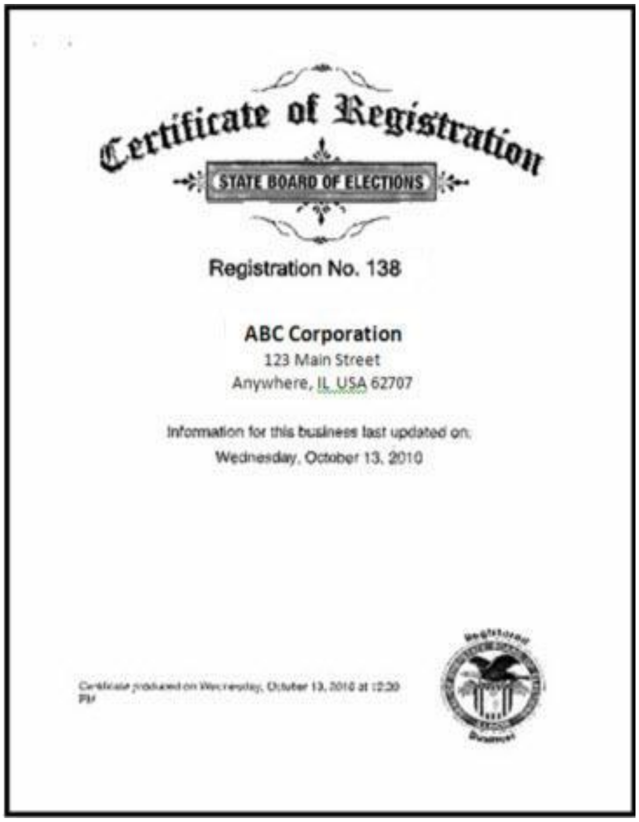
4.33. Vendor certifies that, for the duration of this contract it will:

- post its employment vacancies in Illinois and border states on the Department of Employment Security's IllinoisJobLink.com website or its successor system; or
- will provide an online link to these employment vacancies so that this link is accessible through the IllinoisJobLink.com website it successor system; or
- is exempt from 20 ILCS 1005/1005-47 because the contract is for construction-related services as that term is defined in section 1-15.20 of the Procurement Code; or the contract is for construction and vendor is a party to a contract with a bona fide labor organization and performs construction. (20 ILCS 1005/1005-47).

5. Section 50-37 of the Illinois Procurement Code prohibits political contributions of certain vendors, bidders and offerors. Additionally, section 9-35 of the Illinois Election Code governs provisions relating to reporting and making contributions to state officeholders, declared candidates for State offices and covered political organizations that promote the candidacy of an officeholder or declared candidate for office. The State may declare any resultant contract void if these Acts are violated.

   Generally, if a vendor, bidder, or offeror is an entity doing business for profit (i.e. sole proprietorship, partnership, corporation, limited liability company or partnership, or otherwise) and has contracts with State agencies that annually total more than $50,000 or whose aggregate pending bids or proposals and current State contracts that total more than $50,000, the vendor, bidder, or offeror is prohibited from making political contributions and must register with the State Board of Elections. 30 ILCS 500/20-160.

EVIDENCE OF REGISTRATION WITH THE STATE BOARD OF ELECTIONS
IS THE CERTIFICATE OF REGISTRATION



Certificate of Registration

STATE BOARD OF ELECTIONS

Registration No. 138

ABC Corporation
123 Main Street
Anywhere, IL USA 62707

Information for this business last updated on:
Wednesday, October 13, 2010

Certificate produced on Wednesday, October 13, 2010 at 12:20 PM

Registered Business

Certificate of Registration

STATE BOARD OF ELECTIONS

Registration No. 15449

Morgan Stanley & Co. LLC

1585 Broadway
New York NY 10036

Information for this business last updated on:

Friday, July 15, 2016

Certificate produced on Wednesday, January 18, 2017 at 4:21 PM

Registered
SEAL OF THE STATE BOARD OF ELECTIONS
ILLINOIS
Business

STATE OF ILLINOIS
DISCLOSURE OF BUSINESS OPERATIONS WITH IRAN

6. In accordance with 30 ILCS 500/50-36, each bid, offer, or proposal submitted for a State contract, other than a small purchase defined in Section 20-20 of the Illinois Procurement Code, will include a disclosure of whether or not the bidder, offeror, or proposing entity, or any of its corporate parents or subsidiaries, within the 24 months before submission of the bid, offer, or proposal had business operations that involved contracts with or provision of supplies or services to the Government of Iran, companies in which the Government of Iran has any direct or indirect equity share, consortiums or projects commissioned by the Government of Iran and:

   - more than 10% of the company's revenues produced in or assets located in Iran involve oil-related activities or mineral-extraction activities; less than 75% of the company's revenues produced in or assets located in Iran involve contracts with or provision of oil-related or mineral – extraction products or services to the Government of Iran or a project or consortium created exclusively by that Government; and the company has failed to take substantial action; or

   - the company has, on or after August 5, 1996, made an investment of $20 million or more, or any combination of investments of at least $10 million each that in the aggregate equals or exceeds $20 million in any 12- month period that directly or significantly contributes to the enhancement of Iran's ability to develop petroleum resources of Iran.

   A bid or offer that does not include this disclosure may be given a period after the bid or offer is submitted to cure non-disclosure. A chief procurement officer may consider the disclosure when evaluating the bid or offer or awarding the contract.

   ☒ There are no business operations that must be disclosed to comply with the above cited law.

   □ The following business operations are disclosed to comply with the above cited law:

STATE OF ILLINOIS
FINANCIAL DISCLOSURES AND CONFLICTS OF INTEREST

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

☒ Vendor

□ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Bond Underwriting Services
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP #16-0155
Vendor Name	Morgan Stanley & Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley and Co. LLC DBA Morgan Stanley & Company LLC
Disclosing Entity's Parent Entity	Morgan Stanley Domestic Holdings Inc.
Subcontractor	None
Instrument of Ownership or Beneficial Interest	Limited Liability Company Membership Agreement (Series LLC, Low-Profit Limited Liability Company) □ If you selected Other, please describe:

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

□ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. □ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☒ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☒ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Morgan Stanley Domestic Holdings Inc.	1585 Broadway, New York, NY 10036	100%	

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Morgan Stanley Domestic Holdings Inc.	1585 Broadway, New York, NY 10036	100%	

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☒ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☒ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z

Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

☒ Yes □ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity
William Daley, Managing Director	1585 Broadway New York, NY 10036	Morgan Stanley Employee
Stephen Fortino, Executive Director	1585 Broadway New York, NY 10036	Morgan Stanley Employee

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: The above employees are paid a regular salary and bonuses but do not receive any additional compensation for their Lobbyist duties.

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No

2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No

3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No

4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No

5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No

6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No
2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered “Yes” in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley & Co. LLC dba Morgan Stanley & Company LLC

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No
2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No
3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No
4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No
5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarter ended September 30, 2016 describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html*. In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and MSDH *are also involved, from time to time, in investigations and proceedings by governmental and/or regulatory agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target* *or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

☒ Yes □ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #
IHDA IFA State of IL	Rotating Pool	Current	TBD	2013-HAD-FL-01-0 # 2014-AUG-006 Underwriter #22032069

IL Tollway 112-0045 Bond Underwriting

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley & Co. LLC dba Morgan Stanley & Company LLC

FINANCIAL DISCLOSURES AND CONFLICTS OF INTEREST

Signature: [redacted] Date: 2/3/2017

Printed Name: William Daley [redacted]

Title: Managing Director

Phone Number: 312-706-4058

Email Address: William.Daley@morganstanley.com

STATE OF ILLINOIS

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

□ Vendor

☒ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Underwriter RFQ
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP#16-0155
Vendor Name	Morgan Stanley and Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley Domestic Holdings Inc.
Disclosing Entity's Parent Entity	Morgan Stanley Capital Management LLC
Subcontractor	None.
Instrument of Ownership or Beneficial Interest	Other ☒ If you selected Other, please describe: Membership Interest

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

□ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. □ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☒ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☒ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Morgan Stanley Capital Management LLC	1585 Broadway, New York, NY 10036	100%	

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Morgan Stanley Capital Management LLC	1585 Broadway, New York, NY 10036	100%	

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☒ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☒ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z

Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

□ Yes ☒ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: N/A

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No

2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No

3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No

4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No

5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No

6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No
2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered “Yes” in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

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STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley Domestic Holdings

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No

5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarter ended September 30, 2016 describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html. *In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and MSDH *are also involved, from time to time, in investigations and proceedings by governmental and/or regulatory* *agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

□ Yes ☒ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley Domestic Holdings Inc

Signature: [redacted] Date: 2/3/2017

Printed Name: Tushar Mehta

Title: Vice President

Phone Number: (212) 762-8276

Email Address: Tushar.Mehta@morganstanley.com

STATE OF ILLINOIS
FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

☐ Vendor

☒ Vendor's Parent Entity(ies) (100% ownership)

☐ Subcontractor(s) >$50,000 (annual value)

☐ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Underwriter RFQ
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP#16-0155
Vendor Name	Morgan Stanley and Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley Capital Management LLC.
Disclosing Entity's Parent Entity	Morgan Stanley
Subcontractor	None.
Instrument of Ownership or Beneficial Interest	Other ☒ If you selected Other, please describe: Stock

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

□ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. □ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☒ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☒ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Morgan Stanley	1585 Broadway, New York, NY 10036	100%	

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor’s total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Morgan Stanley	1585 Broadway, New York, NY 10036	100%	

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☒ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☒ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z

Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

□ Yes ☒ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: N/A

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No
2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No
3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No
4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No
5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No
6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No
2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered "Yes" in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

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STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley Capital Management LLC

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No
2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No
3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No
4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No
5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered “Yes”, please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC (“MS&Co.”), Morgan Stanley Capital Management (“MSCM”), and Morgan Stanley Domestic Holdings (“MSDH”) are wholly-owned subsidiaries of Morgan Stanley (“MS”), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the “Legal Proceedings” section of MS’s SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarter ended September 30, 2016 describing certain developments in certain legal proceedings. Morgan Stanley’s SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html*. In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and

MSDH *are also involved, from time to time, in investigations and proceedings by governmental and/or regulatory agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH*. In many cases, the investigating agencies do not reveal the target or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

☐ Yes ☒ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley Capital Management

Signature:_[redacted]______________________ Date: 2/3/2017

Printed Name: Tushar Mehta

Title: Vice President

Phone Number: (212) 762-8276

Email Address: Tushar.Mehta@morganstanley.com

STATE OF ILLINOIS
FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

The Financial Disclosures and Conflicts of Interest form ("form") must be accurately completed and submitted by the vendor, parent entity(ies), and subcontractors. There are **nine** steps to this form and each must be completed as instructed in the step heading and within the step. A bid or offer that does not include this form shall be considered non-responsive. The Agency/University will consider this form when evaluating the bid or offer or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Separate forms are required for the vendor, parent entity(ies), and subcontractors.

This disclosure is submitted for:

□ Vendor

☒ Vendor's Parent Entity(ies) (100% ownership)

□ Subcontractor(s) >$50,000 (annual value)

□ Subcontractor's Parent Entity(ies) (100% ownership) > $50,000 (annual value)

Project Name	Bond Underwriting Services
Illinois Procurement Bulletin Number	22039948
Contract Number	RFP #16-0155
Vendor Name	Morgan Stanley and Co. LLC
Doing Business As (DBA)	Morgan Stanley & Company LLC
Disclosing Entity	Morgan Stanley
Disclosing Entity's Parent Entity	N/A
Subcontractor	None.
Instrument of Ownership or Beneficial Interest	Corporate Stock (C-Corporation, S-Corporation, Professional Corporation, Service Corporation) ☒ If you selected Other, please describe:

FINANCIAL DISCLOSURES AND CONFLICTS OF INTERESTS

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

(All vendors complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation that the applicable section requires with this form.

☒ Option 1 – Publicly Traded Entities

1.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. ☒ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3. Morgan Stanley's most recent 10-K can be found at: http://www.morganstanley.com/about-us-ir/pdf/MS_10K_December_31_2015_Final_w.bookmarks.pdf

□ Option 2 – Privately Held Entities with more than 100 Shareholders

2.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

□ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

□ Option 4 – Foreign Entities

4.A. □ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. □ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

□ Option 5 – Not-for-Profit Entities

□ Complete Step 2, Option B.

□ Option 6 – Sole Proprietorships

□ Skip to Step 3.

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

(All vendors, except sole proprietorships, must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

□ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

□ Yes □ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

□ Yes □ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z

Name	Address

STEP 3
DISCLOSURE OF LOBBYIST OR AGENT

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

□ Yes ☒ No. Is your company represented by or do you employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or other agent who is not identified through Step 2, Option A above and who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below.

If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information.

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: N/A

STEP 4
PROHIBITED CONFLICTS OF INTEREST

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: N/A

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? □ Yes □ No
2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? □ Yes □ No
3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? □ Yes □ No
4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? □ Yes □ No
5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? □ Yes □ No
6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor ($354,824.00)? □ Yes □ No

STEP 5
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

Step 5 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: N/A

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? □ Yes □ No
2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? □ Yes □ No

3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? □ Yes □ No

4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? □ Yes □ No

5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? □ Yes □ No

6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? □ Yes □ No

7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? □ Yes □ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? □ Yes □ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? □ Yes □ No

STEP 6
EXPLANATION OF AFFIRMATIVE RESPONSES

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you answered "Yes" in Step 4 or Step 5, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual. N/A

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

STEP 7
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Morgan Stanley

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? □ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? □ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? □ Yes ☒ No

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☒ Yes □ No

5. Within the previous ten years, have you had any criminal felony convictions? □ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Capital Management ("MSCM"), and Morgan Stanley Domestic Holdings ("MSDH") are wholly-owned subsidiaries of Morgan Stanley ("MS"), a Delaware holding company. *MS files periodic reports with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, which include current descriptions of material litigation and material proceedings and investigations, if any, by governmental and/or regulatory agencies or self-regulatory organizations concerning MS and its subsidiaries,* including MS&Co, MSCM and MSDH. *As a consolidated subsidiary of MS, MS&Co, MSCM, and MSDH do not file their own periodic reports with the SEC. As a result, please see the "Legal Proceedings" section of MS's SEC 10-K filings for 2005-2015 and its SEC 10-Q filings with respect to the fiscal quarters ended March 31, 2016, June 30, 2016, and September 30, 2016, describing certain developments in certain legal proceedings. Morgan Stanley's SEC filings can be found at* https://www.morganstanley.com/about/ir/sec_filings.html. *In addition to the matters described here, in the normal course of business, each of* MS, MS&Co, MSCM and MSDH *have 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 legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.* Each of MS, MS&Co, MSCM and MSDH *are also involved, from time to time, in investigations and proceedings by governmental* *and/or regulatory agencies or self-regulatory organizations, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many financial services institutions, including* MS, MS&Co, MSCM and MSDH. *In many cases, the investigating agencies do not reveal the target or subject of the investigation and request details of the investigation to be kept confidential. It is Morgan Stanley's general practice not to disclose information regarding governmental investigations, regulatory examinations, or administrative proceedings until any such investigation, examination or proceeding is concluded. At that time, the Firm will disclose material information regarding such matters on its Form 10-K and 10-Q for the relevant period. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty the eventual loss or range of loss related to such matters. MS is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge, information and belief, and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of MS, although the outcome could be material to MS's operating results for a particular future period, depending on, among other things, the level of MS's income for such period. A list of these reports from the SEC filings referenced above is provided as a supplement.*

STEP 8
DISCLOSURE OF CURRENT AND PENDING CONTRACTS

(Complete only if bid, offer, or contract has an annual value over $50,000)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

If you selected Option 1, 2, 3, 4, or 6 in Step 1, do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

□ Yes ☒ No.

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #

Please explain the procurement relationship: Vendor

STEP 9
SIGN THE DISCLOSURE

(All vendors must complete regardless of annual bid, offer, or contract value)
(Subcontractors with subcontract annual value of more than $50,000 must complete)

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Morgan Stanley

Signatur[redacted] Date: January 23, 2017

Printed Name: Jacob E. Tyler

Title: Assistant Secretary

Phone Number: 212 762 7325

Email Address: Jacob.Tyler@morganstanley.com

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

I certify that:

The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and

I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

I am a U.S. person (including a U.S. resident alien).

- If you are an individual, enter your name and SSN as it appears on your Social Security Card.
- If you are a sole proprietor, enter the owner's name on the name line followed by the name of the business and the owner's SSN or EIN.
- If you are a single-member LLC that is disregarded as an entity separate from its owner, enter the owner's name on the name line and the D/B/A on the business name line and enter the owner's SSN or EIN.
- If the LLC is a corporation or partnership, enter the entity's business name and EIN and for corporations, attach IRS acceptance letter (CP261 or CP277).
- For all other entities, enter the name of the entity as used to apply for the entity's EIN and the EIN.

Name: Morgan Stanley Domestic Holdings Inc

Business Name: Morgan Stanley & Co. LLC DBA Morgan Stanley & Company LLC

Taxpayer Identification Number:

Social Security Number:

or

Employer Identification Number: [redacted]

Legal Status (check one):

□ Individual

□ Sole Proprietor

□ Partnership

□ Legal Services Corporation

□ Tax-exempt

□ Corporation providing or billing medical and/or health care services

☒ Corporation NOT providing or billing medical and/or health care services

□ Governmental

□ Nonresident alien

□ Estate or trust

□ Pharmacy (Non-Corp.)

□ Pharmacy/Funeral Home/Cemetery (Corp.)

□ Limited Liability Company (select applicable tax classification)

□ C = corporation

□ P = partnership

Signature of Authorized Representative: [redacted]

Date: February 3, 2017

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ATE:  04/25/2016              THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY                          REPORT: SNPCPR
IME:  15:35                                   PURCHASING                                         PAGE:          7
                                         PURCHASE REQUISITION

                  NEED NUMBER .. ......... . 825095             REQUESTING LOCATION ... ADM  ADMINISTRATION
                  FUND ACCOUNT ............ 01                  REQUISITIONER ......... GROSSO
                  OLD PROJECT NUMBER ......                     SHIP TO ............... ADM
                  C.P. NUMBER...............                    VENDOR'S INVOICE ......

  C.P.       PROJ     ACCNT  ITEM              DESCRIPTION /                ESTIMATED           LAST ORDER  LAST ORD ** FILL IN ***
 NUMBER      NO.  CC  NO.  NUMBER  QTY   U/M COMMENTS                       UNIT COST    EMERG   NUMBER      DATE    ORDER NUMBER
----------- ---- -- ----- ------ ------ --- ---------------------- ---------------- ----- ----------- -------- -------------

            0000 40 43220 099999 000001  EA RFP FOR BOND UNDERWRITER 14,935,000.00000   NO
                         REC SRC 1:  RFP FOR BOND UNDERWRITING
                         REC SRC 1:  /REMARKETING SERVICES
                                     RFP FOR BOND UNDERWRITERS
                                     RFP TO ESTABLISH POOLS OF
                                     FIRMS TO PROVIDE BOND
                                     UNDERWRITING AND REMARKET
                                     INC SERVICES FOR A 3-YEAR
                                     INITIAL TERM WITH RENEWAL
                                     OPTIONS UP TO 2 YEARS.
                                     EST. COST FOR FULL 5 YEAR
                                     S IS $14,935,000,

NEED  825095  Approved By: GREG BEDALOV                 04/20/2016

NEED  825095  Approved By: MIKE COLSCH                  04/19/2016

NEED  825095  Approved By: PATTI PEARN                  04/06/2016
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DL 04/28/16

Paid on PAV

CP# MDR15977901

$200,000

110·[illegible]