MORGAN STANLEY
Form 10-K
February 26, 2010
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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, 2009

Commission File Number 1-11758

(Exact name of Registrant as specified in its charter)

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

Title of each class	Name of exchange on which registered
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value	New York Stock Exchange
6 1/4% Capital Securities of Morgan Stanley Capital Trust III (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6 1/4% Capital Securities of Morgan Stanley Capital Trust IV (and Registrant s guaranty with respect thereto)	New York Stock Exchange
5 3/4% Capital Securities of Morgan Stanley Capital Trust V (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6.60% Capital Securities of Morgan Stanley Capital Trust VI (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6.60% Capital Securities of Morgan Stanley Capital Trust VII (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6.45% Capital Securities of Morgan Stanley Capital Trust VIII (and Registrant s guaranty with respect thereto)	New York Stock Exchange
Exchangeable Notes due December 30, 2010; Exchangeable Notes due June 30, 2011	NYSE Amex LLC
BRIDGES^{SM} due June 15, 2010	NYSE Arca, Inc.
Capital Protected Notes due April 20, 2010; Capital Protected Notes due July 20, 2010 (2 issuances); Capital Protected Notes due August 30, 2010; Capital Protected Notes due October 30, 2010; Capital Protected Notes due January 30, 2011; Capital Protected Notes due February 20, 2011; Capital Protected Notes due March 30, 2011 (2 issuances); Capital Protected Notes due June 30, 2011; Capital Protected Notes due August 20, 2011; Capital Protected Notes due October 30, 2011; Capital Protected Notes due December 30, 2011; Capital Protected Notes due September 30, 2012	NYSE Arca, Inc.
Capital Protected Notes due September 1, 2010	The NASDAQ Stock Market LLC
MPS^{SM} due June 15, 2010; MPS due December 30, 2010; MPS due March 30, 2012	NYSE Arca, Inc.
MPS due December 30, 2010	NYSE Amex LLC
Stock Participation Notes due September 15, 2010; Stock Participation Notes due December 30, 2010	NYSE Amex LLC
Buffered PLUS^{SM} due December 20, 2010; Buffered PLUS due March 20, 2011	NYSE Arca, Inc.
PROPELS^{SM} due December 30, 2011 (3 issuances)	NYSE Arca, Inc.
Protected Absolute Return Barrier Notes due March 20, 2010; Protected Absolute Return Barrier Notes due July 20, 2010; Protected Absolute Return Barrier Notes due August 20, 2010; Protected Absolute Return Barrier Notes due March 20, 2011	NYSE Arca, Inc.

Strategic Total Return Securities due July 30, 2011	NYSE Arca, Inc.
Market Vectors ETNs due March 31, 2020 (2 issuances); Market Vectors ETNs due April 30, 2020 (2 issuances)	NYSE Arca, Inc.
Targeted Income Strategic Total Return Securities due March 30, 2010; Targeted Income Strategic Total Return Securities due July 30, 2011; Targeted Income Strategic Total Return Securities due January 15, 2012	NYSE Arca, Inc.
Targeted Income Strategic Total Return Securities due October 30, 2011	The NASDAQ Stock Market LLC

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

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

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

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨ (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 x

As of June 30, 2009, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $38,566,093,047. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2010, there were 1,398,087,044 shares of Registrant s common stock, $0.01 par value, outstanding.

Documents Incorporated By Reference: Portions of Registrant s definitive proxy statement for its 2010 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

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ANNUAL REPORT ON FORM 10-K

for the year ended December 31, 2009

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Forward-Looking Statements

We have included 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 Morgan Stanley s beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control.

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

- the effect of political and economic conditions and geopolitical events;
- the effect of market conditions, particularly in the global equity, fixed income and credit markets, including corporate and mortgage (commercial and residential) lending and commercial real estate investments;
- the impact of current, pending and future legislation, regulation, and legal actions in the U.S. and worldwide;
- the level and volatility of equity, fixed income and commodity prices and interest rates, currency values and other market indices;
- the availability and cost of both credit and capital as well as the credit ratings assigned to Morgan Stanley s unsecured short-term and long-term debt;
- investor sentiment and confidence in the financial markets;
- our reputation;
- the actions and initiatives of current and potential competitors;
- technological changes; and
- other risks and uncertainties detailed under Competition and 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. Morgan Stanley undertakes 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 Morgan Stanley may make in future filings of its 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. Morgan Stanley is a financial holding company regulated by the Board of Governors of the Federal Reserve System (the Fed) under the Bank Holding Company Act of 1956, as amended (the BHC Act). Morgan Stanley 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, 2009, Morgan Stanley had 61,388* employees worldwide. Unless the context otherwise requires, the terms Morgan Stanley, the Company, we, us and our mean Morgan Stanley and its consolidated subsidiaries.

On December 16, 2008, the Board of Directors of the Company approved a change in the Company s fiscal year end from November 30 to December 31 of each year, beginning January 1, 2009. As a result of the change, the Company had a one month transition reporting period in December 2008. Financial information concerning Morgan Stanley, its business segments and geographic regions for each of the 12 months ended December 31, 2009 (2009), November 30, 2008 (fiscal 2008), November 30, 2007 (fiscal 2007) and the one month ended December 31, 2008 is included in the consolidated financial statements and the notes thereto in Financial Statements and Supplementary Data in Part II, Item 8.

Available Information.

Morgan Stanley 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 we file 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 Morgan Stanley) file electronically with the SEC. Morgan Stanley s electronic SEC filings are available to the public at the SEC s internet site, *www.sec.gov*.

Morgan Stanley s internet site is *www.morganstanley.com*. You can access Morgan Stanley s Investor Relations webpage at *www.morganstanley.com/about/ir*. Morgan Stanley 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. Morgan Stanley also makes available, through its Investor Relations webpage, via a link to the SEC s internet site, statements of beneficial ownership of Morgan Stanley s equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

Morgan Stanley has a Corporate Governance webpage. You can access information about Morgan Stanley s corporate governance at *www.morganstanley.com/about/company/governance*. Morgan Stanley posts the following on its Corporate Governance webpage:

Amended and Restated Certificate of Incorporation;

Amended and Restated Bylaws;

* Worldwide employees includes headcount related to the Morgan Stanley Smith Barney joint venture.

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- Charters for its Audit Committee; Internal Audit Subcommittee; Compensation, Management Development and Succession Committee; Nominating and Governance Committee; and Risk Committee;
- Corporate Governance Policies;
- Policy Regarding Communication with the Board of Directors;
- Policy Regarding Director Candidates Recommended by Shareholders;
- Policy Regarding Corporate Political Contributions;
- Policy Regarding Shareholder Rights Plan;
- Code of Ethics and Business Conduct;
- Code of Conduct; and
- Integrity Hotline information.

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 Finance Director and Controller. Morgan Stanley 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 Morgan Stanley s internet site is not incorporated by reference into this report.

Business Segments.

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management. A summary of the activities of each of the business segments follows.

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

Global Wealth Management Group, which includes the Company s 51% interest in Morgan Stanley Smith Barney Holdings LLC (MSSB), provides brokerage and investment advisory services to individual investors and small-to-medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products;

cash management services; retirement services; and trust and fiduciary services.

Asset Management provides global asset management products and services in equity, fixed income, alternative investments, which includes hedge funds and funds of funds, and merchant banking, which includes real estate, private equity and infrastructure, to institutional and retail clients through proprietary and third-party distribution channels. Asset Management also engages in investment activities.

Institutional Securities.

Morgan Stanley 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. Incorporated (MS&Co.), Morgan Stanley & Co. International plc, Morgan Stanley Japan Securities Co., Ltd. and Morgan Stanley Asia Limited. These and other subsidiaries also conduct sales and trading activities worldwide, as principal and agent, and provide related financing services on behalf of institutional investors.

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Investment Banking and Corporate Lending Activities.

Financial Advisory Services. Morgan Stanley 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. Morgan Stanley also provides advice concerning rights offerings, dividend policy, valuations, foreign exchange exposure, financial risk management strategies and financial planning. In addition, Morgan Stanley furnishes advice and services regarding project financings and provides advisory services in connection with the purchase, sale, leasing and financing of real estate.

Capital Raising. Morgan Stanley manages and participates in public offerings and private placements of debt, equity and other securities worldwide. Morgan Stanley is a leading underwriter of common stock, preferred stock and other equity-related securities, including convertible securities and American Depositary Receipts (ADRs). Morgan Stanley is 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.

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

Sales and Trading Activities.

Morgan Stanley conducts sales, trading, financing and market-making activities on securities and futures exchanges and in over-the-counter (OTC) markets around the world. Morgan Stanley s Institutional Securities sales and trading activities include Equity Trading; Interest Rates, Credit and Currencies; Commodities; and Clients and Services.

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

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

Interest Rates, Credit and Currencies. Morgan Stanley trades, makes markets and takes long and short proprietary positions 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 and other fixed income-linked notes, and securities issued by structured investment vehicles, mortgage-related and other asset-backed securities and real estate-loan products, municipal securities, preferred stock and commercial paper, money-market and other short-term securities. Morgan Stanley 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. Morgan Stanley is also a primary dealer or market maker of government securities in numerous European, Asian and emerging market countries.

* Revenues and expenses associated with the trading of syndicated loans are included in Sales and Trading Activities.

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

Morgan Stanley trades, makes markets and takes long and short proprietary positions in major foreign currencies, such as the Japanese yen, euro, British pound, Swiss franc and Canadian dollar, as well as in emerging markets currencies. Morgan Stanley trades these currencies on a principal basis in the spot, forward, option and futures markets.

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

Morgan Stanley advises on investment and liability strategies and assists corporations in their debt repurchases and tax planning. Morgan Stanley 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.

Commodities. Morgan Stanley trades as principal and maintains long and short proprietary trading positions in the spot, forward 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. Morgan Stanley is a market-maker in exchange-traded options and futures and OTC options and swaps on commodities, and offers counterparties hedging programs relating to production, consumption, reserve/inventory management and structured transactions, including energy-contract securitizations. Morgan Stanley is an electricity power marketer in the U.S. and owns electricity generating facilities in the U.S. and Europe.

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

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

Investments. Morgan Stanley from time to time makes investments that represent business facilitation or principal investing activities. Business facilitation investments are strategic investments undertaken by Morgan Stanley to facilitate core business activities. Principal investing activities are investments and capital commitments provided to public and private companies, funds and other entities generally for proprietary purposes to maximize total returns to Morgan Stanley.

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

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Operations and Information Technology.

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

Global Wealth Management Group.

Morgan Stanley s Global Wealth Management Group, which includes the Company s 51% interest in MSSB, provides comprehensive financial services to clients through a network of over 18,000 global representatives in approximately 895 locations at year end. As of December 31, 2009, Morgan Stanley had $1,560 billion in client assets.

Clients.

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

Products and Services.

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

In addition, Global Wealth Management Group offers its clients access to several cash management services through various affiliates, including cash sweeps, debit cards, electronic bill payments and check writing, as well as lending products, including securities based lending, mortgage loans and home equity lines of credit. Global Wealth Management Group also offers access to cash management and commercial credit solutions to qualified small and medium businesses in the U.S., and provides individual and corporate retirement solutions, including IRAs and 401(k) plans and U.S. stock plan services to corporate executives and businesses.

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

Operations and Information Technology.

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

Asset Management.

Morgan Stanley s Asset Management business segment is one of the largest global asset management organizations of any full-service financial services firm and offers individual and institutional clients a diverse array of equity, fixed income and alternative investments and merchant banking strategies. Currently, Morgan Stanley s asset management activities are principally conducted under the Morgan Stanley and Van Kampen brands. Portfolio managers located in the U.S., Europe, Japan, Singapore and India manage investment products ranging from money market funds to equity, taxable and tax-exempt fixed income funds and alternative investment and merchant banking products in developed and emerging markets. Morgan Stanley offers clients various investment styles, such as value, growth, core, fixed income and asset allocation; global investments; active and passive management; and diversified and concentrated portfolios.

Morgan Stanley offers a range of alternative investment and merchant banking products for institutional investors and high net worth individuals. Morgan Stanley s alternative investments platform includes hedge funds, funds of hedge funds, funds of private equity funds and portable alpha strategies, including FrontPoint Partners LLC, a leading provider of absolute return strategies. Morgan Stanley s alternative investments platform also includes minority stakes in Lansdowne Partners, Avenue Capital Group and Traxis Partners LP. Morgan Stanley s Merchant Banking Division includes Morgan Stanley s real estate investing business, private equity funds and infrastructure investing group. Morgan Stanley typically acts as general partner of, and investment adviser to, its alternative investment and merchant banking funds and typically commits to invest a minority of the capital of such funds with subscribing investors contributing the majority.

On October 19, 2009, as part of a restructuring of Morgan Stanley s Asset Management business segment, Morgan Stanley entered into a definitive agreement to sell substantially all of its retail asset management business, including Van Kampen Investments, Inc. (Van Kampen), to Invesco Ltd. (Invesco). This transaction allows Morgan Stanley s Asset Management business segment to focus on its institutional client base. Under the terms of the definitive agreement, Invesco will purchase substantially all of Morgan Stanley s retail asset management business, operating under both the Morgan Stanley and Van Kampen brands, in a stock and cash transaction. Morgan Stanley will receive a 9.4% minority interest in Invesco. The transaction, which has been approved by the Boards of Directors of both companies, is expected to close in mid-2010, subject to customary regulatory, client and fund shareholder approvals.

Institutional Investors.

Morgan Stanley provides asset management products and services to institutional investors worldwide, including corporations, pension plans, large intermediaries, private funds, non-profit organizations, foundations, endowments, sovereign wealth funds, governmental agencies, insurance companies and banks. Products and services are available to institutional investors primarily through separate accounts, U.S. mutual funds and other pooled vehicles. Morgan Stanley also sub-advises funds for various unaffiliated financial institutions and intermediaries. A global sales force and a team dedicated to covering the investment consultant industry serve institutional investors.

Individual Investors.

Morgan Stanley offers open-end and alternative investment funds and separately managed accounts to individual investors through affiliated and unaffiliated broker-dealers, banks, insurance companies and financial planners. Closed-end funds managed by Morgan Stanley or Van Kampen are available to individual investors through

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affiliated and unaffiliated broker-dealers. A small number of unaffiliated broker-dealers account for a substantial portion of Van Kampen open-end fund sales. Morgan Stanley also sells mutual funds through numerous retirement plan platforms. Internationally, Morgan Stanley distributes traditional investment products to individuals outside the U.S. through non-proprietary distributors, and alternative investment products are distributed through affiliated broker-dealers.

Operations and Information Technology.

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

Research.

Morgan Stanley s research department (Research) coordinates globally across all of Morgan Stanley s businesses. Research 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 of the U.S.; provides analysis and forecasts relating to economic and monetary developments that affect matters such as interest rates, foreign currencies, securities, derivatives and economic trends; and provides analytical support and publishes reports on asset-backed securities and the markets in which such securities are traded and data are disseminated to investors through third party distributors, proprietary internet sites such as Client Link and Morgan Stanley s sales forces.

Competition.

All aspects of Morgan Stanley s businesses are highly competitive and Morgan Stanley expects them to remain so. Morgan Stanley competes in the U.S. and globally for clients, market share and human talent in all aspects of its business segments. Morgan Stanley s competitive position depends on its reputation and the quality of its products, services and advice. Morgan Stanley s ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain qualified employees while managing compensation and other costs. Morgan Stanley competes with commercial banks, brokerage firms, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. Such changes could result in Morgan Stanley 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.

Institutional Securities and Global Wealth Management Group.

Morgan Stanley s competitive position depends on innovation, execution capability and relative pricing. Morgan Stanley 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.

Morgan Stanley s ability to access capital at competitive rates (which is generally dependent on Morgan Stanley s credit ratings) and to commit capital efficiently, particularly in its capital-intensive underwriting and

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sales, trading, financing and market-making activities, also affects its competitive position. Corporate clients may request that Morgan Stanley provide loans or lending commitments in connection with certain investment banking activities.

It is possible that competition may become even more intense as Morgan Stanley 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 greater capital than Morgan Stanley and have the ability to offer a wide range of products and services that may enhance their competitive position and could result in pricing pressure in our businesses. The complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for Morgan Stanley to remain competitive.

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

Asset Management.

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

Supervision and Regulation.

As a major financial services firm, Morgan Stanley is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where it operates. Moreover, in response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, are currently considering a wide range of proposals that, if enacted, could result in major changes to the way Morgan Stanley is regulated and conducts its business.

Regulatory Outlook.

It is likely that the year 2010 and subsequent years will see material changes in the way that major financial institutions are regulated both in the U.S. and worldwide. The reforms being discussed include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Enactment of such measures likely would lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include taxation of financial transactions, liabilities and employee compensation as well as reforms of the OTC derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements. Other changes under discussion in the U.S. legislative arena include: breaking up firms that are considered too big to fail or mandating certain barriers between their activities in order to allow for an orderly resolution of failing financial institutions; curtailing the ability of firms that own Federal Deposit Insurance Corporation (FDIC)-insured institutions to also engage in private equity, hedge fund and proprietary trading activities; requiring firms to maintain plans for their dissolution; requiring the financial industry to pay into a fund designed to help unwind failing firms; providing regulators with new means of limiting activities of financial firms; regulating

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compensation in the financial services industry; enhancing corporate governance, especially regarding risk management; and creating a new agency, the Consumer Financial Protection Agency, to protect U.S. consumers who buy financial products.

Reforms are being discussed concurrently in Washington, London, the European Union (EU) and other major market centers in which Morgan Stanley operates, and attempts are being made to internationally coordinate the principles behind such changes through the G-20 s expanded mandate for the Financial Stability Board and through the Basel Committee on Banking Supervision (Basel Committee), the International Association of Securities Commissioners and others. Among the internationally coordinated reforms are recent measures and proposals by the Basel Committee to raise the quality of capital, increase capital requirements for securitizations, trading book exposure and counterparty credit risk exposure, and globally introduce a leverage ratio, capital conservation measures and liquidity coverage requirements, among other measures. In both the EU and the U.S., moreover, changes to the institutional framework for financial regulation are being discussed or are underway.

Many of the market reforms, if enacted, may materially affect Morgan Stanley s business, financial condition, results of operations and cash flows for a particular future period. In particular, if systemic regulation were enacted, Morgan Stanley would likely be designated as a systemically important firm, and the consequences of systemic regulation, including a potential requirement for additional higher quality capital and liquidity and decreased leverage, could materially impact Morgan Stanley s business.

A substantial number of the financial reforms currently discussed in the U.S. and globally may become law, though it is difficult to predict which will become law, how such reforms will be implemented or the exact impact they will have on Morgan Stanley s business, financial condition, results of operations and cash flows for a particular future period. As most changes, if adopted, will require regulatory implementation, the full impact of these changes will not be known until a later stage.

Financial Holding Company.

Since September 2008, Morgan Stanley has operated as a financial holding company under the BHC Act.

U.S. Banking Institutions. Morgan Stanley Bank, N.A. (MSBNA), primarily a wholesale commercial bank, offers consumer lending and commercial lending services in addition to deposit products. As an FDIC-insured national bank, MSBNA is subject to supervision and regulation by the Office of the Comptroller of the Currency (OCC).

Morgan Stanley Trust is a wholly owned subsidiary that conducts, through a subsidiary, certain mortgage lending activities primarily for customers of its affiliate retail broker Morgan Stanley Smith Barney LLC (MSSB LLC). Morgan Stanley Trust also conducts certain transfer agency, sub-accounting and other activities. It is an FDIC-insured federal savings bank whose activities are subject to comprehensive regulation and periodic examination by the Office of Thrift Supervision.

Morgan Stanley Trust National Association, a wholly owned subsidiary, is a non-depository national bank whose activities are limited to fiduciary and custody activities, primarily personal trust and prime brokerage custody services. It is subject to comprehensive regulation and periodic examination by the OCC. Morgan Stanley Trust National Association is not FDIC-insured.

Scope of Permitted Activities. As a financial holding company, Morgan Stanley is able to engage in any activity that is financial in nature or incidental to a financial activity. Unless otherwise required by the Fed, Morgan Stanley is permitted to commence any new financial activity, or acquire a company engaged in any financial activity, as long as it provides after the fact notice of such new activity or investment to the Fed. Morgan Stanley must obtain the prior approval of the Fed before acquiring more than five percent of any class of voting stock of a U.S. depository institution or bank holding company or commencing any activity that is complementary to a financial activity. Under some reform proposals, any non-banking acquisition of more than $25 billion in assets would require prior Fed approval, and regulators would be given new means to limit activities.

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Morgan Stanley believes that most of the activities it conducted before becoming a financial holding company remain permissible. In addition, the BHC Act gives Morgan Stanley two years after becoming a financial holding company to conform its existing nonfinancial activities and investments to the requirements of the BHC Act with the possibility of three one-year extensions for a total grace period of up to five years. The BHC Act also grandfathers any activities related to the trading, sale or investment in commodities and underlying physical properties, provided that Morgan Stanley conducted any of such activities as of September 30, 1997 and provided that certain other conditions that are within Morgan Stanley s reasonable control are satisfied. In addition, the BHC Act permits the Fed to determine by regulation or order that certain activities are complementary to a financial activity and do not pose a risk to safety and soundness.

It is possible that certain of Morgan Stanley s existing activities will not be deemed to be permissible financial activities, or incidental or complementary to such activities or otherwise grandfathered. If so, Morgan Stanley may be required to divest them before the end of the original two-year or subsequent one-year grace periods discussed above. Morgan Stanley does not believe that any such required divestment will have a material adverse impact on its financial condition or results of operations.

Consolidated Supervision. As a financial holding company, Morgan Stanley is subject to the comprehensive, consolidated supervision and regulation of the Fed. This means that Morgan Stanley is, among other things, subject to the Fed s risk-based and leverage capital requirements and information reporting requirements for bank holding companies. The Fed has the authority to conduct on-site examinations of Morgan Stanley and any of its affiliates, subject to coordinating with any state or federal functional regulator of any particular affiliate.

In order to maintain Morgan Stanley s status as a financial holding company, its depository institution subsidiaries must remain well capitalized and well managed. Reform proposals would also base such financial holding company status on maintaining a well capitalized and well managed standard at the Morgan Stanley holding company level. If designated a systemically important firm, Morgan Stanley would be required, pursuant to such reform proposals, to remain well capitalized and well managed at all times. Under current regulations implemented by the Fed, if any depository institution controlled by a financial holding company no longer meets certain capital or management standards, the Fed may impose corrective capital and/or managerial requirements on the parent financial holding company and place limitations on its ability to make acquisitions or otherwise conduct the broader financial activities permissible for financial holding companies. In addition, as a last resort if the deficiencies persist, the Fed may order a financial holding company to cease the conduct of or to divest those businesses engaged in activities other than those permissible for bank holding companies that are not financial holding companies. The regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act of 1977, the Fed must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies.

Capital Standards. The Basel Committee and the Fed are rethinking the scope, strength and nature of the capital requirements that should apply to global financial institutions like Morgan Stanley.

The Basel Committee has opened a broad-based consultation on capital, liquidity and leverage ratios that is expected to be complete by the end of 2010, with implementation for most measures by the end of 2012, and in some cases earlier. The results of this consultation, in the form eventually implemented into U.S. law by the Fed and other U.S. banking regulators, are expected, among other aspects, to increase requirements as to the quality of capital, with greater emphasis on common stock as the predominant form of capital, to enhance capital requirements for trading book exposures, securitizations and counterparty credit risk exposure, to institute capital conservation measures and liquidity coverage requirements, and to implement on a more global basis the leverage ratio concept, a version of which is currently applied only by U.S. regulators. The exact scope and scale of these capital changes are currently not known. Even under current standards, the Fed generally requires Morgan Stanley and its peer financial holding companies to maintain risk-based and leverage capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and their particular condition, risk profile and growth plans.

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Current U.S. risk based capital and leverage guidelines require Morgan Stanley s capital to assets ratios to meet certain minimum standards. Under the guidelines, banking organizations are required to maintain a total capital ratio (total capital to risk weighted assets) of at least 10% and a Tier 1 capital ratio of at least 6% in order to qualify as well capitalized and for the holding company parent to be able to qualify as a financial holding company.

Morgan Stanley currently calculates its capital ratios and risk-weighted assets in accordance with the capital adequacy standards for financial holding companies adopted by the Fed, which 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. U.S. banking regulators are in the process of incorporating the Basel II Accord into the existing risk based capital requirements and Morgan Stanley is working with its regulators accordingly to transition to these requirements.

The federal banking regulators also have established minimum leverage ratio guidelines. The Tier 1 leverage ratio is defined as Tier 1 capital divided by adjusted average total book assets (which reflects adjustments for disallowed goodwill, certain intangible assets and deferred tax assets). The adjusted average total assets are derived using weekly balances for each quarter. The minimum leverage ratio is 3% for bank holding companies that are considered strong under Fed guidelines or which have implemented the Fed s risk based capital measure for market risk. Other bank holding companies must have a minimum leverage ratio of 4%.

Reform proposals affecting the scope, coverage, or calculation of capital, and increases in the amount of capital, including more restrictive leverage ratios, capital conservation measures and liquidity coverage requirements could adversely affect Morgan Stanley s ability to generate return on capital, to pay dividends, or could require Morgan Stanley to reduce business levels or to raise capital, including in ways that may adversely impact its shareholders or creditors.

See also Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Regulatory Requirements herein.

Dividends. In addition to certain dividend restrictions that apply by law to certain of Morgan Stanley s subsidiaries, as described below, the OCC, the Fed and the FDIC have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including Morgan Stanley, Morgan Stanley Bank, N.A. and other Morgan Stanley depository institution 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. It is Fed policy that bank holding companies should generally pay dividends on common stock only out of income available from the past year, and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. It is also Fed policy that bank holding companies should not maintain dividend levels that undermine the company s ability to be a source of strength to its banking subsidiaries.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards. Current regulations generally apply only to insured banks and thrifts such as Morgan Stanley Bank, N.A. or Morgan Stanley Trust, and not to their parent holding companies, such as Morgan Stanley. The Fed is, however, subject to limitations, authorized to take appropriate action at the holding company level. All pending proposals in the U.S. would broaden the Fed s or appropriate regulator s ability to take prompt corrective action against a systemically important financial institution.

Transactions with Affiliates**.** Morgan Stanley s domestic subsidiary banks are subject to Sections 23A and 23B of the Federal Reserve Act, which impose restrictions on any extensions of credit to, purchase of assets from, and certain other transactions with, any affiliates. These restrictions include limits on the total amount of credit exposure that they may have to any one affiliate and to all affiliates, as well as collateral requirements, and they require all such transactions to be made on market terms.

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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, Morgan Stanley Bank, N.A. and Morgan Stanley Trust are exposed to each other s losses. In addition, both institutions are exposed to changes in the cost of FDIC insurance. In 2009, the FDIC levied a special assessment of 5% on each insured depository institution s assets, minus its Tier 1 capital, capped at 10% of its domestic deposits. In addition, the FDIC required insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. All measures were part of an effort to rebuild the Deposit Insurance Fund. In addition, by participating in the FDIC s Temporary Liquidity Guarantee Program, Morgan Stanley Bank, N.A. and Morgan Stanley Trust have temporarily become subject to an additional assessment on deposits in excess of $250,000 in certain transaction accounts. Some of the pending legislative proposals would further increase Morgan Stanley s FDIC assessments, which, if enacted, may materially affect Morgan Stanley s financial condition, results of operations and cash flows for a particular future period.

Anti-Money Laundering.

Morgan Stanley 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 (the BSA/USA PATRIOT Act), 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, future commission merchants, and mutual funds to identify and verify customers that maintain accounts. The BSA/USA PATRIOT Act also mandates that financial institutions have policies, procedures and internal processes in place to monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Financial institutions subject to the BSA/USA PATRIOT Act also must designate a BSA/AML compliance officer, provide employees with training on money laundering prevention, and undergo an annual, independent audit to assess the effectiveness of its AML program. Outside the U.S., applicable laws, rules and regulations similarly subject designated types of financial institutions to AML program requirements. Morgan Stanley has implemented policies, procedures and internal controls that are designed to comply with AML program requirements. Morgan Stanley 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. Department of the Treasury s Office of Foreign Assets Control (OFAC), which enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals, and other multi-national organizations and governmental agencies worldwide.

Anti-Corruption.

Morgan Stanley is subject to the U.S. Foreign Corrupt Practices Act (FCPA), which prohibits offering, promising, giving, or authorizing others to give anything of value, directly or indirectly, to a non-U.S. government official in order to obtain or retain business or otherwise secure a business advantage. Morgan Stanley is also subject to applicable anti-corruption laws in the jurisdictions in which it operates. Morgan Stanley has implemented policies, procedures, and internal controls that are designed to comply with the FCPA and other applicable anti-corruption laws, rules, and regulations in the jurisdictions in which it operates.

Protection of Client Information.

Many aspects of Morgan Stanley 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 European Union Data Protection Directive in the EU and various laws in Asia, including the Japanese Personal Information (Protection) Law, the Hong Kong Personal Data (Protection) Ordinance and the Australian Privacy Act. Morgan Stanley has adopted measures designed to comply with these and related applicable requirements in all relevant jurisdictions.

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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 Morgan Stanley is a party) have necessitated the development or enhancement of corresponding policies and procedures.

Institutional Securities and Global Wealth Management Group.

Broker-Dealer Regulation. Morgan Stanley 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 securities exchanges, including the NYSE. In addition, MS&Co. and MSSB LLC are registered investment advisers with the SEC. Broker-dealers are subject to laws and regulations covering all aspects of the securities business, including sales and trading practices, securities offerings, publication of research reports, use of customers funds and securities, capital structure, record-keeping 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.

Margin lending by broker-dealers is regulated by the Fed 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, Morgan Stanley s broker-dealer subsidiaries margin policies are more stringent than these rules.

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

Compliance with regulatory capital liquidity requirements may limit Morgan Stanley s operations requiring the intensive use of capital. Such requirements restrict Morgan Stanley 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 liquidity requirements, or a significant operating loss or any unusually large charge against capital, could adversely affect Morgan Stanley s ability to pay dividends or to expand or maintain present business levels. In addition, such rules may require Morgan Stanley to make substantial capital liquidity 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 liquidation of a broker-dealer. SIPC protects customers securities accounts held by a member broker-dealer up to $500,000 for each eligible customer, subject to a limitation of $100,000 for claims for cash balances. To supplement this

SIPC

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coverage, MS&Co. has purchased additional protection for the benefit of its customers in the form of an annual policy issued by certain underwriters and various insurance companies that provides protection for all clients up to the remaining net equity securities balance in their accounts, subject to the firmwide cap of $1 billion.

Regulation of Certain Commodities Activities. The commodities activities in the Institutional Securities business segment 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 Morgan Stanley s commodities activities are also 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.

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

Non-U.S. Regulation. Morgan Stanley s businesses are also 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 Morgan Stanley maintains an office. Certain Morgan Stanley subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidiaries engaged in banking and trust activities outside the U.S. are regulated by various government agencies in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activity. For instance, the Financial Services Authority and several U.K. securities and futures exchanges, including the London Stock Exchange and Euronext.liffe, regulate Morgan Stanley s activities in the U.K.; the Deutsche Bôrse AG and the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) regulate its activities in the Federal Republic of Germany; Eidgenôssische Finanzmarktaufsicht regulates its activities in Switzerland; the Financial Services Agency, the Bank of Japan, the

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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 and the Hong Kong Exchanges and Clearing Limited regulate its operations in Hong Kong; and the Monetary Authority of Singapore and the Singapore Exchange Limited regulate its business in Singapore.

Asset Management.

Many of the subsidiaries engaged in Morgan Stanley s asset management activities are registered as investment advisers with the SEC and, in certain states, some employees or representatives of subsidiaries are registered as investment adviser representatives. Many aspects of Morgan Stanley 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 Morgan Stanley 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 Morgan Stanley engaging in various asset management activities for specified periods of time or specified types of clients, the revocation of registrations, other censures and fines.

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

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

Executive Officers of Morgan Stanley.

The executive officers of Morgan Stanley and their ages and titles as of February 26, 2010 are set forth below. Business experience for the past five years is provided in accordance with SEC rules.

John J. Mack (65). Chairman of the Board of Directors of Morgan Stanley (since June 2005). Chief Executive Officer (June 2005 to December 2009). Chairman of Pequot Capital Management (June 2005). Co-Chief Executive Officer of Credit Suisse Group (January 2003 to June 2004). President, Chief Executive Officer and Director of Credit Suisse First Boston (July 2001 to June 2004). President and Chief Operating Officer of Morgan Stanley (May 1997 to March 2001).

James P. Gorman (51). President and Chief Executive Officer and Director of Morgan Stanley (since January 2010) and Chairman of Morgan Stanley Smith Barney (since June 2009). Co-President (December 2007 to December 2009) and Co-Head of Strategic Planning (October 2007 to December 2009). President and Chief Operating Officer of the Global Wealth Management Group (February 2006 to April 2008). Head of Corporate Acquisitions Strategy and Research at Merrill Lynch & Co., Inc. (Merrill Lynch) (July 2005 to August 2005) and President of the Global Private Client business at Merrill Lynch (December 2002 to July 2005).

Ruth Porat (52). Executive Vice President and Chief Financial Officer of Morgan Stanley (since January 2010). Vice Chairman of Investment Banking (September 2003 to December 2009). Global Head of Financial Institutions Group (September 2006 to December 2009) and Chairman of the Financial Sponsors Group (July 2004 to September 2006) within the Investment Banking Division.

Colm Kelleher (52). Executive Vice President and Co-President of Institutional Securities of Morgan Stanley (since January 2010). Chief Financial Officer and Co-Head of Strategic Planning (October 2007 to December 2009). Head of Global Capital Markets (February 2006 to October 2007). Co-Head of Fixed Income Europe (May 2004 to February 2006).

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Paul J. Taubman (49). Executive Vice President and Co-President of Institutional Securities of Morgan Stanley (since January 2010). Global Head of Investment Banking (January 2008 to December 2009). Global Co-Head of Investment Banking (July 2007 to January 2008) Global Head of Mergers and Acquisitions Department (May 2005 to July 2007). Global Co-Head of Mergers and Acquisitions Department (December 2003 to May 2005).

Gregory J. Fleming (46). Executive Vice President and President of Asset Management and Research of Morgan Stanley (since February 2010). 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 (February 2008 to January 2009). Co-President of Merrill Lynch (May 2007 February 2008). Executive Vice President and Co-President of the Global Markets and Investment Banking Group of Merrill Lynch (August 2003 to May 2007).

Charles D. Johnston (56). Executive Vice President of Morgan Stanley and President of Morgan Stanley Smith Barney (since January 2010). President of Morgan Stanley Smith Barney (June 2009 to January 2010). President, Global Wealth Management U.S. and Canada, at Citi Smith Barney (March 2008 to June 2009) President and Chief Executive Officer of Smith Barney (January 2005 to March 2008).

Walid Chammah (55). Executive Vice President of Morgan Stanley (since January 2010), Chairman and Chief Executive Officer of Morgan Stanley International (since January 2009). Co-President (December 2007 to December 2009). Head of Investment Banking (August 2005 to July 2007) and Head of Global Capital Markets (July 2002 to August 2005).

Thomas R. Nides (49). Chief Operating Officer of Morgan Stanley and Chief Administrative Officer and Secretary (September 2005 to December 2009). Worldwide President and Chief Executive Officer of Burson-Marsteller (November 2004 to August 2005). Chairman of the Securities Industry and Financial Markets Association since October 2009.

Gary G. Lynch (59). Vice Chairman (since May 2009) and Chief Legal Officer of Morgan Stanley (since October 2005). Global General Counsel (October 2001 to October 2005) of Credit Suisse First Boston. Executive Vice Chairman (July 2004 to October 2005) and Vice Chairman (December 2002 to July 2004) of Credit Suisse First Boston and member of the Executive Board (July 2004 to July 2005) of Credit Suisse Group. Partner at the law firm of Davis Polk & Wardwell (September 1989 to October 2001).

Kenneth M. deRegt (54). Executive Vice President and Chief Risk Officer of Morgan Stanley (since February 2008). Managing Director of Aetos Capital, LLC, an investment management firm (December 2002 to February 2008).

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Item 1A. Risk Factors.

Liquidity and Funding Risk.

Liquidity and funding risk refers to the risk that Morgan Stanley 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 ability of Morgan Stanley to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its 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 substantially affected negatively by our inability to raise funding in the long-term or short-term debt capital markets or the equity 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, could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could be developed if we incur large trading losses, we are downgraded or put on (or remain on) negative watch by the rating agencies, we suffer a decline in the level of our business activity, regulatory authorities take significant action against us, or we discover significant employee misconduct or illegal activity, among other reasons. 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 and cash flows.

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

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

Our debt ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business segment, we may be required to provide additional collateral to certain counterparties in the event of a credit ratings downgrade.

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

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

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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 during the past two years, with volatility reaching unprecedented levels in the Fall of 2008 and into 2009. 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. Renewed turbulence in the U.S. and international markets and economy 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 of commodities or securities, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio. For more information on how we monitor and manage market risk, see Qualitative and Quantitative Disclosure about Market Risk Risk Management Market Risk in Part II, Item 7A herein.

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

The amount, duration and range of our market risk exposures have been increasing over the past several years, and may continue to do so. Our results of operations may be materially affected by market fluctuations due to economic and other factors. Results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including political, economic and market conditions; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; natural disasters; acts of war or terrorism; investor sentiment and confidence in the financial markets; or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to our businesses potentially could increase costs, thereby affecting results of operations. These factors also may have an impact on our ability to achieve our strategic objectives.

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

We may experience further writedowns of our financial instruments and other losses related to volatile and illiquid market conditions.

Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of our securities. 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

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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 require us to take further writedowns 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. Morgan Stanley s risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have historically been difficult to predict, however, and Morgan Stanley could realize significant losses if unprecedented extreme market events were to occur, such as conditions in the global financial markets and global economy that prevailed from 2008 into 2009.

Holding large and concentrated positions may expose us to losses.

Concentration of risk may reduce revenues or result in losses in our market-making, proprietary trading, 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.

Credit Risk.

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

We also incur individual consumer credit risk in the Global Wealth Management Group business segment lending to individual investors, including margin and non-purpose loans collateralized by securities, and residential mortgage loans.

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

Defaults by another large financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect Morgan Stanley.

Operational Risk.

Operational risk refers to the risk of financial or other loss, or damage to a firm s reputation, resulting from inadequate or failed internal processes, people, resources, systems or from other internal or external events (e.g., internal or external fraud, legal and compliance risks, damage to physical assets, etc.). Morgan Stanley may incur operational risk across its full scope of business activities, including revenue-generating activities (e.g., sales and trading) and support functions (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 Risk. For more information on how we monitor and manage operational risk, see Operational Risk in Part II, Item 7A herein.

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

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions we process are increasingly complex. We perform the functions required to operate our different businesses either by ourselves or through agreements with third parties. We rely on the ability of our employees, our internal systems and systems at technology centers operated by third parties to process a high volume of transactions.

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

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

Legal Risk.

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

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The financial services industry is subject to extensive regulation, which is undergoing major changes.

As a major financial services firm, 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 it operates. We also face the risk of investigations and proceedings by governmental and self-regulatory agencies in all countries in which we conduct our business. Interventions by authorities may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In addition to the monetary consequences, these measures could, for example, impact our ability to engage in, or impose limitations on, certain of our businesses. The number of these investigations and proceedings, as well as the amount of penalties and fines sought, has increased substantially in recent years with regard to many firms in the financial services industry, including us. Significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business.

In response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, are currently considering a wide range of proposals that, if enacted, could result in major changes to the way our global operations are regulated. Some of these major changes may take effect as early as 2010, and could materially impact the profitability of our businesses, the value of assets we hold, require changes to business practices or force us to discontinue businesses, and expose us to additional costs, taxes, liabilities and reputational risk.

We are a bank holding company that has elected to be treated as a financial holding company. As a financial holding company, we are subject to the comprehensive, consolidated supervision and regulation of the Fed, including risk-based capital requirements and leverage limits. Reform proposals could result in our becoming subject to stricter capital requirements and leverage limits, and could also affect the scope, coverage, or calculation of capital, all of which could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely impact our shareholders or creditors. Regulatory reform proposals could also result in the imposition of additional restrictions on our activities if we were to no longer meet certain capital requirements at the level of the financial holding company.

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

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

Substantial legal liability could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. For 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 Fed 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.

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

In connection with the commodities activities in our Institutional Securities business segment, we engage in the production, storage, transportation, marketing and trading of several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, liquefied natural gas and related products and indices. In addition, we own electricity generating facilities in the U.S. and Europe; we own TransMontaigne Inc. and its subsidiaries, a group of companies operating in the refined petroleum products marketing and distribution business; and we have an 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. For example, 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 and results of operations may be adversely affected by these events.

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 EU 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. Regulatory reforms currently underway are likely to include significant regulation of OTC derivatives markets, which could include mandated exchange trading and clearing, position limits, margin, capital and registration requirements. 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 deal with conflicts of interest appropriately could adversely affect our businesses.

As a global financial services firm that provides products and services to a large and diversified group of clients, including corporations, governments, financial institutions and individuals, we face potential conflicts of interest in the normal course of business. For example, potential conflicts can occur when there is a divergence of interests between Morgan Stanley and a client, among clients, or between an employee on the one hand and the Firm or a client on the other. We have policies, procedures and controls that are designed to address potential conflicts of interest. However, identifying and managing 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.

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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 Fed subjects us to direct Fed scrutiny with respect to transactions between Morgan Stanley s domestic subsidiary banks and their affiliates.

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 of our businesses are intensely competitive, and we expect them to remain so. We compete with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet. We compete on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, reputation, risk appetite and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. We may experience pricing pressures as a result of these factors and as some of our competitors seek to increase market share by reducing prices. For more information regarding the competitive environment in which we operate, see Competition in Part I, Item 1 herein.

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 qualified employees, or do so at rates necessary to maintain our competitive position, or if compensation costs required to attract and retain employees become more expensive, our performance, including our competitive position, could be materially adversely affected. The financial industry may experience more stringent regulation of employee compensation, or employee compensation may be made subject to special taxation, as has been proposed in the U.K. and France, which could have an adverse effect on our ability to hire or retain the most qualified employees.

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

We have experienced intense price competition in some of our businesses in recent years. In particular, the ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions. The trend toward direct access to automated, electronic markets will likely continue. It is possible that we will 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.

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, 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 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

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services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases.

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

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of such an emergency, 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 and the FCPA. A violation of a sanction or embargo program or of the FCPA could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties.

Acquisition Risk.

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

In connection with past or future acquisitions, combinations, joint ventures or strategic alliances, we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients 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 our joint venture partners may negatively impact the benefits to be achieved by the 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 recent and planned 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.

Risk Management.

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

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk,

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including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of market, credit, liquidity, operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. 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.

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

Item 1B. Unresolved Staff Comments.

Morgan Stanley, 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 Morgan Stanley received not less than 180 days before the end of the year to which this report relates that Morgan Stanley believes are material.

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Item 2. Properties.

Morgan Stanley and its subsidiaries have offices, operations and data centers located around the world. Morgan Stanley 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. Morgan Stanley believes the facilities it owns or occupies are adequate for the purposes for which they are currently used and are well maintained. Our principal offices consist of the following properties:

Location	Owned/ Leased	Lease Expiration	Approximate Square Footage as of December 31, 2009(A)
U.S. Locations			
1585 Broadway	Owned	N/A	894,600 square feet
New York, New York			
(*Global Headquarters and Institutional Securities Headquarters*)			
2000 Westchester Avenue	Owned	N/A	589,200 square feet
Purchase, New York			
(*Global Wealth Management Group Headquarters*)			
522 Fifth Avenue	Owned	N/A	581,250 square feet
New York, New York			
(*Asset Management Headquarters*)			
New York, New York	Leased	2010 2018	2,614,400 square feet
(*Several locations*)			
Brooklyn, New York	Leased	2013 2016	638,300 square feet
(*Several locations*)			
Jersey City, New Jersey	Leased	2010 2014	493,700 square feet
(*Several locations*)			
International Locations			
20 Bank Street	Leased	2038	546,400 square feet
(*London Headquarters*)			

Canary Wharf (*Several locations*)	Leased[B]	2036	625,700 square feet
1 Austin Road West Kowloon (*Hong Kong Headquarters*)	Leased	2019	587,950 square feet
Sapporo s Yebisu Garden Place, Ebisu, Shibuya-ku (*Tokyo Headquarters*)	Leased	2011[C]	432,350 square feet

(A) The indicated total aggregate square footage leased does not include space occupied by Morgan Stanley branch offices.
(B) Morgan Stanley holds the freehold interest in the land and building.
(C) Option to return half of the space from April 2010 and any amount of space up to the full space after April 2011.

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 issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

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

The Company contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such matters could be material to the Company s operating results and cash flows for a particular future period depending on, among other things, the level of the Company s revenues or income for such period.

Residential Mortgage-Related Matters.

Regulatory and Governmental Matters. The Company is responding to subpoenas and requests for information from certain regulatory and governmental entities concerning the origination, purchase, securitization and servicing of subprime and non-subprime residential mortgages and related issues including collateralized debt obligations and credit default swaps backed by or referencing mortgage pass through certificates.

Class Actions. Beginning in December 2007, several purported class action complaints were filed in the U.S. 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, which is styled *In re Morgan Stanley ERISA Litigation*. The consolidated complaint relates in large part to the Company s subprime and other mortgage related losses, but also includes allegations regarding the Company s disclosures, internal controls, accounting and other matters. The consolidated complaint alleges, among other things, that the Company s stock was not a prudent investment and that risks associated with its stock and its financial condition were not adequately disclosed. On December 9, 2009, the court denied defendants motion to dismiss the consolidated complaint.

On February 12, 2008, a plaintiff filed a purported class action, which was amended on November 24, 2008, naming the Company and certain present and former senior executives as defendants and asserting claims for violations of the securities laws. The amended complaint, which is styled *Joel Stratte-McClure, et al. v. Morgan Stanley, et al.*, is currently pending in the SDNY. Subject to certain exclusions, the amended complaint purports to assert claims on behalf of a purported class of persons and entities who purchased shares of the Company s common stock during the period June 20, 2007 to December 19, 2007 and who suffered damages as a result of such purchases. The allegations in the amended complaint relate in large part to the Company s subprime and other mortgage related losses, but also include allegations regarding the Company s disclosures, internal controls, accounting and other matters. On April 27, 2009, the Company filed a motion to dismiss the amended complaint.

On May 7, 2009, the Company was named as a defendant in a purported class action lawsuit brought under Sections 11 and 12 of the Securities Act of 1933, as amended (the Securities Act), alleging, among other things, that the registration statements and offering documents related to the offerings of approximately $17 billion of mortgage pass through certificates in 2006 and 2007 contained false and misleading information concerning the pools of residential loans that backed these securitizations. The plaintiffs are seeking, among other relief, class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. This case, which was consolidated with an earlier lawsuit and is currently styled *In re Morgan Stanley Mortgage Pass-Through Certificate Litig*, is pending in the SDNY. On September 15, 2009, the lead plaintiff filed a consolidated amended complaint which defendants have moved to dismiss.

Beginning in 2007, the Company was named as a defendant in several putative class action lawsuits brought under Sections 11 and 12 of the Securities Act, related to its role as a member of the syndicates that underwrote offerings of securities and mortgage pass through certificates for certain non-Morgan Stanley related entities that have been exposed to subprime and other mortgage-related losses. The plaintiffs in these actions allege, among other things, that the registration statements and offering documents for the offerings at issue contained various material misstatements or omissions related to the extent to which the issuers were exposed to subprime and other mortgage-related risks and other matters and seek various forms of relief including class certification, unspecified compensatory and rescissionary damages, costs, interest and fees. The Company s exposure to potential losses in these cases may be impacted by various factors including, among other things, the financial condition of the entities that issued the securities and mortgage pass through certificates at issue, the principal amount of the offerings underwritten by the Company, the financial condition of co-defendants and the willingness and ability of the issuers to indemnify the underwriter defendants. Some of these cases relate to issuers that have filed for bankruptcy, including *In Re Washington Mutual, Inc. Securities Litigation*, *In re: Lehman Brothers Equity/Debt Securities Litigation* and *In re IndyMac Mortgage-Backed Securities Litigation*. *In Re Washington Mutual, Inc. Securities Litigation* is pending in the United States District Court for the Western District of Washington and relates to several offerings of debt and equity securities issued by Washington Mutual, Inc. during 2006 and 2007. The Company underwrote approximately $1.6 billion of the principal amount of the offerings at issue. On October 27, 2009, the court granted in part and denied in part defendants motion to dismiss the amended complaint. *In re: Lehman Brothers Equity/Debt Securities Litigation* is pending in the SDNY and relates to several offerings of debt and equity securities issued by Lehman Brothers Holdings Inc. during 2007 and 2008. The Company underwrote over $200 million of the principal amount of the offerings at issue. The Company and other defendants have moved to dismiss these claims. *In re IndyMac Mortgage-Backed Securities Litigation* is pending in the SDNY and relates to the offerings of mortgage pass through certificates issued by seven trusts sponsored by affiliates of IndyMac Bancorp during 2006 and 2007. The Company underwrote over $2.4 billion of the principal amount of the offerings at issue. The Company and other defendants have moved to dismiss these claims.

Shareholder Derivative Matter. A shareholder derivative lawsuit was filed in the SDNY during November 2007 asserting claims related in large part to losses caused by certain subprime-related trading positions and related matters. The complaint in that lawsuit, which is styled *Steve Staehr, Derivatively on Behalf of Morgan Stanley v. John J. Mack, et al.*, was served on the Company on February 15, 2008. On July 16, 2008, the plaintiff filed an amended complaint, which defendants have moved to dismiss. The complaint seeks, among other relief, unspecified compensatory damages, restitution, and institution of certain corporate governance reforms.

Auction Rate Securities Matters.

On August 27, 2008, a shareholder derivative complaint, which was styled *Louisiana Municipal Police Employees Retirement System v. Mack, et al.*, was filed in the SDNY. On September 12, 2008, a second complaint, which was styled *Thomas v. Mack, et al.*, was filed in the SDNY. The complaints were substantially similar and named as defendants the members of the Company s Board of Directors as well as certain current and former officers. Morgan Stanley, on whose behalf the suits were purportedly brought, is named as a nominal defendant in each action. The complaints raised claims of breach of fiduciary duty, abuse of control, gross mismanagement, and violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934, as

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amended, related to the Company s sale of auction rate securities (ARS) over the period from June 20, 2007 to the present. Among other things, the complaints alleged that, over the relevant period, Morgan Stanley s public filings and statements were materially false and misleading in that they failed to disclose the illiquid nature of its ARS inventories and that Morgan Stanley s practices in the sale of ARS exposed it to significant liability for settlements and judgments. The complaints also alleged that during the relevant period certain defendants sold Morgan Stanley s stock while in possession of material non-public information. The complaints sought, among other things, unspecified compensatory damages, restitution from the defendants with respect to compensation, benefits and profits obtained, and the institution of certain reforms to Morgan Stanley s internal control functions. On November 24, 2008, the SDNY ordered the consolidation of the two actions. On February 2, 2009, plaintiffs filed a consolidated amended complaint, styled as *In re Morgan Stanley & Co. Inc. Auction Rate Securities Derivative Litigation*. On June 23, 2009, the SDNY granted defendants motion to dismiss the consolidated complaint for failure by plaintiffs to make a pre-litigation demand on the Company s Board of Directors. In addition, the SDNY set a schedule for plaintiffs to make such a demand, for the Board of Directors to respond thereto, and for further proceedings before the SDNY, which may include a motion for leave to file an amended complaint.

Executive Compensation-Related Matter.

A shareholder derivative lawsuit was filed in the Supreme Court of the State of New York, County of New York, on February 11, 2010 asserting claims for waste, breach of the duty of loyalty and unjust enrichment related to the Company s executive compensation for the fiscal years ended November 30, 2006 and 2007 and the calendar year ended December 31, 2009. The complaint, which is styled *Security and Fire Professionals of America Retirement Fund, et al. v. John J. Mack, et. al.,* names as defendants the Company s Board of Directors and certain present and former officers and directors. Morgan Stanley, on whose behalf the lawsuit is purportedly being brought, is named as a nominal defendant. The complaint alleges, among other things, that the total amount of the executive compensation paid for these years was disproportionately large in relation to the Company s performance. The complaint seeks, among other relief, unspecified compensatory damages, restitution and disgorgement of compensation, benefits and profits, and institution of certain corporate governance reforms.

China Matter.

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

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2009.

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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 22, 2010, Morgan Stanley had approximately 92,935 holders of record; however, Morgan Stanley 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 Morgan Stanley s common stock as reported by Bloomberg Financial Markets and the amount of any cash dividends per share of Morgan Stanley s common stock declared by Morgan Stanley s Board of Directors for such quarter.

	Low Sale Price	High Sale Price	Dividends(A)
2009:			
Fourth Quarter	$ 28.75	$ 35.78	$ 0.05
Third Quarter	$ 24.85	$ 33.33	$ 0.05
Second Quarter	$ 20.69	$ 31.99	$ 0.05
First Quarter	$ 13.10	$ 27.27	$ 0.05
Fiscal 2008:			
Fourth Quarter	$ 6.71	$ 44.50	$ 0.27
Third Quarter	$ 29.60	$ 46.58	$ 0.27
Second Quarter	$ 33.56	$ 51.80	$ 0.27
First Quarter	$ 40.76	$ 55.39	$ 0.27

(A) On December 16, 2008, the Board of Directors of the Company approved a change in the Company s fiscal year end from November 30 to December 31 of each year, beginning January 1, 2009. As a result of this change, the Board of Directors declared a $0.016667 dividend per common share covering the period from December 1, 2008 through December 31, 2008. The total dividend of $0.066667 per common share covering the four month period from December 1, 2008 to March 31, 2009 was paid on May 15, 2009 to shareholders of record on April 30, 2009.

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The table below sets forth the information with respect to purchases made by or on behalf of Morgan Stanley of its common stock during the fourth quarter of the year ended December 31, 2009.

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, 2009 October 31, 2009)				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	99,543	$ 31.98		
Month #2 (November 1, 2009 November 30, 2009)				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	103,633	$ 31.14		
Month #3 (December 1, 2009 December 31, 2009)				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	198,857	$ 30.05		
Total				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	402,033	$ 30.81		

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

(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares; and (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. 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 Morgan Stanley.

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

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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), the S&P 500 Diversified Financials Index (S5DIVF) and the S&P 500 Financials Index (S5FINL) for the last five years. The Company included the S5FINL due to the broader range of financial services companies and related businesses reflected in such index, which is also used by many of the Company s peers. The graph assumes a $100 investment at the closing price on December 31, 2004 and reinvestment of dividends on the respective dividend payment dates without commissions. Historical prices are adjusted to reflect the spin-off of Discover Financial Services completed on June 30, 2007. This graph does not forecast future performance of the Company s common stock.

	MS	S&P 500	S5DIVF	S5FINL
12/31/2004	$ 100.00	$ 100.00	$ 100.00	$ 100.00
12/30/2005	$ 104.26	$ 104.91	$ 109.83	$ 106.50
12/29/2006	$ 152.06	$ 121.46	$ 136.06	$ 126.96
12/31/2007	$ 121.24	$ 128.13	$ 110.87	$ 103.47
12/31/2008	$ 37.85	$ 80.74	$ 45.98	$ 46.32
12/31/2009	$ 71.22	$ 102.11	$ 60.03	$ 54.35

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Item 6. Selected Financial Data.

MORGAN STANLEY

SELECTED FINANCIAL DATA

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

	2009(1)(2)	Fiscal Year 2008(3)	Fiscal Year 2007(3)	Fiscal Year 2006(3)	Fiscal Year 2005(3)	One Month Ended December 31, 2008(2)(3)
Income Statement Data:						
Revenues:						
Investment banking	$ 5,019	$ 4,057	$ 6,316	$ 4,706	$ 3,795	$ 196
Principal transactions:						
Trading	7,447	5,472	3,208	11,805	7,376	(1,743)
Investments	(1,054)	(3,925)	3,247	1,778	1,125	(207)
Commissions	4,234	4,449	4,659	3,746	3,302	214
Asset management, distribution and administration fees	5,884	4,839	5,486	4,231	3,866	292
Other	838	3,852	776	209	(102)	107
Total non-interest revenues	22,368	18,744	23,692	26,475	19,362	(1,141)
Interest and dividends	7,702	39,679	60,069	42,774	25,985	1,297
Interest expense	6,712	36,312	57,283	40,909	23,558	1,124
Net interest	990	3,367	2,786	1,865	2,427	173
Net revenues	23,358	22,111	26,478	28,340	21,789	(968)
Non-interest expenses:						
Compensation and benefits	14,438	11,887	16,122	13,593	10,378	585
Other	8,063	9,087	7,580	6,353	6,071	474
Total non-interest expenses	22,501	20,974	23,702	19,946	16,449	1,059
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change, net	857	1,137	2,776	8,394	5,340	(2,027)
(Benefit from) provision for income taxes	(336)	(21)	576	2,469	1,227	(732)
Income (loss) from continuing operations before cumulative effect of accounting change, net	1,193	1,158	2,200	5,925	4,113	(1,295)
Discontinued operations(4):						
Gain from discontinued operations	160	1,121	1,682	2,351	1,227	18
(Benefit from) provision for income taxes	(53)	501	633	789	449	8
Net gain from discontinued operations	213	620	1,049	1,562	778	10
Cumulative effect of accounting change, net					49	

Net income (loss)	$ 1,406	$ 1,778	$ 3,249	$ 7,487	$ 4,940	$ (1,285)
Net income applicable to non-controlling interests	60	71	40	15	2	3
Net income (loss) applicable to Morgan Stanley	$ 1,346	$ 1,707	$ 3,209	$ 7,472	$ 4,938	$ (1,288)
(Loss) earnings applicable to Morgan Stanley common shareholders(5)	$ (907)	$ 1,495	$ 2,976	$ 7,027	$ 4,773	$ (1,624)
Amounts applicable to Morgan Stanley:						
Income (loss) from continuing operations	$ 1,149	$ 1,125	$ 2,162	$ 5,913	$ 4,111	$ (1,295)
Net gain from discontinued operations	197	582	1,047	1,559	778	7
Cumulative effect of accounting change, net					49	
Net income (loss) applicable to Morgan Stanley	$ 1,346	$ 1,707	$ 3,209	$ 7,472	$ 4,938	$ (1,288)

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	2009(1)(2)	Fiscal Year 2008(3)	Fiscal Year 2007(3)	Fiscal Year 2006(3)	Fiscal Year 2005(3)	One Month Ended December 31, 2008(2)(3)
Per Share Data:						
(Loss) earnings per basic common share(6):						
(Loss) income from continuing operations	$ (0.93)	$ 0.92	$ 1.98	$ 5.50	$ 3.79	$ (1.63)
Net gain from discontinued operations	0.16	0.53	0.99	1.46	0.71	0.01
Cumulative effect of accounting change, net					0.05	
(Loss) earnings per basic common share	$ (0.77)	$ 1.45	$ 2.97	$ 6.96	$ 4.55	$ (1.62)
(Loss) earnings per diluted common share(6):						
(Loss) income from continuing operations	$ (0.93)	$ 0.88	$ 1.94	$ 5.42	$ 3.75	$ (1.63)
Net gain from discontinued operations	0.16	0.51	0.96	1.43	0.70	0.01
Cumulative effect of accounting change, net					0.05	
(Loss) earnings per diluted common share	$ (0.77)	$ 1.39	$ 2.90	$ 6.85	$ 4.50	$ (1.62)
Book value per common share(7)	$ 27.26	$ 30.24	$ 28.56	$ 32.67	$ 27.59	$ 27.53
Dividends declared per common share	$ 0.17	$ 1.08	$ 1.08	$ 1.08	$ 1.08	$ 0.27
Balance Sheet and Other Operating Data:						
Total assets	$ 771,462	$ 659,035	$ 1,045,409	$ 1,121,192	$ 898,835	$ 676,764
Total capital(8)	213,974	192,297	191,085	162,134	125,891	208,008
Long-term borrowings(8)	167,286	141,466	159,816	126,770	96,709	159,255
Morgan Stanley shareholders equity	46,688	50,831	31,269	35,364	29,182	48,753
Return on average common shareholders equity	N/M	3.2%	6.5%	22.0%	17.1%	N/M
Average common and equivalent shares(5)	1,185,414,871	1,028,180,275	1,001,878,651	1,010,254,255	1,049,896,047	1,002,058,928

(1) Information includes Morgan Stanley Smith Barney Holdings LLC (MSSB) effective May 31, 2009 (see Note 3 to the consolidated financial statements).
(2) On December 16, 2008, the Board of Directors of the Company (the Board) approved a change in the Company s fiscal year end from November 30 to December 31 of each year. This change to the calendar year reporting cycle began January 1, 2009. As a result of the change, the Company had a one month transition period in December 2008.
(3) Certain prior-period information has been reclassified to conform to the current year s presentation.
(4) Amounts include operating results and gains on secondary offerings related to MSCI Inc. (MSCI), operating results and gains (losses) related to the disposition of Crescent Real Estate Equities Limited Partnership (Crescent), operating results of the retail asset management business being sold to Invesco Ltd. (Invesco) (Retail Asset Management), and other discontinued operations.
(5) Amounts shown are used to calculate earnings per basic common share.
(6) For the calculation of basic and diluted earnings per common share (EPS), see Note 14 to the consolidated financial statements.
(7) Book value per common share equals common shareholders equity of $37,091 million at December 31, 2009, $31,676 million at November 30, 2008, $30,169 million at November 30, 2007, $34,264 million at November 30, 2006, $29,182 million at November 30, 2005 and $29,585 million at December 31, 2008, divided by common shares outstanding of 1,361 million at December 31, 2009, 1,048 million at November 30, 2008, 1,056 million at November 30, 2007, 1,049 million at November 30, 2006, 1,058 million at November 30, 2005 and 1,074 million at December 31, 2008.
(8) These amounts exclude the current portion of long-term borrowings and include junior subordinated debt issued to capital trusts. At November 30, 2006 and November 30, 2005, capital units were included in total capital.

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

Introduction.

Morgan Stanley (or the Company), a financial holding company, is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management. The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. A summary of the activities of each of the business segments is as follows.

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

Global Wealth Management Group, which includes the Company s 51% interest in MSSB (see Note 3 to the consolidated financial statements), provides brokerage and investment advisory services to individual investors and small-to-medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services.

Asset Management provides global asset management products and services in equity, fixed income, alternative investments, which includes hedge funds and funds of funds, and merchant banking, which includes real estate, private equity and infrastructure, to institutional and retail clients through proprietary and third-party distribution channels (see Discontinued Operations Retail Asset Management Business herein). Asset Management also engages in investment activities.

Change in Fiscal Year-End.

On December 16, 2008, the Board approved a change in the Company s fiscal year-end from November 30 to December 31 of each year. This change to the calendar year reporting cycle began January 1, 2009. As a result of the change, the Company had a one-month transition period in December 2008.

The Company s results of operations for the 12 months ended December 31, 2009 (2009), November 30, 2008 (fiscal 2008), November 30, 2007 (fiscal 2007) and the one month ended December 31, 2008 are discussed below.

Discontinued Operations.

Retail Asset Management Business. On October 19, 2009, as part of a restructuring of its Asset Management business segment, the Company entered into a definitive agreement to sell substantially all of Retail Asset Management, including Van Kampen Investments, Inc. (Van Kampen) to Invesco. This transaction allows the Company s Asset Management business segment to focus on its institutional client base, including corporations, pension plans, large intermediaries, foundations and endowments, sovereign wealth funds and central banks, among others.

Under the terms of the definitive agreement, Invesco will purchase substantially all of Retail Asset Management, operating under both the Morgan Stanley and Van Kampen brands, in a stock and cash transaction. The Company will receive a 9.4% minority interest in Invesco. The transaction, which has been approved by the Boards of Directors of both companies, is expected to close in mid-2010, subject to customary regulatory, client and fund shareholder approvals. The results of Retail Asset Management are reported as discontinued operations for all periods presented.

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MSCI. In May 2009, the Company divested all of its remaining ownership interest in MSCI. The results of MSCI are reported as discontinued operations for all periods presented.

Crescent. Discontinued operations in 2009, fiscal 2008 and the one month ended December 31, 2008 include operating results and gains (losses) related to the disposition of Crescent, a former real estate subsidiary of the Company. The Company completed the disposition of Crescent in the fourth quarter of 2009, whereby the Company transferred its ownership interest in Crescent to Crescent s primary creditor in exchange for full release of liability on the related loans. The results of Crescent were formerly included in the Asset Management business segment.

Discover. On June 30, 2007, the Company completed the spin-off (the Discover Spin-off) of its business segment Discover Financial Services (DFS) to its shareholders. The results of DFS are reported as discontinued operations for all periods presented through the date of the Discover Spin-off. The fiscal 2008 amount related to costs associated with a legal settlement between DFS, VISA and MasterCard. See Other Matters Settlement with DFS herein for further information.

Quilter Holdings Ltd. The results of Quilter Holdings Ltd. (Quilter), Global Wealth Management Group s former mass affluent business in the United Kingdom (U.K.), are also reported as discontinued operations for all periods presented through its sale to Citigroup Inc. (Citi) on February 28, 2007. Citi subsequently contributed Quilter to the MSSB joint venture. The results of MSSB are included within the Global Wealth Management Group business segment s income from continuing operations effective May 31, 2009.

See Note 23 to the consolidated financial statements for further information on discontinued operations.

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Executive Summary.

Financial Information.

	2009(1)	Fiscal Year 2008(2)	Fiscal Year 2007(2)	One Month Ended December 31, 2008(2)
Net revenues (dollars in millions):				
Institutional Securities	$ 12,777	$ 14,738	$ 15,730	$ (1,353)
Global Wealth Management Group	9,390	7,019	6,625	409
Asset Management	1,337	548	4,364	(9)
Intersegment Eliminations	(146)	(194)	(241)	(15)
Consolidated net revenues	$ 23,358	$ 22,111	$ 26,478	$ (968)
Consolidated net income (loss) (dollars in millions)	$ 1,406	$ 1,778	$ 3,249	$ (1,285)
Net income applicable to non-controlling interest (dollars in millions)	60	71	40	3
Net income (loss) applicable to Morgan Stanley (dollars in millions)	$ 1,346	$ 1,707	$ 3,209	$ (1,288)
Income (loss) from continuing operations applicable to Morgan Stanley (dollars in millions):				
Institutional Securities	$ 1,279	$ 1,277	$ 845	$ (1,297)
Global Wealth Management Group	283	714	696	73
Asset Management	(405)	(855)	673	(70)
Intersegment Eliminations	(8)	(11)	(52)	(1)
Income (loss) from continuing operations applicable to Morgan Stanley	$ 1,149	$ 1,125	$ 2,162	$ (1,295)
Amounts applicable to Morgan Stanley (dollars in millions):				
Income (loss) from continuing operations applicable to Morgan Stanley	$ 1,149	$ 1,125	$ 2,162	$ (1,295)
Gain from discontinued operations applicable to Morgan Stanley, after tax	197	582	1,047	7
Net income (loss) applicable to Morgan Stanley (dollars in millions)	$ 1,346	$ 1,707	$ 3,209	$ (1,288)
(Loss) earnings applicable to Morgan Stanley common shareholders (dollars in millions)	$ (907)	$ 1,495	$ 2,976	$ (1,624)
(Loss) earnings per basic common share:				
(Loss) income from continuing operations	$ (0.93)	$ 0.92	$ 1.98	$ (1.63)
Net gain from discontinued operations(3)	0.16	0.53	0.99	0.01
(Loss) earnings per basic common share(4)	$ (0.77)	$ 1.45	$ 2.97	$ (1.62)
(Loss) earnings per diluted common share:				
(Loss) income from continuing operations	$ (0.93)	$ 0.88	$ 1.94	$ (1.63)
Net gain from discontinued operations(3)	0.16	0.51	0.96	0.01
(Loss) earnings per diluted common share(4)	$ (0.77)	$ 1.39	$ 2.90	$ (1.62)

Regional net revenues (dollars in millions)(5):				
Americas	$ 18,904	$ 10,766	$ 10,771	$ (765)
Europe, Middle East and Africa	2,459	8,949	9,927	(246)
Asia	1,995	2,396	5,780	43
Consolidated net revenues	$ 23,358	$ 22,111	$ 26,478	$ (968)

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	2009(1)	Fiscal Year 2008(2)	Fiscal Year 2007(2)	One Month Ended December 31, 2008(2)
Statistical Data.				
Average common equity (dollars in billions)(6):				
Institutional Securities	$ 18.1	$ 22.9	$ 23.2	$ 20.8
Global Wealth Management Group	4.6	1.5	1.7	1.3
Asset Management	2.2	3.0	2.8	2.4
Unallocated capital	8.1	4.9	2.9	4.9
Total from continuing operations	33.0	32.3	30.6	29.4
Discontinued operations	1.1	1.3	4.6	1.2
Consolidated average common equity	$ 34.1	$ 33.6	$ 35.2	$ 30.6
Return on average common equity(6):				
Consolidated	N/M	3%	7%	N/M
Institutional Securities	5%	5%	3%	N/M
Global Wealth Management Group	5%	48%	41%	60%
Asset Management	N/M	N/M	24%	N/M
Book value per common share(7)	$ 27.26	$ 30.24	$ 28.56	$ 27.53
Tangible common equity(8)	$ 29,479	N/A	N/A	$ 26,607
Tangible book value per common share(9)	$ 21.67	N/A	N/A	$ 24.76
Tangible common equity to risk-weighted assets ratio(10)	9.7%	N/A	N/A	N/A
Effective income tax rate from continuing operations(11)	(39.2)%	(1.8)%	20.7%	36.1%
Worldwide employees(12)	61,388	45,733	48,041	45,295
Average liquidity (dollars in billions)(13):				
Parent company liquidity	$ 61	$ 69	$ 49	$ 64
Bank and other subsidiary liquidity	93	69	36	78
Total liquidity	$ 154	$ 138	$ 85	$ 142
Capital ratios at December 31, 2009(14):				
Total capital ratio	16.4%	N/A	N/A	N/A
Tier 1 capital ratio	15.3%	N/A	N/A	N/A
Tier 1 leverage ratio	5.8%	N/A	N/A	N/A
Tier 1 common ratio	8.2%	N/A	N/A	N/A
Consolidated assets under management or supervision by asset class (dollars in billions)(15):				
Equity(16)	$ 315	$ 113	$ 215	$ 121
Fixed income(16)	195	175	208	168
Alternatives(17)	46	40	52	41
Private equity	4	4	4	4
Infrastructure	4	4	2	4
Real estate	15	34	36	35
Subtotal	579	370	517	373
Other(16)	59	39	61	40
Total assets under management or supervision(18)	638	409	578	413
Share of non-controlling interest assets(19)	7	6	7	6
Total	$ 645	$ 415	$ 585	$ 419

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Statistical Data (Continued).	2009(1)	Fiscal Year 2008(2)	Fiscal Year 2007(2)	One Month Ended December 31, 2008(2)
Institutional Securities:				
Pre-tax profit margin(20)	8%	10%	4%	N/M
Global Wealth Management Group:				
Global representatives(21)	18,135	8,426	8,429	8,356
Annualized net revenue per global representative (dollars in thousands)(22)	$ 666	$ 746	$ 811	$ 585
Assets by client segment (dollars in billions):				
$10 million or more	$ 453	$ 152	$ 247	$ 155
$1 million to $10 million	637	197	275	196
Subtotal $1 million or more	1,090	349	522	351
$100,000 to $1 million	418	151	179	155
Less than $100,000	52	22	23	22
Corporate and other accounts(23)		24	34	22
Total client assets	$ 1,560	$ 546	$ 758	$ 550
Fee-based assets as a percentage of total client assets	24%	25%	27%	25%
Client assets per global representative (dollars in millions)(24)	$ 86	$ 65	$ 90	$ 66
Bank deposits (dollars in billions)(25)	$ 112.5	$ 36.4	$ 26.2	$ 38.8
Pre-tax profit margin(20)	6%	16%	17%	29%
Asset Management(15):				
Assets under management or supervision (dollars in billions)(19)	$ 266	$ 287	$ 400	$ 290
Percent of fund assets in top half of Lipper rankings(26)	55%	39%	49%	55%
Pre-tax profit margin(20)	N/M	N/M	24%	N/M

N/M Not Meaningful.
N/A Not Applicable.
(1) Information includes MSSB effective from May 31, 2009 (see Note 3 to the consolidated financial statements).
(2) Certain prior-period information has been reclassified to conform to the current period s presentation.
(3) Amounts include operating results and gains on secondary offerings related to MSCI, operating results and gains (losses) related to the disposition of Crescent, operating results of Retail Asset Management and other discontinued operations.
(4) For the calculation of basic and diluted EPS, see Note 14 to the consolidated financial statements.
(5) Regional net revenues in Europe, Middle East and Africa were negatively impacted by the tightening of the Company s credit spreads resulting from the increase in fair value of certain of the Company s long-term and short-term borrowings, primarily structured notes, in 2009. Regional net revenues 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. Global Wealth Management Group: global representative location. Asset Management: client location, except for the merchant banking business, which is based on asset location.
(6) The computation of average common equity for each business segment is based upon an economic capital framework that estimates the amount of equity capital required to support the businesses over a wide range of market environments while simultaneously satisfying regulatory, rating agency and investor requirements. Economic capital is assigned to each business segment based on a regulatory capital framework plus additional capital for stress losses. Economic capital requirements are met by regulatory Tier 1 equity (including Morgan Stanley shareholders equity, certain preferred stock, eligible hybrid capital instruments, non-controlling interests and deductions of certain goodwill, intangible assets, net deferred tax assets and debt valuation adjustment (DVA)), subject to regulatory limits. The economic capital framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The effective tax rates used in the computation of business segment return on average common equity were determined on a separate entity basis.
(7) Book value per common share equals common shareholders equity of $37,091 million as of December 31, 2009, $31,676 million as of November 30, 2008, $30,169 million as of November 30, 2007 and $29,585 million as of December 31, 2008, divided by common shares outstanding of 1,361 million as of December 31, 2009, 1,048 million as of November 30, 2008, 1,056 million as of November 30, 2007 and 1,074 million as of December 31, 2008.
(8) Tangible common equity equals common shareholders equity less goodwill and intangible assets net of allowable mortgage servicing rights. The deduction for goodwill and intangible assets in 2009 includes only the Company s share of MSSB s goodwill and intangible assets.

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(9) Tangible book value per common share equals tangible common equity divided by period end common shares outstanding.
(10) Tangible common equity to risk-weighted assets (RWAs) ratio equals tangible common equity divided by total RWAs of $305,000 million at December 31, 2009.
(11) The effective tax rate for 2009 includes a tax benefit of $331 million, or $0.28 per diluted share, resulting from the cost of anticipated repatriation of non-U.S. earnings at lower than previously estimated tax rates. Excluding this benefit, the annual effective tax rate for 2009 would have been a benefit of 1%.
(12) Worldwide employees as of December 31, 2009 include additional worldwide employees of businesses contributed by Citi related to MSSB.
(13) For a discussion of average liquidity, see Liquidity and Capital Resources Liquidity Management Policies Liquidity Reserves herein.
(14) For a discussion of total capital ratio, Tier 1 capital ratio and Tier 1 leverage ratio, see Liquidity and Capital Resources Regulatory Requirements herein. For a discussion of Tier 1 common ratio, see Liquidity and Capital Resources The Balance Sheet herein.
(15) Amount excludes certain asset management businesses following the decision to sell the Retail Asset Management business to Invesco.
(16) Equity and fixed income amounts include assets under management or supervision associated with the Asset Management and Global Wealth Management Group business segments. Other amounts include assets under management or supervision associated with the Global Wealth Management Group business segment.
(17) Amounts reported for Alternatives reflect the Company s invested equity in those funds and include a range of alternative investment products such as hedge funds, funds of hedge funds and funds of private equity funds.
(18) Revenues and expenses associated with these assets are included in the Company s Asset Management and Global Wealth Management Group business segments.
(19) Amounts include Asset Management s proportional share of assets managed by entities in which it owns a non-controlling interest.
(20) Percentages represent income from continuing operations before income taxes as a percentage of net revenues.
(21) Global representatives as of December 31, 2009 include additional global representatives of businesses contributed by Citi related to MSSB.
(22) Annualized net revenue per global representative for 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008 equals Global Wealth Management Group s net revenues (excluding the sale of Morgan Stanley Wealth Management S.V., S.A.U. (MSWM S.V.) for fiscal 2008) divided by the quarterly weighted average global representative headcount for 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008, respectively.
(23) Beginning in 2009, amounts for Corporate and other accounts are presented in the appropriate client segment.
(24) Client assets per global representative equal total period-end client assets divided by period-end global representative headcount.
(25) Approximately $54 billion of the bank deposit balances as of December 31, 2009 are held at Company-affiliated depositories with the remainder held at Citi-affiliated depositories. These deposit balances are held at certain of the Company s Federal Deposit Insurance Corporation (the FDIC) insured depository institutions for the benefit of retail clients through their accounts.
(26) Source: Lipper, one-year performance excluding money market funds as of December 31, 2009, November 30, 2008, November 30, 2007 and December 31, 2008, respectively, excluding Retail Asset Management.

Global Market and Economic Conditions in 2009.

During 2009, global market and economic conditions improved, and global capital markets recovered from the severe downturn that occurred during the Fall of 2008.

In the U.S., economic conditions improved, liquidity began to return to the fixed income markets, the initial public offering market reopened and the securitization market began to reopen, while the real estate markets continued to be adversely impacted. Major U.S. equity market indices ended 2009 higher as compared with the beginning of the year, primarily due to better than expected corporate earnings and investor confidence in an economic recovery. Government spending increased, while consumer spending, household balance sheets and business spending remained challenged. The unemployment rate increased to 10.0% at December 31, 2009 from 7.4% at December 31, 2008. The Federal Open Market Committee (FOMC) kept its interest rates at historically low levels, and at December 31, 2009, the federal funds target rate was between zero and 0.25%, and the discount rate was 0.50%. During 2009, the interest rate on required reserve balances and on excess balances (balances held to satisfy reserve requirements and balances held in excess of required reserve requirements) was 0.25%. During 2009, the FOMC pursued a quantitative easing policy in which the FOMC purchased securities with the objective of improving conditions within the credit markets by increasing the money supply. In February 2010, the FOMC raised the discount rate by 0.25% to 0.75%.

In Europe, major European equity market indices ended 2009 higher as compared with the beginning of the year. Economic conditions, however, continued to be challenged by adverse economic developments that began in the Fall of 2008. The euro area unemployment rate increased to 10.0% at December 31, 2009 from 8.2% at December 2008. During the first half of 2009, the European Central Bank (ECB) lowered its benchmark

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interest rate by 1.50% to a record low of 1.00%, and during the second half of 2009, the ECB left its benchmark interest rate unchanged. During the first half of 2009, the Bank of England (BOE) lowered its benchmark interest rate by 1.50% to 0.50%, and during the second half of 2009, the BOE left its benchmark interest rate unchanged. During 2009, the BOE pursued a quantitative easing policy in which the BOE purchased securities, including U.K. Government Gilts, with the objective of increasing the money supply.

In Asia, economic conditions continued to be challenged by adverse economic developments that began in the Fall of 2008, including a decline in exports in both China and Japan. Despite lower exports, China s economy continued to benefit from government spending for capital projects. Equity markets in both China and Japan ended 2009 higher, as compared with the beginning of the year. The Bank of Japan (BOJ) pursued a quantitative easing policy in which the BOJ would purchase securities with the objective of increasing liquidity and reducing the reliance on short-term liquidity by providing longer term liquidity via Japanese government bond purchases.

Overview of 2009 Financial Results Compared with Fiscal 2008.

The Company recorded net income applicable to Morgan Stanley of $1,346 million in 2009, a 21% decrease from $1,707 million in fiscal 2008. Comparisons of the 2009 results with fiscal 2008 were impacted by seven months results of MSSB, which closed on May 31, 2009.

Net revenues (total revenues less interest expense) increased 6% to $23,358 million in 2009. Net revenues included losses of approximately $5,510 million in 2009 related to the tightening of the Company s credit spreads on certain long-term and short-term borrowings accounted for at fair value compared with gains of $5,594 million in fiscal 2008 related to the widening of the Company s credit spreads on such borrowings. Net interest revenues were $990 million in 2009 as compared with $3,367 million in fiscal 2008. The decrease in 2009 was primarily due to a lower interest rate environment coupled with a lower average mix of interest-earning assets and interest-bearing liabilities, including lower client balances in the Company s prime brokerage business. Net revenues in 2009 also included a gain of $319 million related to the sale of undivided participating interests in a portion of the Company s claims against a derivative counterparty that filed for bankruptcy protection. Non-interest expenses increased 7% to $22,501 million in 2009, primarily due to higher compensation costs, partly offset by lower non-compensation costs. Compensation and benefits expense increased 21%, primarily reflecting the consolidation of MSSB. Non-compensation expenses decreased 11%, primarily due to the Company s initiatives to reduce costs, lower levels of business activity and non-cash charges of $725 million related to the impairment of goodwill and intangible assets in fiscal 2008, partially offset by additional operating costs and integration costs related to MSSB. Results included in discontinued operations for 2009 reflected the pre-tax net gain of $625 million related to the sale of the Company s remaining ownership interest in MSCI and the disposition of Crescent (see Note 23 to the consolidated financial statements). Diluted EPS were $(0.77) in 2009 compared with $1.39 in fiscal 2008. Diluted EPS from continuing operations were $(0.93) in 2009 compared with $0.88 in fiscal 2008. Due to the Company s repurchase of its Series D Fixed Rate Cumulative Perpetual Preferred Stock (Series D Preferred Stock), the Company incurred a negative adjustment of $850 million in its calculation of basic and diluted EPS (reduction to earnings (losses) applicable to the Company s common shareholders) for 2009 due to the accelerated amortization of the issuance discount on the Series D Preferred Stock.

The Company s effective income tax rate from continuing operations was a benefit of 39% in 2009. The Company recognized a tax benefit of $331 million in 2009, resulting from the cost of anticipated repatriation of non-U.S. earnings at lower than previously estimated tax rates. Excluding this benefit, the annual effective tax rate in 2009 would have been a benefit of 1%. The annual effective tax rate in 2009 is reflective of the geographic mix of earnings and includes tax benefits associated with the anticipated use of domestic tax credits and the utilization of state net operating losses.

The results for fiscal 2008 included a pre-tax gain of $687 million related to the sale of MSWM S.V., the Spanish onshore mass affluent wealth management business (see Note 17 to the consolidated financial statements).

The Company s effective income tax rate from continuing operations was a benefit of 2% in fiscal 2008. The annual effective tax rate in fiscal 2008 is reflective of the geographic mix of earnings and includes tax benefits associated with domestic tax credits and tax-exempt income and tax charges associated with nondeductible goodwill impairment charges.

Overview of 2009 Segment Results Compared with Fiscal 2008.

Institutional Securities. Institutional Securities recorded income from continuing operations before income taxes of $982 million in 2009, a 31% decrease from fiscal 2008.

Net revenues decreased 13% to $12,777 million in 2009, which reflected losses of approximately $5,421 million resulting from the tightening of the Company s credit spreads on certain long-term and short-term borrowings accounted for at fair value compared with gains of $5,515 million resulting from the widening of the Company s credit spreads on such borrowings in fiscal 2008. In addition, 2009 reflected higher net revenues from investment banking.

Investment banking revenues increased 23% to $4,454 million from fiscal 2008, primarily due to higher revenues from underwriting transactions, partially offset by lower advisory fees. Advisory fees from merger, acquisition and restructuring transactions were $1,488 million, a decrease of 14% from fiscal 2008. Underwriting revenues increased 57% from fiscal 2008 reflecting higher levels of market activity.

Equity sales and trading revenues decreased 66% to $3,353 million in 2009 from fiscal 2008. The decline in 2009 was primarily due to lower net revenues from derivative products and equity cash products, reflecting lower levels of market volume and market volatility, and lower average prime brokerage client balances. Equity sales and trading revenues were also negatively impacted by losses of $1,738 million in 2009 due to the tightening of the Company s credit spreads resulting from the increase in the fair value of certain of the Company s long-term and short-term borrowings accounted for at fair value compared with a benefit of approximately $1,604 million in fiscal 2008 due to the widening of the Company s credit spreads on such borrowings. Fixed income sales and trading revenues increased 30% to $5,017 million in 2009 from $3,862 million in fiscal 2008. Fixed income sales and trading revenues were negatively impacted by losses of approximately $3,321 million from the tightening of the Company s credit spreads resulting from the increase in the fair value of certain of the Company s long-term and short-term borrowings accounted for at fair value compared with a benefit of approximately $3,524 million in fiscal 2008 due to the widening of the Company s credit spreads on such borrowings. Results for 2009 also reflected lower revenues from commodities. Results in 2009 included a net gain of $319 million related to the sale of undivided participating interests in a portion of the Company s claims against a derivative counterparty that filed for bankruptcy protection.

In 2009, other sales and trading net revenues reflected net gains of $183 million compared with net losses of $3,109 million in fiscal 2008. Results for 2009 included net gains of $804 million (mark-to-market valuations and realized gains of $4,042 million, partially offset by losses on related hedges of $3,238 million) associated with loans and lending commitments compared with net losses of $3,335 million (negative mark-to-market valuations and losses of $6,311 million, net of gains on related hedges of $2,976 million) in fiscal 2008. Results in 2009 also included losses of $362 million, reflecting the improvement in the Company s debt-related credit spreads on certain debt related to China Investment Corporation Ltd. s (CIC) investment in the Company compared with gains of $387 million in fiscal 2008. Fiscal 2008 included losses related to mortgage-related securities portfolios in the Company s domestic subsidiary banks, Morgan Stanley Bank, N.A. and Morgan Stanley Trust (collectively, the Subsidiary Banks), and mark-to-market gains on certain swaps previously designated as hedges of a portion of the Company s long-term debt.

Principal transactions net investment losses aggregating $875 million were recognized in 2009 as compared with net investment losses aggregating $2,478 million in fiscal 2008.

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Non-interest expenses decreased 11% to $11,795 million, primarily due to lower non-compensation costs. Non-compensation expenses decreased 26%, resulting from the Company s initiatives to reduce costs and a charge of approximately $694 million for the impairment of goodwill and intangible assets related to certain fixed income businesses recorded in fiscal 2008.

Global Wealth Management Group. Global Wealth Management Group recorded income from continuing operations before income taxes of $559 million compared with $1,154 million in fiscal 2008. The current year included seven months of operating results for MSSB, which closed on May 31, 2009. Fiscal 2008 included a pre-tax gain of $687 million related to the sale of MSWM S.V. Fiscal 2008 also included a charge of $532 million associated with the Auction Rate Securities (ARS) repurchase program and $108 million associated with subsequent writedowns of some of these securities that were repurchased (see Note 11 to the consolidated financial statements).

Net revenues were $9,390 million, a 34% increase over fiscal 2008, primarily related to higher revenues from asset management, distribution and administration fees, higher commission revenues, higher revenues from principal transactions trading activities, higher investment banking revenues and the consolidation of MSSB, partially offset by lower net interest. Client assets in fee-based accounts increased 175% to $379 billion and decreased as a percentage of total client assets to 24% compared with 25% as of December 31, 2008. In addition, total client assets rose to $1,560 billion from $550 billion as of December 31, 2008, primarily due to the consolidation of MSSB.

Total non-interest expenses were $8,831 million, a 51% increase from fiscal 2008. Compensation and benefits expense increased 60% in 2009, primarily due to the consolidation of MSSB. Non-compensation costs increased 32%, primarily due to the operating costs of MSSB, the amortization of MSSB s intangible assets and integration costs for MSSB. As a result of the MSSB transaction, the number of global representatives increased 117% to 18,135 at December 31, 2009 from 8,356 at December 31, 2008.

Asset Management. Asset Management recorded a loss from continuing operations before income taxes of $673 million in 2009 compared with a loss from continuing operations before income taxes of $1,423 million in fiscal 2008. Net revenues of $1,337 million in 2009 increased 144% from fiscal 2008 due to higher revenues in the core businesses, which include traditional equity and fixed income funds, hedge funds and fund of funds, in addition to lower losses in the merchant banking business. The increase in 2009 primarily reflected lower principal investment losses, partially offset by lower asset management, distribution and administrative fees, primarily reflecting lower average assets under management. The results in 2009 also reflected losses related to certain real estate funds sponsored and consolidated by the Company. Assets under management or supervision within Asset Management were $266 billion at December 31, 2009, down from $290 billion at December 31, 2008, a decrease of 8%, reflecting net customer outflows of $41.1 billion, primarily in the Company s money market, long-term fixed income and equity funds. Non-interest expenses increased 2% from fiscal 2008 to $2,010 million. Compensation and benefits expense increased 17%, primarily due to higher net revenues.

Overview of the one month ended December 31, 2008 Financial Results.

The Company recorded a net loss applicable to Morgan Stanley of $1,288 million in the one month ended December 31, 2008 compared with net income of $626 million in the one month ended December 31, 2007. Net revenues (total revenues less interest expense) decreased to $(968) million, primarily due to sales and trading losses in the Institutional Securities business segment. Non-interest expenses decreased 47% to $1,059 million, primarily due to lower compensation costs. Compensation and benefits expense decreased 59%, primarily reflecting lower incentive-based compensation accruals due to lower net revenues in the Institutional Securities business segment. Diluted earnings (loss) per share in the one month ended December 31, 2008 were $(1.62) compared with $0.57 in the one month ended December 31, 2007.

The Company s effective tax rate from continuing operations was 36% in the one month ended December 31, 2008.

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Certain Factors Affecting Results of Operations.

The Company s results of operations may be materially affected by market fluctuations and by economic factors. In addition, results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including the effect of political and economic conditions and geopolitical events; the effect of market conditions, particularly in the global equity, fixed income and credit markets, including corporate and mortgage (commercial and residential) lending and commercial real estate investments; the impact of current, pending and future legislation, regulation, and legal actions in the U.S. and worldwide; the level and volatility of equity, fixed income and commodity prices, and interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to the Company s unsecured short-term and long-term debt; investor sentiment and confidence in the financial markets; the Company s reputation; the actions and initiatives of current and potential competitors; and technological changes. Such factors also may have an impact on the Company s ability to achieve its strategic objectives on a global basis. For a further discussion of these and other important factors that could affect the Company s business, see Competition and Supervision and Regulation in Part I, Item 1, and Risk Factors in Part I, Item 1A.

Results of Operations.

The following items significantly affected the Company s results of operations in 2009, fiscal 2008 and the one month ended December 31, 2008.

Morgan Stanley Debt. Net revenues reflected (losses) gains from the (tightening) widening of the Company s credit spreads on certain long-term and short-term borrowings, including structured notes and junior subordinated debentures, that are accounted for at fair value as follows:

	2009	Fiscal 2008	One Month Ended December 31, 2008
	(dollars in billions)		
Losses from the tightening of the Company s credit spreads	$ (5.5)	$	$ (0.2)
Gains from the widening of the Company s credit spreads		5.6	
Total (losses) gains	$ (5.5)	$ 5.6	$ (0.2)

In addition, in 2009, fiscal 2008 and the one month ended December 31, 2008, the Company recorded gains of approximately $491 million, $2.3 billion and $73 million, respectively, from repurchasing its debt in the open market. In fiscal 2008, the Company also recorded mark-to-market gains of approximately $1.4 billion on certain swaps previously designated as hedges of a portion of the Company s long-term debt. These swaps were no longer considered hedges once the related debt was repurchased by the Company (*i.e.*, the swaps were de-designated as hedges). During the period the swaps were hedging the debt, changes in fair value of these instruments were generally offset by adjustments to the basis of the debt being hedged.

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Real Estate Investments. The Company recorded losses in the following business segments related to real estate investments. These amounts exclude investments that benefit certain deferred compensation and employee co-investment plans.

	2009	Fiscal 2008	One Month Ended December 31, 2008
		(dollars in billions)	
Institutional Securities(1)	$ (0.8)	$ (1.2)	$ (0.1)
Asset Management:			
Continuing operations(2)	(0.5)	(0.6)	
Discontinued operations(3)	(0.6)	(0.5)	
Total Asset Management	(1.1)	(1.1)	
Total	$ (1.9)	$ (2.3)	$ (0.1)

(1) Losses related to net realized and unrealized losses from the Company s limited partnership investments in real estate funds and are reflected in Principal transactions net investment revenues in the consolidated statements of income.
(2) Losses related to net realized and unrealized losses from real estate investments in the Company s merchant banking business and are reflected in Principal transactions net investment revenues in the consolidated statements of income. In fiscal 2008, losses included writedowns on its investment in Crescent of approximately $250 million prior to the Company consolidating its assets and liabilities. These writedowns are reflected in Principal transactions investments in the consolidated statements of income.
(3) Amounts related to Crescent.

See Other Matters Real Estate herein for further information.

Corporate Lending. The Company recorded the following amounts primarily associated with loans and lending commitments carried at fair value within the Institutional Securities business segment:

	2009(1)	Fiscal 2008(1)	One Month Ended December 31, 2008(1)
		(dollars in billions)	
Gains (losses) on loans and lending commitments	$ 4.0	$ (6.3)	$ (0.5)
(Losses) gains on hedges	(3.2)	3.0	(0.1)
Total gains (losses)	$ 0.8	$ (3.3)	$ (0.6)

(1) Amounts include realized and unrealized gains (losses).

Mortgage-Related Trading. The Company recognized mortgage-related trading losses relating to commercial mortgage-backed securities, commercial whole loan positions, U.S. subprime mortgage proprietary trading exposures and non-subprime residential mortgages of $0.6 billion, $2.6 billion and $0.1 billion in 2009, fiscal 2008 and the one month ended December 31, 2008, respectively.

***Sale of Bankruptcy Claims*.** In 2009, the Company recorded a gain of $319 million related to the sale of undivided participating interests in a portion of the Company s claims against a derivative counterparty that filed for bankruptcy protection. For further information, see Other Matters Sale of Bankruptcy Claims herein.

Monoline Insurers. Monoline insurers (Monolines) provide credit enhancement to capital markets transactions. 2009 included losses of $231 million related to Monoline credit exposures as compared with losses of $1.7 billion in fiscal 2008 and losses of $203 million in the one month ended December 31, 2008. The current credit environment continued to affect the capacity of such financial guarantors. The Company s direct exposure to Monolines is limited to bonds that are insured by Monolines and to derivative contracts with a Monoline as counterparty (principally MBIA Inc.). The Company s exposure to Monolines as of December 31, 2009 consisted primarily of asset-backed securities bonds of approximately $458 million in the portfolio of the Company s

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Subsidiary Banks that are collateralized primarily by first and second lien subprime mortgages enhanced by financial guarantees, approximately $2.0 billion in insured municipal bond securities and approximately $651 million in net counterparty exposure (gross exposure of approximately $5.4 billion net of cumulative credit valuation adjustments of approximately $2.8 billion and net of hedges). Net counterparty exposure is defined as potential loss to the Company over a period of time in an event of 100% default of a Monoline, assuming zero recovery. The Company s hedging program for Monoline risk includes the use of transactions that effectively mitigate certain market risk components of existing underlying transactions with the Monolines.

MSSB. During 2009, the Company recorded deal closing costs of $221 million and integration costs of $280 million. Deal closing costs include a one-time expense of $124 million primarily for replacement of deferred compensation awards for MSSB retirement-eligible employees. The costs of these replacement awards were fully allocated to Citi.

Structured Investment Vehicles. The Company recognized net gains of $164 million in 2009 and losses of $470 million and $84 million in fiscal 2008 and the one month ended December 31, 2008, respectively, related to securities issued by structured investment vehicles (SIV). The Company no longer has any SIV positions on the consolidated statements of financial condition as of December 31, 2009.

Income Tax Benefit. The Company recognized a tax benefit of $331 million in 2009 resulting from the cost of anticipated repatriation of non-U.S. earnings at lower than previously estimated tax rates.

Goodwill and Intangibles. Impairment charges related to goodwill and intangible assets were $16 million in 2009 and $725 million for fiscal 2008 (see Note 7 to the consolidated financial statements).

Subsidiary Banks. The Company recorded gains of approximately $140 million in 2009 and losses of approximately $900 million in fiscal 2008 related to mortgage-related securities portfolios of the Subsidiary Banks.

ARS. Under the terms of various agreements entered into with government agencies and the terms of the Company s announced offer to repurchase, the Company agreed to repurchase at par certain ARS held by retail clients that were purchased through the Company. In addition, the Company agreed to reimburse retail clients who have sold certain ARS purchased through the Company at a loss. Fiscal 2008 reflected charges of $532 million for the ARS repurchase program and writedowns of $108 million associated with ARS held in inventory (see Note 11 to the consolidated financial statements).

Sales of Subsidiaries and Other Items. Results for fiscal 2008 included a pre-tax gain of $687 million related to the sale of MSWM S.V.

Equity Capital-Related Transactions.

During fiscal 2008, the Company entered into several capital-related transactions. Such transactions included the sale of equity units (the Equity Units) to a wholly owned subsidiary of CIC for approximately $5.6 billion and the issuance to Mitsubishi UFJ Financial Group, Inc. (MUFG) of shares of Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (Series B Preferred Stock) and shares of Series C

Non-Cumulative Non-Voting Perpetual Preferred Stock (Series C Preferred Stock) for a total of $9 billion. In addition, the Company, as part of the Capital Purchase Program (CPP), issued to the U.S. Treasury 10,000,000 shares of Series D Preferred Stock and a warrant to purchase 65,245,759 shares of the Company s common stock (the Warrant) for a purchase price of $10 billion.

In June 2009, the Company repurchased the 10,000,000 shares of Series D Preferred Stock from the U.S. Treasury at the liquidation preference amount plus accrued and unpaid dividends, for an aggregate repurchase price of $10,086 million. As a result of the Company s repurchase of the Series D Preferred Stock, the Company incurred a one-time negative adjustment of $850 million in its calculation of basic and diluted EPS (reduction to earnings (losses) applicable to the Company s common shareholders) for 2009 due to the accelerated amortization of the issuance discount on the Series D Preferred Stock.

In August 2009, under the terms of the CPP securities purchase agreement, the Company repurchased the Warrant from the U.S. Treasury for $950 million. The repurchase of the Series D Preferred Stock in the amount of $10.0 billion and the Warrant for $950 million reduced the Company s total equity by $10,950 million in 2009.

In addition, during 2009, the Company issued common stock for approximately $6.9 billion in two registered public offerings in May and June 2009. MUFG elected to participate in both offerings, and in one of the offerings, MUFG received $0.7 billion of common stock in exchange for 640,909 shares of the Company s Series C Preferred Stock.

See Note 13 to the consolidated financial statements for further discussion of these capital-related transactions.

Business Segments.

Substantially all of the Company s operating revenues and operating expenses can be directly attributed to its business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective revenues 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. Income before taxes in Intersegment Eliminations primarily represents the effect of timing differences associated with the revenue and expense recognition of commissions paid by the Asset Management business segment to the Global Wealth Management Group business segment associated with sales of certain products and the related compensation costs paid to the Global Wealth Management Group business segment s global representatives. Intersegment eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Global Wealth Management Group business segment related to the bank deposit program. Losses before income taxes recorded in Intersegment Eliminations were $11 million, $17 million, $84 million and $1 million in 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008, respectively.

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INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

	2009	Fiscal 2008	Fiscal 2007	One Month Ended December 31, 2008
		(dollars in millions)		
Revenues:				
Investment banking	$ 4,454	$ 3,630	$ 5,538	$ 177
Principal transactions:				
Trading	6,315	5,199	2,741	(1,714)
Investments	(875)	(2,478)	1,458	(158)
Commissions	2,153	3,100	3,261	128
Asset management, distribution and administration fees	99	142	104	11
Other	546	2,723	568	88
Total non-interest revenues	12,692	12,316	13,670	(1,468)
Interest and dividends	6,588	38,330	59,126	1,222
Interest expense	6,503	35,908	57,066	1,107
Net interest	85	2,422	2,060	115
Net revenues	12,777	14,738	15,730	(1,353)
Compensation and benefits	7,216	7,120	10,046	283
Non-compensation expenses	4,579	6,195	5,034	394
Total non-interest expenses	11,795	13,315	15,080	677
Income (loss) from continuing operations before income taxes	982	1,423	650	(2,030)
(Benefit from) provision for income taxes	(293)	113	(233)	(733)
Income (loss) from continuing operations	1,275	1,310	883	(1,297)
Discontinued operations:				
Gain from discontinued operations	503	1,578	160	12
Provision for income taxes	222	612	63	5
Gain on discontinued operations	281	966	97	7
Net income (loss)	1,556	2,276	980	(1,290)
Net income applicable to non-controlling interests	12	71	40	3
Net income (loss) applicable to Morgan Stanley	$ 1,544	$ 2,205	$ 940	$ (1,293)
Amounts attributable to Morgan Stanley common shareholders:				
Income (loss) from continuing operations, net of tax	$ 1,279	$ 1,277	$ 845	$ (1,297)
Gain from discontinued operations, net of tax	265	928	95	4

Net income (loss) applicable to Morgan Stanley	$ 1,544	$ 2,205	$ 940	$ (1,293)

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Other Financial Information.

Investment Banking.

Investment banking revenues were as follows:

	2009	Fiscal 2008	Fiscal 2007	One Month Ended December 31, 2008
		(dollars in millions)		
Advisory fees from merger, acquisition and restructuring transactions	$ 1,488	$ 1,740	$ 2,541	$ 68
Equity underwriting revenues	1,694	1,045	1,570	47
Fixed income underwriting revenues	1,272	845	1,427	62
Total investment banking revenues	$ 4,454	$ 3,630	$ 5,538	$ 177

Investment banking revenues are composed of fees from advisory services and revenues from the underwriting of securities offerings and syndication of loans.

Sales and Trading.

Sales and trading revenues were as follows:

	2009	Fiscal 2008	Fiscal 2007	One Month Ended December 31, 2008
		(dollars in millions)		
Principal transactions trading	$ 6,315	$ 5,199	$ 2,741	$ (1,714)
Commissions	2,153	3,100	3,261	128
Net interest	85	2,422	2,060	115
Total sales and trading revenues	$ 8,553	$ 10,721	$ 8,062	$ (1,471)

Sales and trading revenues are composed of principal transactions trading revenues, commissions and net interest revenues (expenses). In assessing the profitability of its sales and trading activities, the Company views principal trading, commissions and net interest revenues (expenses) in the aggregate. In addition, decisions relating to principal transactions 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, dividends, the interest income or expense associated with financing or hedging the Company s positions, and other related expenses.

The components of the Company s sales and trading revenues are as follows:

Principal Transactions Trading. Principal transactions 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 positions, as well as proprietary trading activities for its own account.

Commissions. Commission revenues primarily arise from agency transactions in listed and over-the-counter (OTC) equity securities and options.

Net Interest. Interest and dividend revenues and interest expense are a function of the level and mix of total assets and liabilities, including financial instruments owned and financial instruments sold, not yet purchased, reverse repurchase and repurchase agreements, trading strategies, customer activity in the Company s prime brokerage business, and the prevailing level, term structure and volatility of interest rates. Certain reverse

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repurchase and 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 revenue on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions.

Sales and trading revenues by business were as follows:

	2009	Fiscal 2008(1)	Fiscal 2007(1)	One Month Ended December 31, 2008(1)
		(dollars in millions)		
Equity	$ 3,353	$ 9,968	$ 9,040	$ (20)
Fixed income	5,017	3,862	268	(889)
Other(2)	183	(3,109)	(1,246)	(562)
Total sales and trading revenues	$ 8,553	$ 10,721	$ 8,062	$ (1,471)

(1) All prior-period amounts have been reclassified to conform to the current period s presentation.
(2) Other sales and trading net revenues primarily include net gains (losses) from loans and lending commitments and related hedges associated with the Company s lending and other corporate activities.

2009 Compared with Fiscal 2008

Investment Banking. Investment banking revenues increased 23% in 2009 from fiscal 2008, as higher revenues from equity and fixed income underwriting transactions were partially offset by lower advisory revenues. In 2009, advisory fees from merger, acquisition and restructuring transactions were $1,488 million, a decrease of 14% from fiscal 2008, reflecting lower levels of market activity. Underwriting revenues of $2,966 million increased 57% from fiscal 2008, reflecting higher levels of market activity, as equity underwriting revenues increased 62% to $1,694 million and fixed income underwriting revenues increased 51% to $1,272 million. Underwriting fees in 2009 reflected a significant increase in market activity from 2008 levels, which were affected by unprecedented market turmoil and challenging market conditions.

Sales and Trading Revenues. Total sales and trading revenues decreased 20% in 2009 from fiscal 2008, reflecting lower equity sales and trading revenues, partially offset by higher other sales and trading revenues and by higher fixed income sales and trading revenues.

Equity. Equity sales and trading revenues decreased 66% to $3,353 million in 2009 from fiscal 2008. The decrease in 2009 was primarily due to a significant reduction in net revenues from derivative products and equity cash products, reflecting lower levels of market volume and market volatility, reduced levels of client activity and lower average prime brokerage client balances. Equity sales and trading revenues reflected losses of $1,738 million due to the tightening of the Company s credit spreads during 2009 resulting from the increase in the fair value of certain of the Company s long-term and short-term borrowings, primarily structured notes, for which the fair value option was elected, compared with a benefit of approximately $1,604 million in fiscal 2008 related to the widening of the Company s credit spreads.

In 2009, equity sales and trading revenues also reflected unrealized gains of approximately $198 million related to changes in the fair value of net derivative contracts attributable to the tightening of the counterparties credit default spreads compared with losses of $300 million in fiscal 2008 related to the widening of the counterparties credit default spreads. The Company also recorded unrealized losses of approximately $154 million in 2009 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company s credit default swap spreads compared with gains of $125 million in fiscal 2008 related to the widening of the Company s credit default swap spreads. The unrealized losses and gains do not reflect any gains or losses on related non-derivative hedging instruments.

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Fixed Income. Fixed income sales and trading revenues increased $1,155 million to $5,017 million in 2009 from $3,862 million in fiscal 2008. Interest rate, currency and credit products net revenues increased 145% in 2009 primarily due to strong investment grade and distressed debt trading results, partly offset by lower levels of client activity. Results in 2009 also included a gain of $319 million related to the sale of undivided participating interests in a portion of the Company s claims against a derivative counterparty that filed for bankruptcy protection. Commodity net revenues decreased 31% in 2009, primarily reflecting reduced levels of client activity and unfavorable market conditions.

In 2009, fixed income sales and trading revenues reflected net unrealized gains of approximately $3,462 million related to changes in the fair value of net derivative contracts attributable to the tightening of the counterparties credit default spreads compared with unrealized losses of approximately $6,560 million in fiscal 2008 related to the widening of the counterparties credit default spreads. The Company also recorded unrealized losses of approximately $1,938 million in 2009, related to changes in the fair value of net derivative contracts attributable to the tightening of the Company s credit default swap spreads compared with unrealized gains of approximately $1,968 million in fiscal 2008 related to the widening of the Company s credit default swap spreads. The unrealized losses and gains on credit default spreads do not reflect any gains or losses on related non-derivative hedging instruments.

In addition, fixed income sales and trading revenues in 2009 were negatively impacted by losses of approximately $3,321 million from the tightening of the Company s credit spreads resulting from the increase in the fair value of certain of the Company s long-term and short-term borrowings, primarily structured notes, for which the fair value option was elected. Fiscal 2008 reflected a benefit of approximately $3,524 million due to the widening of the Company s credit spreads on such borrowings.

Other. In addition to the equity and fixed income sales and trading revenues discussed above, sales and trading revenues included other trading revenues, consisting primarily of certain activities associated with the Company s corporate lending activities. In connection with its corporate lending activities, the Company provides to select clients loans or lending commitments (including bridge financing) that are generally classified as either event-driven or relationship-driven. Event-driven loans and lending commitments refer to activities associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization transactions. Relationship-driven loans and lending commitments are generally made to expand business relationships with select clients. For further information about the Company s corporate lending activities, see Item 7A, Quantitative and Qualitative Disclosures about Market Risk Credit Risk herein. The fair value measurement of loans and lending commitments takes into account certain fee income that is attributable to the contingent commitment contract.

In 2009, other sales and trading net revenues reflected net gains of $183 million compared with net losses of $3,109 million in fiscal 2008. Results for 2009 included net gains of $804 million (mark-to-market valuations and realized gains of $4,042 million, partially offset by losses on related hedges of $3,238 million) associated with loans and lending commitments. Results for fiscal 2008 included net losses of $3,335 million (negative mark-to-market valuations and losses of $6,311 million, net of gains on related hedges of $2,976 million) associated with loans and lending commitments largely related to certain event-driven lending to non-investment grade companies. The valuation of these commitments could change in future periods depending on, among other things, the extent that they are renegotiated or repriced or if the associated acquisition transaction does not occur. Results in 2009 also included losses of $362 million, reflecting the improvement in the Company s debt-related credit spreads on certain debt related to CIC s investment in the Company compared with gains of $387 million in fiscal 2008.

In fiscal 2008, other sales and trading revenues also included writedowns of securities of approximately $1.2 billion in the Company s Subsidiary Banks and mark-to-market gains of approximately $1,352 million on certain swaps previously designated as hedges of a portion of the Company s long-term debt. These swaps were no longer considered hedges once the related debt was repurchased by the Company (*i.e.*, the swaps were de-designated as hedges). During the period in which the swaps were hedging the debt, changes in fair value of these instruments were generally offset by adjustments to the basis of the debt being hedged.

Principal Transactions 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.

Principal transactions net investment losses of $875 million were recognized in 2009 as compared with net investment losses of $2,478 million in fiscal 2008. The losses were primarily related to net realized and unrealized losses from the Company s limited partnership investments in real estate funds and investments that benefit certain employee deferred compensation and co-investment plans.

Other. Other revenues decreased 80% in 2009 compared with fiscal 2008. During 2009, the Company recorded gains of approximately $465 million from the Company s repurchase of debt in the open market compared with approximately $2.1 billion in fiscal 2008 (see Certain Factors Affecting Results of Operations Morgan Stanley Debt herein for further discussion).

Non-interest Expenses. Non-interest expenses decreased 11% in 2009, primarily due to lower non-compensation expense. Compensation and benefits expense increased 1% from fiscal 2008. Non-compensation expenses decreased 26% in 2009, partly due to the Company s initiatives to reduce costs. Occupancy and equipment expense decreased 11% in 2009, primarily due to lower leasing costs associated with office facilities. Brokerage, clearing and exchange fees decreased 20% in 2009, primarily due to decreased trading activity. Marketing and business development expense decreased 43% in 2009, primarily due to lower levels of business activity. Professional services expense decreased 18% in 2009, primarily due to lower consulting and legal fees. Other expenses decreased 50% in 2009. In fiscal 2008, other expenses included $694 million related to the impairment of goodwill and intangible assets related to certain fixed income businesses. Excluding the fiscal 2008 impairment charges, other expenses decreased in 2009, primarily due to lower levels of business activity and lower litigation expense.

Fiscal 2008 Compared with Fiscal 2007

Investment banking revenues decreased 34% in fiscal 2008, reflecting the unprecedented market turmoil that significantly reduced levels of market activity. Advisory fees from merger, acquisition and restructuring transactions were $1,740 million, a decrease of 32% from fiscal 2007. Advisory fees in fiscal 2008 reflected lower levels of activity due to the challenging market environment. Equity underwriting revenues decreased 33% to $1,045 million in fiscal 2008, reflecting significantly lower levels of market activity, particularly for initial public offerings. Fixed income underwriting revenues decreased 41% to $845 million in fiscal 2008. Fiscal 2008 revenues were impacted by significantly lower levels of market activity across most products, particularly loan syndications and securitized products.

Total sales and trading revenues increased 33% in fiscal 2008. Equity sales and trading revenues increased 10% to $9,968 million in fiscal 2008 and reflected higher net revenues from derivative products and slightly higher results in prime brokerage. Equity sales and trading revenues also benefited from the widening of the Company s credit spreads on financial instruments that are accounted for at fair value, including, but not limited to, those for which the fair value option was elected. As previously mentioned, equity sales and trading revenues in fiscal 2008 reflected approximately $1,604 million due to the widening of the Company s credit spreads. Revenues from derivative products reflected higher customer flows and high levels of volatility. Principal trading strategies reflected significantly lower revenues in fiscal 2008 as the Company exited select proprietary trading strategies. Although prime brokerage revenues increased in fiscal 2008, in the fourth quarter, the Company s prime brokerage business experienced significant outflows as clients withdrew their cash balances and reallocated positions. These outflows have had a negative impact on prime brokerage s operating results in fiscal 2008.

Fixed income sales and trading revenues increased to $3,862 million in fiscal 2008 from $268 million in fiscal 2007. Fiscal 2007 results included mortgage-related writedowns of $7.8 billion, reflecting the deterioration in the value of U.S. subprime trading positions, principally super senior derivative positions in collateralized debt obligations (CDOs) entered into primarily by the Company s mortgage proprietary trading group. Fiscal 2008 results reflected lower losses in mortgage loan products, higher revenues from commodities, higher revenues from foreign exchange products, partially offset by lower net revenues from the interest rate and credit businesses. Interest rate, currency and credit products revenues decreased 55% in fiscal 2008. Continued dislocation in the credit markets resulted in lower net revenues from credit products, including losses of $1,686 million related to exposure to Monolines and unfavorable positioning, partially offset by higher revenues from foreign exchange products and strong results in interest rate products. Interest rate, currency and credit products revenues for fiscal 2008 benefited by $171 million due to the reversal of prior-period valuation adjustments related to interest rate derivatives, partially offset by a cumulative negative adjustment of $120 million related to prior-period incorrect valuations of a London-based trader s positions (see Notes 21 and 26 to the consolidated financial statements for further information). Results in foreign exchange products were primarily due to higher levels of customer flows and market volatility. Mortgage-related losses of approximately $1.7 billion were primarily due to a broadening decline in the residential and commercial mortgage sector. The decline in the Company s mortgage loan product activities reflected the difficult credit market conditions in fiscal 2008. Commodity revenues increased 62%, primarily due to higher revenues from oil liquids and electricity and natural gas products, reflecting higher market volatility and strong customer flow. As previously mentioned, fixed income sales and trading revenues also benefited in fiscal 2008 by approximately $3,524 million from the widening of the Company s credit spreads.

In fiscal 2008, other sales and trading losses were approximately $3,109 million compared with $1,246 million in fiscal 2007. Fiscal 2008 reflected net losses of $3,335 million (negative mark-to-market valuations and losses of $6,311 million, net of gains on related hedges of $2,976 million) associated with loans and lending commitments largely related to certain event-driven lending to non-investment grade companies, writedowns of securities of approximately $1.2 billion in the Company s Subsidiary Banks and mark-to-market gains of approximately $1,352 million on certain swaps previously designated as hedges of a portion of the Company s long-term debt.

In fiscal 2007, other sales and trading losses primarily reflected approximately $700 million of mark-to-market valuations associated with loans and commitments largely related to event-driven lending to non-investment grade companies and the impairment charge related to securities in the Company s Subsidiary Banks.

Principal transactions net investment losses aggregating $2,478 million were recognized in fiscal 2008 as compared with net investment gains aggregating $1,458 million in fiscal 2007. The losses in fiscal 2008 were primarily related to net realized and unrealized losses from the Company s investments in passive limited partnership interests associated with the Company s real estate funds and investments that benefit certain employee deferred compensation and co-investment plans and other principal investments. Fiscal 2007 s results primarily related to realized and unrealized net gains associated with certain of the Company s investments.

Other revenues increased 379% in fiscal 2008. The increase reflected revenues related to Institutional Securities share (approximately $2,135 million) of the Company s repurchase of debt. Fiscal 2008 also included a gain associated with the sale of a controlling interest in a previously consolidated commodities subsidiary.

Non-interest expenses decreased 12% in fiscal 2008, primarily due to lower compensation expense. Compensation and benefits expense decreased 29%, primarily reflecting lower incentive-based compensation accruals due to a challenging market environment, partially offset by severance-related expenses of $653 million in fiscal 2008. Non-compensation expenses increased 23% in fiscal 2008. Fiscal 2008 results included a charge of approximately $694 million for the impairment of goodwill and intangible assets related to certain fixed income businesses (see Note 7 to the consolidated financial statements), and fiscal 2007 s results included a reversal of the $360 million legal accrual related to the Company s favorable outcome from the Coleman (Parent) Holdings, Inc. (Coleman) litigation. Occupancy and equipment expense increased 27%, primarily due to higher depreciation expense on property and equipment and higher costs associated with exiting certain property lease agreements. Information processing and communications expense increased 4% in fiscal 2008, primarily due to higher data processing costs and market data. Marketing and business development expense decreased 7%, primarily due to lower levels of business activity. Other expenses increased 151%, reflecting the previously mentioned charge of approximately $694 million for the impairment of goodwill and intangible assets and the $360 million reversal of the Coleman litigation reserve in fiscal 2007 as previously mentioned, partially offset by lower minority interest.

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One Month Ended December 31, 2008 Compared with the One Month Ended December 31, 2007

Institutional Securities recorded losses before income taxes of $2,030 million in the one month ended December 31, 2008 compared with income before income taxes of $904 million in the one month ended December 31, 2007. Net revenues were $(1,353) million in the one month ended December 31, 2008 compared with $2,303 million in the one month ended December 31, 2007. Net revenues in the one month ended December 31, 2008 reflected sales and trading losses as compared with sales and trading revenues in the prior- year period. Non-interest expenses decreased 52% to $677 million, primarily due to lower compensation and benefits expense, reflecting lower net revenues. Non-compensation expenses decreased 3%.

Investment banking revenues decreased 45% to $177 million in the one month ended December 31, 2008 from the prior-year period due to lower revenues from advisory fees and underwriting transactions, reflecting lower levels of market activity. Advisory fees from merger, acquisition and restructuring transactions were $68 million, a decrease of 58% from the prior-year period. Underwriting revenues decreased 33% from the prior-year period to $109 million.

Equity sales and trading losses were $20 million in the one month ended December 31, 2008 compared with revenues of $922 million in the one month ended December 31, 2007. Results in the one month ended December 31, 2008 reflected lower revenues from equity cash and derivative products and prime brokerage. Equity sales and trading losses also included approximately $75 million of losses from the tightening of the Company s credit spreads on certain long-term and short-term borrowings accounted for at fair value. Fixed income sales and trading losses were $889 million in the one month ended December 31, 2008 compared with revenues of $938 million in the one month ended December 31, 2007. Results in the one month ended December 31, 2008 reflected losses in interest rate, credit and currency products where continued dislocation in the credit markets contributed to the losses. In addition, fixed income sales and trading included approximately $175 million losses from the tightening of the Company s credit spreads on certain long-term and short-term borrowings that are accounted for at fair value.

Other sales and trading losses were approximately $562 million in the one month ended December 31, 2008 compared with revenues of $63 million in the one month ended December 31, 2007. The one month ended December 31, 2008 included writedowns related to mortgage-related securities portfolios in the Company s Subsidiary Banks, partially offset by mark-to-market gains on loans and lending commitments and related hedges.

Principal transactions net investment losses of $158 million were recognized in the one month ended December 31, 2008 compared with net investment gains of $25 million in the one month ended December 31, 2007. The losses in the one month ended December 31, 2008 were primarily related to net realized and unrealized losses from the Company s limited partnership investments in real estate funds and investments that benefit certain employee deferred compensation and co-investment plans, and other principal investments.

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GLOBAL WEALTH MANAGEMENT GROUP

INCOME STATEMENT INFORMATION

	2009	Fiscal 2008	Fiscal 2007	One Month Ended December 31, 2008
		(dollars in millions)		
Revenues:				
Investment banking	$ 596	$ 427	$ 625	$ 21
Principal transactions:				
Trading	1,209	613	598	54
Investments	3	(54)	29	(4)
Commissions	2,090	1,408	1,433	89
Asset management, distribution and administration fees	4,583	2,726	3,067	183
Other	248	965	163	15
Total non-interest revenues	8,729	6,085	5,915	358
Interest and dividends	1,114	1,239	1,221	66
Interest expense	453	305	511	15
Net interest	661	934	710	51
Net revenues	9,390	7,019	6,625	409
Compensation and benefits	6,114	3,810	3,823	247
Non-compensation expenses	2,717	2,055	1,647	44
Total non-interest expenses	8,831	5,865	5,470	291
Income from continuing operations before income taxes	559	1,154	1,155	118
Provision for income taxes	178	440	459	45
Income from continuing operations	381	714	696	73
Discontinued operations:				
Gain from discontinued operations			174	
Provision for income taxes			61	
Gain from discontinued operations			113	
Net income	381	714	809	73
Net income applicable to non-controlling interests	98		113	
Net income applicable to Morgan Stanley	$ 283	$ 714	$ 696	$ 73

On May 31, 2009, MSSB was formed (see Note 3 to the consolidated financial statements for further information). The Company owns 51% of MSSB, which is consolidated. As a result, the operating results for MSSB are included in the Global Wealth Management Group business segment since May 31, 2009. Net income applicable to non-controlling interests of $98 million in 2009 primarily represents Citi s interest in MSSB.

2009 Compared with Fiscal 2008

Investment Banking. Global Wealth Management Group investment banking includes 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 40% in 2009 from fiscal 2008, primarily due to the consolidation of MSSB and higher equity underwriting activity, partially offset by lower underwriting activity across fixed income and unit trust products.

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Principal Transactions Trading. Principal transactions trading 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 held, primarily to facilitate customer transactions.

Principal transactions trading revenues increased 97% in 2009 from fiscal 2008, primarily due to the consolidation of the operating revenues of MSSB, and higher revenues from municipal and corporate fixed income securities, partially offset by lower revenues from government securities. The results in 2009 also reflected net gains associated with investments that benefit certain employee deferred compensation plans.

Principal Transactions Investments. Principal transactions net investment gains were $3 million in 2009 compared with net investment losses of $54 million in fiscal 2008. The results in 2009 primarily reflected net gains associated with investments that benefit certain employee deferred compensation plans compared with losses on such plans in fiscal 2008.

Commissions. Commission revenues primarily arise from agency transactions in listed and OTC equity securities and sales of mutual funds, futures, insurance products and options. Commission revenues increased 48% in 2009 compared with fiscal 2008, reflecting the operating results of MSSB, partially offset by lower client activity.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include revenues from individual investors electing a fee-based pricing arrangement and fees for investment management, account services and administration. The Company also receives shareholder servicing fees and fees for services it provides in distributing certain open-ended mutual funds and other products. Mutual fund distribution fees 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, distribution and administration fees increased 68% in 2009 compared with fiscal 2008, primarily due to consolidating the operating revenues of MSSB and fees associated with customer account balances in the bank deposit program. Beginning in June 2009, revenues in the bank deposit program are primarily included in Asset management, distribution and administration fees prospectively. These revenues were previously reported in Interest and dividends revenues. This change is the result of agreements that were entered into in connection with the MSSB transaction.

Balances in the bank deposit program rose to $112.5 billion as of December 31, 2009 from $38.8 billion as of December 31, 2008, primarily due to MSSB, which include balances held at Citi s depository institutions. Deposits held by certain of the Company s FDIC-insured depository institutions were $54 billion of the $112.5 billion deposits at December 31, 2009.

Client assets in fee-based accounts increased 175% to $379 billion as of December 31, 2009 and represented 24% of total client assets compared with 25% as of December 31, 2008. Total client asset balances increased to $1,560 billion as of December 31, 2009 from $550 billion as of December 31, 2008, primarily due to MSSB. Client asset balances in households greater than $1 million increased to $1,090 billion as of December 31, 2009 from $354 billion as of December 31, 2008.

Other. Other revenues primarily include customer account service fees and other miscellaneous revenues. Other revenues decreased 74% in 2009 compared with fiscal 2008. The results in 2009 included the operating revenues of MSSB. Fiscal 2008 results included $743 million related to the sale of MSWM S.V., the Spanish onshore mass affluent wealth management business, and Global Wealth Management Group s share ($43 million) of the Company s repurchase of debt (see Certain Factors Affecting Results of Operations Morgan Stanley Debt herein for further discussion).

Net Interest. Interest and dividend revenues and interest expense are a function of the level and mix of total assets and liabilities, including customer bank deposits and margin loans and securities borrowed and securities loaned transactions. Net interest revenues decreased 29% in 2009 compared with fiscal 2008. The decrease was primarily due to the change in classification of the bank deposit program noted above, a decline in customer margin loan balances and increased funding costs.

Non-interest Expenses. Non-interest expenses increased 51% in 2009 and included the operating costs of MSSB, the amortization of MSSB s intangible assets, and deal closing costs of $221 million and integration costs of $280 million for MSSB. Deal closing costs included a one-time expense of $124 million primarily for replacement deferred compensation awards. The cost of these replacement awards was fully allocated to Citi within non-controlling interests. Compensation and benefits expense increased 60% in 2009, primarily reflecting MSSB and the replacement awards noted above. Non-compensation expenses increased 32%. Occupancy and equipment expense increased 91%, primarily due to the operating costs of MSSB and real estate abandonment charges. Information processing and communications expense increased 70% and professional services expense increased 54% in 2009, primarily due to the operating results of MSSB. Other expenses decreased 7% in 2009, primarily due to the charge of $532 million for the ARS repurchase program in fiscal 2008 (see Note 11 to the consolidated financial statements), partially offset by operating costs of MSSB and a charge related to an FDIC assessment on deposits.

Fiscal 2008 Compared with Fiscal 2007

Investment banking revenues decreased 32% in fiscal 2008, primarily due to lower underwriting activity across equity and unit trust products, partially offset by an increase in fixed income underwriting activity. Principal transactions trading revenues increased 3% in fiscal 2008, primarily due to higher revenues from municipal, corporate and government fixed income securities, partially offset by $108 million in writedowns on $3.8 billion of ARS repurchased from clients and previously held on the Company s consolidated statement of financial condition and losses associated with investments that benefit certain employee deferred compensation plans. Principal transactions net investment losses were $54 million in fiscal 2008 compared with net investment gains of $29 million in fiscal 2007. The results in fiscal 2008 reflected net losses associated with investments that benefit certain employee deferred compensation plans. Commission revenues decreased 2% in fiscal 2008, reflecting lower client activity.

Asset management, distribution and administration fees decreased 11% in fiscal 2008. The decrease was driven by a change in the classification of sub-advisory fees due to modifications of certain customer agreements, the discontinuance of the Company s fee-based brokerage program in the fourth quarter of fiscal 2007 and asset depreciation. Client assets in fee-based accounts decreased 32% to $136 billion as of November 30, 2008 and represented 25% of total client assets versus 27% at November 30, 2007. Total client asset balances decreased to $546 billion as of November 30, 2008 from $758 billion as of November 30, 2007, primarily due to asset depreciation. Client asset balances in households greater than $1 million decreased to $349 billion as of November 30, 2008 from $522 billion at November 30, 2007.

Net interest revenues increased 32%, primarily due to increased customer account balances in the bank deposit program. Balances in the bank deposit program rose to $36.4 billion as of November 30, 2008 from $26.2 billion at November 30, 2007. Other revenues were $965 million in fiscal 2008 and $163 million in fiscal 2007. Fiscal 2008 included $743 million related to the sale of MSWM S.V. and Global Wealth Management Group s share ($43 million) of the Company s repurchase of debt.

Non-interest expenses increased 7% in fiscal 2008, primarily reflecting the charge of $532 million for the ARS repurchase program. Compensation and benefits expense remained flat in fiscal 2008, as severance-related expenses of $41 million and investment in the business were offset by lower incentive-based compensation accruals. Non-compensation expenses increased 25%. Occupancy and equipment expense increased 8%, primarily due to an increase in space costs and branch renovations. Professional services expense decreased 40%, primarily due to the change in the classification of sub-advisory fees due to modifications of certain customer agreements and lower legal costs. Other expenses increased 206%, primarily resulting from the charge of $532 million related to ARS as previously mentioned and higher litigation costs.

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One Month Ended December 31, 2008 Compared with the One Month Ended December 31, 2007

Global Wealth Management Group recorded income before income taxes of $118 million in the one month ended December 31, 2008 compared with $103 million in the one month ended December 31, 2007. The one month ended December 31, 2008 included a reversal of a portion of approximately $70 million of the accrual related to the ARS repurchase program. Net revenues were $409 million, a 24% decrease, primarily related to lower asset management, distribution and administration fees, lower commissions and lower investment banking fees. Client assets in fee-based accounts decreased 31% to $138 billion and decreased as a percentage of total client assets to 25% from 27% at December 31, 2007. In addition, total client assets decreased to $550 billion, down 27% from December 31, 2007, primarily due to weakened market conditions.

Total non-interest expenses were $291 million in the one month ended December 31, 2008, a 33% decrease from the prior period. Compensation and benefits expense was $247 million, a 21% decrease from the prior-year period, primarily reflecting lower revenues. Non-compensation costs decreased 65%, primarily due to a reversal of approximately $70 million of the accrual related to the ARS repurchase program.

ASSET MANAGEMENT

INCOME STATEMENT INFORMATION

	2009	Fiscal 2008	Fiscal 2007	One Month Ended December 31, 2008
		(dollars in millions)		
Revenues:				
Investment banking	$ 10	$ 26	$ 212	$ 1
Principal transactions:				
Trading	(68)	(331)	(128)	(82)
Investments	(182)	(1,393)	1,760	(45)
Commissions			1	1
Asset management, distribution and administration fees	1,604	2,139	2,490	111
Other	47	160	58	4
Total non-interest revenues	1,411	601	4,393	(10)
Interest and dividends	27	153	65	11
Interest expense	101	206	94	10
Net interest	(74)	(53)	(29)	1
Net revenues	1,337	548	4,364	(9)
Compensation and benefits	1,104	947	2,228	54
Non-compensation expenses	906	1,024	1,081	51
Total non-interest expenses	2,010	1,971	3,309	105
(Loss) income from continuing operations before income taxes	(673)	(1,423)	1,055	(114)
(Benefit from) provision for income taxes	(218)	(568)	382	(44)
(Loss) income from continuing operations	(455)	(855)	673	(70)
Discontinued operations:				
(Loss) gain from discontinued operations	(357)	(384)	412	4
(Benefit from) provision for income taxes	(275)	(122)	159	2
(Loss) gain from discontinued operations	(82)	(262)	253	2
Net income (loss)	(537)	(1,117)	926	(68)
Net loss applicable to non-controlling interests	(50)			
Net (loss) income applicable to Morgan Stanley	$ (487)	$ (1,117)	$ 926	$ (68)
Amounts attributable to Morgan Stanley common shareholders:				
(Loss) income from continuing operations, net of tax	$ (405)	$ (855)	$ 673	$ (70)
(Loss) gain from discontinued operations, net of tax	(82)	(262)	253	2

Net (loss) income applicable to Morgan Stanley	$ (487)	$ (1,117)	$ 926	$ (68)

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Statistical Data.

The results presented in the statistical tables below exclude the operations of Retail Asset Management, as those results are included in discontinued operations for all periods presented (see Note 23 to the consolidated financial statements).

Asset Management s year-end and average assets under management or supervision were as follows:

	At December 31, 2009	At December 31, 2008(1)	Average for 2009	Fiscal 2008(1)	Fiscal 2007(1)	One Month Ended December 31, 2008(1)
			(dollars in billions)			
Assets under management or supervision by asset class:						
Core asset management:						
Equity	$ 81	$ 63	$ 68	$ 102	$ 117	$ 62
Fixed income long term	54	56	52	71	69	56
Money market	59	81	65	107	90	81
Alternatives(2)	42	41	37	53	46	41
Total core asset management	236	241	222	333	322	240
Merchant banking:						
Private equity	4	4	4	3	2	4
Infrastructure	4	4	4	3	1	4
Real estate	15	35	21	37	26	34
Total merchant banking	23	43	29	43	29	42
Total assets under management or supervision	259	284	251	376	351	282
Share of non-controlling interest assets(3)	7	6	6	7	6	6
Total	$ 266	$ 290	$ 257	$ 383	$ 357	$ 288

(1) Prior-period information has been reclassified to conform to the current period s presentation.
(2) The alternatives asset class includes a range of investment products such as hedge funds, funds of hedge funds and funds of private equity funds.
(3) Amounts represent Asset Management s proportional share of assets managed by entities in which it owns a non-controlling interest.

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Activity in Asset Management s assets under management or supervision during 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008 was as follows:

	2009	Fiscal 2008(1)	Fiscal 2007(1)	One Month Ended December 31, 2008(1)
		(dollars in billions)		
Balance at beginning of period	$ 290	$ 400	$ 314	$ 287
Net flows by asset class:				
Core asset management:				
Equity	(8)	(9)	(9)	
Fixed income long term	(6)	(14)	5	(3)
Money market	(22)	(19)	10	
Alternatives(2)	(3)	6	11	
Total core asset management	(39)	(36)	17	(3)
Merchant banking:				
Private equity		1	1	
Infrastructure		1	2	
Real estate	(2)	1	11	
Total merchant banking	(2)	3	14	
Total net flows	(41)	(33)	31	(3)
Net market appreciation/(depreciation)	16	(80)	46	6
Total net (decrease)/increase	(25)	(113)	77	3
Acquisitions		1	6	
Net increase/(decrease) in share of non-controlling interest assets(3)	1	(1)	3	
Balance at end of period	$ 266	$ 287	$ 400	$ 290

(1) Prior-period information has been reclassified to conform to the current period s presentation.
(2) The alternatives asset class includes a range of investment products such as hedge funds, funds of hedge funds and funds of private equity funds.
(3) Amounts represent Asset Management s proportional share of assets managed by entities in which it owns a non-controlling interest.

2009 Compared with Fiscal 2008

Investment Banking. Asset Management generates investment banking revenues primarily from the placement of investments in real estate funds. Investment banking revenues decreased 62% in 2009 from fiscal 2008, primarily reflecting lower revenues from real estate products.

Principal Transactions Trading. In 2009, the Company recognized losses of $68 million compared with losses of $331 million in fiscal 2008. Trading results in 2009 included mark-to-market losses related to a lending facility to a real estate fund sponsored by the Company and losses from hedges on certain investments and long-term debt. Losses in 2009 were partially offset by net gains of $164 million related to securities issued by SIVs compared with losses of $470 million in fiscal 2008.

Principal Transactions 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.

Principal transactions net investment losses of $182 million were recognized in 2009 compared with losses of $1,393 million in fiscal 2008. The results in 2009 were primarily related to net investment losses associated with

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the Company s real estate investments and losses associated with certain investments for the benefit of the Company s employee deferred compensation and co-investment plans. Losses in 2009 were partially offset by net investment gains associated with the Company s alternatives business.

The results for 2009 also included operating losses of certain consolidated real estate funds sponsored by the Company. The Company consolidated the funds during 2009 after providing them with financial assistance and in light of the continued deterioration of equity in the funds. Earnings of these funds related to the limited partnership interests not owned by the Company are reported in Net income (loss) applicable to non-controlling interests on the consolidated statements of income.

The results in fiscal 2008 were primarily related to net investment losses associated with the Company s merchant banking business, including real estate and private equity investments, and losses associated with certain investments for the benefit of the Company s employee deferred compensation and co-investment plans. Included in the net investment losses in fiscal 2008 were writedowns of approximately $250 million on Crescent prior to its consolidation.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include revenues generated from the management and supervision of assets, performance-based fees relating to certain funds, and separately managed accounts and fees relating to the distribution of certain open-ended mutual funds. Asset management fees 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 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.

Asset management, distribution and administration fees decreased 25% in 2009 compared with fiscal 2008. The decrease in 2009 primarily reflected lower fund management and administration fees reflecting a decrease in average assets under management.

Net flows in 2009 were associated with negative outflows across all asset classes. The Company s decline in assets under management from December 31, 2008 to December 31, 2009 included net customer outflows of $41.1 billion, primarily in the Company s money market, long-term fixed income and equity funds.

Other. Other revenues decreased 71% in 2009 compared with fiscal 2008. The results in 2009 reflected lower revenues associated with Lansdowne Partners (Lansdowne), a London-based investment manager, in which the Company has a non-controlling interest, and lower revenues associated with the Company s repurchase of debt (see Certain Factors Affecting Results of Operations Morgan Stanley Debt , herein).

Non-interest Expenses. Non-interest expenses increased 2% in 2009 compared with fiscal 2008. The results in 2009 primarily reflected an increase in compensation and benefits expense. Compensation and benefits expense increased 17% in 2009, primarily reflecting higher net revenues. Non-compensation expenses decreased 12% in 2009. Brokerage, clearing and exchange fees decreased 44% in 2009, primarily due to lower fee sharing expenses. Marketing and business development expense decreased 40% in 2009, primarily due to lower levels of business activity. Professional services expense decreased 20% in 2009, primarily due to lower consulting and legal fees.

Fiscal 2008 Compared with Fiscal 2007

Investment banking revenues decreased 88% in fiscal 2008, primarily reflecting lower revenues from real estate products.

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In fiscal 2008, the Company recognized principal transactions trading losses of $331 million, which included $470 million related to SIVs included in the Company s consolidated statement of financial condition, compared with losses of $129 million related to SIVs in fiscal 2007. These losses in fiscal 2008 were partially offset by net gains from hedges on certain investments.

Principal transactions net investment losses aggregating $1,393 million were recognized in fiscal 2008 as compared with gains of $1,760 million in fiscal 2007. The results for fiscal 2008 are discussed above in 2009 Compared with Fiscal 2008 Principal Transactions Investments. The results in fiscal 2007 were primarily driven by investments associated with the Company s real estate products and private equity portfolio, including employee deferred compensation plans and co-investment plans.

Asset management, distribution and administration fees decreased 14% in fiscal 2008. The decrease was primarily due to lower performance fees from alternative investment products, lower distribution fees, and lower fund management and administration fees, reflecting a decrease in average assets under management. Fiscal 2008 also reflected lower shareholder servicing fees related to the modification of certain sub-transfer agent agreements, which resulted in an offsetting reduction to professional services expense.

Other revenues increased 176% in fiscal 2008, primarily due to Asset Management s share ($74 million) of the Company s repurchase of debt (see Certain Factors Affecting Results of Operations Morgan Stanley Debt herein for further discussion) and higher revenues associated with Lansdowne.

Non-interest expenses decreased 40% in fiscal 2008, primarily reflecting a decrease in compensation and benefits expense. Compensation and benefits expense decreased 58% in fiscal 2008, primarily due to a decrease in compensation costs reflecting lower net revenues and losses associated with principal investments for the benefit of the Company s employee deferred compensation and co-investment plans. The decrease in fiscal 2008 was partially offset by severance-related expenses. Non-compensation expenses decreased 5% in fiscal 2008. Occupancy and equipment expense increased 12%, primarily due to higher costs related to increased occupancy usage compared with fiscal 2007. Brokerage, clearing and exchange fees decreased 5%, primarily due to lower commission expenses. Professional services expense decreased 24%, primarily due to lower sub-advisory fees and sub-transfer agent fees, partially offset by an increase in consulting and legal fees. Other expenses increased 25%, primarily due to an intangible assets impairment charge of $25 million.

One Month Ended December 31, 2008 Compared with the One Month Ended December 31, 2007

Asset Management recorded losses from continuing operations before income taxes of $114 million in the one month ended December 31, 2008 compared with losses before income taxes of $103 million in the one month ended December 31, 2007. Net revenues decreased 112% from the prior-period. The decrease in the one month ended December 31, 2008 primarily reflected lower asset management, distribution and administration fees of $111 million, partially offset by lower losses related to securities issued by SIVs of $84 million, compared with $119 million in the one month ended December 31, 2007. Assets under management or supervision within Asset Management of $290 billion were down $106 billion, or 27%, from $396 billion as of December 31, 2007, primarily reflecting decreases in equity and fixed income products resulting from market depreciation and net outflows. Non-interest expenses decreased $75 million to $105 million primarily due to lower compensation and benefits expense. Compensation and benefits expense decreased 53%, primarily reflecting lower revenues and reduced headcount.

Accounting Developments.

Transfers of Financial Assets and Extinguishments of Liabilities and Consolidation of Variable Interest Entities.

In June 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance that changes the way entities account for securitizations and special-purpose entities (SPEs). The accounting guidance amends the accounting for transfers of financial assets and will require additional disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity (QSPE) and changes the requirements for derecognizing financial assets.

The accounting guidance also amends the accounting for consolidation and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. In February 2010, the FASB finalized a deferral of these accounting changes, effective January 1, 2010, for certain interests in investment companies or in entities qualifying for accounting purposes as investment companies. For the entities included in the deferral, the Company will continue to analyze consolidation under other existing authoritative guidance; these entities are not included in the impact noted below.

The adoption of this accounting guidance on January 1, 2010 did not have a material impact on the Company s consolidated statement of financial condition.

Regulatory Outlook.

It is likely that the year 2010 and subsequent years will see material changes in the way that major financial institutions are regulated both in the U.S. and worldwide. The reforms being discussed include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Enactment of such measures likely would lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include taxation of financial transactions, liabilities and employee compensation as well as reforms of the OTC derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements. Other changes under discussion in the U.S. legislative arena include: breaking up firms that are considered too big to fail or mandating certain barriers between their activities in order to allow for an orderly resolution of failing financial institutions; curtailing the ability of firms that own FDIC-insured institutions to also engage in private equity, hedge fund and proprietary trading activities; requiring firms to maintain plans for their dissolution; requiring the financial industry to pay into a fund designed to help unwind failing firms; providing regulators with new means of limiting activities of financial firms; regulating compensation in the financial services industry; enhancing corporate governance, especially regarding risk management; and creating a new agency, the Consumer Financial Protection Agency, to protect U.S. consumers who buy financial products.

Reforms are being discussed concurrently in Washington, London, the European Union (EU) and other major market centers in which the Company operates, and attempts are being made to internationally coordinate the principles behind such changes through the G-20 s expanded mandate for the Financial Stability Board and through the Basel Committee on Banking Supervision (Basel Committee), the International Association of Securities Commissioners and others. Among the internationally coordinated reforms are recent measures and proposals by the Basel Committee to raise the quality of capital, increase capital requirements for securitizations, trading book exposure and counterparty credit risk exposure, and globally introduce a leverage ratio, capital conservation measures and liquidity coverage requirements, among other measures. In both the EU and the U.S., moreover, changes to the institutional framework for financial regulation are being discussed or are underway.

Many of the market reforms, if enacted, may materially affect the Company s business, financial condition, results of operations and cash flows for a particular future period. In particular, if systemic regulation were

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enacted, the Company would likely be designated as a systemically important firm, and the consequences of systemic regulation, including a potential requirement for additional higher quality capital and liquidity and decreased leverage, could materially impact the Company s business.

A substantial number of the financial reforms currently discussed in the U.S. and globally may become law, though it is difficult to predict which will become law, how such reforms will be implemented or the exact impact they will have on the Company s business, financial condition, results of operations and cash flows for a particular future period. As most changes, if adopted, will require regulatory implementation, the full impact of these changes will not be known until a later stage.

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Other Matters.

Settlement with DFS.

On February 11, 2010, the Company and DFS entered into an agreement in which each party released the other party from claims related to the sharing of proceeds from the lawsuit against Visa and MasterCard. In addition, the Company and DFS entered into an agreement to provide that payments made by DFS to the Company in satisfaction of its obligations under the special dividend declared by DFS in June 2007, shall not exceed $775 million. Also on February 11, 2010, DFS paid the Company $775 million in complete satisfaction of its obligations to the Company under the special dividend. The payment will be included in discontinued operations in the Company s condensed consolidated statement of income for the first quarter of 2010.

Sale of Bankruptcy Claims.

During 2009, the Company entered into multiple participation agreements with certain investors whereby the Company sold undivided participating interests representing 81% (or $1,105 million) of its claims totaling $1,362 million, pursuant to International Swaps and Derivatives Association (ISDA) master agreements, against a derivative counterparty that filed for bankruptcy protection. The Company received cash proceeds of $429 million and recorded a gain on sale of $319 million in 2009. The gain is reflected in the consolidated statement of income in Principal transactions trading revenues within the Institutional Securities business segment.

As a result of the bankruptcy of the derivative counterparty, the Company, as contractually entitled, exercised remedies as the non-defaulting party and determined the value of the claims under the ISDA master agreements in a commercially reasonable manner. The Company filed its claims with the bankruptcy court. In connection with the sale of the undivided participating interests in a portion of the claims, the Company provided certain representations and warranties related to the allowance of the amount stated in the claims submitted to the bankruptcy court. The bankruptcy court will be evaluating all of the claims filed against the derivative counterparty. To the extent, in the future, any portion of the stated claims is disallowed or reduced by the bankruptcy court in excess of a certain amount, then the Company must refund a portion of the purchase price plus interest from the date of the participation agreements to the repayment date. The maximum amount that the Company could be required to refund is the total proceeds of $429 million plus interest. The Company recorded a liability for the fair value of this possible disallowance. The fair value was determined by assessing mid-market values of the underlying transactions, where possible, prevailing bid-offer spreads around the time of the bankruptcy filing, and applying valuation adjustments related to estimating unwind costs. The investors, however, bear full price risk associated with the allowed claims as it relates to the liquidation proceeds from the bankruptcy estate. The Company also agreed to service the claims and, as such, recorded a liability for the fair value of the servicing obligation. The Company will continue to measure these obligations at fair value with changes in fair value recorded in earnings. These obligations are reflected in the consolidated statement of financial condition as Financial instruments sold, not yet purchased derivatives and other contracts.

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.

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The Company s real estate investments as of December 31, 2009 and December 31, 2008 are shown below. Such amounts exclude investments that benefit certain employee deferred compensation and co-investment plans:

	Statement of Financial Condition December 31, 2009	Statement of Financial Condition December 31, 2008
	(dollars in billions)	
Consolidated interests(1)	$ 1.5	$ 3.8
Real estate funds(2)	0.5	1.0
Real estate bridge financing		0.2
Infrastructure fund	0.2	0.1
Total(3)	$ 2.2	$ 5.1

(1) Consolidated statement of financial condition amounts represent investment assets of consolidated subsidiaries, net of non-controlling interests. The decrease from December 31, 2008 to December 31, 2009 was primarily due to the disposition of Crescent in the fourth quarter of 2009, whereby the Company transferred its ownership interest in Crescent to Crescent s primary creditor in exchange for full release of liability on the related loans.

(2) In 2009, the Company consolidated certain real estate funds resulting in a transfer of investment assets of $0.2 billion, which is net of non-controlling interests of $0.6 billion, from real estate funds to consolidated interests. The results for 2009 for these newly consolidated subsidiaries, net of non-controlling interests, were not significant. The Company consolidated the funds during 2009 due to a reassessment of its primary beneficiary position with respect to the funds, reflecting the continued deterioration of equity in the funds combined with the Company s financial assistance provided to the funds. The limited partnership interests in the earnings of these funds are reported in Net income (loss) applicable to non-controlling interests on the consolidated statement of income.

(3) In 2009, losses on consolidated interests were $0.8 billion, of which $0.6 billion were included in discontinued operations related to Crescent. Losses on real estate funds and real estate bridge financing were $0.9 billion and $0.2 billion, respectively, in 2009. In addition, the Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to these investments of $1.5 billion as of December 31, 2009 (see Note 11 to the consolidated financial statements).

Defined Benefit Pension and Other Postretirement Plans.

Contributions. The Company made contributions of $321 million, $325 million, $130 million and $2 million to its U.S. and non-U.S. defined benefit pension plans in 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008, 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). As of December 31, 2009 and December 31, 2008, there were no minimum required ERISA contributions for the Company s U.S. pension plan that is qualified under Section 401(a) of the Internal Revenue Code. The contributions made to the U.S. pension plan of $278 million and $276 million were funded based on the service cost earned by the eligible employees plus a portion of the unfunded accumulated benefit obligation on a funding basis for 2009 and fiscal 2008, respectively. Liabilities for benefits payable under certain postretirement and unfunded supplementary plans are accrued by the Company and are funded when paid to the beneficiaries.

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. For fiscal 2008, as required under the alternative transition method set forth in current accounting guidance, the Company changed the measurement date to coincide with the Company s fiscal year-end date. Net periodic pension expense was $175 million, $132 million, $143 million and $9 million, while net periodic postretirement expense was $26 million, $17 million, $14 million and $2 million for 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008, respectively.

See Notes 2 and 19 to the consolidated financial statements for more information on the Company s defined benefit pension and postretirement plans, including the adoption of accounting guidance for defined benefit pension and other postretirement plans.

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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). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements), the following 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 with changes in fair value recognized in earnings each period. 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:

- Financial instruments owned and Financial instruments sold, not yet purchased;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Commercial paper and other short-term borrowings, primarily structured notes;
- Certain Deposits;
- Other secured financings; and
- Certain Long-term borrowings, primarily structured notes and certain junior subordinated debentures.

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 reclassified from Level 1 to Level 2 or Level 2 to Level 3. In addition, a continued downturn in market conditions could lead to declines in the valuation of many instruments. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Notes 2 and 4 to the consolidated financial statements.

The Company s Level 3 assets before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $43.4 billion and $83.6 billion as of December 31, 2009 and December 31, 2008, respectively, and represented approximately 14% and 29% as of December 31, 2009 and December 31, 2008, respectively, of the assets measured at fair value (6% and 12% of total assets as of December 31, 2009 and December 31, 2008, respectively). Level 3 liabilities before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $15.4 billion and $29.8 billion as of December 31, 2009 and December 31, 2008, respectively, and represented approximately 9% and 17%, respectively, of the Company s liabilities measured at fair value.

During 2009, the Company reclassified approximately $6.8 billion of certain Corporate and other debt from Level 3 to Level 2. The reclassifications were primarily related to certain corporate loans and bonds, state and municipal securities, commercial mortgage-backed securities (CMBS) and other debt. For certain corporate loans, more liquidity re-entered the market, and external prices and/or spread inputs for these instruments became observable. For corporate bonds and CMBS, the reclassifications were primarily due to an increase in market price quotations for these or comparable instruments, or available broker quotes, such that observable inputs

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were utilized for the fair value measurement of these instruments. For certain other debt, as the unobservable inputs became insignificant in the overall valuation, the fair value of these instruments became highly correlated with similar instruments in an observable market. For state and municipal securities, certain student loan auction rate securities (SLARS) were reclassified from Level 3 to Level 2 as there was increased activity in the SLARS market and restructuring activity of the underlying trusts.

During 2009, the Company also reclassified approximately $3.3 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. The key unobservable inputs are assumptions to establish comparability to other instruments with observable spread levels.

During 2009, the Company reclassified approximately $10.2 billion of certain Derivatives and other contracts from Level 3 to Level 2, primarily related to single name subprime and CMBS credit default swaps as well as tranche-indexed corporate credit default swaps. Certain single name subprime and CMBS credit default swaps were reclassified primarily because the values associated with the unobservable inputs, such as correlation, were no longer deemed significant to the fair value measurement of these derivative contracts due to market deterioration. Increased availability of transaction data, broker quotes and/or consensus pricing resulted in the reclassifications of certain tranche-indexed corporate credit default swaps. The Company reclassified approximately $0.4 billion of certain Derivatives and other contracts from Level 2 to Level 3 as certain inputs became unobservable.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis. Certain of the Company s assets were measured at fair value on a non-recurring basis. The Company incurs impairment charges for any writedowns 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.

For further information on financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis, see Note 4 to the consolidated financial statements.

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 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 assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. These control processes include reviews of the pricing model s theoretical soundness and appropriateness by Company personnel with relevant expertise who are independent from the trading desks. Additionally, groups independent from the trading divisions within the Financial Control, Market Risk and Credit Risk Management Department (Credit Risk Management) participate in the review and validation of the fair values generated from pricing models, as appropriate. Where a pricing model is used to determine fair value, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

Consistent with market practice, the Company has individually negotiated agreements with certain counterparties to exchange collateral (margining) based on the level of fair values of the derivative contracts they have executed. Through this margining process, one party or each party to a derivative contract provides the other party with information about the fair value of the derivative contract to calculate the amount of collateral required. This sharing of fair value information provides additional support of the Company s recorded fair value for the relevant OTC derivative products. For certain OTC derivative products, the Company, along with other market participants, contributes derivative pricing information to aggregation services that synthesize the data and make it accessible to subscribers. This information is then used to evaluate the fair value of these OTC derivative products. For more information regarding the Company s risk management practices, see Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A, herein.

Goodwill and Intangible Assets.

Goodwill. 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 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 of the activities of a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below book value, however, further analysis is required to determine the amount of the impairment. 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 utilizing methodologies that incorporate price-to-book, price-to-earnings and assets under management multiples of certain comparable companies.

The Company completed its annual goodwill impairment testing as of June 1, 2009 and 2008, which did not result in any goodwill impairment. During the quarter ended September 30, 2009, the Company changed the date of its annual goodwill impairment testing to July 1 as a result of the Company s change in its fiscal year-end from November 30 to December 31 of each year. The change to the annual goodwill impairment testing date was to move the impairment testing outside of the Company s normal second quarter-end reporting process to a date in the third quarter, consistent with the testing date prior to the change in the fiscal year-end. The Company believes that the resulting change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. Goodwill impairment tests performed as of July 1, 2009 concluded that no impairment charges were required as of that date. The Company determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and did not result in adjustments to the Company s consolidated financial statements when applied retrospectively.

Intangible Assets. Amortizable intangible assets are amortized over their estimated useful lives and reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, 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.

Indefinite-lived intangible assets are not amortized but are reviewed annually (or more frequently when certain events or circumstances exist) for impairment. For indefinite-lived intangible assets, an impairment exists when the carrying amount exceeds its fair value.

See Note 4 to the consolidated financial statements for intangible asset impairments recorded during 2009.

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.

See Note 7 to the consolidated financial statements for further information on goodwill and intangible assets. In addition, see Note 3 to the consolidated financial statements for information on the goodwill and intangible assets acquired on May 31, 2009 in connection with the consummation of the MSSB transaction and the goodwill and intangible assets acquired on July 31, 2009 in connection with the contribution of the managed futures business.

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Legal, Regulatory and Tax 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 issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

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

Reserves for litigation and regulatory proceedings are generally determined on a case-by-case basis and represent an estimate of probable losses after considering, among other factors, the progress of each case, prior experience and the experience of others in similar cases, and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss, if any, related to such matters, how such matters will be resolved, when they will ultimately be resolved or what the eventual settlement, fine, penalty or other relief, if any, might be.

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 in the future 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 regularly assesses the likelihood of assessments in each of the taxing jurisdictions resulting from current and subsequent years examinations, and tax reserves are established as appropriate.

The Company establishes reserves for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be estimated in accordance with the requirements for accounting for contingencies. The Company establishes reserves for potential losses that may arise out of tax audits in accordance with accounting for income taxes. Once established, reserves are adjusted when there is more information available or when an event occurs requiring a change. Significant judgment is required in making these estimates, and the actual cost of a legal claim, tax assessment or regulatory fine/penalty may ultimately be materially different from the recorded reserves, if any.

See Notes 11 and 20 to the consolidated financial statements for additional information on legal proceedings and tax examinations.

Special Purpose Entities and Variable Interest Entities.

The Company s involvement with SPEs consists primarily of the following:

Transferring financial assets into SPEs;

Acting as an underwriter of beneficial interests issued by securitization vehicles;

Holding one or more classes of securities issued by, or making loans to or investments in, SPEs that hold debt, equity, real estate or other assets;

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Purchasing and selling (in both a market-making and a proprietary-trading capacity) securities issued by SPEs/variable interest entities (VIE), whether such vehicles are sponsored by the Company or not;

Entering into derivative transactions with SPEs (whether or not sponsored by the Company);

Providing warehouse financing to collateralized debt obligations and collateralized loan obligations;

Entering into derivative agreements with non-SPEs whose value is derived from securities issued by SPEs;

Servicing assets held by SPEs or holding servicing rights related to assets held by SPEs that are serviced by others under subservicing arrangements;

Serving as an asset manager to various investment funds that may invest in securities that are backed, in whole or in part, by SPEs; and

Structuring and/or investing in other structured transactions designed to provide enhanced, tax-efficient yields to the Company or its clients.

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 instruments. The Company s involvement with SPEs is discussed further in Note 6 to the consolidated financial statements.

In most cases, these SPEs are deemed for accounting purposes to be VIEs. Unless a VIE was determined to be a QSPE (see Note 1 to the consolidated financial statements) under the accounting guidance effective prior to January 1, 2010, the Company was required to perform an analysis of each VIE at the date upon which the Company became involved with it to determine whether the Company was the primary beneficiary of the VIE, in which case the Company had to consolidate the VIE. QSPEs were not consolidated under the accounting guidance effective prior to January 1, 2010. QSPEs are eliminated under the accounting guidance effective January 1, 2010.

In addition, the Company serves as an investment advisor to unconsolidated money market and other funds.

Under the accounting guidance effective prior to January 1, 2010, the Company was required to reassess whether it was the primary beneficiary of a VIE only upon the occurrence of certain reconsideration events. Under accounting guidance adopted on January 1, 2010, the Company is required to reassess whether it is the primary beneficiary on an ongoing basis and not only upon the occurrence of certain events.

If the Company s initial assessment resulted in a determination that it was not the primary beneficiary of a VIE, then under the accounting guidance effective prior to January 1, 2010, the Company reassessed this determination upon the occurrence of:

Changes to the VIE s governing documents or contractual arrangements in a manner that reallocated the obligation to absorb the expected losses or the right to receive the expected residual returns of the VIE between the primary beneficiary at that time and the other variable interest holders, including the Company.

Acquisition by the Company of additional variable interests in the VIE.

If the Company s initial assessment resulted in a determination that it was the primary beneficiary, then under the accounting guidance effective prior to January 1, 2010, the Company reassessed this determination upon the occurrence of:

Changes to the VIE s governing documents or contractual arrangements in a manner that reallocated the obligation to absorb the expected losses or the right to receive the expected residual returns of the VIE between the primary beneficiary at that time and the other variable interest holders.

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A sale or disposition by the Company of all or part of its variable interests in the VIE to parties unrelated to the Company.

The issuance of new variable interests by the VIE to parties unrelated to the Company.

The determination of whether an SPE met the accounting requirements of a QSPE required significant judgment, particularly in evaluating whether the permitted activities of the SPE were significantly limited and in determining whether derivatives held by the SPE were passive and nonexcessive. In addition, the analysis involved in determining whether an entity is a VIE, and in determining the primary beneficiary of a VIE, requires significant judgment (see Notes 1 and 6 to the consolidated financial statements).

See Accounting Developments Transfers of Financial Assets and Extinguishment of Liabilities and Consolidations of Variable Interest Entities herein for information on accounting guidance adopted on January 1, 2010 for transfers of financial assets.

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Liquidity and Capital Resources.

The Company s senior management establishes the liquidity and capital policies of the Company. 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 (FRC), Asset and Liability Management Committee (ALCO) 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.

The Balance Sheet.

The Company actively monitors and evaluates the composition and size of its balance sheet. A substantial portion of the Company s total assets consists of liquid marketable securities and short-term receivables arising principally from Institutional Securities sales and trading activities. 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 $771,462 million at December 31, 2009 from $676,764 million at December 31, 2008.

Cash used for operating activities primarily related to financial instruments owned U.S. government and agency securities, securities borrowed, Federal funds sold and securities purchased under agreements to resell. Cash provided by operating activities primarily related to securities loaned, securities sold under agreements to repurchase and financial instruments owned derivative and other contracts.

Within the sales and trading related assets and liabilities are transactions attributable to securities financing activities. As of December 31, 2009, securities financing assets and liabilities were $376 billion and $316 billion, respectively. As of December 31, 2008, securities financing assets and liabilities were $269 billion and $236 billion, respectively. Securities financing transactions include repurchase and resale agreements, securities borrowed and loaned transactions, securities received as collateral and obligation to return securities received, customer receivables/payables and related segregated customer cash.

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 according to regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company s prime brokerage clients. 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 was $14 billion and $5 billion as of December 31, 2009 and December 31, 2008, respectively, recorded in accordance with accounting guidance for the transfer of financial assets that represented equal and offsetting assets and liabilities for fully collateralized non-cash loan transactions.

The Company uses the Tier 1 leverage ratio, risk based capital ratios (see Regulatory Requirements herein), Tier 1 common ratio and the balance sheet leverage ratio as indicators of capital adequacy when viewed in the context of the Company s overall liquidity and capital policies.

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The following table sets forth the Company s total assets and leverage ratios as of December 31, 2009 and December 31, 2008 and average balances during 2009:

	Balance at		Average Balance(1)
	December 31, 2009	December 31, 2008	2009
	(dollars in millions, except ratio data)		
Total assets	$ 771,462	$ 676,764	$ 741,546
Common equity	$ 37,091	$ 29,585	$ 34,068
Preferred equity	9,597	19,168	13,991
Morgan Stanley shareholders equity	46,688	48,753	48,059
Junior subordinated debentures issued to capital trusts	10,594	10,312	10,576
Subtotal	57,282	59,065	58,635
Less: Goodwill and net intangible assets(2)	(7,612)	(2,978)	(5,947)
Tangible Morgan Stanley shareholders equity	$ 49,670	$ 56,087	$ 52,688
Common equity	$ 37,091	$ 29,585	$ 34,068
Less: Goodwill and net intangible assets(2)	(7,612)	(2,978)	(5,947)
Tangible common equity(3)	$ 29,479	$ 26,607	$ 28,121
Leverage ratio(4)	15.5x	12.1x	14.1x
Tier 1 common ratio(5)	8.2%	N/A	N/A

N/A The Company began calculating its risk weighted assets under Basel I as of March 31, 2009.

(1) The Company calculates its average balances based upon weekly amounts, except where weekly balances are unavailable, the month-end balances are used.
(2) Goodwill and net intangible assets exclude mortgage servicing rights of $123 million (net of disallowable mortgage servicing rights in 2009) and $184 million as of December 31, 2009 and December 31, 2008, respectively. In 2009, amounts included only the Company s share of MSSB s goodwill and intangible assets.
(3) Tangible common equity 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.
(4) Leverage ratio equals total assets divided by tangible Morgan Stanley shareholders equity.
(5) The Tier 1 common ratio equals Tier 1 common equity divided by RWAs. The Company defines Tier 1 common equity as Tier 1 capital less qualifying perpetual preferred stock, qualifying trust preferred securities and qualifying restricted core capital elements, adjusted for the portion of goodwill and non-servicing assets associated with MSSB s non-controlling interests (*i.e.*, Citi s share of MSSB s goodwill and intangibles). The Company views its definition of the Tier 1 common equity as a useful measure for investors as it reflects the actual ownership structure and economics of the joint venture. This definition of Tier 1 common equity differs from the Tier 1 common capital measure that was used by the federal bank regulatory agencies in the Supervisory Capital Assessment Program (SCAP) conducted during the period February through April 2009. In SCAP, Tier 1 common capital was defined as Tier 1 capital less non-common elements, including qualifying perpetual preferred stock, qualifying minority interest in subsidiaries, and qualifying trust preferred securities. Accordingly, the SCAP measure would not be adjusted for the $4.5 billion portion of goodwill and non-servicing intangible assets associated with MSSB s non-controlling interests as though the Company had already acquired the remaining 49% interest in MSSB owned by Citi. For a discussion of RWAs and Tier 1 capital, see Regulatory Requirements herein.

Balance Sheet and Funding Activity in 2009.

During 2009, the Company issued notes with a principal amount of approximately $44 billion, including non-U.S. dollar currency notes aggregating approximately $8 billion. In connection with the note issuances, the Company generally enters into certain transactions to obtain floating interest rates based primarily on short-term London Interbank Offered Rates (LIBOR) trading levels. The weighted average maturity of the Company s long-term borrowings, based upon stated maturity dates, was approximately 5.6 years as of December 31, 2009. Subsequent to December 31, 2009 and through January 31, 2010, the Company s long-term borrowings (net of repayments) decreased by approximately $0.6 billion.

As of December 31, 2009, the aggregate outstanding principal amount of the Company s senior indebtedness (as defined in the Company s senior debt indentures) was approximately $179 billion (including guaranteed obligations of the indebtedness of subsidiaries) compared with $172 billion as of December 31, 2008. The increase in the amount of senior indebtedness was primarily due to new issuances, partially offset by a decrease in commercial paper and other short-term borrowings.

Equity Capital-Related Transactions.

In June 2009, the Company repurchased the 10,000,000 shares of Series D Preferred Stock issued to the U.S. Treasury under the CPP at the liquidation preference amount plus accrued and unpaid dividends, for an aggregate repurchase price of $10,086 million.

In August 2009, under the terms of the CPP securities purchase agreement, the Company repurchased the Warrant from the U.S. Treasury for $950 million. The Warrant was previously issued to the U.S. Treasury for the purchase of 65,245,759 shares of the Company s common stock at an exercise price of $22.99 per share. The repayment of the Series D Preferred Stock in the amount of $10.0 billion, completed in June 2009, and the Warrant repurchase in the amount of $950 million reduced the Company s total equity by $10,950 million in 2009.

During 2009, the Company issued common stock for approximately $6.9 billion in two registered public offerings in May and June 2009. MUFG elected to participate in both offerings, and in one of the offerings, MUFG received $0.7 billion of common stock in exchange for 640,909 shares of the Company s Series C Preferred Stock.

See Note 13 to the consolidated financial statements for further discussion of these transactions.

Equity Capital Management Policies.

The Company s senior management views equity capital as an important source of financial strength. The Company actively manages its consolidated equity capital position based upon, among other things, business opportunities, 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 equity capital base to address the changing needs of its businesses. The Company attempts to maintain total equity, on a consolidated basis, at least equal to the sum of its operating subsidiaries equity.

As of December 31, 2009, the Company s equity capital (which includes shareholders equity and junior subordinated debentures issued to capital trusts) was $57,282 million, a decrease of $1,783 million from December 31, 2008, primarily due to the repayment of the Series D Preferred Stock and the Warrant repurchase, partially offset by the Company s common stock offerings.

As of December 31, 2009, the Company had approximately $1.6 billion remaining under its current share repurchase program out of the $6 billion authorized by the Board 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. During 2009, the Company did not repurchase common stock as part of its capital management share repurchase program (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. In January 2010, the Company announced that its Board declared a quarterly dividend per common share of $0.05 (see Note 27 to the consolidated financial statements). The Company also announced that its Board declared a quarterly dividend of $255.56 per share of Series A Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing 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 B Preferred Stock and a quarterly dividend of $25.00 per share of Series C Preferred Stock.

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Economic Capital.

The Company s economic capital framework estimates the amount of equity capital required to support the businesses over a wide range of market environments while simultaneously satisfying regulatory, rating agency and investor requirements. The framework continued to evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques.

Economic capital is assigned to each business segment and sub-allocated to product lines. Each business segment is capitalized as if it were an independent operating entity. This process is intended to align equity capital with the risks in each business in order to allow senior management to evaluate returns on a risk-adjusted basis (such as return on equity and shareholder value added).

Economic capital is based on regulatory capital plus additional capital for stress losses. The Company assesses stress loss capital across various dimensions of market, credit, business and operational risks. Economic capital requirements are met by regulatory Tier 1 capital. For a further discussion of the Company s Tier 1 capital, see Regulatory Requirements herein. The difference between the Company s Tier 1 capital and aggregate economic capital requirements denotes the Company s unallocated capital position.

The Company uses economic capital to allocate Tier 1 capital and common equity to its business segments. The following table presents the Company s allocated average Tier 1 capital and average common equity for 2009 and fiscal 2008:

	2009		Fiscal 2008	
	Average Tier 1 Capital	Average Common Equity	Average Tier 1 Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities	$ 23.6	$ 18.1	$ 25.8	$ 22.9
Global Wealth Management Group	2.7	4.6	1.7	1.5
Asset Management	2.5	2.2	3.0	3.0
Unallocated capital	18.3	8.1	6.6	4.9
Total from continuing operations	47.1	33.0	37.1	32.3
Discontinued operations	0.7	1.1	0.8	1.3
Total	$ 47.8	$ 34.1	$ 37.9	$ 33.6

Average Tier 1 capital and common equity allocated to the Institutional Securities business segment decreased compared with fiscal 2008 driven by reductions in market and operational risk exposures. In addition, common equity allocated to the Institutional Securities business segment further decreased due to tightening of the Company s own credit spreads. Average Tier 1 capital and common equity allocated to the Global Wealth Management Group business segment increased from fiscal 2008 driven by higher operational risk associated with the addition of Smith Barney s business activities in connection with the MSSB transaction. Average common equity increases were also driven by the MSSB-related goodwill and intangibles. Average Tier 1 capital and common equity allocated to Asset Management decreased from fiscal 2008, primarily due to sales of the segment s investments.

The Company generally uses available unallocated capital for prospective regulatory requirements, organic growth, acquisitions and other capital needs while maintaining adequate capital ratios. For a discussion of risk-based capital ratios, see Regulatory Requirements herein.

Liquidity and Funding Management Policies.

The primary goal of the Company s liquidity management and funding activities is to ensure adequate funding over a wide range of market environments. Given the mix of the Company s business activities, funding requirements are fulfilled through a diversified range of secured and unsecured financing.

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The Company s liquidity and funding risk management policies are designed to mitigate the potential risk that the Company may be unable to access adequate financing to service its financial obligations without material franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Company s business strategies while ensuring sufficient liquidity through the business cycle and during periods of stressed market conditions.

Liquidity Management Policies.

The principal elements of the Company s liquidity management framework are the Contingency Funding Plan (CFP) and liquidity reserves. Comprehensive financing guidelines (secured funding, long-term funding strategy, surplus capacity, diversification and staggered maturities) support the Company s target liquidity profile.

Contingency Funding Plan. The CFP is the Company s primary liquidity risk management tool. The CFP models a potential, prolonged liquidity contraction over a one-year time period and sets forth a course of action to effectively manage a liquidity event. The CFP and liquidity risk exposures are evaluated on an ongoing basis and reported to the FRC, ALCO and other appropriate risk committees.

The Company s CFP model incorporates scenarios with a wide range of potential cash outflows during a range of liquidity stress events, including, but not limited to, the following: (i) repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance; (ii) maturity roll-off of outstanding letters of credit with no further issuance and replacement with cash collateral; (iii) return of unsecured securities borrowed and any cash raised against these securities; (iv) additional collateral that would be required by counterparties in the event of a multi-notch long-term credit ratings downgrade; (v) higher haircuts on or lower availability of secured funding; (vi) client cash withdrawals; (vii) drawdowns on unfunded commitments provided to third parties; and (viii) discretionary unsecured debt buybacks.

The CFP is produced on a parent and major subsidiary level to capture specific cash requirements and cash availability at various legal entities. The CFP assumes that the parent company does not have access to cash that may be held at certain subsidiaries due to regulatory, legal or tax constraints.

Liquidity Reserves. The Company seeks to maintain target liquidity reserves that are sized to cover daily funding needs and meet strategic liquidity targets as outlined in the CFP. These liquidity reserves are held in the form of cash deposits and pools of central bank eligible unencumbered securities. The parent company liquidity reserve is managed globally and consists of overnight cash deposits and unencumbered U.S. and European government bonds, agencies and agency pass-throughs. The Company believes that diversifying the form in which its liquidity reserves (cash and securities) are maintained enhances its ability to quickly and efficiently source funding in a stressed environment. The Company s funding requirements and target liquidity reserves may vary based on changes to the level and composition of its balance sheet, timing of specific transactions, client financing activity, market conditions and seasonal factors.

On December 31, 2009, the parent liquidity reserve was $64 billion, and the total Company liquidity reserve was $163 billion. The average parent liquidity reserve was $61 billion, and the average total Company liquidity reserve was $154 billion for 2009.

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). 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.

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Funding Management Policies.

The Company s funding management policies are designed to provide for financings that are executed 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. Maturities of financings are designed to manage exposure to refinancing risk in any one period.

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 in the U.S., European and Asian markets, targeting global investors and currencies such as the U.S. dollar, euro, British pound, Australian dollar and Japanese yen.

Secured Financing. A substantial portion of the Company s total assets consists of liquid marketable securities and short-term receivables arising principally from its Institutional Securities sales and trading activities. The liquid nature of these assets provides the Company with flexibility in financing these assets with collateralized borrowings.

The Company s goal is to achieve an optimal mix of secured and unsecured funding through appropriate use of collateralized borrowings. The Institutional Securities business segment emphasizes the use of collateralized short-term borrowings to limit the growth of short-term unsecured funding, which is generally more subject to disruption during periods of financial stress. As part of this effort, the Institutional Securities business segment continually seeks to expand its global secured borrowing capacity.

In addition, the Company, through several of its subsidiaries, maintains 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.

The Company also had the ability to access liquidity from the Board of Governors of the Federal Reserve System (the Fed) against collateral through a number of lending facilities. The Primary Dealer Credit Facility (PDCF) and the Primary Credit Facility were available to provide daily access to funding for primary dealers and depository institutions, respectively. The Term Securities Lending Facility (TSLF) and the Term Auction Facility were available to primary dealers and depository institutions, respectively, and allowed for the borrowing of longer term funding on a regular basis that was available at auction on pre-announced dates. The PDCF and TSLF expired on February 1, 2010.

Unsecured Financing. The Company views long-term debt and deposits as stable sources of funding for core inventories and illiquid assets. Securities inventories not financed by secured funding sources and the majority of current assets are financed with a combination of short-term funding, floating rate long-term debt or fixed rate long-term debt swapped to a floating rate and deposits. The Company uses derivative products (primarily interest rate, currency and equity swaps) to assist in asset and liability management and to hedge interest rate risk (see Note 11 to the consolidated financial statements).

Temporary Liquidity Guarantee Program (TLGP). In October 2008, the Secretary of the U.S. Treasury invoked the systemic risk exception of the FDIC Improvement Act of 1991, and the FDIC announced the TLGP.

Based on the Final Rule adopted on November 21, 2008, the TLGP provides a guarantee, through the earlier of maturity or June 30, 2012, of certain senior unsecured debt issued by participating Eligible Entities (including the Company) between October 14, 2008 and June 30, 2009. Effective March 23, 2009, the FDIC adopted an Interim Rule that extends the expiration of the FDIC guarantee on debt issued by certain issuers (including the Company) on or after April 1, 2009 to December 31, 2012. The maximum amount of FDIC-guaranteed debt a participating

Eligible Entity (including the Company) may have outstanding is 125% of the entity s senior unsecured debt that was outstanding as of September 30, 2008 that was scheduled to mature on or before June 30, 2009. The ability of certain Eligible Entities (including the Company) to issue guaranteed debt under this program, under the Interim Rule described above, expired on October 31, 2009.

At December 31, 2009, the Company had $23.8 billion of senior unsecured debt outstanding under the TLGP. At December 31, 2008, the Company had commercial paper and long-term debt outstanding of $6.4 billion and $9.8 billion, respectively, under the TLGP. The weighted average rate at which the Company issued commercial paper and long-term debt, including TLGP fees, under the TLGP as of December 31, 2008 was 2.28% and 3.70%, respectively. The weighted average rate at which the Company issued long-term debt under TLGP in the first quarter of 2009, including TLGP fees was 2.80%. The Company did not issue any commercial paper under the program in the first quarter of 2009. The Company is unable to determine the benefit to operating results, if any, of issuing debt under the TLGP as there are no appropriate benchmarks due to the disruption in the debt capital markets at that time. There have been no issuances under the TLGP since March 31, 2009. See Note 9 to the consolidated financial statements for further information on commercial paper and long-term borrowings.

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, 2009	At December 31, 2008
	(dollars in millions)	
Commercial paper	$ 783	$ 7,388
Other short-term borrowings	1,595	2,714
Total	$ 2,378	$ 10,102

Commercial Paper Funding Facility. During 2009, the Company had the ability to access the Commercial Paper Funding Facility (CPFF) which provided a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle that purchased three-month unsecured and asset-backed commercial paper directly from eligible issuers. The CPFF program expired on February 1, 2010. As of December 31, 2009, the Company had no commercial paper outstanding under the CPFF program. As of December 31, 2008, the Company had $4.3 billion outstanding under the CPFF program.

Deposits. The Company s bank subsidiaries funding sources include bank deposit sweeps, repurchase agreements, federal funds purchased, certificates of deposit, money market deposit accounts, commercial paper and Federal Home Loan Bank advances.

Deposits were as follows:

	At December 31,	At December 31,

	2009(1)	2008(1)
	(dollars in millions)	
Savings and demand deposits	$ 57,114	$ 41,226
Time deposits(2)	5,101	10,129
Total	$ 62,215	$ 51,355

(1) Total deposits insured by the FDIC at December 31, 2009 and December 31, 2008 were $46 billion and $47 billion, respectively.
(2) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4 to the consolidated financial statements).

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On November 12, 2009, the FDIC Board of Directors adopted a final rule amending the assessment regulations to require insured depository institutions to prepay their estimated quarterly regular risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012 (the prepayment period) on December 30, 2009, at the same time that institutions pay their regular quarterly deposit insurance assessments for the third quarter of 2009. The prepaid assessment is recorded as a prepaid expense (asset) as of December 30, 2009. As of December 31, 2009, and each quarter thereafter, the Company will record an expense (charge to earnings) for its regular quarterly assessment for the quarter and an offsetting credit to the prepaid assessment until the asset is exhausted.

On October 3, 2008, under the Emergency Economic Stabilization Act of 2008, the FDIC temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. This increased coverage lasts through December 31, 2013 and is in effect for the Company s two U.S. depository institutions.

Additionally, under the Final Rule extending the Transaction Account Guarantee Program, the FDIC provides unlimited deposit insurance through June 30, 2010 for certain transaction accounts at FDIC-insured participating institutions. The Company has elected for its FDIC-insured subsidiaries to participate in the extension of the Transaction Account Guarantee Program.

Long-Term Borrowings. The Company uses a variety of long-term debt funding sources to generate liquidity, taking into consideration the results of the CFP requirements. 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). Financing transactions are generally structured to ensure staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients. 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.

During 2009, the Company s long-term financing strategy was driven, in part, by its continued focus on improving its balance sheet strength (evaluated through enhanced capital and liquidity positions). As a result, for 2009, a principal amount of approximately $44 billion of unsecured debt was issued, including $30 billion of publicly issued senior unsecured notes not guaranteed by the FDIC.

The Company may from time to time engage in various transactions in the credit markets (including, for example, debt repurchases) that it believes are in the best interests of the Company and its investors. Maturities and debt repurchases during 2009 were approximately $33 billion in aggregate.

Long-term borrowings as of December 31, 2009 consisted of the following (dollars in millions):

	U.S. Dollar	Non-U.S. Dollar	At December 31, 2009
Due in 2010	$ 19,973	$ 6,115	$ 26,088
Due in 2011	17,386	9,424	26,810
Due in 2012	21,815	16,224	38,039
Due in 2013	3,378	21,642	25,020
Due in 2014	10,657	6,209	16,866
Thereafter	39,181	21,370	60,551

Total	$ 112,390	$ 80,984	$ 193,374

See Note 9 to the consolidated financial statements for further information on long-term borrowings.

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 dependent on the Company s short-term and long-term credit ratings. In addition, the Company s debt ratings can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Factors that are important to the determination of the Company s credit ratings include the level and quality of earnings, capital adequacy, liquidity, risk appetite and management, asset quality, business mix and perceived levels of government support.

In connection with certain OTC trading agreements and certain other agreements 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 in the event of a credit rating downgrade. As of December 31, 2009, the amount of additional collateral or termination payments that could be called by counterparties under the terms of such agreements in the event of a one-notch downgrade of the Company s long-term credit rating was approximately $1,405 million. A total of approximately $2,523 million in collateral or termination payments could be called in the event of a two-notch downgrade. A total of approximately $3,417 million in collateral or termination payments could be called in the event of a three-notch downgrade.

As of January 31, 2010, the Company s and Morgan Stanley Bank, N.A. s senior unsecured ratings were as set forth below:

	Company			Morgan Stanley Bank, N.A.		
	Short-Term Debt	**Long-Term Debt**	**Rating Outlook**	**Short-Term Debt**	**Long-Term Debt**	**Rating Outlook**
Dominion Bond Rating Service Limited	R-1 (middle)	A (high)	Negative			
Fitch Ratings	F1	A	Stable	F1	A+	Stable
Moody s Investors Service	P-1	A2	Negative	P-1	A1	Negative
Rating and Investment Information, Inc.	a-1	A+	Negative			
Standard & Poor s	A-1	A	Negative	A-1	A+	Negative

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 business segment.

Institutional Securities Activities. The Company utilizes SPEs 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 $2.0 billion and $1.2 billion at December 31, 2009 and December 31, 2008, 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 Notes 2 and 6 to the consolidated financial statements.

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 11 to the consolidated financial statements).

Guarantees. Accounting guidance for guarantees requires the Company to disclose information about its obligations under certain guarantee arrangements. The FASB defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in

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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. The FASB also defines guarantees 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 as of December 31, 2009:

	Maximum Potential Payout/Notional					Carrying	
	Years to Maturity					Amount	
						(Asset)/	Collateral/
Type of Guarantee	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total**	**Liability**	**Recourse**
			(dollars in millions)				
Credit derivative contracts(1)	$ 261,354	$ 768,194	$ 850,116	$ 567,361	$ 2,447,025	$ 43,621	$
Other credit contracts		51	24	1,089	1,164	1,118	
Credit-linked notes	160	74	337	668	1,239	(335)	
Non-credit derivative contracts(1)(2)	637,688	340,280	142,700	232,210	1,352,878	70,314	
Standby letters of credit and other financial guarantees issued(3)(4)	982	3,134	1,126	4,886	10,128	976	5,324
Market value guarantees				775	775	45	126
Liquidity facilities	4,402		307	143	4,852	24	6,264
Whole loan sales guarantees				42,380	42,380	81	
General partner guarantees	195	55	101	131	482	95	

(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 10 to the consolidated financial statements.

(2) Amounts include a guarantee to investors in undivided participating interests in claims the Company made against a derivative counterparty that filed for bankruptcy protection. To the extent, in the future, any portion of the claims is disallowed or reduced by the bankruptcy court in excess of a certain amount, then the Company must refund a portion of the purchase price plus interest. For further information, see Note 16 to the consolidated financial statements.

(3) Approximately $2.0 billion of standby letters of credit are also reflected in the Commitments table in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Financial instruments owned or Financial instruments sold, not yet purchased in the consolidated statements of financial condition.

(4) Amounts include guarantees issued by consolidated real estate funds sponsored by the Company of approximately $2.0 billion. These guarantees relate to obligations of the fund s investee entities, including guarantees related to capital expenditures and principal and interest debt payments. Accrued losses under these guarantees of approximately $1.1 billion are reflected as a reduction of the carrying value of the related fund investments, which are reflected in Financial instruments owned investments on the consolidated statement of financial condition.

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The table below summarizes certain information regarding the Company s obligations under guarantee arrangements as of December 31, 2008:

Type of Guarantee	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)	$ 225,742	$ 778,266	$ 1,593,218	$ 989,207	$ 3,586,433	$ 427,338	$
Other credit contracts	53	43	188	3,014	3,298	3,379	
Credit-linked notes	207	486	326	640	1,659	(242)	
Non-credit derivative contracts(1)	684,432	385,734	195,419	274,652	1,540,237	145,609	
Standby letters of credit and other financial guarantees issued	779	1,964	1,817	4,418	8,978	78	4,787
Market value guarantees				645	645	36	134
Liquidity facilities	3,152	698	188	376	4,414	25	3,741
Whole loan sales guarantees				42,045	42,045		
General partner guarantees	54	198	33	150	435	29	
Auction rate security guarantees	1,747				1,747	40	

(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 10 to the consolidated financial statements.

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 11 to the consolidated financial statements for information on trust preferred securities, indemnities, exchange/clearinghouse member guarantees, general partner guarantees, securitized asset guarantees and other guarantees.

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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, mortgage lending and margin lending as of December 31, 2009 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, 2009
	Less than 1	1-3	3-5	Over 5	
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 1,043	$ 1	$ 1	$ 52	$ 1,097
Investment activities	1,013	883	199	83	2,178
Primary lending commitments investment grade(1)(2)	10,146	26,378	4,033	154	40,711
Primary lending commitments non-investment grade(1)	344	4,193	2,515	124	7,176
Secondary lending commitments(1)	18	107	121	97	343
Commitments for secured lending transactions	683	1,415	114		2,212
Forward starting reverse repurchase agreements(3)	30,104	101			30,205
Commercial and residential mortgage-related commitments(1)	1,485				1,485
Other commitments(4)	289	1	150		440
Total	$ 45,125	$ 33,079	$ 7,133	$ 510	$ 85,847

(1) These commitments are recorded at fair value within Financial instruments owned and Financial instruments sold, not yet purchased in the consolidated statements of financial condition (see Note 4 to the consolidated financial statements).
(2) This amount includes commitments to asset-backed commercial paper conduits of $276 million as of December 31, 2009, of which $268 million have maturities of less than one year and $8 million of which have maturities of one to three years.
(3) The Company enters into forward starting securities purchased under agreements to resell (agreements that have a trade date as of or prior to December 31, 2009 and settle subsequent to period-end). These agreements primarily settle within three business days and as of December 31, 2009, $26.6 billion of the $30.2 billion settled within three business days.
(4) Amount includes a $200 million lending facility to a real estate fund sponsored by the Company.

For further description of these commitments, see Note 11 to the consolidated financial statements and Quantitative and Qualitative Disclosures about Market Risk Credit Risk in Part II, 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, contractual interest payments, operating leases and purchase obligations. The Company s future cash payments associated with its obligations as of December 31, 2009 are summarized below:

At December 31, 2009	Payments Due in:				
	2010	2011-2012	2013-2014	Thereafter	Total
	(dollars in millions)				
Long-term borrowings(1)	$ 26,088	$ 64,849	$ 41,886	$ 60,551	$ 193,374
Contractual interest payments(2)	6,344	10,071	7,279	18,015	41,709
Operating leases office facilities(3)	683	1,242	906	2,701	5,532

Operating leases equipment(3)	514	279	109	136	1,038
Purchase obligations(4)	408	271	119	98	896
Pension and postretirement plans expected contribution(5)	275				275
Total(6)	$ 34,312	$ 76,712	$ 50,299	$ 81,501	$ 242,824

(1) See Note 9 to the consolidated financial statements.

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(2) Amounts represent estimated future contractual interest payments related to unsecured long-term borrowings and secured long-term financings based on applicable interest rates as of December 31, 2009. Includes stated coupon rates, if any, on structured or index-linked notes.
(3) See Note 11 to the consolidated financial statements.
(4) Purchase obligations for goods and services include payments for, among other things, consulting, outsourcing, advertising, sponsorship, computer and telecommunications maintenance agreements, and certain license agreements related to MSSB. Purchase obligations as of December 31, 2009 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.
(5) See Note 19 to the consolidated financial statements.
(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 for further information).

Regulatory Requirements.

In September 2008, the Company became a financial holding company under the Bank Holding Company Act subject to the regulation and oversight of the Fed. The Fed establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company s compliance with such capital requirements (see Supervision and Regulation Financial Holding Company in Part I, Item 1). The Office of the Comptroller of the Currency and the Office of Thrift Supervision establish similar capital requirements and standards for the Company s national banks and federal savings bank, respectively.

The Company calculates its capital ratios and RWAs in accordance with the capital adequacy standards for financial holding companies adopted by the Fed. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. In December 2007, the U.S. banking regulators published a final Basel II Accord that requires internationally active banking organizations, as well as certain of its U.S. bank subsidiaries, to implement Basel II standards over the next several years. The Company will be required to implement these Basel II standards as a result of becoming a financial holding company.

As of December 31, 2009, the Company was in compliance with Basel I capital requirements with ratios of Tier 1 capital to RWAs of 15.3% and total capital to RWAs of 16.4% (6% and 10% being well-capitalized for regulatory purposes, respectively). In addition, financial holding companies are also subject to a Tier 1 leverage ratio as defined by the Fed. 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 and deferred tax assets). The adjusted average total assets are derived using weekly balances for the calendar quarter. This ratio as of December 31, 2009 was 5.8%.

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The following table reconciles the Company s total shareholders equity to Tier 1 and Total Capital as defined by the regulations issued by the Fed and presents the Company s consolidated capital ratios at December 31, 2009 (dollars in millions):

	At December 31, 2009 (dollars in millions)	
Allowable capital		
Tier 1 capital:		
Common shareholders equity	$	37,091
Qualifying preferred stock		9,597
Qualifying mandatorily convertible trust preferred securities		5,730
Qualifying restricted core capital elements		10,867
Less: Goodwill		(7,162)
Less: Non-servicing intangible assets		(4,931)
Less: Net deferred tax assets		(3,242)
Less: Debt valuation adjustment		(554)
Other deductions		(726)
Total Tier 1 capital		46,670
Tier 2 capital:		
Other components of allowable capital:		
Qualifying subordinated debt		3,127
Other qualifying amounts		158
Total Tier 2 capital		3,285
Total allowable capital	$	49,955
Total risk-weighted assets	$	305,000
Capital ratios		
Total capital ratio		16.4%
Tier 1 capital ratio		15.3%

Total allowable capital is composed of Tier 1 and Tier 2 capital. Tier 1 capital consists predominately of common shareholders equity as well as qualifying preferred stock, trust preferred securities mandatorily convertible to common equity and qualifying restricted core capital elements (including other junior subordinated debt issued to trusts and non-controlling interests) less goodwill, non-servicing intangible assets (excluding allowable mortgage servicing rights), net deferred tax assets (recoverable in excess of one year) and DVA. DVA represents the cumulative change in fair value of certain of the Company s borrowings (for which the fair value option was elected) that was attributable to changes in 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. Tier 2 capital consists principally of qualifying subordinated debt.

As of December 31, 2009, the Company calculated its RWAs in accordance with the regulatory capital requirements of the Fed, which is consistent with guidelines described under Basel I. 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 Value-at-Risk (VaR) model, see Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A herein. Market RWAs incorporate three components: systematic risk, specific risk, and incremental default risk

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(IDR). Systematic and specific risk charges are computed using either a Standardized Approach (applying a fixed percentage to the fair value of the assets) or the Company s VaR model. Capital charges related to IDR are calculated using an IDR model that estimates the loss due to sudden default events affecting traded financial instruments at a 99.9% confidence level. The Company received permission from the Fed for the use of its market risk models through calendar year 2009 while undergoing the Fed s review. Based on the final outcome of that review, the capital ratios may be lower or higher in 2010.

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 Part II, Item 7A, herein. Credit RWAs are determined using Basel I regulatory capital guidelines for U.S. banking organizations issued by the Fed.

Effects of Inflation and Changes in Foreign Exchange Rates.

The Company s assets to a large extent are liquid in nature and, therefore, are not significantly affected by inflation, although inflation may result in increases in the Company s expenses, which may not be readily recoverable in the price of services offered. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets and upon the value of financial instruments, it may adversely affect the Company s financial position and profitability.

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 can therefore 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.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Risk Management.

Risk Management Policy and Control Structure.

Risk is an inherent part of the Company s business and activities. The Company has policies and procedures in place for measuring, monitoring and managing each of the various types of significant risks involved in the activities of its Institutional Securities, Global Wealth Management Group and Asset Management business segments and support functions as well as at the holding company level. The Company s ability to properly and effectively identify, assess, monitor and manage each of the various types of risk involved in its activities is critical to its soundness and profitability. The Company s portfolio of business activities helps reduce the impact that volatility in any particular area or related areas may have on its net revenues as a whole. The Company seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks involved in the Company s business activities: market, credit, capital and liquidity, operational and compliance and legal risk. Capital and liquidity risk is discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Part II, Item 7. The Company s currency exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries is discussed in Note 13 to the consolidated financial statements.

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. The Company s risk management philosophy is based on the following principles: comprehensiveness, independence, accountability, defined risk tolerance and transparency. Given the importance of effective risk management to the Company s reputation, senior management requires thorough and frequent communication and appropriate escalation of risk matters.

Risk management at the Company requires independent Company-level oversight, accountability of the Company s business segments, constant communication, judgment, and knowledge of specialized products and markets. The Company s senior management takes an active role in the identification, assessment and management of various risks at both the Company and business segments level. In recognition of the increasingly varied and complex nature of the global financial services business, the Company s risk management philosophy, with its attendant policies, procedures and methodologies, is evolutionary in nature and subject to ongoing review and modification.

The nature of the Company s risks, coupled with this risk management philosophy, informs the Company s risk governance structure. The Company s risk governance structure includes the Board; the Audit Committee and the Risk Committee of the Board; the FRC; senior management oversight, including the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Legal Officer and the Chief Compliance Officer; the Internal Audit Department; independent risk management functions (including the Market Risk Department, Credit Risk Management, the Corporate Treasury Department and the Operational Risk Department) and Company control groups (including the Human Resources Department, the Legal and Compliance Division, the Tax Department and the Financial Control Group), and various other risk control managers, committees and groups located within and across the Company s business segments.

The Board has oversight for the Company s enterprise risk management framework and is responsible for helping to ensure that the Company s risks are managed in a sound manner. Historically, the Board had authorized the Audit Committee, which is comprised solely of independent directors, to oversee risk management. Effective January 1, 2010, the Board established another standing committee, the Risk Committee, which is comprised solely of non-management directors, to assist the Board in the oversight of (i) the Company s risk governance structure, (ii) the Company s risk management and risk assessment guidelines and policies regarding market, credit and liquidity and funding risk, (iii) the Company s risk tolerance and (iv) the

performance of the Chief Risk Officer. The Audit Committee continues to review the major operational, franchise, reputational, legal and compliance risk exposures of the Company and the steps management has taken to monitor and control such exposure. The Risk Committee, Audit Committee and Chief Risk Officer report to the full Board on a regular basis.

The Board has also authorized the FRC, a management committee appointed and chaired by the Chief Executive Officer that 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 Audit Committee and the Risk Committee through the Company s Chief Risk Officer.

The Chief Risk Officer, a member of the FRC who reports to the Chief Executive Officer, oversees compliance with Company risk limits; approves certain excessions of Company risk limits; reviews material market, credit and operational risks; and reviews results of risk management processes with the Board, the Audit Committee and the Risk Committee, as appropriate.

The Internal Audit Department provides independent risk and control assessment and reports to the Audit Committee and administratively to the Chief Legal Officer. The Internal Audit Department examines the Company s operational and control environment and conducts audits designed to cover all major risk categories.

The risk management functions and the Company control groups are independent of the Company s business units, assist senior management and the FRC in monitoring and controlling the Company s risk through a number of control processes. The Company is committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company s risk management and monitoring systems and processes.

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.

Each of the Company s business segments also has designated operations officers, committees and groups to manage and monitor specific risks and report to the business segment risk committee. The Company control groups work with business segment control groups (including the Operations Division and Information Technology Division) to review the risk monitoring and risk management policies and procedures relating to, among other things, the business segment s market, credit and operational risk profile, sales practices, reputation, legal enforceability, 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 a thorough review.

The following is a discussion of the Company s risk management policies and procedures for its principal risks (other than capital and liquidity risk). 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 market 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.

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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 and client facilitation activities, principally within the Institutional Securities business where the substantial majority of the Company s VaR for market risk exposures is generated. In addition, the Company incurs trading-related market risk within the Global Wealth Management Group. Asset Management incurs 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 system. Limits are designed to control price and market liquidity risk. Market risk is monitored through various measures: statistically (using VaR and related analytical measures); by measures of position sensitivity; and through routine stress testing 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 Risk Committee and the Board.

Risk and Capital Management Initiatives.

During 2009, the Company continued to enhance its market risk management framework to address the severe stresses observed in global markets during the recent economic downturn (see Executive Summary Global Market and Economic Conditions in Fiscal 2009 Part II, Item 7, herein). The Company expanded and improved its risk measurement processes, including stress tests and scenario analysis, and refined its market risk limit framework. In conjunction with these risk measurement enhancements, a proprietary methodology called Stress VaR (S-VaR) was developed to comprehensively measure the Company s market and credit risks. 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, as well as event and default risks particularly relevant for credit portfolios. S-VaR, while still evolving, is becoming an important metric for the Company s risk appetite assessment and its capital allocation framework.

Sales and Trading and Related Activities.

Primary Market Risk Exposures and Market Risk Management. During 2009, 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: emerging market corporate and government debt, non-investment grade and distressed corporate debt, investment grade corporate debt 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

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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 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 and for its major trading divisions worldwide (equity and fixed income, which includes interest rate products, credit products, foreign exchange and commodities). 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.

The Market Risk Department independently reviews the Company s trading portfolios on a regular basis from a market risk perspective utilizing VaR and other quantitative and qualitative risk measures and analyses. The Company s trading businesses and the Market Risk Department also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report market risk exposures.

Net exposure, defined as the potential loss to the Company over a period of time in the event of default of a referenced asset, assuming zero recovery, is one key risk measure the Company employs to standardize the aggregation of market risk exposures across cash and derivative products. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Market Risk Department.

***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 historical simulation for major market risk factors and Monte Carlo simulation for name-specific risk in certain equity and fixed income exposures. Historical simulation involves constructing a distribution of hypothetical daily changes in the value of trading portfolios based on two sets of inputs: historical observation of daily

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changes in key market indices or other market factors (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 to characterize potential changes in market risk factors. 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 price risk, interest rate risk and credit spread risk and linear exposures to implied volatility risks. Market risks that are incorporated in the VaR model include equity and commodity prices, interest rates, credit spreads, foreign exchange rates and associated implied volatilities. The VaR model also captures certain correlation risks associated with portfolio credit derivatives, as well as certain basis risks between corporate debt and related credit derivatives. As a supplement to the use of historical simulation for major market risk factors, the Company s VaR model uses Monte Carlo simulation to capture name-specific risk in equities and credit products (*i.e.*, corporate bonds, loans and credit derivatives).

The Company s VaR models evolve 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.

Among their benefits, VaR models permit estimation of a portfolio s aggregate market risk exposure, incorporating a range of varied market risks; reflect risk reduction due to portfolio diversification or hedging activities; and can cover a wide range of portfolio assets. However, VaR risk measures should be interpreted carefully in light of the methodology s limitations, which include the following: past changes in market risk factors may not always yield accurate predictions of the distributions and correlations of future market movements; changes in portfolio value in response to market movements (especially for complex derivative portfolios) may differ from the responses calculated by a VaR model; VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day; the historical market risk factor data used for VaR estimation may provide only limited insight into losses that could be incurred under market conditions that are unusual relative to the historical period used in estimating the VaR; and published VaR results reflect past trading positions while future risk depends on future positions. 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. As explained above, this process also incorporates stress testing and scenario analyses and extensive risk monitoring, analysis, and control at the trading desk, division and Company levels.

VaR for 2009. The table below presents the Company s Trading, Non-trading and Aggregate VaR for each of the Company s primary market risk exposures as of December 31, 2009, December 31, 2008 and November 30, 2008, incorporating substantially all financial instruments generating market risk that are managed by the Company s trading businesses. This measure of VaR incorporates most of the Company s trading-related market risks. However, a small proportion of trading positions generating market risk is not included in VaR, and the modeling of the risk characteristics of some positions relies upon approximations that, under certain circumstances, could produce significantly different VaR results from those produced using more precise measures.

Aggregate VaR also incorporates certain non-trading risks, including (a) the interest rate risk generated by funding liabilities related to institutional trading positions, (b) public company equity positions recorded as investments by the Company and (c) corporate loan exposures that are awaiting distribution to the market.

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Investments made by the Company that are not publicly traded are not reflected in the VaR results presented below. Aggregate VaR also excludes the credit spread risk generated by the Company s funding liabilities and the interest rate risk associated with approximately $7.7 billion of certain funding liabilities primarily related to fixed and other non-trading assets as of December 31, 2009 and December 31, 2008. The credit spread risk sensitivity of the Company s mark-to-market funding liabilities corresponded to an increase in value of approximately $11 million for each +1 basis point (or 1/100th of a percentage point) widening in the Company s credit spread level as of both December 31, 2009 and December 31, 2008.

Since the VaR statistics reported below are estimates based on historical position and market 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. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

The table below presents the Company s 95%/one-day VaR:

Table 1: 95% Total VaR	**95%/One-Day VaR for 2009**				**95%/One-Day VaR for Fiscal 2008**				**95%/One-Day VaR for the One Month Ended December 31, 2008**			
Primary Market Risk Category	**Dec. 31, 2009**	**Average**	**High**	**Low**	**Nov. 30, 2008**	**Average**	**High**	**Low**	**Dec. 31, 2008**	**Average**	**High**	**Low**
						(dollars in millions)						
Interest rate and credit spread	$ 109	$ 105	$ 122	$ 89	$ 98	$ 69	$ 101	$ 42	$ 109	$ 107	$ 121	$ 95
Equity price	23	21	36	14	23	35	53	17	15	18	27	14
Foreign exchange rate	25	20	47	7	14	25	40	12	11	13	16	11
Commodity price	24	24	38	18	23	35	44	22	36	31	37	24
Less Diversification benefit(1)	(46)	(51)	(94)	(31)	(54)	(66)	(124)	(15)	(54)	(56)	(80)	(42)
Total Trading VaR	$ 135	$ 119	$ 149	$ 97	$ 104	$ 98	$ 114	$ 78	$ 117	$ 113	$ 121	$ 102
Total Non-trading VaR	$ 100	$ 102	$ 129	$ 58	$ 67	$ 53	$ 96	$ 29	$ 68	$ 73	$ 81	$ 67
Total Trading and Non-trading VaR	$ 187	$ 165	$ 206	$ 119	$ 135	$ 115	$ 143	$ 82	$ 144	$ 143	$ 152	$ 131

(1) Diversification benefit equals the difference between Total VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken into account within each category.

The Company s Trading VaR at December 31, 2009 was $135 million compared with $117 million and $104 million at December 31, 2008 and November 30, 2008, respectively. Non-trading VaR at December 31, 2009 increased to $100 million from $68 million and $67 million at December 31, 2008 and November 30, 2008, respectively. Aggregate VaR at December 31, 2009 was $187 million compared with $144 million and $135 million at December 31, 2008 and November 30, 2008, respectively.

Average Trading VaR for 2009 increased to $119 million from $113 million for the one month ended December 31, 2008 and $98 million for fiscal 2008. Average Non-trading VaR for 2009 increased to $102 million from $73 million for the one month ended December 31, 2008 and $53 million for fiscal 2008. Average Total VaR for 2009 increased to $165 million from $143 million for the one month ended December 31, 2008 and $115 million for fiscal 2008.

The VaR increases for 2009 were primarily driven by increased exposure to interest rate and credit sensitive products across the trading and non-trading portfolios. The trading portfolio also experienced increases due to increased equity and foreign currency exposure. Additionally, the Company s VaR for 2009 was affected by higher market volatilities over the period, as explained below.

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VaR Statistics under Varying Assumptions.

VaR statistics are not readily comparable across firms because of differences in the breadth of products included in each firm s VaR model, in the statistical assumptions made when simulating changes in market factors, and in the methods used to approximate portfolio revaluations under the simulated market conditions. The extreme market volatilities in the latter part of 2008 had a significant impact on VaR in 2009. The impact 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 reliable and relevant when used as indicators of trends in risk taking rather than as a basis for inferring differences in risk taking across firms.

Table 2 presents the VaR statistics that would result if the Company were to adopt alternative parameters for its calculations, such as the reported confidence level (95% versus 99%) for the VaR statistic or a shorter historical time series (four-year versus one-year) for market data upon which it bases its simulations. Both the average four-year VaR and the average one-year VaR for 2009 are sensitive to the high market volatilities experienced in the fourth quarter of 2008. However, we expect the one-year VaR to decline relative to the four-year VaR in the coming months, as the highly volatile period in the fourth quarter of 2008 will remain in the four-year VaR, but will no longer be a factor in the one-year VaR.

Table 2: Average 95% and 99% Trading VaR with Four-Year/One-Year Historical Time Series

Primary Market Risk Category	Average 95%/One-Day VaR for 2009 Four-Year Factor History	Average 95%/One-Day VaR for 2009 One-Year Factor History	Average 99%/One-Day VaR for 2009 Four-Year Factor History	Average 99%/One-Day VaR for 2009 One-Year Factor History
	(dollars in millions)			
Interest rate and credit spread	$ 105	$ 134	$ 218	$ 248
Equity price	21	26	31	38
Foreign exchange rate	20	35	41	62
Commodity price	24	30	43	62
Less: Diversification benefit(1)	(51)	(63)	(97)	(138)
Trading VaR	$ 119	$ 162	$ 236	$ 272

(1) Diversification benefit equals the difference between Total VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken into account within each category.

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Distribution of VaR Statistics and Net Revenues for 2009.

As shown in Table 1, the Company s average 95%/one-day Trading VaR for 2009 was $119 million. The histogram below presents the distribution of the Company s daily 95%/one-day Trading VaR for 2009. The most frequently occurring value was between $112 million and $115 million, while for approximately 93% of trading days during the year VaR ranged between $103 million and $139 million.

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As shown in Table 1, the Company s average 95%/one-day Trading VaR for the one month ended December 31, 2008 was $113 million. The histogram below presents the distribution of the Company s daily 95%/one-day Trading VaR for the one month ended December 31, 2008. The most frequently occurring value was between $115 million and $118 million, while for approximately 70% of trading days during the month VaR ranged between $109 million and $118 million.

One method of evaluating the reasonableness of the Company s VaR model as a measure of the Company s potential volatility of net revenue is to compare the VaR with actual trading revenue. 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 accuracy of the VaR model could be questioned. Accordingly, 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 days where losses exceed the 95% or 99% VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model s accuracy relative to realized trading results.

The Company incurred daily trading losses in excess of the 95%/one-day Trading VaR on one day during 2009 and three days during the month ended December 31, 2008. The Company bases its VaR calculations on the long term (or unconditional) distribution with four years of observations and therefore evaluates its risk from an historical perspective. The Company is evaluating enhancements to the VaR model to make it more responsive to more recent market conditions, while maintaining a longer-term perspective.

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The histograms below show the distribution of daily net trading revenue during 2009 and the one month ended December 31, 2008, respectively, for the Company s trading businesses (including net interest and non-agency commissions but excluding certain non-trading revenues such as primary, fee-based and prime brokerage revenue credited to the trading businesses). During 2009 and the one month ended December 31, 2008, the Company experienced net trading losses on 38 days and 14 days, respectively. The loss days observed during December 2008 were driven predominately by increased levels of volatility realized in the market.

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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 is exposed to two distinct types of credit risk in its businesses. The Company incurs single name credit risk exposure through the Institutional Securities business and to a lesser extent through its lending activities in its Global Wealth Management Group. This type of risk requires credit analysis of specific counterparties, both initially and on an ongoing basis. The Company also incurs individual consumer credit risk in the Global Wealth Management Group business segment lending to individual investors, including margin and non-purpose loans collateralized by securities and through single-family residential prime mortgage loans in jumbo or home equity lines of credit (HELOC) form.

The Company has structured its credit risk management framework to reflect that each of its businesses generates unique credit risks, and Credit Risk Management establishes company-wide practices to evaluate, monitor and control credit risk exposure both within and across business segments. The Credit Limits Framework is one of the primary tools used to evaluate and manage credit risk levels across the Company and is calibrated within the Company s risk tolerance. The Credit Limits Framework includes single name limits and portfolio concentration limits by country, industry and product type. Credit Risk Management is responsible for ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, and escalating risk concentrations to appropriate senior management. Credit risk exposure is managed by Credit Risk Management and through various risk committees, whose membership includes Credit Risk Management. Accordingly, Credit Risk Management also works closely with the Market Risk Department to monitor risk exposures, including margin loans, mortgage loans and credit sensitive, higher risk transactions.

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Institutional Securities Activities.

Corporate Lending. In connection with certain of its Institutional Securities business activities, the Company provides loans or lending commitments (including bridge financing) to selected clients. Such loans and lending commitments can generally be classified as either relationship-driven or event-driven.

Relationship-driven loans and lending commitments are generally made to expand business relationships with select clients. The commitments associated with relationship-driven activities 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. The borrowers of relationship-driven lending transactions may be investment grade or non-investment grade. The Company may hedge its exposures in connection with relationship-driven transactions.

Event-driven loans and lending commitments refer to activities associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization transactions. The commitments associated with these event-driven activities may not be indicative of the Company s actual funding requirements since funding is contingent upon a proposed transaction being completed. In addition, the borrower may not fully utilize the commitment or the Company s portion of the commitment may be reduced through the syndication process. The borrower s ability to draw on the commitment is also subject to certain terms and conditions, among other factors. The borrowers of event-driven lending transactions may be investment grade or non-investment grade. The Company risk manages its exposures in connection with event-driven transactions through various means, including syndication, distribution and/or hedging.

Securitized Products. While new activity has been reduced from historical levels, the Company may extend 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, corporate and operating 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 actual or underlying collateral value.

Derivative Contracts. In the normal course of business, the Company enters into a variety of derivative contracts related to financial instruments and commodities. The Company uses these instruments for trading and hedging purposes, as well as for asset and liability management. These instruments generally represent future commitments to swap interest payment streams, exchange currencies, or purchase or sell commodities and other financial instruments on specific terms at specified future dates. Many of these products have maturities that do not extend beyond one year, although swaps, options and equity warrants typically have longer maturities.

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 derivatives represents the amount at which the derivative could be exchanged in an orderly transaction between market participants and is further described in Note 2 to the consolidated financial statements. Future changes in interest rates, foreign currency exchange rates, or the fair values of the financial instruments, commodities or indices underlying these contracts ultimately may result in cash settlements exceeding fair value amounts recognized in the consolidated statements of financial condition.

Other. In addition to the activities noted above, there are other credit risks managed by Credit Risk Management and various business areas within Institutional Securities. The Company incurs credit risk through margin and collateral transactions with clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties. 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. In addition, certain businesses with heightened settlement risk monitor compliance with established settlement risk limits.

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Analyzing Credit Risk. Credit risk management takes place at the transaction, counterparty and portfolio levels. In order to protect the Company from losses resulting from these activities, Credit Risk Management analyzes all material lending and derivative transactions and ensures that the creditworthiness of the Company s counterparties and borrowers is reviewed regularly and that credit exposure is actively monitored and managed. Credit Risk Management assigns obligor credit ratings to the Company s counterparties and borrowers. These credit ratings are intended to assess a counterparty s probability of default and are derived using methodologies generally consistent with those employed by external rating agencies. Credit ratings of BB+ or below are considered non-investment grade. Additionally, Credit Risk Management 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.

Risk Mitigation. The Company may seek to mitigate credit risk from its lending and derivatives transactions in multiple ways. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, 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 sub-participate 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 offset a counterparty s rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default.

Credit Exposure Corporate Lending. The following tables present information about the Company s corporate funded loans and lending commitments as of December 31, 2009 and December 31, 2008. The total corporate lending exposure column includes both lending commitments and funded loans. Fair value of corporate lending exposure represents the fair value of loans that have been drawn by the borrower and lending commitments that were outstanding as of December 31, 2009 and December 31, 2008. Lending commitments represent legally binding obligations to provide funding to clients as of December 31, 2009 and December 31, 2008 for both relationship-driven and event-driven lending transactions. As discussed above, 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.

As of December 31, 2009 and December 31, 2008, the aggregate amount of investment grade loans was $6.5 billion and $7.4 billion, respectively, and the aggregate amount of non-investment grade loans was $9.5 billion and $9.4 billion, respectively. As of December 31, 2009 and December 31, 2008, the aggregate amount of lending commitments outstanding was $47.9 billion and $43.9 billion, respectively. In connection with these corporate lending activities (which include corporate funded loans and lending commitments), the Company had hedges (which include single name, sector and index hedges) with a notional amount of $25.8 billion and $35.7 billion related to the total corporate lending exposure of $64.0 billion and $60.7 billion as of December 31, 2009 and December 31, 2008, respectively.

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The tables below show the Company s credit exposure from its corporate lending positions and lending commitments as of December 31, 2009 and December 31, 2008. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements:

Corporate Lending Commitments and Funded Loans at December 31, 2009

	Years to Maturity						
Credit Rating(1)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total Corporate Lending Exposure(2)**	**Corporate Lending Exposure at Fair Value(3)**	**Corporate Lending Commitments(4)**
				(dollars in millions)			
AAA	$ 542	$ 233	$	$	$ 775	$	$ 775
AA	3,141	4,354	275		7,770	80	7,690
A	3,116	9,796	1,129	548	14,589	1,918	12,671
BBB	4,272	16,191	3,496	164	24,123	4,548	19,575
Investment grade	11,071	30,574	4,900	712	47,257	6,546	40,711
Non-investment grade	749	6,525	6,097	3,322	16,693	9,517	7,176
Total	$ 11,820	$ 37,099	$ 10,997	$ 4,034	$ 63,950	$ 16,063	$ 47,887

(1) Obligor credit ratings are determined by Credit Risk Management using methodologies generally consistent with those employed by external rating agencies.
(2) Total corporate lending exposure represents the Company s potential loss assuming the fair value of funded loans and lending commitments were zero.
(3) The Company s corporate lending exposure carried at fair value includes $15.6 billion of funded loans and $0.4 billion of lending commitments recorded in Financial instruments owned and Financial instruments sold, not yet purchased, respectively, in the consolidated statements of financial condition as of December 31, 2009. The Company s corporate lending exposure carried at amortized cost includes $850 million of funded loans recorded in Receivables other loans in the consolidated statements of financial condition.
(4) Amounts represent the notional amount of unfunded lending commitments less the amount of commitments reflected in the Company s consolidated statements of financial condition.

Corporate Lending Commitments and Funded Loans at December 31, 2008

	Years to Maturity						
Credit Rating(1)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total Corporate Lending Exposure(2)**	**Corporate Lending Exposure at Fair Value(3)**	**Corporate Lending Commitments(4)**
				(dollars in millions)			
AAA	$ 842	$ 114	$ 1,374	$	$ 2,330	$ 67	$ 2,263
AA	2,685	718	3,321	73	6,797	33	6,764
A	4,899	5,321	5,892	69	16,181	2,291	13,890
BBB	2,745	7,722	8,299	255	19,021	5,037	13,984
Investment grade	11,171	13,875	18,886	397	44,329	7,428	36,901
Non-investment grade	1,144	3,433	5,301	6,516	16,394	9,389	7,005
Total	$ 12,315	$ 17,308	$ 24,187	$ 6,913	$ 60,723	$ 16,817	$ 43,906

(1) Obligor credit ratings are determined by Credit Risk Management using methodologies generally consistent with those employed by external rating agencies.
(2) Total corporate lending exposure represents the Company s potential loss assuming the fair value of funded loans and lending commitments were zero.
(3) The Company s corporate lending exposure at fair value includes $19.9 billion of funded loans and $3.1 billion of lending commitments recorded in Financial instruments owned and Financial instruments sold, not yet purchased, respectively, in the consolidated statements of financial condition as of December 31, 2008.
(4) Amounts represent the notional amount of unfunded lending commitments less the amount of commitments reflected in the Company s consolidated statements of financial condition.

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Event-driven Loans and Lending Commitments as of December 31, 2009 and December 31, 2008.

Included in the total corporate lending exposure amounts in the table above as of December 31, 2009 is event-driven exposure of $5.6 billion composed of funded loans of $2.8 billion and lending commitments of $2.8 billion. Included in the $5.6 billion of event-driven exposure as of December 31, 2009 were $3.7 billion of loans and lending commitments to non-investment grade borrowers that were closed.

Included in the total corporate lending exposure amounts in the table above as of December 31, 2008 is event-driven exposure of $9.3 billion composed of funded loans of $3.4 billion and lending commitments of $5.9 billion. Included in the $9.3 billion of event-driven exposure as of December 31, 2008 were $5.0 billion of loans and lending commitments to non-investment grade borrowers that were closed.

Activity associated with the corporate event-driven lending exposure during 2009 was as follows (dollars in millions):

Event-driven lending exposures at December 31, 2008	$ 9,327
Closed commitments	3,259
Withdrawn commitments	(267)
Net reductions, primarily through distributions	(6,708)
Mark-to-market adjustments	10
Event-driven lending exposures at December 31, 2009	$ 5,621

Credit Exposure Derivatives. 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 as of December 31, 2009 and December 31, 2008. Fair value is presented in the final column net of collateral received (principally cash and U.S. government and agency securities):

OTC Derivative Products Financial Instruments Owned at December 31, 2009(1)

	Years to Maturity						
Credit Rating(2)	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	$ 852	$ 2,026	$ 3,876	$ 9,331	$ (6,616)	$ 9,469	$ 9,082
AA	6,469	7,855	6,600	15,071	(25,576)	10,419	8,614
A	8,018	10,712	7,990	22,739	(38,971)	10,488	9,252
BBB	3,032	4,193	2,947	7,524	(8,971)	8,725	5,902
Non-investment grade	2,773	3,331	2,113	4,431	(4,534)	8,114	6,525
Total	$ 21,144	$ 28,117	$ 23,526	$ 59,096	$ (84,668)	$ 47,215	$ 39,375

(1) Fair values shown represent the Company s net exposure to counterparties related to the Company s OTC derivative products. The table does not include listed derivatives and the effect of any related hedges utilized by the Company. The table also excludes fair values corresponding to other credit exposures, such as those arising from the Company s lending activities.
(2) Obligor credit ratings are determined by Credit Risk Management using methodologies generally consistent with those employed by external rating agencies.
(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.

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OTC Derivative Products Financial Instruments Owned at December 31, 2008(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	$ 1,928	$ 3,588	$ 6,235	$ 16,623	$ (11,060)	$ 17,314	$ 15,849
AA	10,447	13,133	16,589	40,423	(63,498)	17,094	15,018
A	7,150	7,514	7,805	21,752	(31,025)	13,196	12,034
BBB	4,666	7,414	4,980	8,614	(6,571)	19,103	14,101
Non-investment grade	8,219	8,163	5,416	7,341	(12,597)	16,542	12,131