MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

10–Q

FORM 10–Q
Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

Table of Contents

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

FORM 10–Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1–11758

Morgan Stanley

(Exact Name of Registrant as specified in its charter)

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

Indicate by check mark whether the 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 the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S–T (§ 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 ☒ No ☐

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 ☒
Non–Accelerated Filer ☐
(Do not check if a smaller reporting company)

Accelerated Filer ☐
Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b–2 of the Exchange Act). Yes ☐ No ☒

As of October 31, 2013, there were 1,951,340,420 shares of the Registrant's Common Stock, par value $0.01 per share, outstanding.

QUARTERLY REPORT ON FORM 10–Q

For the quarter ended September 30, 2013

Table of Contents | Page

		Page
Part I–Financial Information		
Item 1.	Financial Statements (unaudited)	1
	Condensed Consolidated Statements of Financial Condition–September 30, 2013 and December 31, 2012	1
	Condensed Consolidated Statements of Income–Three and Nine Months Ended September 30, 2013 and 2012	2
	Condensed Consolidated Statements of Comprehensive Income–Three and Nine Months Ended September 30, 2013 and 2012	3
	Condensed Consolidated Statements of Cash Flows–Nine Months Ended September 30, 2013 and 2012	4
	Condensed Consolidated Statements of Changes in Total Equity–Nine Months Ended September 30, 2013 and 2012	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
	Report of Independent Registered Public Accounting Firm	98
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	99
	Introduction	99
	Executive Summary	100
	Business Segments	110
	Accounting Developments	126
	Other Matters	127
	Critical Accounting Policies	129
	Liquidity and Capital Resources	133
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	150
Item 4.	Controls and Procedures	165
Financial Data Supplement (unaudited)		166
Part II–Other Information		
Item 1.	Legal Proceedings	172
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	176
Item 6.	Exhibits	176

AVAILABLE INFORMATION

Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the "SEC"). You may read and copy any document 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;
- Charters for its Audit Committee; Operations and Technology Committee; 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 Deputy Chief Financial Officer. 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.

Part I—Financial Information.

Item 1. Financial Statements.

MORGAN STANLEY

Condensed Consolidated Statements of Financial Condition
(dollars in millions, except share data)
(unaudited)

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks ($465 and $526 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities generally not available to the Company)	$ 14,333	$ 20,878
Interest bearing deposits with banks	43,448	26,026
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	37,392	30,970
Trading assets, at fair value (approximately $150,255 and $147,348 were pledged to various parties at September 30, 2013 and December 31, 2012, respectively; $2,994 and $3,505 related to consolidated variable interest entities, generally not available to the Company at September 30, 2013 and December 31, 2012, respectively)	273,658	267,603
Securities available for sale, at fair value	46,866	39,869
Securities received as collateral, at fair value	16,042	14,278
Federal funds sold and securities purchased under agreements to resell (includes $868 and $621 at fair value at September 30, 2013 and December 31, 2012, respectively)	133,988	134,412
Securities borrowed	139,169	121,701
Customer and other receivables	57,710	64,288
Loans (net of allowances of $166 and $106 at September 30, 2013 and December 31, 2012, respectively)	37,734	29,046
Other investments	5,083	4,999
Premises, equipment and software costs (net of accumulated depreciation of $6,205 and $5,525 at September 30, 2013 and December 31, 2012, respectively) ($213 and $224 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,008	5,946
Goodwill	6,591	6,650
Intangible assets (net of accumulated amortization of $1,509 and $1,250 at September 30, 2013 and December 31, 2012, respectively) (includes $8 and $7 at fair value at September 30, 2013 and December 31, 2012, respectively)	3,514	3,783
Other assets ($523 and $593 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	10,687	10,511
Total assets	$ 832,223	$ 780,960
Liabilities		
Deposits (includes $1,411 and $1,485 at fair value at September 30, 2013 and December 31, 2012, respectively)	$ 104,807	$ 83,266
Commercial paper and other short–term borrowings (includes $1,623 and $725 at fair value at September 30, 2013 and December 31, 2012, respectively)	2,333	2,138
Trading liabilities, at fair value	122,645	120,122
Obligation to return securities received as collateral, at fair value	20,899	18,226
Securities sold under agreements to repurchase (includes $554 and $363 at fair value at September 30, 2013 and December 31, 2012, respectively)	139,398	122,674
Securities loaned	32,807	36,849
Other secured financings (includes $6,145 and $9,466 at fair value at September 30, 2013 and December 31, 2012, respectively) ($587 and $976 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable entities and are non–recourse to the Company)	14,528	15,727
Customer and other payables	152,091	127,722
Other liabilities and accrued expenses ($75 and $117 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities and are non–recourse to the Company)	16,669	14,928
Long–term borrowings (includes $36,719 and $44,044 at fair value at September 30, 2013 and December 31, 2012, respectively)	157,805	169,571
Total liabilities	763,982	711,223
Commitments and contingent liabilities (see Note 12)		
Redeemable noncontrolling interests (see Notes 3 and 14)	—	4,309
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock	2,370	1,508
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at September 30, 2013 and December 31, 2012;		
Shares issued: 2,038,893,979 at September 30, 2013 and December 31, 2012;		
Shares outstanding: 1,953,350,711 at September 30, 2013 and 1,974,042,123 at December 31, 2012	20	20
Additional Paid–in capital	24,235	23,426
Retained earnings	42,237	39,912
Employee stock trust	1,753	2,932
Accumulated other comprehensive loss	(1,014)	(516)
Common stock held in treasury, at cost, $0.01 par value; 85,543,268 shares at September 30, 2013 and 64,851,856 shares at December 31, 2012	(2,720)	(2,241)
Common stock issued to employee trust	(1,753)	(2,932)
Total Morgan Stanley shareholders' equity	65,128	62,109
Nonredeemable noncontrolling interests	3,113	3,319
Total equity	68,241	65,428
Total liabilities, redeemable noncontrolling interests and equity	$ 832,223	$ 780,960

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

MORGAN STANLEY

Condensed Consolidated Statements of Income
(dollars in millions, except share and per share data)
(unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues:				
Investment banking	$ 1,160	$ 1,152	$ 3,687	$ 3,319
Trading	2,259	607	7,847	5,478
Investments	728	290	1,254	438
Commissions and fees	1,080	988	3,465	3,205
Asset management, distribution and administration fees	2,390	2,257	7,140	6,677
Other	204	141	700	403
Total non−interest revenues	7,821	5,435	24,093	19,520
Interest income	1,311	1,379	4,131	4,244
Interest expense	1,200	1,534	3,631	4,618
Net interest	111	(155)	500	(374)
Net revenues	7,932	5,280	24,593	19,146
Non−interest expenses:				
Compensation and benefits	3,968	3,928	12,289	11,989
Occupancy and equipment	375	386	1,131	1,152
Brokerage, clearing and exchange fees	416	359	1,300	1,167
Information processing and communications	405	493	1,323	1,439
Marketing and business development	151	138	448	439
Professional services	449	476	1,347	1,365
Other	829	983	2,059	1,939
Total non−interest expenses	6,593	6,763	19,897	19,490
Income (loss) from continuing operations before income taxes	1,339	(1,483)	4,696	(344)
Provision for (benefit from) income taxes	339	(525)	1,226	(247)
Income (loss) from continuing operations	1,000	(958)	3,470	(97)
Discontinued operations:				
Gain (loss) from discontinued operations	16	(11)	(55)	68
Provision for (benefit from) income taxes	(2)	(13)	(25)	43
Net gain (loss) from discontinued operations	18	2	(30)	25
Net income (loss)	$ 1,018	$ (956)	$ 3,440	$ (72)
Net income applicable to redeemable noncontrolling interests	—	8	222	8
Net income applicable to nonredeemable noncontrolling interests	112	59	370	446
Net income (loss) applicable to Morgan Stanley	$ 906	$ (1,023)	$ 2,848	$ (526)
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 880	$ (1,047)	$ 2,619	$ (599)
Amounts applicable to Morgan Stanley:				
Income (loss) from continuing operations	$ 888	$ (1,008)	$ 2,878	$ (525)
Net gain (loss) from discontinued operations	18	(15)	(30)	(1)
Net income (loss) applicable to Morgan Stanley	$ 906	$ (1,023)	$ 2,848	$ (526)
Earnings (loss) per basic common share:				
Income (loss) from continuing operations	$ 0.45	$ (0.55)	$ 1.39	$ (0.32)
Net gain (loss) from discontinued operations	0.01	—	(0.02)	—
Earnings (loss) per basic common share	$ 0.46	$ (0.55)	$ 1.37	$ (0.32)
Earnings (loss) per diluted common share:				
Income (loss) from continuing operations	$ 0.44	$ (0.55)	$ 1.36	$ (0.32)
Net gain (loss) from discontinued operations	0.01	—	(0.02)	—
Earnings (loss) per diluted common share	$ 0.45	$ (0.55)	$ 1.34	$ (0.32)
Dividends declared per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15
Average common shares outstanding:				
Basic	1,909,350,788	1,889,300,631	1,906,097,564	1,883,813,883
Diluted	1,964,812,610	1,889,300,631	1,952,146,477	1,883,813,883

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY

Condensed Consolidated Statements of Comprehensive Income
(dollars in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$ 1,018	$ (956)	$ 3,440	$ (72)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments(1)	$ 125	$ 43	$ (321)	$ (88)
Amortization of cash flow hedges(2)	1	2	3	5
Change in net unrealized gains (losses) on securities available for sale(3)	33	62	(336)	84
Pension, postretirement and other related adjustments(4)	4	(4)	15	15
Total other comprehensive income (loss)	$ 163	$ 103	$ (639)	$ 16
Comprehensive income (loss)	$ 1,181	$ (853)	$ 2,801	$ (56)
Net income applicable to redeemable noncontrolling interests	—	8	222	8
Net income applicable to nonredeemable noncontrolling interests	112	59	370	446
Other comprehensive income (loss) applicable to redeemable noncontrolling interests	—	(1)	—	(1)
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	8	29	(141)	5
Comprehensive income (loss) applicable to Morgan Stanley	$ 1,061	$ (948)	$ 2,350	$ (514)

(1) Amounts are net of provision for (benefit from) income taxes of $(124) million and $(150) million for the quarters ended September 30, 2013 and 2012, respectively, and $176 million and $26 million for the nine months ended September 30, 2013 and 2012, respectively.
(2) Amounts are net of provision for income taxes of $1 million and $1 million for the quarters ended September 30, 2013 and 2012, respectively, and $2 million and $3 million for the nine months ended September 30, 2013 and 2012, respectively.
(3) Amounts are net of provision for (benefit from) income taxes of $23 million and $46 million for the quarters ended September 30, 2013 and 2012, respectively, and $(230) million and $63 million for the nine months ended September 30, 2013 and 2012, respectively.
(4) Amounts are net of provision for income taxes of $2 million and $8 million for the quarters ended September 30, 2013 and 2012, respectively, and $13 million and $18 million for the nine months ended September 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY

Condensed Consolidated Statements of Cash Flows
(dollars in millions)
(unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 3,440	$ (72)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss on equity method investees	(339)	24
Compensation payable in common stock and options	850	898
Depreciation and amortization	1,084	1,218
Gain on business dispositions	(34)	(108)
Gain on sale of securities available for sale	(43)	(53)
Impairment charges	182	224
Provision for credit losses on lending activities	116	127
Other non–cash adjustments to net income	31	1
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(6,422)	607
Trading assets, net of Trading liabilities	(5,944)	31,556
Securities borrowed	(17,468)	(11,471)
Securities loaned	(4,042)	5,458
Customer and other receivables and other assets	6,761	(23,746)
Customer and other payables and other liabilities	21,500	9,765
Federal funds sold and securities purchased under agreements to resell	424	(6,127)
Securities sold under agreements to repurchase	16,724	14,465
Net cash provided by operating activities	16,820	22,766
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (payments for):		
Premises, equipment and software costs	(944)	(865)
Business dispositions, net of cash disposed	569	1,536
Loans, net	(6,046)	(1,739)
Purchases of securities available for sale	(20,497)	(17,492)
Sales, maturities and redemptions of securities available for sale	12,812	8,200
Other investing activities	117	6
Net cash used for investing activities	(13,989)	(10,354)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Commercial paper and other short–term borrowings	195	(720)
Noncontrolling interests	(549)	(186)
Other secured financings	(1,395)	(4,291)
Deposits	21,541	5,095
Proceeds from:		
Excess tax benefits associated with stock–based awards	8	42
Derivatives financing activities	244	220
Issuance of Series E Preferred Stock	854	—
Issuance of long–term borrowings	24,766	16,196
Payments for:		
Long–term borrowings	(31,084)	(36,386)
Derivatives financing activities	(237)	(118)
Repurchases of common stock	(451)	(222)
Purchase of additional stake in Morgan Stanley Smith Barney Holdings LLC	(4,725)	(1,890)
Cash dividends	(358)	(349)
Net cash provided by (used for) financing activities	8,809	(22,609)
Effect of exchange rate changes on cash and cash equivalents	(298)	(42)
Effect of cash and cash equivalents related to variable interest entities	(465)	(487)
Net increase (decrease) in cash and cash equivalents	10,877	(10,726)
Cash and cash equivalents, at beginning of period	46,904	47,312
Cash and cash equivalents, at end of period	$ 57,781	$ 36,586
Cash and cash equivalents include:		
Cash and due from banks	$ 14,333	$ 18,239
Interest bearing deposits with banks	43,448	18,347
Cash and cash equivalents, at end of period	$ 57,781	$ 36,586

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $3,372 million and $3,423 million for the nine months ended September 30, 2013 and 2012, respectively.

Cash payments for income taxes were $598 million and $330 million for the nine months ended September 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

MORGAN STANLEY

Condensed Consolidated Statements of Changes in Total Equity
Nine Months Ended September 30, 2013
(dollars in millions)
(unaudited)

	Preferred Stock	Common Stock	Additional Paid–in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non–redeemable Non–controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2012	$ 1,508	$ 20	$ 23,426	$ 39,912	$ 2,932	$ (516)	$ (2,241)	$ (2,932)	$ 3,319	$65,428
Net income applicable to Morgan Stanley	—	—	—	2,848	—	—	—	—	—	2,848
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	370	370
Dividends	—	—	—	(372)	—	—	—	—	—	(372)
Shares issued under employee plans and related tax effects	—	—	817	—	(1,179)	—	(28)	1,179	—	789
Repurchases of common stock	—	—	—	—	—	—	(451)	—	—	(451)
Foreign currency translation adjustments	—	—	—	—	—	(180)	—	—	(141)	(321)
Net change in cash flow hedges	—	—	—	—	—	3	—	—	—	3
Change in net unrealized losses on securities available for sale	—	—	—	—	—	(336)	—	—	—	(336)
Pension, postretirement and other related adjustments	—	—	—	—	—	15	—	—	—	15
Issuance of Series E Preferred Stock	862	—	(8)	—	—	—	—	—	—	854
Morgan Stanley Smith Barney Holdings LLC redemption value adjustment	—	—	—	(151)	—	—	—	—	—	(151)
Other net decreases	—	—	—	—	—	—	—	—	(435)	(435)
BALANCE AT SEPTEMBER 30, 2013	$ 2,370	$ 20	$ 24,235	$ 42,237	$ 1,753	$ (1,014)	$ (2,720)	$ (1,753)	$ 3,113	$68,241

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY

Condensed Consolidated Statements of Changes in Total Equity—(Continued)
Nine Months Ended September 30, 2012
(dollars in millions)
(unaudited)

	Preferred Stock	Common Stock	Additional Paid–in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non–Redeemable Non–controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2011	$ 1,508	$ 20	$ 22,836	$ 40,341	$ 3,166	$ (157)	$ (2,499)	$ (3,166)	$ 8,029	$70,078
Net loss applicable to Morgan Stanley	—	—	—	(526)	—	—	—	—	—	(526)
Net income applicable to nonredeemable noncontrolling interests	—	—	—	—	—	—	—	—	446	446
Dividends	—	—	—	(374)	—	—	—	—	—	(374)
Shares issued under employee plans and related tax effects	—	—	473	—	(187)	—	495	187	—	968
Repurchases of common stock	—	—	—	—	—	—	(222)	—	—	(222)
Foreign currency translation adjustments	—	—	—	—	—	(88)	—	—	—	(88)
Net change in cash flow hedges	—	—	—	—	—	5	—	—	—	5
Change in net unrealized gains on securities available for sale	—	—	—	—	—	84	—	—	—	84
Pension, postretirement and other related adjustments	—	—	—	—	—	10	—	—	5	15
Purchase of additional stake in Morgan Stanley Smith Barney Holdings LLC	—	—	(107)	—	—	—	—	—	(1,718)	(1,825)
Reclassification to redeemable noncontrolling interests	—	—	—	—	—	—	—	—	(4,296)	(4,296)
Other net increases	—	—	—	—	—	—	—	—	905	905
BALANCE AT SEPTEMBER 30, 2012	$ 1,508	$ 20	$ 23,202	$ 39,441	$ 2,979	$ (146)	$ (2,226)	$ (2,979)	$ 3,371	$65,170

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

1. Introduction and Basis of Presentation.

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

Effective with the quarter ended June 30, 2013, the Global Wealth Management Group and Asset Management business segments were re−titled Wealth Management and Investment Management, respectively.

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

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

Wealth Management provides brokerage and investment advisory services to individual investors and small−to−medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income trading, which primarily facilitates clients’ trading or investments in such securities.

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

Discontinued Operations.

Quilter. On April 2, 2012, the Company completed the sale of Quilter & Co. Ltd. (“Quilter”), its retail wealth management business in the United Kingdom (“U.K.”). The results of Quilter are reported as discontinued operations within the Wealth Management business segment for all periods presented.

Saxon. On October 24, 2011, the Company announced that it had reached an agreement to sell Saxon, a provider of servicing and subservicing of residential mortgage loans, to Ocwen Financial Corporation. The transaction, which was restructured as a sale of Saxon’s assets during the first quarter of 2012, was substantially completed in the second quarter of 2012. The results of Saxon are reported as discontinued operations within the Institutional Securities business segment for all periods presented.

Prior period amounts have been recast for discontinued operations. See Note 21 for additional information on discontinued operations.

Basis of Financial Information. The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S.”), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of litigation and tax matters, and other matters that affect the condensed consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the condensed consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

Intercompany balances and transactions have been eliminated.

In the quarter ended March 31, 2013, the Company renamed “Principal transactions—Trading” revenues as “Trading” revenues and “Principal transactions—Investments” revenues as “Investments” revenues in the condensed consolidated statements of income, and “Financial instruments owned” as “Trading assets,” “Financial instruments sold, not yet purchased” as “Trading liabilities,” “Receivables” as “Customer and other receivables” and “Payables” as “Customer and other payables” in the condensed consolidated statements of financial condition.

The condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10–K for the year ended December 31, 2012 (the “Form 10–K”). The condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Consolidation. The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest, including certain variable interest entities (“VIE”) (see Note 7). For consolidated subsidiaries that are less than wholly owned, the third–party holdings of equity interests are referred to as noncontrolling interests. The portion of net income attributable to noncontrolling interests for such subsidiaries is presented as either Net income (loss) applicable to redeemable noncontrolling interests or Net income (loss) applicable to nonredeemable noncontrolling interests in the condensed consolidated statements of income. The portion of the shareholders’ equity of such subsidiaries that is redeemable is presented as Redeemable noncontrolling interests outside of the equity section in the condensed consolidated statements of financial condition. The portion of the shareholders’ equity of such subsidiaries that is nonredeemable is presented as Nonredeemable noncontrolling interests, a component of total equity, in the condensed consolidated statements of financial condition.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Company consolidates those entities it controls either through a majority voting interest or otherwise. For VIEs (*i.e.*, entities that do not meet these criteria), the Company consolidates those entities where the Company has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that are money market funds, investment companies or are entities qualifying for accounting purposes as investment companies. Generally, the Company consolidates those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For investments in entities in which the Company does not have a controlling financial interest but has significant influence over operating and financial decisions, the Company generally applies the equity method of accounting with net gains and losses recorded within Other revenues. Where the Company has elected to measure certain eligible investments at fair value in accordance with the fair value option, net gains and losses are recorded within Investments revenues (see Note 4).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies are carried at fair value.

The Company’s significant regulated U.S. and international subsidiaries include Morgan Stanley & Co. LLC (“MS&Co.”), Morgan Stanley Smith Barney LLC (“MSSB LLC”), Morgan Stanley & Co. International plc (“MSIP”), Morgan Stanley MUFG Securities Co., Ltd. (“MSMS”), Morgan Stanley Bank, N.A. (“MSBNA”) and Morgan Stanley Private Bank, National Association (“MSPBNA”).

Income Statement Presentation. The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. In connection with the delivery of the various products and services to clients, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in its Institutional Securities business segment, the Company considers its trading, investment banking, commissions and fees and interest income, along with the associated interest expense, as one integrated activity.

2. Significant Accounting Policies.

For a detailed discussion about the Company's significant accounting policies, see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K.

During the nine months ended September 30, 2013, no updates were made to the Company's significant accounting policies.

Condensed Consolidated Statements of Cash Flows.

For purposes of the condensed consolidated statements of cash flows, cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks, which are highly liquid investments with original maturities of three months or less, held for investment purposes, and readily convertible to known amounts of cash.

In the nine months ended September 30, 2012, the Company's significant non–cash activities included approximately $1.1 billion of net assets received from Citigroup, Inc. ("Citi") related to Citi's required equity contribution in connection with the Morgan Stanley Smith Barney Holdings LLC ("Wealth Management JV") platform integration (see Notes 3 and 14).

Accounting Developments.

Disclosures about Offsetting Assets and Liabilities. In January 2013, the Financial Accounting Standards Board (the "FASB") issued an accounting update that clarified the intended scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. These disclosure requirements became effective for the Company beginning on January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption has not affected the Company's condensed consolidated statements of income or financial condition (see Notes 6 and 11).

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. In February 2013, the FASB issued an accounting update that created new disclosure requirements requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles ("GAAP") to be reclassified in its entirety to net income. The disclosure requirements became effective for the Company beginning on January 1, 2013. Since these amended principles require only additional disclosures concerning amounts reclassified out of accumulated other comprehensive income, adoption has not affected the Company's condensed consolidated statements of comprehensive income or notes to the condensed consolidated financial statements (see Note 14).

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. In July 2013, the FASB issued an accounting update that included amendments permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). The amendments also removed the restriction on using different benchmark rates for similar hedges. The amendments became effective for the Company for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements.

3. Morgan Stanley Smith Barney Holdings LLC.

On May 31, 2009, the Company and Citi consummated the combination of each institution's respective wealth management business. The combined businesses operated as the Wealth Management JV through June 2013.

Prior to September 2012, the Company owned 51% and Citi owned 49% of the Wealth Management JV. On September 17, 2012, the Company purchased an additional 14% stake in the Wealth Management JV from Citi for $1.89 billion, increasing the Company's interest from 51% to 65%. In addition, in September 2012, the terms of the Wealth Management JV agreement regarding the purchase of the remaining 35% interest were amended, which resulted in a reclassification of approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests during the third quarter of 2012. Prior to September 17, 2012, Citi's results related to its 49% interest were reported in net income (loss) applicable to nonredeemable noncontrolling interests in the condensed consolidated statements of income. Subsequent to the purchase of the additional 14% stake, Citi's results related to its 35% interest were reported in net income (loss) applicable to redeemable noncontrolling interests in the condensed consolidated statements of income. In connection with the Company's acquisition of the additional 14% stake in the Wealth Management JV and pursuant to an amended deposit sweep agreement between Citi and the Company, in October 2012 $5.4 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions at no premium based on a valuation agreement reached between Citi and the Company, and as such were no longer swept to Citi.

In June 2013, the Company received final regulatory approval to acquire the remaining 35% stake in the Wealth Management JV. On June 28, 2013, the Company purchased the remaining 35% interest for $4.725 billion, increasing the Company's interest from 65% to 100%. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) to reflect the difference between the purchase price for the 35% interest in the Wealth Management JV and its carrying value. This adjustment negatively impacted the calculation of basic and diluted earnings per share for the nine months ended September 30, 2013 (see Note 15).

Additionally, in conjunction with the purchase of the remaining 35% interest, in June 2013 the Company redeemed all of the Class A Preferred Interests in the Wealth Management JV owned by Citi and its affiliates for approximately $2.028 billion and repaid to Citi $880 million in senior debt.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. During the quarter ended September 30, 2013, approximately $21 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions. At September 30, 2013, approximately $35 billion of deposits will be transferred to the Company's depository institutions on an agreed upon basis through June 2015 (see Note 22).

4. Fair Value Disclosures.

Fair Value Measurements.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Trading Assets and Trading Liabilities.

U.S. Government and Agency Securities.

- U.S. Treasury Securities. U.S. Treasury securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy.
- U.S. Agency Securities. U.S. agency securities are composed of three main categories consisting of agency–issued debt, agency mortgage pass–through pool securities and collateralized mortgage obligations. Non–callable agency–issued debt securities are generally valued using quoted market prices. Callable agency–issued debt securities are valued by benchmarking model–derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage pass–through pool securities is model–driven based on spreads of the comparable To–be–announced ("TBA") security. Collateralized mortgage obligations are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities. Actively traded non–callable agency–issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency–issued debt securities, agency mortgage pass–through pool securities and collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy.

Other Sovereign Government Obligations.

- Foreign sovereign government obligations are valued using quoted prices in active markets when available. These bonds are generally categorized in Level 1 of the fair value hierarchy. If the market is less active or prices are dispersed, these bonds are categorized in Level 2 of the fair value hierarchy.

Corporate and Other Debt.

- State and Municipal Securities. The fair value of state and municipal securities is determined using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.
- Residential Mortgage–Backed Securities ("RMBS"), Commercial Mortgage–Backed Securities ("CMBS") and other Asset–Backed Securities ("ABS"). RMBS, CMBS and other ABS may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers. When position–specific external price data are not observable, the fair value determination may require benchmarking to similar instruments and/or analyzing expected credit losses, default and recovery rates, and/or applying discounted cash flow techniques. In evaluating the fair value of each security, the Company considers security collateral–specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity. In addition, for RMBS borrowers, Fair Isaac Corporation ("FICO") scores and the level of documentation for the loan are also considered. Market standard models, such as Intex, Trepp or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, default and prepayment rates for each asset category. Valuation levels of RMBS and CMBS indices are also used as an additional data point for benchmarking purposes or to price outright index positions.

RMBS, CMBS and other ABS are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs, then RMBS, CMBS and other ABS are categorized in Level 3 of the fair value hierarchy.

- Corporate Bonds. The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position–specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single–name credit default swap spreads and recovery rates as significant inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where prices, spreads or any of the other aforementioned key inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

- Collateralized Debt Obligation (“CDO”). The Company holds cash CDOs that typically reference a tranche of an underlying synthetic portfolio of single name credit default swaps collateralized by corporate bonds (“credit–linked notes”) or cash portfolio of asset–backed securities (“asset–backed CDOs”). Credit correlation, a primary input used to determine the fair value of credit–linked notes, is usually unobservable and derived using a benchmarking technique. The other credit–linked note model inputs such as credit spreads, including collateral spreads, and interest rates are typically observable. Asset–backed CDOs are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each asset–backed CDO position is evaluated independently taking into consideration available comparable market levels, underlying collateral performance and pricing, and deal structures, as well as liquidity. Cash CDOs are categorized in Level 2 of the fair value hierarchy when either the credit correlation input is insignificant or comparable market transactions are observable. In instances where the credit correlation input is deemed to be significant or comparable market transactions are unobservable, cash CDOs are categorized in Level 3 of the fair value hierarchy.

- Corporate Loans and Lending Commitments. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Corporate loans and lending commitments are categorized in Level 2 of the fair value hierarchy except in instances where prices or significant spread inputs are unobservable, in which case they are categorized in Level 3 of the fair value hierarchy.

- Mortgage Loans. Mortgage loans are valued using observable prices based on transactional data or third–party pricing for identical or comparable instruments, when available. Where position–specific external prices are not observable, the Company estimates fair value based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved

or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions. Mortgage loans valued based on observable market data for identical or comparable instruments are categorized in Level 2 of the fair value hierarchy. Where observable prices are not available, due to the subjectivity involved in the comparability assessment related to mortgage loan vintage, geographical concentration, prepayment speed and projected loss assumptions, mortgage loans are categorized in Level 3 of the fair value hierarchy. Mortgage loans are presented within Loans and lending commitments in the fair value hierarchy table.

- Auction Rate Securities ("ARS"). The Company primarily holds investments in Student Loan Auction Rate Securities ("SLARS") and Municipal Auction Rate Securities ("MARS") with interest rates that are reset through periodic auctions. SLARS are ABS backed by pools of student loans. MARS are municipal bonds often wrapped by municipal bond insurance. ARS were historically traded and valued as floating rate notes, priced at par due to the auction mechanism. Beginning in fiscal 2008, uncertainties in the credit markets have resulted in auctions failing for certain types of ARS. Once the auctions failed, ARS could no longer be valued using observations of auction market prices. Accordingly, the fair value of ARS is determined using independent external market data where available and an internally developed methodology to discount for the lack of liquidity and non−performance risk.

  Inputs that impact the valuation of SLARS are independent external market data, the underlying collateral types, level of seniority in the capital structure, amount of leverage in each structure, credit rating and liquidity considerations. Inputs that impact the valuation of MARS are recently executed transactions, the maximum rate, quality of underlying issuers/insurers and evidence of issuer calls/prepayment. ARS are generally categorized in Level 2 of the fair value hierarchy as the valuation technique relies on observable external data. SLARS and MARS are presented within Asset−backed securities and State and municipal securities, respectively, in the fair value hierarchy table.

Corporate Equities.

- Exchange−Traded Equity Securities. Exchange−traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy; otherwise, they are categorized in Level 2 or Level 3 of the fair value hierarchy.
- Unlisted Equity Securities. Unlisted equity securities are valued based on an assessment of each underlying security, considering rounds of financing and third−party transactions, discounted cash flow analyses and market−based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. These securities are generally categorized in Level 3 of the fair value hierarchy.
- Fund Units. Listed fund units are generally marked to the exchange−traded price or net asset value ("NAV") and are categorized in Level 1 of the fair value hierarchy if actively traded on an exchange or in Level 2 of the fair value hierarchy if trading is not active. Unlisted fund units are generally marked to NAV and categorized as Level 2; however, positions which are not redeemable at the measurement date or in the near future are categorized in Level 3 of the fair value hierarchy.

Derivative and Other Contracts.

- Listed Derivative Contracts. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to over−the−counter ("OTC") derivatives; they are generally categorized in Level 2 of the fair value hierarchy.

- OTC Derivative Contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

  Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed−form analytic formulas, such as the Black−Scholes option−pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy.

  Other derivative products, including complex products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. This includes certain types of interest rate derivatives with both volatility and correlation exposure and credit derivatives including credit default swaps on certain mortgage−backed or asset−backed securities, basket credit default swaps and CDO−squared positions (a CDO−squared position is a special purpose vehicle that issues interests, or tranches, that are backed by tranches issued by other CDOs) where direct trading activity or quotes are unobservable. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy.

  Derivative interests in credit default swaps on certain mortgage−backed or asset−backed securities, for which observability of external price data is limited, are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each position is evaluated independently taking into consideration available comparable market levels as well as cash−synthetic basis, or the underlying collateral performance and pricing, behavior of the tranche under various cumulative loss and prepayment scenarios, deal structures (*e.g*., non−amortizing reference obligations, call features, etc.) and liquidity. While these factors may be supported by historical and actual external observations, the determination of their value as it relates to specific positions nevertheless requires significant judgment.

  For basket credit default swaps and CDO−squared positions, the correlation input between reference credits is unobservable for each specific swap or position and is benchmarked to standardized proxy baskets for which correlation data are available. The other model inputs such as credit spread, interest rates and recovery rates are observable. In instances where the correlation input is deemed to be significant, these instruments are categorized in Level 3 of the fair value hierarchy; otherwise, these instruments are categorized in Level 2 of the fair value hierarchy.

  The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier price curves, implied volatility of the underlying commodities and, in some cases, the implied correlation between these inputs. The fair value of these products is determined using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and data points, based on historic and/or implied observations, are employed as a technique to estimate the model input values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

  For further information on derivative instruments and hedging activities, see Note 11.

Investments.

- The Company's investments include direct investments in equity securities as well as investments in private equity funds, real estate funds and hedge funds, which include investments made in connection with certain employee deferred compensation plans. Direct investments are presented in the fair value hierarchy table as Principal investments and Other. Initially, the transaction price is generally considered by the Company as the exit price and is the Company's best estimate of fair value.

  After initial recognition, in determining the fair value of non–exchange–traded internally and externally managed funds, the Company generally considers the NAV of the fund provided by the fund manager to be the best estimate of fair value. For non–exchange–traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third–party transactions, discounted cash flow analyses and market–based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Exchange–traded direct equity investments are generally valued based on quoted prices from the exchange.

  Exchange–traded direct equity investments that are actively traded are categorized in Level 1 of the fair value hierarchy. Non–exchange–traded direct equity investments and investments in private equity and real estate funds are generally categorized in Level 3 of the fair value hierarchy. Investments in hedge funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

Physical Commodities.

- The Company trades various physical commodities, including crude oil and refined products, natural gas, base and precious metals, and agricultural products. Fair value for physical commodities is determined using observable inputs, including broker quotations and published indices. Physical commodities are categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Securities Available for Sale.

- Securities available for sale are composed of U.S. government and agency securities (*e.g*., U.S. Treasury securities, agency–issued debt, agency mortgage pass–through securities and collateralized mortgage obligations), CMBS, Federal Family Education Loan Program ("FFELP") student loan asset–backed securities, auto loan asset–backed securities, corporate bonds and equity securities. Actively traded U.S. Treasury securities, non–callable agency–issued debt securities and equity securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency–issued debt securities, agency mortgage pass–through securities, collateralized mortgage obligations, CMBS, FFELP student loan asset–backed securities, auto loan asset–backed securities and corporate bonds are generally categorized in Level 2 of the fair value hierarchy. For further information on securities available for sale, see Note 5.

Deposits.

- Time Deposits. The fair value of certificates of deposit is determined using third–party quotations. These deposits are generally categorized in Level 2 of the fair value hierarchy.

Commercial Paper and Other Short–Term Borrowings/Long–Term Borrowings.

- Structured Notes. The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured

notes is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency, commodity or equity prices. Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit spreads is also included based on the Company's observed secondary bond market spreads. Most structured notes are categorized in Level 2 of the fair value hierarchy.

Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase.

- The fair value of a reverse repurchase agreement or repurchase agreement is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities. In instances where the unobservable inputs are deemed significant, reverse repurchase agreements and repurchase agreements are categorized in Level 3 of the fair value hierarchy; otherwise, they are categorized in Level 2 of the fair value hierarchy.

The following fair value hierarchy tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2013.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at September 30, 2013
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 38,453	$ 8	$ —	$ —	$ 38,461
U.S. agency securities	2,030	21,381	—	—	23,411
Total U.S. government and agency securities	40,483	21,389	—	—	61,872
Other sovereign government obligations	24,605	7,076	2	—	31,683
Corporate and other debt:					
State and municipal securities	—	1,580	—	—	1,580
Residential mortgage–backed securities	—	2,525	90	—	2,615
Commercial mortgage–backed securities	—	1,343	150	—	1,493
Asset–backed securities	—	875	99	—	974
Corporate bonds	—	16,862	537	—	17,399
Collateralized debt obligations	—	263	1,380	—	1,643
Loans and lending commitments	—	9,364	4,098	—	13,462
Other debt	—	5,669	21	—	5,690
Total corporate and other debt	—	38,481	6,375	—	44,856
Corporate equities(1)	86,385	1,199	243	—	87,827
Derivative and other contracts:					
Interest rate contracts	2,129	585,689	2,880	—	590,698
Credit contracts	—	46,729	2,942	—	49,671
Foreign exchange contracts	21	55,992	129	—	56,142
Equity contracts	1,254	53,406	1,448	—	56,108
Commodity contracts	2,886	12,197	2,264	—	17,347
Other	—	36	—	—	36
Netting(2)	(5,321)	(664,134)	(5,657)	(59,452)	(734,564)
Total derivative and other contracts	969	89,915	4,006	(59,452)	35,438
Investments:					
Private equity funds	—	1	2,449	—	2,450
Real estate funds	—	6	1,523	—	1,529
Hedge funds	—	373	431	—	804
Principal investments	29	672	2,338	—	3,039
Other	187	71	494	—	752
Total investments	216	1,123	7,235	—	8,574
Physical commodities	—	3,408	—	—	3,408
Total trading assets	152,658	162,591	17,861	(59,452)	273,658
Securities available for sale	19,854	27,012	—	—	46,866
Securities received as collateral	15,981	61	—	—	16,042
Federal funds sold and securities purchased under agreements to resell	—	868	—	—	868
Intangible assets(3)	—	—	8	—	8
Total assets measured at fair value	$ 188,493	$ 190,532	$ 17,869	$ (59,452)	$ 337,442

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at September 30, 2013
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$ —	$ 1,411	$ —	$ —	$ 1,411
Commercial paper and other short–term borrowings	—	1,620	3	—	1,623
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	16,432	—	—	—	16,432
U.S. agency securities	3,041	127	—	—	3,168
Total U.S. government and agency securities	19,473	127	—	—	19,600
Other sovereign government obligations	21,468	2,375	—	—	23,843
Corporate and other debt:					
State and municipal securities	—	32	—	—	32
Residential mortgage–backed securities	—	—	4	—	4
Commercial mortgage–backed securities	—	4	—	—	4
Corporate bonds	—	8,191	5	—	8,196
Collateralized debt obligations	—	6	—	—	6
Unfunded lending commitments	—	154	4	—	158
Other debt	—	277	9	—	286
Total corporate and other debt	—	8,664	22	—	8,686
Corporate equities(1)	31,842	496	10	—	32,348
Derivative and other contracts:					
Interest rate contracts	2,527	560,796	2,570	—	565,893
Credit contracts	—	45,344	2,232	—	47,576
Foreign exchange contracts	9	56,668	164	—	56,841
Equity contracts	893	59,261	3,079	—	63,233
Commodity contracts	3,236	12,505	1,409	—	17,150
Other	—	203	1	—	204
Netting(2)	(5,321)	(664,134)	(5,657)	(37,617)	(712,729)
Total derivative and other contracts	1,344	70,643	3,798	(37,617)	38,168
Total trading liabilities	74,127	82,305	3,830	(37,617)	122,645
Obligation to return securities received as collateral	20,829	70	—	—	20,899
Securities sold under agreements to repurchase	—	404	150	—	554
Other secured financings	—	5,885	260	—	6,145
Long–term borrowings	—	34,406	2,313	—	36,719
Total liabilities measured at fair value	$ 94,956	$ 126,101	$ 6,556	$ (37,617)	$ 189,996

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.
(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Counterparty and Cash Collateral Netting." For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 11.
(3) Amount represents mortgage servicing rights ("MSR") accounted for at fair value. See Note 7 for further information on MSRs.

Transfers Between Level 1 and Level 2 During the Quarter and Nine Months Ended September 30, 2013.

For assets and liabilities that were transferred between Level 1 and Level 2 during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

In the quarter and nine months ended September 30, 2013, there were no material transfers between Level 1 and Level 2.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2012.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2012
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 24,662	$ 14	$ —	$ —	$ 24,676
U.S. agency securities	1,451	27,888	—	—	29,339
Total U.S. government and agency securities	26,113	27,902	—	—	54,015
Other sovereign government obligations	37,669	5,487	6	—	43,162
Corporate and other debt:					
State and municipal securities	—	1,558	—	—	1,558
Residential mortgage–backed securities	—	1,439	45	—	1,484
Commercial mortgage–backed securities	—	1,347	232	—	1,579
Asset–backed securities	—	915	109	—	1,024
Corporate bonds	—	18,403	660	—	19,063
Collateralized debt obligations	—	685	1,951	—	2,636
Loans and lending commitments	—	12,617	4,694	—	17,311
Other debt	—	4,457	45	—	4,502
Total corporate and other debt	—	41,421	7,736	—	49,157
Corporate equities(1)	68,072	1,067	288	—	69,427
Derivative and other contracts:					
Interest rate contracts	446	819,581	3,774	—	823,801
Credit contracts	—	63,234	5,033	—	68,267
Foreign exchange contracts	34	52,729	31	—	52,794
Equity contracts	760	37,074	766	—	38,600
Commodity contracts	4,082	14,256	2,308	—	20,646
Other	—	143	—	—	143
Netting(2)	(4,740)	(883,733)	(6,947)	(72,634)	(968,054)
Total derivative and other contracts	582	103,284	4,965	(72,634)	36,197
Investments:					
Private equity funds	—	—	2,179	—	2,179
Real estate funds	—	6	1,370	—	1,376
Hedge funds	—	382	552	—	934
Principal investments	185	83	2,833	—	3,101
Other	199	71	486	—	756
Total investments	384	542	7,420	—	8,346
Physical commodities	—	7,299	—	—	7,299
Total trading assets	132,820	187,002	20,415	(72,634)	267,603
Securities available for sale	14,466	25,403	—	—	39,869
Securities received as collateral	14,232	46	—	—	14,278
Federal funds sold and securities purchased under agreements to resell	—	621	—	—	621
Intangible assets(3)	—	—	7	—	7
Total assets measured at fair value	$ 161,518	$ 213,072	$ 20,422	$ (72,634)	$ 322,378

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2012
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$ —	$ 1,485	$ —	$ —	$ 1,485
Commercial paper and other short−term borrowings	—	706	19	—	725
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	20,098	21	—	—	20,119
U.S. agency securities	1,394	107	—	—	1,501
Total U.S. government and agency securities	21,492	128	—	—	21,620
Other sovereign government obligations	27,583	2,031	—	—	29,614
Corporate and other debt:					
State and municipal securities	—	47	—	—	47
Residential mortgage−backed securities	—	—	4	—	4
Corporate bonds	—	3,942	177	—	4,119
Collateralized debt obligations	—	328	—	—	328
Unfunded lending commitments	—	305	46	—	351
Other debt	—	156	49	—	205
Total corporate and other debt	—	4,778	276	—	5,054
Corporate equities(1)	25,216	1,655	5	—	26,876
Derivative and other contracts:					
Interest rate contracts	533	789,715	3,856	—	794,104
Credit contracts	—	61,283	3,211	—	64,494
Foreign exchange contracts	2	56,021	390	—	56,413
Equity contracts	748	39,212	1,910	—	41,870
Commodity contracts	4,530	15,702	1,599	—	21,831
Other	—	54	7	—	61
Netting(2)	(4,740)	(883,733)	(6,947)	(46,395)	(941,815)
Total derivative and other contracts	1,073	78,254	4,026	(46,395)	36,958
Total trading liabilities	75,364	86,846	4,307	(46,395)	120,122
Obligation to return securities received as collateral	18,179	47	—	—	18,226
Securities sold under agreements to repurchase	—	212	151	—	363
Other secured financings	—	9,060	406	—	9,466
Long−term borrowings	—	41,255	2,789	—	44,044
Total liabilities measured at fair value	$ 93,543	$ 139,611	$ 7,672	$ (46,395)	$ 194,431

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.
(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Counterparty and Cash Collateral Netting." For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 11.
(3) Amount represents MSRs accounted for at fair value. See Note 7 for further information on MSRs.

Transfers Between Level 1 and Level 2 During the Quarter Ended September 30, 2012.

Trading assets—Derivative and other contracts and Trading liabilities—Derivative and other contracts. During the quarter ended September 30, 2012, the Company reclassified approximately $1.2 billion of derivative assets and approximately $1.5 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange. Also during the quarter ended September 30, 2012, the Company reclassified approximately $0.5 billion of derivative assets and approximately $0.5 billion of derivative liabilities from Level 1 to Level 2 as transactions in these contracts did not occur with sufficient frequency and volume to constitute an active market.

Transfers Between Level 1 and Level 2 During the Nine Months Ended September 30, 2012.

Trading assets—Derivative and other contracts and Trading liabilities—Derivative and other contracts. During the nine months ended September 30, 2012, the Company reclassified approximately $2.7 billion of derivative assets and approximately $2.6 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange. Also during the nine months ended September 30, 2012, the Company reclassified approximately $0.3 billion of derivative assets and approximately $0.3 billion of derivative liabilities from Level 1 to Level 2 as transactions in these contracts did not occur with sufficient frequency and volume to constitute an active market.

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis.

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and nine months ended September 30, 2013 and 2012, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (*e.g.*, changes in market interest rates) and unobservable (*e.g.*, changes in unobservable long–dated volatilities) inputs.

For assets and liabilities that were transferred into Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the period; similarly, for assets and liabilities that were transferred out of Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred out at the beginning of the period.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Quarter Ended September 30, 2013.

	Beginning Balance at June 30, 2013	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 4	$ —	$ 2	(4)	$ —	$ —	$ —	$ 2	$ —
Corporate and other debt:									
Residential mortgage–backed securities	19	(2)	72	(3)	—	—	4	90	(3)
Commercial mortgage–backed securities	181	(2)	39	(61)	—	—	(7)	150	5
Asset–backed securities	108	—	13	(23)	—	—	1	99	—
Corporate bonds	509	43	76	(79)	—	—	(12)	537	36
Collateralized debt obligations	1,333	60	269	(206)	—	(55)	(21)	1,380	28
Loans and lending commitments	5,243	(72)	530	(112)	—	(1,279)	(212)	4,098	(111)
Other debt	12	—	14	(5)	—	—	—	21	—
Total corporate and other debt	7,405	27	1,013	(489)	—	(1,334)	(247)	6,375	(45)
Corporate equities	256	(25)	38	(20)	—	—	(6)	243	(3)
Net derivative and other contracts(3):									
Interest rate contracts	16	262	4	—	(72)	11	89	310	111
Credit contracts	685	(259)	41	—	(46)	(146)	435	710	(448)
Foreign exchange contracts	(96)	6	—	—	—	61	(6)	(35)	6
Equity contracts	(1,284)	(309)	102	—	(190)	39	11	(1,631)	(429)
Commodity contracts	781	45	4	—	(1)	23	3	855	73
Other	(6)	—	—	—	—	5	—	(1)	(2)
Total net derivative and other contracts	96	(255)	151	—	(309)	(7)	532	208	(689)
Investments:									
Private equity funds	2,286	213	24	(74)	—	—	—	2,449	163
Real estate funds	1,422	159	18	(76)	—	—	—	1,523	196
Hedge funds	407	5	7	(17)	—	—	29	431	5
Principal investments	2,822	84	10	(125)	—	—	(453)	2,338	71
Other	385	16	3	—	—	—	90	494	16
Total investments	7,322	477	62	(292)	—	—	(334)	7,235	451
Intangible assets	9	—	—	—	—	(1)	—	8	—
Liabilities at Fair Value									
Commercial paper and other short–term borrowings	$ —	$ —	$ —	$ —	$ —	$ —	$ 3	$ 3	$ —
Trading liabilities:									
Corporate and other debt:									
Residential mortgage–backed securities	4	—	—	—	—	—	—	4	—
Corporate bonds	42	(15)	(64)	26	—	—	(14)	5	(17)
Unfunded lending commitments	8	4	—	—	—	—	—	4	4
Other debt	11	1	(1)	—	—	—	—	9	—
Total corporate and other debt	65	(10)	(65)	26	—	—	(14)	22	(13)
Corporate equities	16	(5)	(19)	8	—	—	—	10	(9)
Securities sold under agreements to repurchase	148	(2)	—	—	—	—	—	150	(2)
Other secured financings	256	(5)	—	—	—	(1)	—	260	(5)
Long–term borrowings	2,705	(98)	—	—	188	(344)	(334)	2,313	(89)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $477 million related to Trading assets—Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2013 related to assets and liabilities still outstanding at September 30, 2013.

(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 11.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2013.

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 6	$ —	$ 3	$ (8)	$ —	$ —	$ 1	$ 2	$ —
Corporate and other debt:									
Residential mortgage–backed securities	45	29	85	(45)	—	—	(24)	90	8
Commercial mortgage–backed securities	232	6	78	(166)	—	—	—	150	7
Asset–backed securities	109	1	4	(15)	—	—	—	99	—
Corporate bonds	660	64	327	(462)	—	(12)	(40)	537	15
Collateralized debt obligations	1,951	276	612	(1,405)	—	(53)	(1)	1,380	118
Loans and lending commitments	4,694	(308)	1,607	(316)	—	(1,838)	259	4,098	(306)
Other debt	45	(3)	15	(36)	—	—	—	21	1
Total corporate and other debt	7,736	65	2,728	(2,445)	—	(1,903)	194	6,375	(157)
Corporate equities	288	(36)	142	(164)	—	—	13	243	(4)
Net derivative and other contracts(3):									
Interest rate contracts	(82)	237	10	—	(86)	185	46	310	157
Credit contracts	1,822	(1,133)	184	—	(278)	(369)	484	710	(1,187)
Foreign exchange contracts	(359)	117	—	—	—	215	(8)	(35)	106
Equity contracts	(1,144)	(293)	123	(1)	(232)	(156)	72	(1,631)	(369)
Commodity contracts	709	90	40	—	(19)	36	(1)	855	124
Other	(7)	(4)	—	—	—	10	—	(1)	(6)
Total net derivative and other contracts	939	(986)	357	(1)	(615)	(79)	593	208	(1,175)
Investments:									
Private equity funds	2,179	432	96	(258)	—	—	—	2,449	409
Real estate funds	1,370	287	61	(195)	—	—	—	1,523	402
Hedge funds	552	5	46	(154)	—	—	(18)	431	6
Principal investments	2,833	96	106	(286)	—	—	(411)	2,338	63
Other	486	36	3	(30)	—	—	(1)	494	37
Total investments	7,420	856	312	(923)	—	—	(430)	7,235	917
Intangible assets	7	7	—	—	—	(6)	—	8	3

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2013(2)
					(dollars in millions)				
Liabilities at Fair Value									
Commercial paper and other short–term borrowings	$ 19	$ —	$ —	$ —	$ —	$ (1)	$ (15)	$ 3	$ —
Trading liabilities:									
Corporate and other debt:									
Residential mortgage–backed securities	4	—	—	—	—	—	—	4	—
Corporate bonds	177	(5)	(154)	76	—	—	(99)	5	(5)
Unfunded lending commitments	46	42	—	—	—	—	—	4	42
Other debt	49	13	(31)	2	—	—	2	9	6
Total corporate and other debt	276	50	(185)	78	—	—	(97)	22	43
Corporate equities	5	(1)	(19)	24	—	—	(1)	10	(10)
Securities sold under agreements to repurchase	151	1	—	—	—	—	—	150	1
Other secured financings	406	23	—	—	13	(136)	—	260	16
Long–term borrowings	2,789	(87)	—	—	875	(468)	(970)	2,313	(89)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $856 million related to Trading assets—Investments, which is included in Investments revenues.
(2) Amounts represent unrealized gains (losses) for the nine months ended September 30, 2013 related to assets and liabilities still outstanding at September 30, 2013.
(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 11.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for Quarter Ended September 30, 2012.

	Beginning Balance at June 30, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 1	$ —	$ 1	$ —	$ —	$ —	$ 1	$ 3	$ —
Corporate and other debt:									
State and municipal securities	3	1	—	(2)	—	—	—	2	—
Residential mortgage–backed securities	24	1	1	(4)	—	—	(2)	20	(1)
Commercial mortgage–backed securities	256	13	7	(54)	—	(99)	3	126	8
Asset–backed securities	9	1	—	—	—	—	—	10	1
Corporate bonds	745	50	86	(157)	—	—	33	757	51
Collateralized debt obligations	1,457	92	569	(200)	—	—	113	2,031	127
Loans and lending commitments	7,794	183	1,098	(366)	—	(674)	(210)	7,825	148
Other debt	13	—	12	(2)	—	—	(12)	11	—
Total corporate and other debt	10,301	341	1,773	(785)	—	(773)	(75)	10,782	334
Corporate equities	482	9	48	(95)	—	—	(73)	371	9
Net derivative and other contracts(3):									
Interest rate contracts	(172)	(282)	5	—	(10)	187	173	(99)	(76)
Credit contracts	3,842	(791)	22	—	(17)	(266)	(167)	2,623	(870)
Foreign exchange contracts	(224)	(101)	—	—	—	(12)	(74)	(411)	(102)
Equity contracts	(1,173)	(2)	126	(12)	(57)	32	(249)	(1,335)	(8)
Commodity contracts	937	(84)	11	—	(3)	(5)	(88)	768	(28)
Other	(27)	—	—	—	—	6	18	(3)	—
Total net derivative and other contracts	3,183	(1,260)	164	(12)	(87)	(58)	(387)	1,543	(1,084)
Investments:									
Private equity funds	2,005	162	127	(48)	—	—	—	2,246	153
Real estate funds	1,326	44	20	(36)	—	—	—	1,354	30
Hedge funds	533	19	42	(46)	—	—	16	564	14
Principal investments	3,047	1	33	(50)	—	—	(5)	3,026	3
Other	543	4	11	(9)	—	—	(73)	476	5
Total investments	7,454	230	233	(189)	—	—	(62)	7,666	205
Securities received as collateral	—	—	—	—	—	—	4	4	—
Intangible assets	8	—	—	—	—	(2)	—	6	—

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Beginning Balance at June 30, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
	(dollars in millions)								
Liabilities at Fair Value									
Commercial paper and other short–term borrowings	$ 2	$ —	$ —	$ —	$ —	$ —	$ 12	$ 14	$ —
Trading liabilities:									
Corporate and other debt:									
Residential mortgage–backed securities	4	—	—	—	—	—	—	4	—
Corporate bonds	127	(26)	(116)	56	—	—	(2)	91	(45)
Collateralized debt obligations	1	—	—	1	—	—	(1)	1	—
Unfunded lending commitments	51	(11)	—	—	—	—	—	62	(11)
Other debt	63	2	(6)	—	—	—	—	55	2
Total corporate and other debt	246	(35)	(122)	57	—	—	(3)	213	(54)
Corporate equities	47	26	(21)	—	—	—	12	12	(3)
Obligation to return securities received as collateral	—	—	—	—	—	—	20	20	—
Securities sold under agreements to repurchase	185	(13)	—	—	—	—	—	198	(13)
Other secured financings	470	(22)	—	—	—	(76)	—	416	(22)
Long–term borrowings	2,210	(215)	—	—	259	(223)	(7)	2,454	(231)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $230 million related to Trading assets—Investments, which is included in Investments revenues.
(2) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2012 related to assets and liabilities still outstanding at September 30, 2012.
(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 11.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2012.

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 8	$ —	$ —	$ (7)	$ —	$ —	$ (1)	$ —	$ —
Other sovereign government obligations	119	—	2	(118)	—	—	—	3	—
Corporate and other debt:									
State and municipal securities	—	2	—	(3)	—	—	3	2	—
Residential mortgage–backed securities	494	(24)	4	(267)	—	—	(187)	20	(36)
Commercial mortgage–backed securities	134	36	123	(65)	—	(100)	(2)	126	28
Asset–backed securities	31	1	9	(31)	—	—	—	10	—
Corporate bonds	675	8	367	(314)	—	—	21	757	(1)
Collateralized debt obligations	980	193	1,215	(321)	—	—	(36)	2,031	147
Loans and lending commitments	9,590	54	2,592	(2,205)	—	(2,019)	(187)	7,825	(144)
Other debt	128	15	8	(140)	—	—	—	11	9
Total corporate and other debt	12,032	285	4,318	(3,346)	—	(2,119)	(388)	10,782	3
Corporate equities	417	(2)	153	(184)	—	—	(13)	371	3
Net derivative and other contracts(3):									
Interest rate contracts	420	(338)	98	—	(15)	7	(271)	(99)	(85)
Credit contracts	5,814	(1,733)	46	—	(421)	(533)	(550)	2,623	(2,048)
Foreign exchange contracts	43	(163)	—	—	—	(142)	(149)	(411)	(221)
Equity contracts	(1,234)	156	272	(5)	(122)	(205)	(197)	(1,335)	143
Commodity contracts	570	152	17	—	(8)	29	8	768	145
Other	(1,090)	59	—	—	—	238	790	(3)	56
Total net derivative and other contracts	4,523	(1,867)	433	(5)	(566)	(606)	(369)	1,543	(2,010)
Investments:									
Private equity funds	1,936	176	271	(138)	—	—	1	2,246	134
Real estate funds	1,213	107	137	(104)	—	—	1	1,354	179
Hedge funds	696	26	61	(135)	—	—	(84)	564	19
Principal investments	2,937	25	267	(199)	—	—	(4)	3,026	(6)
Other	501	(16)	40	(10)	—	—	(39)	476	(15)
Total investments	7,283	318	776	(586)	—	—	(125)	7,666	311
Physical commodities	46	—	—	—	—	(46)	—	—	—
Securities received as collateral	—	—	—	—	—	—	4	4	—
Intangible assets	133	(40)	—	(83)	—	(4)	—	6	(6)

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
					(dollars in millions)				
Liabilities at Fair Value									
Commercial paper and other short–term borrowings	$ 2	$ (2)	$ —	$ —	$ —	$ (2)	$ 12	$ 14	$ (1)
Trading liabilities:									
Other sovereign government obligations	8	—	(8)	—	—	—	—	—	—
Corporate and other debt:									
Residential mortgage–backed securities	355	(4)	(355)	—	—	—	—	4	(4)
Corporate bonds	219	(44)	(254)	119	—	—	(37)	91	(53)
Collateralized debt obligations	—	—	—	1	—	—	—	1	—
Unfunded lending commitments	85	23	—	—	—	—	—	62	23
Other debt	73	3	—	40	—	(55)	—	55	5
Total corporate and other debt	732	(22)	(609)	160	—	(55)	(37)	213	(29)
Corporate equities	1	2	(22)	15	—	—	20	12	(2)
Obligation to return securities received as collateral	—	—	—	—	—	—	20	20	—
Securities sold under agreements to repurchase	340	(10)	—	—	—	—	(152)	198	(10)
Other secured financings	570	(33)	—	—	55	(220)	(22)	416	(33)
Long–term borrowings	1,603	(444)	—	—	585	(181)	3	2,454	(429)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $318 million related to Trading assets—Investments, which is included in Investments revenues.
(2) Amounts represent unrealized gains (losses) for the nine months ended September 30, 2012 related to assets and liabilities still outstanding at September 30, 2012.
(3) Net derivative and other contracts represent Trading assets—Derivative and other contracts net of Trading liabilities—Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 11.

Quantitative Information about and Sensitivity of Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements at September 30, 2013 and December 31, 2012.

The disclosures below provide information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

At September 30, 2013.

	Balance at September 30, 2013 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets					
Trading assets:					
Corporate and other debt:					
Residential mortgage–backed securities	$ 90	Comparable pricing	Comparable bond price /(A)	40 to 100 points	89 points
Commercial mortgage–backed securities	150	Comparable pricing	Comparable bond price / (A)	40 to 96 points	72 points
Asset–backed securities	99	Discounted cash flow	Discount rate / (C)	32%	32%
Corporate bonds	537	Comparable pricing	Comparable bond price /(A)	2 to 151 points	68 points
Collateralized debt obligations	1,380	Comparable pricing(6)	Comparable bond price /(A)	18 to 97 points	68 points
		Correlation model	Credit correlation / (B)	28 to 50%	45%
Loans and lending commitments	4,098	Corporate loan model	Credit spread / (C)	42 to 905 basis points	268 basis points
		Margin loan model	Credit spread / (C)(D)	16 to 300 basis points	197 basis points
			Volatility skew / (C)(D)	−2%	−2%
			Comparable bond price /(A)(D)	80 to 120 points	100 points
		Option model	At the money volatility /(A)	31%	31%
		Comparable pricing(6)	Comparable loan price /(A)	0 to 158 points	76 points
Corporate equities(3)	243	Net asset value(6)	Discount to net asset value /(C)	0 to 93%	49%
		Comparable pricing	Comparable equity price /(A)	0 to 100%	50%
		Comparable pricing	Comparable price / (A)	0 to 100 points	44 points
		Market approach	EBITDA multiple / (A)	5 to 9 times	7 times
Net derivative and other contracts:					
Interest rate contracts	310	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 7 times	2 times
			Comparable bond price / (A)(D)	5 to 99 points	52 points / 52 points(4)
			Interest rate – Foreign exchange correlation / (A)(D)	2 to 63%	37% /44%(4)
			Interest rate volatility skew / (A)(D)	24 to 51%	43% /35%(4)
			Interest rate quanto correlation /(A)(D)	−22 to 33%	−4% /−17%(4)
			Interest rate curve correlation /(A)(D)	35 to 92%	72% /79%(4)
			Inflation volatility / (A)(D)	77 to 83%	80% /79%(4)
Credit contracts	710	Comparable pricing	Cash synthetic basis / (C)(D)	2 to 5 points	4 points
			Comparable bond price / (C)(D)	0 to 80 points	24 points
		Correlation model(6)	Credit correlation / (B)	27 to 91%	52%
Foreign exchange contracts(5)	(35)	Option model	Comparable bond price / (A)(D)	5 to 99 points	52 points / 52 points(4)
			Interest rate quanto correlation /(A)(D)	−22 to 33%	−4% /−17%(4)
			Interest rate curve correlation /(A)(D)	35 to 92%	72% /79%(4)
			Interest rate – Foreign exchange correlation /(A)(D)	2 to 63%	37% /44%(4)
			Interest rate volatility skew / (A)(D)	24 to 51%	43% /35%(4)
			Interest rate curve / (A)(D)	1%	1% / 1%(4)

	Balance at September 30, 2013 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Equity contracts(5)	(1,631)	Option model	At the money volatility / (A)(D)	18 to 44%	31%
			Volatility skew / (C)(D)	−2 to 0%	−1%
			Equity − Equity correlation / (C)(D)	40 to 99%	71%
			Equity − Foreign exchange correlation / (C)(D)	−50 to −11%	−22%
			Equity − Interest rate correlation / (C)(D)	3 to 70%	40%/36%(4)
Commodity contracts	855	Option model	Forward power price / (C)(D)	$10 to $108 per Megawatt hour	$38 per Megawatt hour
			Commodity volatility / (A)(D)	11 to 28%	13%
			Cross commodity correlation / (C)(D)	43 to 98%	97%
Investments(3):					
Principal investments	2,338	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	9 to 12%	11%
			Exit multiple / (A)(D)	7 to 9 times	8 times
		Discounted cash flow(6)	Capitalization rate / (C)(D)	6 to 11%	7%
			Equity discount rate / (C)(D)	10 to 30%	22%
		Market approach	EBITDA multiple / (A)	4 to 16 times	9 times
Other	494	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	10%	10%
			Exit multiple / (A)(D)	7 times	7 times
		Market approach(6)	EBITDA multiple / (A)	8 to 9 times	9 times
Liabilities					
Trading liabilities:					
Securities sold under agreements to repurchase	$ 150	Discounted cash flow	Funding spread / (A)	134 to 136 basis points	135 basis points
Other secured financings	260	Comparable pricing(6)	Comparable bond price / (A)	99 to 102 points	99 points
		Discounted cash flow	Funding spread / (A)	136 basis points	136 basis points
Long−term borrowings	2,313	Option model	At the money volatility / (A)(D)	22 to 33%	27%
			Volatility skew / (A)(D)	−1 to 0%	0%
			Equity − Equity correlation / (A)(D)	50 to 97%	68%
			Equity − Foreign exchange correlation / (A)(D)	−70 to 17%	−17%

EBITDA − Earnings before interest, taxes, depreciation and amortization

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 96 points would be 96% of par. A basis point equals 1/100th of 1%; for example, 905 basis points would equal 9.05%.

(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 4 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for long−term borrowings and derivative instruments where inputs are weighted by risk.

(3) Investments in funds measured using an unadjusted NAV are excluded.

(4) The data structure of the significant unobservable inputs used in valuing Interest rate contracts, Foreign exchange contracts and certain Equity contracts may be in a multi−dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.

(5) Includes derivative contracts with multiple risks (*i.e.,* hybrid products).

(6) This is the predominant valuation technique for this major asset or liability class.

Table of Contents

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.
(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
(D) There are no predictable relationships between the significant unobservable inputs.

At December 31, 2012.

	Balance at December 31, 2012 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Weighted Average
Assets					
Trading assets:					
Corporate and other debt:					
Commercial mortgage–backed securities	$ 232	Comparable pricing	Comparable bond price /(A)	46 to 100 points	76 points
Asset–backed securities	109	Discounted cash flow	Discount rate / (C)	21%	21%
Corporate bonds	660	Comparable pricing	Comparable bond price /(A)	0 to 143 points	24 points
Collateralized debt obligations	1,951	Comparable pricing	Comparable bond price /(A)	15 to 88 points	59 points
		Correlation model	Credit correlation / (B)	15 to 45%	40%
Loans and lending commitments	4,694	Corporate loan model	Credit spread / (C)	17 to 1,004 basis points	281 basis points
		Comparable pricing	Comparable bond price /(A)	80 to 120 points	104 points
		Comparable pricing	Comparable loan price /(A)	55 to 100 points	88 points
Corporate equities(2)	288	Net asset value	Discount to net asset value /(C)	0 to 37%	8%
		Comparable pricing	Discount to comparable equity price /(C)	0 to 27 points	14 points
		Market approach	EBITDA multiple / (A)	6 times	6 times
Net derivative and other contracts:					
Interest rate contracts	(82)	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 8 times	See (3)
			Comparable bond price / (A)(D)	5 to 98 points	
			Interest rate – Foreign exchange correlation / (A)(D)	2 to 63%	
			Interest rate volatility skew / (A)(D)	9 to 95%	
			Interest rate quanto correlation / (A)(D)	−53 to 33%	
			Interest rate curve correlation / (A)(D)	48 to 99%	
			Inflation volatility / (A)(D)	49 to 100%	
		Discounted cash flow	Forward commercial paper rate–LIBOR basis /(A)	−18 to 95 basis points	
Credit contracts	1,822	Comparable pricing	Cash synthetic basis / (C)	2 to 14 points	See (4)
			Comparable bond price / (C)	0 to 80 points	
		Correlation model	Credit correlation / (B)	14 to 94%	
Foreign exchange contracts(5)	(359)	Option model	Comparable bond price / (A)(D)	5 to 98 points	See (6)
			Interest rate quanto correlation /(A)(D)	−53 to 33%	
			Interest rate – Credit spread correlation / (A)(D)	−59 to 65%	
			Interest rate – Foreign exchange correlation / (A)(D)	2 to 63%	
			Interest rate volatility skew / (A)(D)	9 to 95%	

Table of Contents

	Balance at December 31, 2012 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Weighted Average
Equity contracts(5)	(1,144)	Option model	At the money volatility /(C)(D)	7 to 24%	See (7)
			Volatility skew /(C)(D)	–2 to 0%	
			Equity – Equity correlation / (C)(D)	40 to 96%	
			Equity – Foreign exchange correlation / (C)(D)	–70 to 38%	
			Equity – Interest rate correlation / (C)(D)	18 to 65%	
Commodity contracts	709	Option model	Forward power price / (C)(D)	$28 to $84 per Megawatt hour	
			Commodity volatility / (A)(D)	17 to 29%	
			Cross commodity correlation / (C)(D)	43 to 97%	
Investments(2):					
Principal investments	2,833	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	8 to 15%	9%
			Exit multiple / (A)(D)	5 to 10 times	9 times
		Discounted cash flow	Capitalization rate / (C)(D)	6 to 10%	7%
			Equity discount rate / (C)(D)	15 to 35%	23%
		Market approach	EBITDA multiple / (A)	3 to 17 times	10 times
Other	486	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	11%	11%
			Exit multiple / (A)(D)	6 times	6 times
		Market approach	EBITDA multiple / (A)	6 to 8 times	7 times
Liabilities					
Trading liabilities:					
Corporate and other debt:					
Corporate bonds	$ 177	Comparable pricing	Comparable bond price / (A)	0 to 150 points	50 points
Securities sold under agreements to repurchase	151	Discounted cash flow	Funding spread / (A)	110 to 184 basis points	166 basis points
Other secured financings	406	Comparable pricing	Comparable bond price / (A)	55 to 139 points	102 points
		Discounted cash flow	Funding spread / (A)	183 to 186 basis points	184 basis points
Long–term borrowings	2,789	Option model	At the money volatility / (A)(D)	20 to 24%	24%
			Volatility skew / (A)(D)	–1 to 0%	0%
			Equity – Equity correlation / (A)(D)	50 to 90%	77%
			Equity – Foreign exchange correlation / (A)(D)	–70 to 36%	–15%

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 100 points would be 100% of par. A basis point equals 1/100th of 1%; for example, 1,004 basis points would equal 10.04%.
(2) Investments in funds measured using an unadjusted NAV are excluded.
(3) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices, interest rate volatility skew, interest rate quanto correlation and forward commercial paper rate–LIBOR basis.
(4) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices and credit correlation.
(5) Includes derivative contracts with multiple risks (*i.e.*, hybrid products).
(6) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices, interest rate quanto correlation, interest rate–credit spread correlation and interest rate volatility skew.
(7) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K for a qualitative discussion of the wide unobservable input range for equity–foreign exchange correlation.

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.
(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
(D) There are no predictable relationships between the significant unobservable inputs.

The following provides a description of significant unobservable inputs included in the September 30, 2013 and December 31, 2012 tables above for all major categories of assets and liabilities:

- *Comparable bond price* – a pricing input used when prices for the identical instrument are not available. Significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable bond, then adjusting that yield (or spread) to derive a value for the bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality. Alternatively, a price–to–price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond. Additionally, as the probability of default increases for a given bond (*i.e.*, as the bond becomes more distressed), the valuation of that bond will increasingly reflect its expected recovery level assuming default. The decision to use price–to–price or yield/spread comparisons largely reflects trading market convention for the financial instruments in question. Price–to–price comparisons are primarily employed for CMBS, CDOs, mortgage loans and distressed corporate bonds. Implied yield (or spread over a liquid benchmark) is utilized predominately for non–distressed corporate bonds, loans and credit contracts.

- *Correlation* – a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (*i.e.*, how the change in one variable influences a change in the other variable). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.

- *Credit spread* – the difference in yield between different securities due to differences in credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk–free benchmark security or reference rate, typically either U.S. Treasury or LIBOR.

- *Volatility skew* – the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.

- *Volatility* – the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (*e.g.*, the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.

- *EBITDA multiple / Exit multiple* – is the Enterprise Value to EBITDA ratio, where the Enterprise Value is the aggregate value of equity and debt minus cash and cash equivalents. The EBITDA multiple reflects

the value of the company in terms of its full−year EBITDA, whereas the exit multiple reflects the value of the company in terms of its full year expected EBITDA at exit. Either multiple allows comparison between companies from an operational perspective as the effect of capital structure, taxation and depreciation/amortization is excluded.

- *Forward commercial paper rate − LIBOR basis*—the basis added to the LIBOR rate when the commercial paper yield is expressed as a spread over the LIBOR rate. The basis to LIBOR is dependent on a number of factors, including, but not limited to, collateralization of the commercial paper, credit rating of the issuer, and the supply of commercial paper. The basis may become negative, i.e., the return for highly−rated commercial paper, such as asset−backed commercial paper, may be less than LIBOR.
- *Cash synthetic basis* – the measure of the price differential between cash financial instruments (“cash instruments”) and their synthetic derivative−based equivalents (“synthetic instruments”). The range disclosed in the table above signifies the number of points by which the synthetic bond equivalent price is higher than the quoted price of the underlying cash bonds.
- *Interest rate curve* – the term structure of interest rates (relationship between interest rates and the time to maturity) and a market’s measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate derivative cash flows and is a pricing input used in discounting of any OTC derivative cash flow.
- *Implied weighted average cost of capital (“WACC”)* – the WACC implied by the current value of equity in a discounted cash flow model. The model assumes that the cash flow assumptions, including projections, are fully reflected in the current equity value while the debt to equity ratio is held constant. The WACC theoretically represents the required rate of return to debt and equity investors, respectively.
- *Capitalization rate* – the ratio between net operating income produced by an asset and its market value at the projected disposition date.
- *Funding spread* – the difference between the general collateral rate (which refers to the rate applicable to a broad class of U.S. Treasury issuances) and the specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral, such as a municipal bond). Repurchase agreements are discounted based on collateral curves. The curves are constructed as spreads over the corresponding overnight index swap (“OIS”)/ LIBOR curves, with the short end of the curve representing spreads over the corresponding OIS curves and the long end of the curve representing spreads over LIBOR.

Fair Value of Investments that Calculate Net Asset Value.

The Company's Investments measured at fair value were $8,574 million and $8,346 million at September 30, 2013 and December 31, 2012, respectively. The following table presents information solely about the Company's investments in private equity funds, real estate funds and hedge funds measured at fair value based on NAV at September 30, 2013 and December 31, 2012, respectively.

	At September 30, 2013		At December 31, 2012	
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
	(dollars in millions)			
Private equity funds	$ 2,450	$ 577	$ 2,179	$ 644
Real estate funds	1,529	149	1,376	221
Hedge funds(1):				
Long–short equity hedge funds	466	—	475	—
Fixed income/credit–related hedge funds	71	—	86	—
Event–driven hedge funds	39	—	52	—
Multi–strategy hedge funds	228	3	321	3
Total	$ 4,783	$ 729	$ 4,489	$ 868

(1) Fixed income/credit–related hedge funds, event–driven hedge funds, and multi–strategy hedge funds are redeemable at least on a six–month period basis primarily with a notice period of 90 days or less. At September 30, 2013, approximately 40% of the fair value amount of long–short equity hedge funds is redeemable at least quarterly, 40% is redeemable every six months and 20% of these funds have a redemption frequency of greater than six months. The notice period for long–short equity hedge funds at September 30, 2013 is primarily greater than six months. At December 31, 2012, approximately 36% of the fair value amount of long–short equity hedge funds is redeemable at least quarterly, 38% is redeemable every six months and 26% of these funds have a redemption frequency of greater than six months. The notice period for long–short equity hedge funds at December 31, 2012 is primarily greater than six months.

Private Equity Funds. Amount includes several private equity funds that pursue multiple strategies including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments, and mezzanine capital. In addition, the funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are generally not redeemable with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. At September 30, 2013, it is estimated that 8% of the fair value of the funds will be liquidated in the next five years, another 57% of the fair value of the funds will be liquidated between five to 10 years and the remaining 35% of the fair value of the funds have a remaining life of greater than 10 years.

Real Estate Funds. Amount includes several real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi–family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. At September 30, 2013, it is estimated that 3% of the fair value of the funds will be liquidated within the next five years, another 53% of the fair value of the funds will be liquidated between five to 10 years and the remaining 44% of the fair value of the funds have a remaining life of greater than 10 years.

Hedge Funds. Investments in hedge funds may be subject to initial period lock–up restrictions or gates. A hedge fund lock–up provision is a provision that provides that, during a certain initial period, an investor may not make a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

- *Long–short Equity Hedge Funds.* Amount includes investments in hedge funds that invest, long or short, in equities. Equity value and growth hedge funds purchase stocks perceived to be undervalued and sell

stocks perceived to be overvalued. Investments representing approximately 14% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock–up restrictions. The remaining restriction period for these investments subject to lock–up restrictions was primarily two years or less at September 30, 2013. Investments representing approximately 19% of the fair value of the investments in long–short equity hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was primarily less than one year at September 30, 2013.

- *Fixed Income/Credit–Related Hedge Funds.* Amount includes investments in hedge funds that employ long–short, distressed or relative value strategies in order to benefit from investments in undervalued or overvalued securities that are primarily debt or credit related. At September 30, 2013, there were no restrictions on redemptions.
- *Event–Driven Hedge Funds.* Amount includes investments in hedge funds that invest in event–driven situations such as mergers, hostile takeovers, reorganizations, or leveraged buyouts. This may involve the simultaneous purchase of stock in companies being acquired and the sale of stock in its acquirer, with the expectation to profit from the spread between the current market price and the ultimate purchase price of the target company. At September 30, 2013, there were no restrictions on redemptions.
- *Multi–strategy Hedge Funds.* Amount includes investments in hedge funds that pursue multiple strategies to realize short– and long–term gains. Management of the hedge funds has the ability to overweight or underweight different strategies to best capitalize on current investment opportunities. At September 30, 2013, investments representing approximately 47% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock–up restrictions. The remaining restriction period for these investments subject to lock–up restrictions was primarily two years or less at September 30, 2013. Investments representing approximately 9% of the fair value of the investments in multi–strategy hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at September 30, 2013.

Fair Value Option.

The Company elected the fair value option for certain eligible instruments that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models. The following tables present net gains (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for the quarters and nine months ended September 30, 2013 and 2012, respectively:

	Trading	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
Three Months Ended September 30, 2013			
Federal funds sold and securities purchased under agreements to resell	$ 1	$ 3	$ 4
Deposits	14	(17)	(3)
Commercial paper and other short–term borrowings(1)	(62)	(3)	(65)
Securities sold under agreements to repurchase	(3)	(2)	(5)
Long–term borrowings(1)	(154)	(224)	(378)
Nine Months Ended September 30, 2013			
Federal funds sold and securities purchased under agreements to resell	$ —	$ 6	$ 6
Deposits	44	(50)	(6)
Commercial paper and other short–term borrowings(1)	118	(5)	113
Securities sold under agreements to repurchase	2	(5)	(3)
Long–term borrowings(1)	1,053	(752)	301
Three Months Ended September 30, 2012			
Federal funds sold and securities purchased under agreements to resell	$ 3	$ 2	$ 5
Deposits	16	(22)	(6)
Commercial paper and other short–term borrowings(2)	(68)	—	(68)
Securities sold under agreements to repurchase	(13)	(1)	(14)
Long–term borrowings(2)	(3,570)	(348)	(3,918)
Nine Months Ended September 30, 2012			
Federal funds sold and securities purchased under agreements to resell	$ 11	$ 4	$ 15
Deposits	41	(66)	(25)
Commercial paper and other short–term borrowings(2)	14	—	14
Securities sold under agreements to repurchase	(10)	(3)	(13)
Long–term borrowings(2)	(5,221)	(1,017)	(6,238)

(1) Of the total gains (losses) recorded in Trading revenues for short–term and long–term borrowings for the quarter and nine months ended September 30, 2013, $(171) million and $(313) million, respectively, are attributable to changes in the credit quality of the Company, and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for structured notes before the impact of related hedges.

(2) Of the total gains (losses) recorded in Trading revenues for short–term and long–term borrowings for the quarter and nine months ended September 30, 2012, $(2,262) million and $(3,890) million, respectively, are attributable to changes in the credit quality of the Company, and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for structured notes before the impact of related hedges.

In addition to the amounts in the above table, as discussed in Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K, all of the instruments within Trading assets or

Trading liabilities are measured at fair value, either through the election of the fair value option or as required by other accounting guidance. The amounts in the above table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any.

The Company hedges the economics of market risk for short–term and long–term borrowings (*i.e*., risks other than that related to the credit quality of the Company) as part of its overall trading strategy and manages the market risks embedded within the issuance by the related business unit as part of the business unit's portfolio. The gains and losses on related economic hedges are recorded in Trading revenues and largely offset the gains and losses on short–term and long–term borrowings attributable to market risk.

At September 30, 2013 and December 31, 2012, a breakdown of the short–term and long–term borrowings measured at fair value on a recurring basis by business unit responsible for risk–managing each borrowing is shown in the table below:

Business Unit	Short–term and Long–term Borrowings At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Interest rates	$ 17,457	$ 23,330
Equity	17,657	17,326
Credit and foreign exchange	2,688	3,337
Commodities	540	776
Total	$ 38,342	$ 44,769

The following tables present information on the Company's short–term and long–term borrowings (primarily structured notes), loans and unfunded lending commitments for which the fair value option was elected.

Gains (Losses) due to Changes in Instrument–Specific Credit Risk.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Short–term and long–term borrowings(1)	$ (171)	$(2,262)	$ (313)	$(3,890)
Loans(2)	35	255	150	429
Unfunded lending commitments(3)	6	319	221	804

(1) The change in the fair value of short–term and long–term borrowings (primarily structured notes) includes an adjustment to reflect the change in credit quality of the Company based upon observations of the Company's secondary bond market spreads.
(2) Instrument–specific credit gains (losses) were determined by excluding the non–credit components of gains and losses, such as those due to changes in interest rates.
(3) Gains (losses) were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period end.

Net Difference between Contractual Principal Amount and Fair Value.

	Contractual Principal Amount Exceeds Fair Value	
	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Short–term and long–term borrowings(1)	$ (1,513)	$ (436)
Loans(2)	17,879	25,249
Loans 90 or more days past due and/or on non–accrual status(2)(3)	16,149	20,456

(1) These amounts do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.
(2) The majority of this difference between principal and fair value amounts emanates from the Company's distressed debt trading business, which purchases distressed debt at amounts well below par.
(3) The aggregate fair value of loans that were in non–accrual status, which includes all loans 90 or more days past due, was $1,885 million and $1,360 million at September 30, 2013 and December 31, 2012, respectively. The aggregate fair value of loans that were 90 or more days past due was $1,158 million and $840 million at September 30, 2013 and December 31, 2012, respectively.

The tables above exclude non–recourse debt from consolidated VIEs, liabilities related to failed sales of financial assets, pledged commodities and other liabilities that have specified assets attributable to them.

Assets and Liabilities Measured at Fair Value on a Non–recurring Basis.

Certain assets were measured at fair value on a non–recurring basis and are not included in the tables above. These assets may include loans, other investments, premises, equipment and software costs, and intangible assets.

The following tables present, by caption on the condensed consolidated statements of financial condition, the fair value hierarchy for those assets measured at fair value on a non–recurring basis for which the Company recognized a non–recurring fair value adjustment for the quarters and nine months ended September 30, 2013 and 2012, respectively.

Three and Nine Months Ended September 30, 2013.

		Fair Value Measurements Using:				
	Carrying Value at September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended September 30, 2013(1)	Total Gains (Losses) for the Nine Months Ended September 30, 2013(1)
			(dollars in millions)			
Loans(2)	$ 1,507	$ —	$ 1,160	$ 347	$ (35)	$ (106)
Other investments(3)(4)	55	—	—	55	(5)	(28)
Premises, equipment and software costs(3)(4)	—	—	—	—	(17)	(23)
Intangible assets(3)(4)	—	—	—	—	—	(9)
Total	$ 1,562	$ —	$ 1,160	$ 402	$ (57)	$ (166)

(1) Fair value adjustments related to Loans and losses related to Other investments are recorded within Other revenues whereas losses related to Premises, equipment and software costs and Intangible assets are recorded within Other expenses in the condensed consolidated statements of income.

(2) Non–recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.
(3) Carrying values relate only to those assets that had fair value adjustments during the quarter ended September 30, 2013. These amounts do not include assets that had fair value adjustments during the nine months ended September 30, 2013, unless the assets also had a fair value adjustment during the quarter ended September 30, 2013.
(4) Losses recorded were determined primarily using discounted cash flow models.

There were no liabilities measured at fair value on a non–recurring basis during the quarter and nine months ended September 30, 2013.

Three and Nine Months Ended September 30, 2012.

	Carrying Value at September 30, 2012	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended September 30, 2012(1)	Total Gains (Losses) for the Nine Months Ended September 30, 2012(1)
	(dollars in millions)					
Loans(2)	$ 893	$ —	$ 138	$ 755	$ (10)	$ (30)
Other investments(3)(4)	82	—	—	82	(11)	(21)
Premises, equipment and software costs(3)(5)	34	—	—	34	(168)	(169)
Intangible assets(3)(4)	—	—	—	—	—	(4)
Total	$ 1,009	$ —	$ 138	$ 871	$ (189)	$ (224)

(1) Losses are recorded within Other expenses in the condensed consolidated statements of income except for fair value adjustments related to Loans and losses related to Other investments, which are included in Other revenues.
(2) Non–recurring changes in the fair value of loans held for investment or held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.
(3) Carrying values relate only to those assets that had fair value adjustments during the quarter ended September 30, 2012. These amounts do not include assets that had fair value adjustments during the nine months ended September 30, 2012, unless the assets also had a fair value adjustment during the quarter ended September 30, 2012.
(4) Losses recorded were determined primarily using discounted cash flow models.
(5) Losses were determined using discounted cash flow models and primarily represented the write–off of the carrying value of certain premises and software that were abandoned during the quarter ended September 30, 2012 in association with the Wealth Management JV integration.

In addition to the losses included in the table above, there was a pre–tax gain of approximately $51 million (related to Other assets) included in discontinued operations in the nine months ended September 30, 2012 in connection with the disposition of Saxon (see Notes 1 and 21). This pre–tax gain was primarily due to the subsequent increase in the fair value of Saxon, which had incurred impairment losses of $98 million in the quarter ended December 31, 2011. The fair value of Saxon was determined based on the revised purchase price agreed upon with the buyer.

There were no liabilities measured at fair value on a non–recurring basis during the quarter and nine months ended September 30, 2012.

Financial Instruments Not Measured at Fair Value.

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the condensed consolidated statements of financial condition. The tables below exclude certain financial instruments such as equity method investments and all non−financial assets and liabilities such as the value of the long−term relationships with our deposit customers.

The carrying value of cash and cash equivalents, including Interest bearing deposits with banks, and other short−term financial instruments such as Federal funds sold and securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned, certain Customer and other receivables and Customer and other payables arising in the ordinary course of business, Deposits, Commercial paper and other short−term borrowings and Other secured financings approximate fair value because of the relatively short period of time between their origination and expected maturity.

For longer−dated Federal funds sold and securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned and Other secured financings, fair value is determined using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks and interest rate yield curves.

For consumer and residential real estate loans where position−specific external price data are not observable, the fair value is based on the credit risks of the borrower using a probability of default and loss given default method, discounted at the estimated external cost of funding level. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.

The fair value of long−term borrowings is generally determined based on transactional data or third party pricing for identical or comparable instruments, when available. Where position−specific external prices are not observable, fair value is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturity.

Financial Instruments Not Measured at Fair Value at September 30, 2013 and December 31, 2012.

At September 30, 2013.

	At September 30, 2013		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(dollars in millions)				
Financial Assets:					
Cash and due from banks	$ 14,333	$ 14,333	$14,333	$ —	$ —
Interest bearing deposits with banks	43,448	43,448	43,448	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	37,392	37,392	37,392	—	—
Federal funds sold and securities purchased under agreements to resell	133,120	133,117	—	132,613	504
Securities borrowed	139,169	139,165	—	138,836	329
Customer and other receivables(1)	53,636	53,512	—	47,964	5,548
Loans(2)	37,734	37,697	—	9,807	27,890
Financial Liabilities:					
Deposits	$103,396	$103,396	$ —	$ 103,396	$ —
Commercial paper and other short–term borrowings	710	710	—	656	54
Securities sold under agreements to repurchase	138,844	138,882	—	131,399	7,483
Securities loaned	32,807	32,868	—	31,999	869
Other secured financings	8,383	8,418	—	5,944	2,474
Customer and other payables(1)	149,005	149,005	—	149,005	—
Long–term borrowings	121,086	124,727	—	116,945	7,782

(1) Accrued interest, fees and dividend receivables and payables where carrying value approximates fair value have been excluded.
(2) Includes all loans measured at fair value on a non–recurring basis.

The fair value of the Company's unfunded lending commitments, primarily related to corporate lending in the Institutional Securities business segment, that are not carried at fair value at September 30, 2013 was $864 million, of which $787 million and $77 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $71.5 billion.

At December 31, 2012.

	At December 31, 2012		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(dollars in millions)				
Financial Assets:					
Cash and due from banks	$ 20,878	$ 20,878	$20,878	$ —	$ —
Interest bearing deposits with banks	26,026	26,026	26,026	—	—
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	30,970	30,970	30,970	—	—
Federal funds sold and securities purchased under agreements to resell	133,791	133,792	—	133,035	757
Securities borrowed	121,701	121,705	—	121,691	14
Customer and other receivables(1)	59,702	59,634	—	53,532	6,102
Loans(2)	29,046	27,263	—	5,307	21,956
Financial Liabilities:					
Deposits	$ 81,781	$ 81,781	$ —	$ 81,781	$ —
Commercial paper and other short−term borrowings	1,413	1,413	—	1,107	306
Securities sold under agreements to repurchase	122,311	122,389	—	111,722	10,667
Securities loaned	36,849	37,163	—	35,978	1,185
Other secured financings	6,261	6,276	—	3,649	2,627
Customer and other payables(1)	125,037	125,037	—	125,037	—
Long−term borrowings	125,527	126,683	—	116,511	10,172

(1) Accrued interest, fees and dividend receivables and payables where carrying value approximates fair value have been excluded.
(2) Includes all loans measured at fair value on a non−recurring basis.

The fair value of the Company's unfunded lending commitments, primarily related to corporate lending in the Institutional Securities business segment, that are not carried at fair value at December 31, 2012 was $755 million, of which $543 million and $212 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $50.0 billion.

5. Securities Available for Sale.

The following tables present information about the Company's available for sale securities:

	At September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other–than–Temporary Impairment	Fair Value
			(dollars in millions)		
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 19,856	$ 65	$ 80	$ —	$ 19,841
U.S. agency securities	14,098	36	174	—	13,960
Total U.S. government and agency securities	33,954	101	254	—	33,801
Corporate and other debt:					
Commercial mortgage–backed securities:					
Agency	2,382	—	76	—	2,306
Non–Agency	1,179	2	19	—	1,162
Auto loan asset–backed securities	2,046	1	3	—	2,044
Corporate bonds	3,562	4	54	—	3,512
Collateralized debt and loan obligations	1,087	—	14	—	1,073
FFELP student loan asset–backed securities(1)	2,950	12	8	—	2,954
Total Corporate and other debt	13,206	19	174	—	13,051
Total debt securities available for sale	47,160	120	428	—	46,852
Equity securities available for sale	15	—	1	—	14
Total	$ 47,175	$ 120	$ 429	$ —	$ 46,866

	At December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other–than–Temporary Impairment	Fair Value
			(dollars in millions)		
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 14,351	$ 109	$ 2	$ —	$ 14,458
U.S. agency securities	15,330	122	3	—	15,449
Total U.S. government and agency securities	29,681	231	5	—	29,907
Corporate and other debt:					
Commercial mortgage–backed securities:					
Agency	2,197	6	4	—	2,199
Non–Agency	160	—	—	—	160
Auto loan asset–backed securities	1,993	4	1	—	1,996
Corporate bonds	2,891	13	3	—	2,901
FFELP student loan asset–backed securities(1)	2,675	23	—	—	2,698
Total Corporate and other debt	9,916	46	8	—	9,954
Total debt securities available for sale	39,597	277	13	—	39,861
Equity securities available for sale	15	—	7	—	8
Total	$ 39,612	$ 277	$ 20	$ —	$ 39,869

(1) Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

The tables below present the fair value of investments in securities available for sale that are in an unrealized loss position:

At September 30, 2013	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in millions)					
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 6,098	$ 80	$ —	$ —	$ 6,098	$ 80
U.S. agency securities	7,092	172	241	2	7,333	174
Total U.S. government and agency securities	13,190	252	241	2	13,431	254
Corporate and other debt:						
Commercial mortgage–backed securities:						
Agency	2,099	62	208	14	2,307	76
Non–Agency	947	18	—	1	947	19
Auto loan asset–backed securities	1,189	3	65	—	1,254	3
Corporate bonds	2,708	50	119	4	2,827	54
Collateralized debt and loan obligations	1,073	14	—	—	1,073	14
FFELP student loan asset–backed securities	1,251	8	34	—	1,285	8
Total Corporate and other debt	9,267	155	426	19	9,693	174
Total debt securities available for sale	22,457	407	667	21	23,124	428
Equity securities available for sale	14	1	—	—	14	1
Total	$ 22,471	$ 408	$ 667	$ 21	$ 23,138	429

At December 31, 2012	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in millions)					
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 1,012	$ 2	$ —	$ —	$ 1,012	$ 2
U.S. agency securities	1,534	3	27	—	1,561	3
Total U.S. government and agency securities	2,546	5	27	—	2,573	5
Corporate and other debt:						
Commercial mortgage–backed securities:						
Agency	1,057	4	—	—	1,057	4
Auto loan asset–backed securities	710	1	—	—	710	1
Corporate bonds	934	3	—	—	934	3
Total Corporate and other debt	2,701	8	—	—	2,701	8
Total debt securities available for sale	5,247	13	27	—	5,274	13
Equity securities available for sale	8	7	—	—	8	7
Total	$ 5,255	$ 20	$ 27	$ —	$ 5,282	$ 20

Gross unrealized gains and losses are recorded in Accumulated other comprehensive income.

The unrealized losses reported above on debt securities available for sale are due to rising interest rates during the nine months ended September 30, 2013. The Company does not intend to sell these securities or expect to be required to sell these securities prior to recovery of the amortized cost basis. In addition, the Company does not expect the U.S. government and agency securities to experience a credit loss given the explicit and implicit guarantee provided by the U.S. government. The Company believes that the debt securities with an unrealized loss in Accumulated other comprehensive income were not other–than–temporarily impaired at September 30, 2013.

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates at September 30, 2013.

At September 30, 2013	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 3,153	$ 3,159	0.3%
After 1 year through 5 years	16,510	16,489	0.8%
After 5 years through 10 years	193	193	2.0%
Total	19,856	19,841	
U.S. agency securities:			
After 5 years through 10 years	2,396	2,393	1.3%
After 10 years	11,702	11,567	1.3%
Total	14,098	13,960	
Total U.S. government and agency securities	33,954	33,801	0.9%
Corporate and other debt:			
Commercial mortgage–backed securities:			
Agency:			
After 1 year through 5 years	540	534	0.9%
After 5 years through 10 years	530	517	1.0%
After 10 years	1,312	1,255	1.5%
Total	2,382	2,306	
Non–Agency:			
After 1 year through 5 years	114	111	1.1%
After 5 years through 10 years	60	59	1.4%
After 10 years	1,005	992	1.6%
Total	1,179	1,162	
Auto loan asset–backed securities:			
After 1 year through 5 years	1,921	1,919	0.7%
After 5 years through 10 years	125	125	0.8%
Total	2,046	2,044	

At September 30, 2013	Amortized Cost	Fair Value	Annualized Average Yield
		(dollars in millions)	
Corporate bonds:			
Due within 1 year	111	111	0.6%
After 1 year through 5 years	2,702	2,678	1.2%
After 5 years through 10 years	749	723	2.1%
Total	3,562	3,512	
Collateralized debt and loan obligations:			
After 1 year through 5 years	50	49	1.7%
After 10 years	1,037	1,024	1.4%
Total	1,087	1,073	
FFELP student loan asset–backed securities:			
After 1 year through 5 years	85	85	0.7%
After 5 years through 10 years	610	611	0.9%
After 10 years	2,255	2,258	1.0%
Total	2,950	2,954	
Total Corporate and other debt	13,206	13,051	1.2%
Total debt securities available for sale	$ 47,160	$ 46,852	1.0%

See Note 7 for additional information on securities issued by VIEs, including U.S. agency mortgage–backed securities, non–agency commercial mortgage backed securities, auto loan asset–backed securities, FFELP student loan asset–backed securities and collateralized debt and loan obligations.

The following table presents information pertaining to sales of securities available for sale during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Gross realized gains	$ 6	$ 31	$ 47	$ 56
Gross realized losses	$ 1	$ —	$ 4	$ 3

Gross realized gains and losses are recognized in Other revenues in the condensed consolidated statements of income.

6. Collateralized Transactions.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), the right to net a counterparty's rights and obligations under such agreement and liquidate and setoff collateral against the net amount owed by the counterparty. The Company's policy is generally to take possession of securities purchased under agreements to resell and securities borrowed, and to receive securities and cash posted as collateral (with

rights of rehypothecation), although in certain cases the Company may agree for such collateral to be posted to a third party custodian under a tri–party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized. The following tables present information about the offsetting of these instruments and related collateral amounts. For information related to offsetting of derivatives, see Note 11.

	At September 30, 2013				
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Condensed Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$ 211,457	$ (77,469)	$ 133,988	$ (127,980)	$ 6,008
Securities borrowed	145,647	(6,478)	139,169	(122,345)	16,824
Liabilities					
Securities sold under agreements to repurchase	$ 216,867	$ (77,469)	$ 139,398	$ (105,061)	$ 34,337
Securities loaned	39,285	(6,478)	32,807	(31,857)	950

(1) Amounts include $5.3 billion of Federal funds sold and securities purchased under agreements to resell, $12.5 billion of Securities borrowed and $33.0 billion of Securities sold under agreements to repurchase which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

	At December 31, 2012				
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Condensed Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$ 203,448	$ (69,036)	$ 134,412	$ (126,303)	$ 8,109
Securities borrowed	127,002	(5,301)	121,701	(105,849)	15,852
Liabilities					
Securities sold under agreements to repurchase	$ 191,710	$ (69,036)	$ 122,674	$ (103,521)	$ 19,153
Securities loaned	42,150	(5,301)	36,849	(30,395)	6,454

(1) Amounts include $7.4 billion of Federal funds sold and securities purchased under agreements to resell, $8.6 billion of Securities borrowed, $17.5 billion of Securities sold under agreements to repurchase and $0.6 billion of Securities loaned which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.
(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.
(3) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activity are collateralized by customer–owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company's collateral policies significantly limits the Company's credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At September 30, 2013 and December 31, 2012, there were approximately $21.9 billion and $24.0 billion, respectively, of customer margin loans outstanding.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, and certain equity–linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets (see Notes 7 and 10).

The Company pledges its trading assets to collateralize repurchase agreements and other securities financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the condensed consolidated statements of financial condition. The carrying value and classification of Trading assets by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Trading assets:		
U.S. government and agency securities	$ 19,501	$ 15,273
Other sovereign government obligations	4,047	3,278
Corporate and other debt	13,173	11,980
Corporate equities	10,270	26,377
Total	$ 46,991	$ 56,908

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed and derivative transactions, and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Company additionally receives securities as collateral in connection with certain securities–for–securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and the related obligation to return the collateral in the condensed consolidated statements of financial condition. At September 30, 2013 and December 31, 2012, the fair value of financial instruments received as collateral where the Company is permitted to sell or repledge the securities was $574 billion and $560 billion, respectively, and the fair value of the portion that had been sold or repledged was $424 billion and $397 billion, respectively.

At September 30, 2013 and December 31, 2012, cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements were as follows:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	$ 37,392	$ 30,970
Securities(1)	12,922	13,424
Total	$ 50,314	$ 44,394

(1) Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Federal funds sold and securities purchased under agreements to resell and Trading assets in the condensed consolidated statements of financial condition.

7. Variable Interest Entities and Securitization Activities.

The Company is involved with various special purpose entities ("SPE") in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Company applies accounting guidance for consolidation of VIEs to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Except for certain asset management entities, the primary beneficiary of a VIE is the party that both (1) has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (2) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates entities of which it is the primary beneficiary.

The Company's variable interests in VIEs include debt and equity interests, commitments, guarantees, derivative instruments and certain fees. The Company's involvement with VIEs arises primarily from:

- Interests purchased in connection with market–making activities, securities held in its available for sale portfolio and retained interests held as a result of securitization activities, including re–securitization transactions.
- Guarantees issued and residual interests retained in connection with municipal bond securitizations.
- Servicing of residential and commercial mortgage loans held by VIEs.
- Loans made to and investments in VIEs that hold debt, equity, real estate or other assets.
- Derivatives entered into with VIEs.

- Structuring of credit−linked notes (“CLN”) or other asset−repackaged notes designed to meet the investment objectives of clients.
- Other structured transactions designed to provide tax−efficient yields to the Company or its clients.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE. This determination is based upon an analysis of the design of the VIE, including the VIE’s structure and activities, the power to make significant economic decisions held by the Company and by other parties, and the variable interests owned by the Company and other parties.

The power to make the most significant economic decisions may take a number of different forms in different types of VIEs. The Company considers servicing or collateral management decisions as representing the power to make the most significant economic decisions in transactions such as securitizations or CDOs. As a result, the Company does not consolidate securitizations or CDOs for which it does not act as the servicer or collateral manager unless it holds certain other rights to replace the servicer or collateral manager or to require the liquidation of the entity. If the Company serves as servicer or collateral manager, or has certain other rights described in the previous sentence, the Company analyzes the interests in the VIE that it holds and consolidates only those VIEs for which it holds a potentially significant interest of the VIE.

The structure of securitization vehicles and CDOs is driven by several parties, including loan seller(s) in securitization transactions, the collateral manager in a CDO, one or more rating agencies, a financial guarantor in some transactions and the underwriter(s) of the transactions, who serve to reflect specific investor demand. In addition, subordinate investors, such as the “B−piece” buyer (*i.e.,* investors in most subordinated bond classes) in commercial mortgage−backed securitizations or equity investors in CDOs, can influence whether specific loans are excluded from a CMBS transaction or investment criteria in a CDO.

For many transactions, such as re−securitization transactions, CLNs and other asset−repackaged notes, there are no significant economic decisions made on an ongoing basis. In these cases, the Company focuses its analysis on decisions made prior to the initial closing of the transaction and at the termination of the transaction. Based upon factors, which include an analysis of the nature of the assets, including whether the assets were issued in a transaction sponsored by the Company and the extent of the information available to the Company and to investors, the number, nature and involvement of investors, other rights held by the Company and investors, the standardization of the legal documentation and the level of the continuing involvement by the Company, including the amount and type of interests owned by the Company and by other investors, the Company concluded in most of these transactions that decisions made prior to the initial closing were shared between the Company and the initial investors. The Company focused its control decision on any right held by the Company or investors related to the termination of the VIE. Most re−securitization transactions, CLNs and other asset−repackaged notes have no such termination rights.

Except for consolidated VIEs included in other structured financings and managed real estate partnerships in the tables below, the Company accounts for the assets held by the entities primarily in Trading assets and the liabilities of the entities as Other secured financings in the condensed consolidated statements of financial condition. For consolidated VIEs included in other structured financings, the Company accounts for the assets held by the entities primarily in Premises, equipment and software costs, and Other assets in the condensed consolidated statements of financial condition. For consolidated VIEs included in managed real estate partnerships, the Company accounts for the assets held by the entities primarily in Trading assets in the condensed consolidated statements of financial condition. Except for consolidated VIEs included in other structured financings, the assets and liabilities are measured at fair value, with changes in fair value reflected in earnings.

The assets owned by many consolidated VIEs cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many consolidated VIEs are non–recourse to the Company. In certain other consolidated VIEs, the Company has the unilateral right to remove assets or provides additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Company's Institutional Securities business segment's securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 12).

The following tables present information at September 30, 2013 and December 31, 2012 about VIEs that the Company consolidates. Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a non–recourse basis:

	At September 30, 2013				
	Mortgage and Asset–Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
	(dollars in millions)				
VIE assets	$ 752	$ —	$ 2,269	$ 1,187	$1,343
VIE liabilities	$ 423	$ 86	$ 59	$ 66	$ 163

	At December 31, 2012				
	Mortgage and Asset–Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
	(dollars in millions)				
VIE assets	$ 978	$ 52	$ 2,394	$ 983	$1,676
VIE liabilities	$ 646	$ 16	$ 83	$ 65	$ 313

In general, the Company's exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE's assets recognized in its financial statements, net of losses absorbed by third–party holders of the VIE's liabilities. At September 30, 2013 and December 31, 2012, managed real estate partnerships reflected nonredeemable noncontrolling interests in the Company's condensed consolidated financial statements of $1,742 million and $1,804 million, respectively. The Company also had additional maximum exposure to losses of approximately $68 million and $58 million at September 30, 2013 and December 31, 2012, respectively. This additional exposure related primarily to certain derivatives (*e.g.*, instead of purchasing senior securities, the Company has sold credit protection to synthetic CDOs through credit derivatives that are typically related to the most senior tranche of the CDO) and commitments, guarantees and other forms of involvement.

Table of Contents

The following tables present information about certain non–consolidated VIEs in which the Company had variable interests at September 30, 2013 and December 31, 2012. The tables include all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria. Most of the VIEs included in the tables below are sponsored by unrelated parties; the Company's involvement generally is the result of the Company's secondary market–making activities and securities held in its available for sale portfolio (see Note 5):

	At September 30, 2013				
	Mortgage and Asset–Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 163,017	$ 26,153	$ 3,129	$ 1,802	$10,036
Maximum exposure to loss:					
Debt and equity interests(2)	$ 14,257	$ 1,920	$ 21	$ 1,071	$ 2,965
Derivative and other contracts	10	23	1,975	—	164
Commitments, guarantees and other	—	142	—	656	640
Total maximum exposure to loss	$ 14,267	$ 2,085	$ 1,996	$ 1,727	$ 3,769
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 14,257	$ 1,920	$ 21	$ 670	$ 2,965
Derivative and other contracts	10	4	4	—	73
Total carrying value of exposure to loss—Assets	$ 14,267	$ 1,924	$ 25	$ 670	$ 3,038
Carrying value of exposure to loss— Liabilities:					
Derivative and other contracts	$ —	$ 2	$ 1	$ —	$ 55
Commitments, guarantees and other	—	—	—	9	—
Total carrying value of exposure to loss—Liabilities	$ —	$ 2	$ 1	$ 9	$ 55

(1) Mortgage and asset–backed securitizations include VIE assets as follows: $17.2 billion of residential mortgages; $47.5 billion of commercial mortgages; $56.9 billion of U.S. agency collateralized mortgage obligations; and $41.4 billion of other consumer or commercial loans.
(2) Mortgage and asset–backed securitizations include VIE debt and equity interests as follows: $1.7 billion of residential mortgages; $1.1 billion of commercial mortgages; $7.5 billion of U.S. agency collateralized mortgage obligations; and $4.0 billion of other consumer or commercial loans.

	At December 31, 2012				
	Mortgage and Asset–Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 251,689	$ 13,178	$ 3,390	$ 1,811	$14,029
Maximum exposure to loss:					
Debt and equity interests(2)	$ 22,280	$ 1,173	$ —	$ 1,053	$ 3,387
Derivative and other contracts	154	51	2,158	—	562
Commitments, guarantees and other	66	—	—	679	384
Total maximum exposure to loss	$ 22,500	$ 1,224	$ 2,158	$ 1,732	$ 4,333
Carrying value of exposure to loss—Assets:					
Debt and equity interests(2)	$ 22,280	$ 1,173	$ —	$ 663	$ 3,387
Derivative and other contracts	156	8	4	—	174
Total carrying value of exposure to loss—Assets	$ 22,436	$ 1,181	$ 4	$ 663	$ 3,561
Carrying value of exposure to loss—Liabilities:					
Derivative and other contracts	$ 11	$ 2	$ —	$ —	$ 172
Commitments, guarantees and other	—	—	—	12	—
Total carrying value of exposure to loss—Liabilities	$ 11	$ 2	$ —	$ 12	$ 172

(1) Mortgage and asset–backed securitizations include VIE assets as follows: $18.3 billion of residential mortgages; $53.8 billion of commercial mortgages; $126.3 billion of U.S. agency collateralized mortgage obligations; and $53.3 billion of other consumer or commercial loans.

(2) Mortgage and asset–backed securitizations include VIE debt and equity interests as follows: $1.0 billion of residential mortgages; $1.5 billion of commercial mortgages; $14.8 billion of U.S. agency collateralized mortgage obligations; and $5.0 billion of other consumer or commercial loans.

The Company's maximum exposure to loss often differs from the carrying value of the variable interests held by the Company. The maximum exposure to loss is dependent on the nature of the Company's variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Company has made in the VIEs. Liabilities issued by VIEs generally are non–recourse to the Company. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value writedowns already recorded by the Company.

The Company's maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Company may utilize to hedge these risks associated with the Company's variable interests. In addition, the Company's maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market–making activities, the Company owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities totaled $10.2 billion at September 30, 2013. These securities were either retained in connection with transfers of assets by the Company, acquired in connection with secondary market–making activities or held in the Company's available for sale portfolio (see Note 5). Securities issued by securitization SPEs consist of $6.0 billion of securities backed primarily by

residential mortgage loans, $0.9 billion of securities backed by U.S. agency collateralized mortgage obligations, $1.0 billion of securities backed by commercial mortgage loans, $0.4 billion of securities backed by collateralized debt obligations or collateralized loan obligations and $1.9 billion backed by other consumer loans, such as credit card receivables, automobile loans and student loans. The Company's primary risk exposure is to the securities issued by the SPE owned by the Company, with the risk highest on the most subordinate class of beneficial interests. These securities generally are included in Trading assets—Corporate and other debt or Securities available for sale and are measured at fair value (see Note 4). The Company does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Company's maximum exposure to loss generally equals the fair value of the securities owned.

The Company's transactions with VIEs primarily include securitizations, municipal tender option bond trusts, credit protection purchased through CLNs, other structured financings, collateralized loan and debt obligations, equity–linked notes, managed real estate partnerships and asset management investment funds. The Company's continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Company–sponsored transactions, interests purchased in the secondary market (both for Company–sponsored transactions and transactions sponsored by third parties), derivatives with securitization SPEs (primarily interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Company has purchased protection in synthetic CDOs), and as servicer in residential mortgage securitizations in the U.S. and Europe and commercial mortgage securitizations in Europe. Such activities are further described in Note 7 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K.

Transfers of Assets with Continuing Involvement.

The following tables present information at September 30, 2013 regarding transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment:

	At September 30, 2013			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit–Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$ 33,610	$ 54,648	$ 18,348	$ 12,436
Retained interests (fair value):				
Investment grade	$ —	$ 10	$ 698	$ —
Non–investment grade	128	226	—	1,322
Total retained interests (fair value)	$ 128	$ 236	$ 698	$ 1,322
Interests purchased in the secondary market (fair value):				
Investment grade	$ 4	$ 80	$ 27	$ 351
Non–investment grade	82	57	—	65
Total interests purchased in the secondary market (fair value)	$ 86	$ 137	$ 27	$ 416
Derivative assets (fair value)	$ —	$ 729	$ —	$ 123
Derivative liabilities (fair value)	$ 2	$ —	$ —	$ 184

(1) Amounts include assets transferred by unrelated transferors.

	At September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$ —	$ 708	$ —	$ 708
Non–investment grade	—	198	1,478	1,676
Total retained interests (fair value)	$ —	$ 906	$1,478	$2,384
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$ 454	$ 8	$ 462
Non–investment grade	—	179	25	204
Total interests purchased in the secondary market (fair value)	$ —	$ 633	$ 33	$ 666
Derivative assets (fair value)	$ —	$ 624	$ 228	$ 852
Derivative liabilities (fair value)	$ —	$ 172	$ 14	$ 186

The following tables present information at December 31, 2012 regarding transactions with SPEs in which the Company, acting as principal, transferred assets with continuing involvement and received sales treatment:

	At December 31, 2012			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit–Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$ 36,750	$ 70,824	$ 17,787	$ 14,701
Retained interests (fair value):				
Investment grade	$ 1	$ 77	$ 1,468	$ —
Non–investment grade	54	109	—	1,503
Total retained interests (fair value)	$ 55	$ 186	$ 1,468	$ 1,503
Interests purchased in the secondary market (fair value):				
Investment grade	$ 11	$ 124	$ 99	$ 389
Non–investment grade	113	34	—	31
Total interests purchased in the secondary market (fair value)	$ 124	$ 158	$ 99	$ 420
Derivative assets (fair value)	$ 2	$ 948	$ —	$ 177
Derivative liabilities (fair value)	$ 22	$ —	$ —	$ 303

(1) Amounts include assets transferred by unrelated transferors.

	At December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$ —	$1,476	$ 70	$1,546
Non–investment grade	—	84	1,582	1,666
Total retained interests (fair value)	$ —	$1,560	$1,652	$3,212
Interests purchased in the secondary market (fair value):				
Investment grade	$ —	$ 617	$ 6	$ 623
Non–investment grade	—	139	39	178
Total interests purchased in the secondary market (fair value)	$ —	$ 756	$ 45	$ 801
Derivative assets (fair value)	$ —	$ 774	$ 353	$1,127
Derivative liabilities (fair value)	$ —	$ 295	$ 30	$ 325

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the condensed consolidated statements of income. The Company may act as underwriter of the beneficial interests issued by securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these transactions. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the condensed consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the condensed consolidated statements of income.

Net gains on sales of assets in securitization transactions at the time of the sale were not material in the nine months ended September 30, 2013 and 2012.

During the nine months ended September 30, 2013 and 2012, the Company received proceeds from new securitization transactions of $18.8 billion and $13.7 billion, respectively. During the nine months ended September 30, 2013 and 2012, the Company received proceeds from cash flows from retained interests in securitization transactions of $3.8 billion and $3.2 billion, respectively.

The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 12).

Failed Sales.

In order to be treated as a sale of assets for accounting purposes, a transaction must meet all of the criteria stipulated in the accounting guidance for the transfer of financial assets. If the transfer fails to meet these criteria, that transfer of financial assets is treated as a failed sale. In such case for transfers to VIEs and securitizations, the Company continues to recognize the assets in Trading assets, and the Company recognizes the associated liabilities in Other secured financings in the condensed consolidated statements of financial condition (see Note 10).

The assets transferred to many unconsolidated VIEs in transactions accounted for as failed sales cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many unconsolidated VIEs are non–recourse to the Company. In certain other failed sale transactions, the Company has the unilateral right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

The following table presents information about the carrying value (equal to fair value) of assets and liabilities resulting from transfers of financial assets treated by the Company as secured financings:

	At September 30, 2013 Carrying Value of		At December 31, 2012 Carrying Value of	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Credit–linked notes	$ 48	$ 41	$ 283	$ 222
Equity–linked transactions	39	35	422	405
Other	360	359	29	28

Mortgage Servicing Activities.

Mortgage Servicing Rights. The Company may retain servicing rights to certain mortgage loans that are sold. These transactions create an asset referred to as MSRs, which totaled approximately $8 million and $7 million at September 30, 2013 and December 31, 2012, respectively, and are included within Intangible assets and carried at fair value in the condensed consolidated statements of financial condition.

SPE Mortgage Servicing Activities. The Company services residential mortgage loans in the U.S. and in Europe and commercial mortgage loans in Europe owned by SPEs, including SPEs sponsored by the Company and SPEs not sponsored by the Company. The Company generally holds retained interests in Company–sponsored SPEs. In some cases, as part of its market–making activities, the Company may own some beneficial interests issued by both Company–sponsored and non–Company sponsored SPEs.

The Company provides no credit support as part of its servicing activities. The Company is required to make servicing advances to the extent that it believes that such advances will be reimbursed. Reimbursement of servicing advances is a senior obligation of the SPE, senior to the most senior beneficial interests outstanding. Outstanding advances are included in Other assets and are recorded at cost, net of allowances. Advances at September 30, 2013 and December 31, 2012 totaled approximately $88 million and $49 million, respectively. There were no allowances at September 30, 2013 and December 31, 2012.

The following tables present information about the Company's mortgage servicing activities for SPEs to which the Company transferred loans at September 30, 2013 and December 31, 2012:

	At September 30, 2013		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
		(dollars in millions)	
Assets serviced (unpaid principal balance)	$ 780	$ 818	$ 4,041
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 75	$ 45	$ —
Percentage of amounts past due 90 days or greater(1)	9.6%	5.5%	—
Credit losses	$ 2	$ 12	$ —

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

	At December 31, 2012		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
		(dollars in millions)	
Assets serviced (unpaid principal balance)	$ 821	$ 1,141	$ 4,760
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 86	$ 43	$ —
Percentage of amounts past due 90 days or greater(1)	10.4%	3.8%	—
Credit losses	$ 3	$ 2	$ —

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

8. Financing Receivables and Allowance for Credit Losses.

Loans held for investment.

The Company's loans held for investment are recorded at amortized cost and classified as Loans in the condensed consolidated statements of financial condition.

The Company's loans held for investment at September 30, 2013 and December 31, 2012 included the following:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Commercial and industrial	$ 11,953	$ 9,449
Consumer loans	10,299	7,618
Residential real estate loans	8,784	6,630
Wholesale real estate loans	2,102	326
Total loans held for investment, gross of allowance for loan losses	33,138	24,023
Allowance for loan losses	(166)	(106)
Total loans held for investment, net of allowance for loan losses	$ 32,972	$ 23,917

The above table does not include loans held for sale of $4,762 million and $5,129 million at September 30, 2013 and December 31, 2012, respectively.

The Company's Credit Risk Management Department evaluates new obligors before credit transactions are initially approved, and at least annually thereafter for consumer and industrial loans. For commercial loans, credit evaluations typically involve the evaluation of financial statements, assessment of leverage, liquidity, capital strength, asset composition and quality, market capitalization and access to capital markets, cash flow projections and debt service requirements, and the adequacy of collateral, if applicable. The Company's Credit Risk Management Department will also evaluate strategy, market position, industry dynamics, obligor's management and other factors that could affect the obligor's risk profile. For residential real estate and consumer loans, the initial credit evaluation includes, but is not limited to, review of the obligor's income, net worth, liquidity, collateral, loan–to–value ratio, and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level. Consumer loan collateral values are monitored on an ongoing basis.

Commercial and industrial loans of approximately $117 million and wholesale real estate loans of approximately $4 million were impaired, for which there was a related allowance for loan losses of $23 million, at September 30, 2013. Approximately 99% of the Company's loan portfolio was current at September 30, 2013. Commercial and industrial loans of approximately $19 million and residential real estate loans of approximately $1 million were impaired, for which there was a related allowance for loan losses of $2 million, at December 31, 2012. Approximately 99% of the Company's loan portfolio was current at December 31, 2012.

The Company assigned an internal grade of "doubtful" to certain commercial asset–backed and wholesale real estate loans totaling $21 million and $25 million at September 30, 2013 and December 31, 2012, respectively. Doubtful loans can be classified as current if the borrower is making payments in accordance with the loan agreement. The Company assigned an internal grade of "pass" to the majority of its remaining loan portfolio.

For a description of the Company's loan portfolio and credit quality indicators utilized in its credit monitoring process, see Note 8 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K.

The table below summarizes information about the allowance for loan losses, loans by impairment methodology, the allowance for lending–related commitments and lending–related commitments by impairment methodology.

	Commercial and Industrial	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Gross charge–offs	(12)	—	(1)	(2)	(15)
Net charge–offs	(12)	—	(1)	(2)	(15)
Provision for loan losses(1)	64	(2)	—	13	75
Balance at September 30, 2013	$ 148	$ 1	$ 4	$ 13	$ 166
Allowance for loan losses by impairment methodology:					
Collectively evaluated for impairment	$ 129	$ 1	$ 4	$ 9	$ 143
Individually evaluated for impairment	19	—	—	4	23
Total allowance for loan losses at September 30, 2013	$ 148	$ 1	$ 4	$ 13	$ 166
Loans evaluated by impairment methodology(2):					
Collectively evaluated for impairment	$ 11,826	$ 10,299	$ 8,776	$ 2,092	$32,993
Individually evaluated for impairment	127	—	8	10	145
Total loans evaluated at September 30, 2013	$ 11,953	$ 10,299	$ 8,784	$ 2,102	$33,138
Allowance for lending–related commitments:					
Balance at December 31, 2012	$ 90	$ —	$ —	$ 1	$ 91
Provision for lending–related commitments(3)	41	—	—	—	41
Other	(10)	—	—	—	(10)
Balance at September 30, 2013	$ 121	$ —	$ —	$ 1	$ 122
Allowance for lending–related commitments by impairment methodology:					
Collectively evaluated for impairment	$ 121	$ —	$ —	$ 1	$ 122
Individually evaluated for impairment	—	—	—	—	—
Total allowance for lending–related commitments at September 30, 2013	$ 121	$ —	$ —	$ 1	$ 122
Lending–related commitments evaluated by impairment methodology:					
Collectively evaluated for impairment	$ 57,137	$ 1,770	$ 1,407	$ 234	$60,548
Individually evaluated for impairment	—	—	—	—	—
Total lending–related commitments evaluated at September 30, 2013	$ 57,137	$ 1,770	$ 1,407	$ 234	$60,548

(1) The Company recorded $41 million of provision for loan losses within Other revenues for the quarter ended September 30, 2013.
(2) Balances are gross of the allowance and represent recorded investment in the loans.

(3) The Company recorded $12 million of provision for lending–related commitments within Other non–interest expenses for the quarter ended September 30, 2013.

	Commercial and Industrial	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2011	$ 14	$ 1	$ 1	$ 1	$ 17
Gross charge–offs	(12)	—	—	—	(12)
Gross recoveries	—	—	—	11	11
Net charge–offs	(12)	—	—	11	(1)
Provision for loan losses(1)	86	6	2	(9)	85
Balance at September 30, 2012	$ 88	$ 7	$ 3	$ 3	$ 101
Allowance for loan losses by impairment methodology:					
Collectively evaluated for impairment	$ 94	$ 3	$ 5	$ 2	$ 104
Individually evaluated for impairment	2	—	—	—	2
Total allowance for loan losses at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Loans evaluated by impairment methodology(2):					
Collectively evaluated for impairment	$ 9,419	$ 7,618	$ 6,629	$ 326	$23,992
Individually evaluated for impairment	30	—	1	—	31
Total loan evaluated at December 31, 2012	$ 9,449	$ 7,618	$ 6,630	$ 326	$24,023
Allowance for lending–related commitments:					
Balance at December 31, 2011	$ 19	$ 3	$ —	$ 2	$ 24
Provision for lending–related commitments(3)	43	(1)	—	—	42
Balance at September 30, 2012	$ 62	$ 2	$ —	$ 2	$ 66
Allowance for lending–related commitments by impairment methodology:					
Collectively evaluated for impairment	$ 86	$ —	$ —	$ 1	$ 87
Individually evaluated for impairment	4	—	—	—	4
Total allowance for lending–related commitments at December 31, 2012	$ 90	$ —	$ —	$ 1	$ 91
Lending–related commitments evaluated by impairment methodology:					
Collectively evaluated for impairment	$ 44,079	$ 1,406	$ 712	$ 101	$46,298
Individually evaluated for impairment	47	—	—	—	47
Total lending–related commitments evaluated at December 31, 2012	$ 44,126	$ 1,406	$ 712	$ 101	$46,345

(1) The Company recorded $31 million of provision for loan losses within Other revenues for the quarter ended September 30, 2012.
(2) Balances are gross of the allowance and represent recorded investment in the loans.
(3) The Company recorded $34 million of provision for lending–related commitments within Other non–interest expenses for the quarter ended September 30, 2012.

Employee Loans.

Employee loans are granted primarily in conjunction with a program established in the Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the condensed consolidated statements of financial condition. These loans are full recourse, generally require periodic payments and have repayment terms ranging from one to 12 years. The Company establishes a reserve for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At September 30, 2013, the Company had $5,533 million of employee loans, net of an allowance of approximately $124 million. At December 31, 2012, the Company had $5,998 million of employee loans, net of an allowance of approximately $131 million.

The Company has also granted loans to other employees primarily in conjunction with certain after−tax leveraged investment arrangements. At September 30, 2013, the balance of these loans was $139 million, net of an allowance of approximately $99 million. At December 31, 2012, the balance of these loans was $172 million, net of an allowance of approximately $108 million. The Company establishes a reserve for non−recourse loan amounts not recoverable from employees, which is recorded in Other expense.

Collateralized Transactions.

In certain instances, the Company enters into reverse repurchase agreements and securities borrowed transactions to acquire securities to cover short positions, to settle other securities obligations and to accommodate customers' needs. The Company also engages in securities financing transactions for customers through margin lending (see Note 6).

Servicing Advances.

As part of its servicing activities, the Company may make servicing advances to the extent that it believes that such advances will be reimbursed (see Note 7).

9. Goodwill and Net Intangible Assets.

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two−step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two−step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques the Company believes market participants would use for each of the reporting units.

The estimated fair values are generally determined utilizing methodologies that incorporate price−to−book and price−to−earnings multiples of certain comparable companies. The Company also utilizes a discounted cash flow methodology for certain reporting units.

The Company completed its annual goodwill impairment testing at July 1, 2013. The Company's testing did not indicate any goodwill impairment as each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value. Adverse market or economic events could result in impairment charges in future periods. At December 31, 2012, each of the Company's reporting units with goodwill also had a fair value that was substantially in excess of its carrying value.

Goodwill.

Changes in the carrying amount of the Company's goodwill, net of accumulated impairment losses for the nine months ended September 30, 2013, were as follows:

	Institutional Securities(1)	Wealth Management(1)	Investment Management	Total
		(dollars in millions)		
Goodwill at December 31, 2012(2)	$ 337	$ 5,573	$ 740	$6,650
Foreign currency translation adjustments and other	(31)	—	—	(31)
Goodwill disposed of during the period(3)(4)	(17)	(11)	—	(28)
Goodwill at September 30, 2013(2)	$ 289	$ 5,562	$ 740	$6,591

(1) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.

(2) The amount of the Company's goodwill before accumulated impairments of $700 million, which included $673 million related to the Institutional Securities business segment and $27 million related to the Investment Management business segment, was $7,291 million and $7,350 million at September 30, 2013 and December 31, 2012, respectively.

(3) In 2011, the Company announced that it had reached an agreement with the employees of its in–house quantitative proprietary trading unit, Process Driven Trading ("PDT"), within the Institutional Securities business segment, whereby PDT employees will acquire certain assets from the Company and launch an independent advisory firm. This transaction closed on January 1, 2013.

(4) The Wealth Management business segment sold the U.K. operations of Global Stock Plan Services business to Computershare Limited. This transaction closed on May 31, 2013.

Net Intangible Assets.

Changes in the carrying amount of the Company's intangible assets for the nine months ended September 30, 2013 were as follows:

	Institutional Securities	Wealth Management	Investment Management	Total
		(dollars in millions)		
Amortizable net intangible assets at December 31, 2012	$ 175	$ 3,600	$ 1	$3,776
Mortgage servicing rights (see Note 7)	—	7	—	7
Net intangible assets at December 31, 2012	$ 175	$ 3,607	$ 1	$3,783
Amortizable net intangible assets at December 31, 2012	$ 175	$ 3,600	$ 1	$3,776
Foreign currency translation adjustments and other	(2)	—	—	(2)
Amortization expense	(9)	(250)	—	(259)
Impairment losses(1)	(2)	(7)	—	(9)
Amortizable net intangible assets at September 30, 2013	162	3,343	1	3,506
Mortgage servicing rights (see Note 7)	—	8	—	8
Net intangible assets at September 30, 2013	$ 162	$ 3,351	$ 1	$3,514

(1) Impairment losses are recorded within Other expenses.

10. Long–Term Borrowings and Other Secured Financings.

The Company's long–term borrowings included the following components:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Senior debt	$ 145,515	$ 158,899
Subordinated debt	7,478	5,845
Junior subordinated debentures	4,812	4,827
Total	$ 157,805	$ 169,571

During the nine months ended September 30, 2013, the Company issued and reissued notes with a principal amount of approximately $25 billion. This amount included the Company's issuances of $2.0 billion in 10 year subordinated debt on May 21, 2013, $3.7 billion in senior unsecured debt on April 25, 2013 and $4.5 billion in senior unsecured debt on February 25, 2013. During the nine months ended September 30, 2013, approximately $31 billion in aggregate long–term borrowings matured or were retired.

The weighted average maturity of the Company's long–term borrowings, based upon stated maturity dates, was approximately 5.3 years at September 30, 2013 and December 31, 2012.

Other Secured Financings.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, pledged commodities, certain equity–linked notes and other secured borrowings. See Note 7 for further information on other secured financings related to VIEs and securitization activities.

The Company's other secured financings consisted of the following:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Secured financings with original maturities greater than one year	$ 10,163	$ 14,431
Secured financings with original maturities one year or less	3,930	641
Failed sales(1)	435	655
Total(2)	$ 14,528	$ 15,727

(1) For more information on failed sales, see Note 7.
(2) Amounts include $6,145 million and $9,466 million at fair value at September 30, 2013 and December 31, 2012, respectively.

11. Derivative Instruments and Hedging Activities.

The Company trades, makes markets and takes proprietary positions globally in listed futures, OTC swaps, forwards, options and other derivatives referencing, among other things, interest rates, currencies, investment grade and non–investment grade corporate credits, loans, bonds, U.S. and other sovereign securities, emerging market bonds and loans, credit indices, asset–backed security indices, property indices, mortgage–related and other asset–backed securities, and real estate loan products. The Company uses these instruments for trading, foreign currency exposure management and asset and liability management.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). The Company manages the market risk associated with its trading activities on a Company–wide basis, on a worldwide trading division level and on an individual product basis.

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), to net a counterparty's rights and obligations under the agreement and to liquidate and setoff collateral against any net amount owed by the counterparty. However, in certain circumstances: the Company may not have such an agreement in place; the relevant insolvency regime (which is based on the type of counterparty entity and the jurisdiction of organization of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures. The Company's policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases the Company may agree for such collateral to be posted to a third party custodian under a control agreement that enables the Company to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits. The following tables present information about the offsetting of derivative instruments and related collateral amounts. See information related to offsetting of certain collateralized transactions in Note 6.

	At September 30, 2013					
				Amounts Not Offset in the Condensed Consolidated Statements of Financial Condition(3)		
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 450,627	$ (422,897)	$ 27,730	$ (8,399)	$ (79)	$ 19,252
Cleared OTC(4)	284,888	(284,147)	741	—	—	741
Exchange traded	34,487	(27,520)	6,967	—	—	6,967
Total derivative assets	$ 770,002	$ (734,564)	$ 35,438	$ (8,399)	$ (79)	$ 26,960
Derivative liabilities						
Bilateral OTC	$ 427,774	$ (400,382)	$ 27,392	$ (5,873)	$ (151)	$ 21,368
Cleared OTC(4)	285,023	(284,827)	196	—	(49)	147
Exchange traded	38,100	(27,520)	10,580	(2,395)	—	8,185
Total derivative liabilities	$ 750,897	$ (712,729)	$ 38,168	$ (8,268)	$ (200)	$ 29,700

(1) Amounts include $10.5 billion of derivative assets and $10.6 billion of derivative liabilities which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also "Fair Value and Notional of Derivative Instruments" for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

(3) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.
(4) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

	At December 31, 2012					
				Amounts Not Offset in the Condensed Consolidated Statements of Financial Condition(3)		
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 604,713	$ (573,844)	$ 30,869	$ (7,691)	$ (232)	$ 22,946
Cleared OTC(4)	375,233	(374,546)	687	—	—	687
Exchange traded	24,305	(19,664)	4,641	—	—	4,641
Total derivative assets	$1,004,251	$ (968,054)	$ 36,197	$ (7,691)	$ (232)	$ 28,274
Derivative Liabilities						
Bilateral OTC	$ 578,018	$ (547,285)	$ 30,733	$ (7,871)	$ (64)	$ 22,798
Cleared OTC(4)	374,960	(374,866)	94	—	(23)	71
Exchange traded	25,795	(19,664)	6,131	(1,028)	—	5,103
Total derivative liabilities	$ 978,773	$ (941,815)	$ 36,958	$ (8,899)	$ (87)	$ 27,972

(1) Amounts include $7.2 billion of derivative assets and $7.3 billion of derivative liabilities which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable. See also "Fair Value and Notional of Derivative Instruments" for additional disclosure about gross fair values and notionals for derivative instruments by risk type.
(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.
(3) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.
(4) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets. The fair value of a derivative represents the amount at which the derivative could be exchanged in an orderly transaction between market participants and is further described in Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K and Note 4.

The tables below present a summary by counterparty credit rating and remaining contract maturity of the fair value of OTC derivatives in a gain position at September 30, 2013 and December 31, 2012, respectively. Fair value is presented in the final column, net of collateral received (principally cash and U.S. government and agency securities):

OTC Derivative Products—Trading Assets at September 30, 2013(1)

	Years to Maturity				Cross–Maturity and Cash Collateral	Net Exposure Post–Cash	Net Exposure
Credit Rating(2)	Less than 1	1–3	3–5	Over 5	Netting(3)	Collateral	Post–Collateral
	(dollars in millions)						
AAA	$ 337	$ 605	$ 1,043	$ 4,305	$ (4,010)	$ 2,280	$ 1,926
AA	2,283	2,015	2,655	10,281	(11,877)	5,357	3,533
A	6,865	9,504	10,419	21,414	(40,171)	8,031	6,367
BBB	2,886	3,498	3,660	15,220	(17,861)	7,403	5,625
Non–investment grade	2,697	3,007	1,672	3,156	(5,211)	5,321	2,542
Total	$15,068	$18,629	$19,449	$54,376	$ (79,130)	$ 28,392	$ 19,993

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange–traded derivatives and the effect of any related hedges utilized by the Company.
(2) Obligor credit ratings are determined by the Company's Credit Risk Management Department.
(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

OTC Derivative Products—Trading Assets at December 31, 2012(1)

	Years to Maturity				Cross–Maturity and Cash Collateral	Net Exposure Post–Cash	Net Exposure
Credit Rating(2)	Less than 1	1–3	3–5	Over 5	Netting(3)	Collateral	Post–Collateral
	(dollars in millions)						
AAA	$ 353	$ 551	$ 1,299	$ 6,121	$ (4,851)	$ 3,473	$ 3,088
AA	2,125	3,635	2,958	10,270	(12,761)	6,227	4,428
A	6,643	9,596	14,228	29,729	(50,722)	9,474	7,638
BBB	2,673	3,970	3,704	18,586	(21,713)	7,220	5,754
Non–investment grade	2,091	2,855	2,142	4,538	(6,696)	4,930	2,725
Total	$13,885	$20,607	$24,331	$69,244	$ (96,743)	$ 31,324	$ 23,633

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange–traded derivatives and the effect of any related hedges utilized by the Company.
(2) Obligor credit ratings are determined by the Company's Credit Risk Management Department.
(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments to hedge interest rate and foreign exchange risk arising from assets and liabilities not held at fair value as part of asset and liability management and foreign currency exposure management.

The Company's hedges are designated and qualify for accounting purposes as one of the following types of hedges: hedges of exposure to changes in fair value of assets and liabilities being hedged (fair value hedges) and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges).

For all hedges where hedge accounting is being applied, effectiveness testing and other procedures to ensure the ongoing validity of the hedges are performed at least monthly.

Fair Value Hedges—Interest Rate Risk. The Company's designated fair value hedges consisted primarily of interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long−term borrowings. The Company uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships (*i.e.*, the Company applies the "long−haul" method of hedge accounting). A hedging relationship is deemed effective if the fair values of the hedging instrument (derivative) and the hedged item (debt liability) change inversely within a range of 80% to 125%. The Company considers the impact of valuation adjustments related to the Company's own credit spreads and counterparty credit spreads to determine whether they would cause the hedging relationship to be ineffective.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative and the changes in the fair value of the hedged liability provide offset of one another and, together with any resulting ineffectiveness, are recorded in Interest expense. When a derivative is de−designated as a hedge, any basis adjustment remaining on the hedged liability is amortized to Interest expense over the remaining life of the liability using the effective interest method.

Net Investment Hedges. The Company may utilize forward foreign exchange contracts to manage the currency exposure relating to its net investments in non−U.S. dollar functional currency operations. No hedge ineffectiveness is recognized in earnings since the notional amounts of the hedging instruments equal the portion of the investments being hedged and the currencies being exchanged are the functional currencies of the parent and investee. The gain or loss from revaluing hedges of net investments in foreign operations at the spot rate is deferred and reported within Accumulated other comprehensive income (loss) in Total Equity, net of tax effects. The forward points on the hedging instruments are recorded in Interest income.

In the nine months ended September 30, 2012, the Company recognized an out of period pre−tax gain of approximately $109 million in the Institutional Securities business segment's Other sales and trading net revenues, related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts previously designated as net investment hedges of certain non−U.S. dollar denominated subsidiaries. The Company has evaluated the effects of the incorrect application of hedge accounting, both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Subsequent to the identification of the incorrect application of net investment hedge accounting, the Company has appropriately redesignated the forward foreign exchange contracts and reapplied hedge accounting.

Fair Value and Notional of Derivative Instruments. The following tables summarize the fair value of derivative instruments designated as accounting hedges and the fair value of derivative instruments not designated as accounting hedges by type of derivative contract and the platform on which these instruments are traded or cleared on a gross basis. Fair values of derivative contracts in an asset position are included in Trading assets and fair values of derivative contracts in a liability position are reflected in Trading liabilities in the condensed consolidated statements of financial condition (see Note 4):

Derivative Assets At September 30, 2013

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 5,586	$ 324	$ —	$ 5,910	$ 58,287	$ 11,440	$ —	$ 69,727
Foreign exchange contracts	180	—	—	180	5,853	137	—	5,990
Total derivatives designated as accounting hedges	5,766	324	—	6,090	64,140	11,577	—	75,717
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	304,345	280,067	376	584,788	6,551,567	12,716,148	1,255,543	20,523,258
Credit contracts	45,312	4,359	—	49,671	1,397,432	254,921	—	1,652,353
Foreign exchange contracts	55,800	138	24	55,962	1,844,721	5,719	8,521	1,858,961
Equity contracts	26,375	—	29,733	56,108	331,139	—	501,628	832,767
Commodity contracts	12,993	—	4,354	17,347	166,689	—	179,290	345,979
Other	36	—	—	36	2,432	—	—	2,432
Total derivatives not designated as accounting hedges	444,861	284,564	34,487	763,912	10,293,980	12,976,788	1,944,982	25,215,750
Total derivatives	$ 450,627	$ 284,888	$ 34,487	$ 770,002	$10,358,120	$12,988,365	$1,944,982	$25,291,467
Cash collateral netting	(53,748)	(2,869)	—	(56,617)	—	—	—	—
Counterparty netting	(369,149)	(281,278)	(27,520)	(677,947)	—	—	—	—
Total derivative assets	$ 27,730	$ 741	$ 6,967	$ 35,438	$10,358,120	$12,988,365	$1,944,982	$25,291,467

	Derivative Liabilities At September 30, 2013							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 514	$ 405	$ —	$ 919	$ 2,647	$ 12,454	$ —	$ 15,101
Foreign exchange contracts	289	1	—	290	9,563	226	—	9,789
Total derivatives designated as accounting hedges	803	406	—	1,209	. 12,210	12,680	—	24,890
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	284,561	280,055	358	564,974	6,417,090	12,594,699	1,532,970	20,544,759
Credit contracts	43,093	4,483	—	47,576	1,257,814	244,523	—	1,502,337
Foreign exchange contracts	56,463	79	9	56,551	1,914,342	4,988	3,297	1,922,627
Equity contracts	30,241	—	32,992	63,233	337,877	—	505,050	842,927
Commodity contracts	12,409	—	4,741	17,150	154,196	—	159,652	313,848
Other	204	—	—	204	6,455	—	—	6,455
Total derivatives not designated as accounting hedges	426,971	284,617	38,100	749,688	10,087,774	12,844,210	2,200,969	25,132,953
Total derivatives	$ 427,774	$ 285,023	$ 38,100	$ 750,897	$10,099,984	$12,856,890	$2,200,969	$25,157,843
Cash collateral netting	(31,233)	(3,549)	—	(34,782)	—	—	—	—
Counterparty netting	(369,149)	(281,278)	(27,520)	(677,947)	—	—	—	—
Total derivative liabilities	$ 27,392	$ 196	$ 10,580	$ 38,168	$10,099,984	$12,856,890	$2,200,969	$25,157,843

(1) Notional amounts include gross notionals related to open long and short futures contracts of $411 billion and $915 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $951 million and $51 million is included in Customer and other receivables and Customer and other payables, respectively, on the condensed consolidated statements of financial condition.

(2) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

	Derivative Assets At December 31, 2012							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 8,046	$ 301	$ —	$ 8,347	$ 66,916	$ 8,199	$ —	$ 75,115
Foreign exchange contracts	367	—	—	367	10,291	—	—	10,291
Total derivatives designated as accounting hedges	8,413	301	—	8,714	77,207	8,199	—	85,406
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	443,523	371,789	142	815,454	8,029,510	10,096,252	776,130	18,901,892
Credit contracts	65,168	3,099	—	68,267	1,734,907	197,879	—	1,932,786
Foreign exchange contracts	52,349	44	34	52,427	1,831,385	3,834	5,967	1,841,186
Equity contracts	19,916	—	18,684	38,600	258,484	—	329,216	587,700
Commodity contracts	15,201	—	5,445	20,646	164,842	—	176,714	341,556
Other	143	—	—	143	4,908	—	—	4,908
Total derivatives not designated as accounting hedges	596,300	374,932	24,305	995,537	12,024,036	10,297,965	1,288,027	23,610,028
Total derivatives	$ 604,713	$ 375,233	$ 24,305	$1,004,251	$12,101,243	$10,306,164	$1,288,027	$23,695,434
Cash collateral netting	(68,024)	(1,224)	—	(69,248)	—	—	—	—
Counterparty netting	(505,820)	(373,322)	(19,664)	(898,806)	—	—	—	—
Total derivative assets	$ 30,869	$ 687	$ 4,641	$ 36,197	$12,101,243	$10,306,164	$1,288,027	$23,695,434

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Derivative Liabilities At December 31, 2012							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 167	$ 1	$ —	$ 168	$ 2,000	$ 660	$ —	$ 2,660
Foreign exchange contracts	319	—	—	319	17,156	—	—	17,156
Total derivatives designated as accounting hedges	486	1	—	487	19,156	660	—	19,816
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	422,864	370,856	216	793,936	7,726,241	9,945,979	1,994,947	19,667,167
Credit contracts	60,420	4,074	—	64,494	1,645,464	222,343	—	1,867,807
Foreign exchange contracts	56,062	29	3	56,094	1,878,597	3,473	4,003	1,886,073
Equity contracts	22,239	—	19,631	41,870	257,340	—	329,858	587,198
Commodity contracts	15,886	—	5,945	21,831	169,189	—	155,912	325,101
Other	61	—	—	61	5,161	—	—	5,161
Total derivatives not designated as accounting hedges	577,532	374,959	25,795	978,286	11,681,992	10,171,795	2,484,720	24,338,507
Total derivatives	$ 578,018	$ 374,960	$ 25,795	$ 978,773	$11,701,148	$10,172,455	$2,484,720	$24,358,323
Cash collateral netting	(41,465)	(1,544)	—	(43,009)	—	—	—	—
Counterparty netting	(505,820)	(373,322)	(19,664)	(898,806)	—	—	—	—
Total derivative liabilities	$ 30,733	$ 94	$ 6,131	$ 36,958	$11,701,148	$10,172,455	$2,484,720	$24,358,323

(1) Notional amounts include gross notionals related to open long and short futures contracts of $368 billion and $1,476 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $1,073 million and $24 million is included in Customer and other receivables and Customer and other payables, respectively, on the condensed consolidated statements of financial condition.

(2) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

The following tables summarize the gains or losses reported on derivative instruments designated and qualifying as accounting hedges for the quarters and nine months ended September 30, 2013 and 2012, respectively.

Derivatives Designated as Fair Value Hedges.

The following table presents gains (losses) reported on derivative instruments and the related hedge item as well as the hedge ineffectiveness included in Interest expense in the condensed consolidated statements of income from interest rate contracts:

	Gains (Losses) Recognized			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Product Type	2013	2012	2013	2012
	(dollars in millions)			
Derivatives	$ (302)	$ 72	$(3,421)	$ 504
Borrowings	583	17	4,374	(37)
Total	$ 281	$ 89	$ 953	$ 467

Derivatives Designated as Net Investment Hedges.

	Gains Recognized in OCI (effective portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Product Type	2013	2012	2013	2012(1)
	(dollars in millions)			
Foreign exchange contracts(2)	$(193)	$(226)	$346	$ (76)
Total	$(193)	$(226)	$346	$ (76)

(1) A gain of $77 million, net of tax, related to net investment hedges was reclassified from other comprehensive income into income during the nine months ended September 30, 2012. The amount primarily related the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts (see above for further information).
(2) Losses of $34 million and $103 million were recognized in income related to amounts excluded from hedge effectiveness testing during the quarter and nine months ended September 30, 2013, respectively. Losses of $65 million and $193 million were recognized in income related to amounts excluded from hedge effectiveness testing during the quarter and nine months ended September 30, 2012, respectively.

The table below summarizes gains (losses) on derivative instruments not designated as accounting hedges for the quarters and nine months ended September 30, 2013 and 2012, respectively:

	Gains (Losses) Recognized in Income(1)(2)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Product Type	2013	2012	2013	2012
	(dollars in millions)			
Interest rate contracts	$ (435)	$ 227	$ (676)	$ 977
Credit contracts	(145)	(525)	100	96
Foreign exchange contracts	594	(129)	2,775	310
Equity contracts	(1,580)	(800)	(4,840)	(1,229)
Commodity contracts	104	(136)	1,407	166
Other contracts	(25)	(14)	(69)	10
Total derivative instruments	$ (1,487)	$ (1,377)	$ (1,303)	$ 330

(1) Gains (losses) on derivative contracts not designated as hedges are primarily included in Trading in the condensed consolidated statements of income.
(2) Gains (losses) associated with certain derivative contracts that have physically settled are excluded from the table above. Gains (losses) on these contracts are reflected with the associated cash instruments, which are also included in Trading in the condensed consolidated statements of income.

The Company also has certain embedded derivatives that have been bifurcated from the related structured borrowings. Such derivatives are classified in Long–term borrowings and had a net fair value of $71 million and $53 million at September 30, 2013 and December 31, 2012, respectively and a notional value of $2,146 million and $2,178 million at September 30, 2013 and December 31, 2012, respectively. The Company recognized gains of $13 million related to changes in the fair value of its bifurcated embedded derivatives in both the quarter and nine months ended September 30, 2013. The Company recognized gains of $12 million and $6 million related to changes in the fair value of its bifurcated embedded derivatives in the quarter and nine months ended September 30, 2012, respectively.

At September 30, 2013 and December 31, 2012, the amount of payables associated with cash collateral received that was netted against derivative assets was $56.6 billion and $69.2 billion, respectively, and the amount of

receivables in respect of cash collateral paid that was netted against derivative liabilities was $34.8 billion and $43.0 billion, respectively. Cash collateral receivables and payables of $204 million and $5 million, respectively, at September 30, 2013 and $158 million and $34 million, respectively, at December 31, 2012, were not offset against certain contracts that did not meet the definition of a derivative.

Credit–Risk–Related Contingencies.

In connection with certain OTC trading agreements, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties in the event of a credit ratings downgrade. At September 30, 2013, the aggregate fair value of OTC derivative contracts that contain credit–risk–related contingent features that are in a net liability position totaled $22,428 million, for which the Company has posted collateral of $19,474 million, in the normal course of business. The long–term credit ratings on the Company by Moody's Investor Services, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P") are currently at different levels (commonly referred to as "split ratings"). At September 30, 2013, the future potential collateral amounts, termination payments or other contractual amounts that could be called by counterparties in the event of a downgrade of the Company's long–term credit rating under various scenarios are: $284 million (Baa1 Moody's/BBB+ S&P) and $2,994 million (Baa2 Moody's/BBB S&P). Of these amounts, $2,871 million at September 30, 2013 related to bilateral arrangements between the Company and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are a risk management tool used extensively by the Company as credit exposures are reduced if counterparties are downgraded.

Credit Derivatives and Other Credit Contracts.

The Company enters into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. A majority of the Company's counterparties are banks, broker–dealers, insurance and other financial institutions, and monoline insurers.

The tables below summarize the notional and fair value of protection sold and protection purchased through credit default swaps at September 30, 2013 and December 31, 2012:

	At September 30, 2013			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 889,337	$ (3,488)	$ 847,529	$ 3,121
Index and basket credit default swaps	516,283	205	424,669	(302)
Tranched index and basket credit default swaps	172,166	(1,626)	304,706	(5)
Total	$1,577,786	$ (4,909)	$1,576,904	$ 2,814

	At December 31, 2012			
	Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$1,069,474	$ 2,889	$1,029,543	$ (2,456)
Index and basket credit default swaps	551,630	5,664	454,800	(5,124)
Tranched index and basket credit default swaps	272,088	2,330	423,058	(7,076)
Total	$1,893,192	$ 10,883	$1,907,401	$ (14,656)

The table below summarizes the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at September 30, 2013:

	Protection Sold					
	Maximum Potential Payout/Notional					Fair Value
	Years to Maturity					
Credit Ratings of the Reference Obligation	Less than 1	1-3	3-5	Over 5	Total	(Asset)/ Liability(1)(2)
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 1,641	$ 7,641	$ 13,025	$ 2,183	$ 24,490	$ (156)
AA	10,016	21,583	27,395	5,350	64,344	(707)
A	55,905	57,731	56,520	6,259	176,415	(2,522)
BBB	119,444	123,063	129,910	23,905	396,322	(1,904)
Non−investment grade	69,370	77,969	71,782	8,645	227,766	1,801
Total	256,376	287,987	298,632	46,342	889,337	(3,488)
Index and basket credit default swaps(3):						
AAA	16,504	34,984	39,470	2,362	93,320	(1,319)
AA	1,190	8,460	9,657	5,877	25,184	(335)
A	1,452	3,609	8,614	23	13,698	(43)
BBB	21,162	64,741	112,188	8,079	206,170	(1,787)
Non−investment grade	58,014	93,750	162,213	36,100	350,077	2,063
Total	98,322	205,544	332,142	52,441	688,449	(1,421)
Total credit default swaps sold	$ 354,698	$493,531	$630,774	$98,783	$1,577,786	$ (4,909)
Other credit contracts(4)(5)	$ 376	$ 10	$ 137	$ 1,165	$ 1,688	$ (171)
Total credit derivatives and other credit contracts	$ 355,074	$493,541	$630,911	$99,948	$1,579,474	$ (5,080)

(1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
(2) Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.
(3) Credit ratings are calculated internally.
(4) Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.
(5) Fair value amount shown represents the fair value of the hybrid instruments.

The table below summarizes the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at December 31, 2012:

	Protection Sold					
	Maximum Potential Payout/Notional					Fair Value
	Years to Maturity					(Asset)/
Credit Ratings of the Reference Obligation	Less than 1	1-3	3-5	Over 5	Total	Liability(1)(2)
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 2,368	$ 6,592	$ 19,848	$ 5,767	$ 34,575	$ (204)
AA	10,984	16,804	34,280	7,193	69,261	(325)
A	66,635	72,796	67,285	10,760	217,476	(2,740)
BBB	124,662	145,462	142,714	34,396	447,234	(492)
Non–investment grade	91,743	98,515	92,143	18,527	300,928	6,650
Total	296,392	340,169	356,270	76,643	1,069,474	2,889
Index and basket credit default swaps(3):						
AAA	18,652	36,005	45,789	3,240	103,686	(1,377)
AA	1,255	9,479	12,026	8,343	31,103	(55)
A	2,684	5,423	5,440	125	13,672	(155)
BBB	27,720	105,870	143,562	29,101	306,253	(862)
Non–investment grade	97,389	86,703	153,858	31,054	369,004	10,443
Total	147,700	243,480	360,675	71,863	823,718	7,994
Total credit default swaps sold	$ 444,092	$583,649	$716,945	$148,506	$1,893,192	$ 10,883
Other credit contracts(4)(5)	$ 796	$ 125	$ 155	$ 1,323	$ 2,399	$ (745)
Total credit derivatives and other credit contracts	$ 444,888	$583,774	$717,100	$149,829	$1,895,591	$ 10,138

(1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
(2) Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.
(3) Credit ratings are calculated internally.
(4) Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.
(5) Fair value amount shown represents the fair value of the hybrid instruments.

Single Name Credit Default Swaps. A credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium (generally quarterly) over the life of the contract and is protected for the period. The Company in turn will have to perform under a credit default swap if a credit event as defined under the contract occurs. Typical credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay and restructuring of the obligations of the referenced entity. In order to provide an indication of the current payment status or performance risk of the credit default swaps, the external credit ratings of the underlying reference entity of the credit default swaps are disclosed.

Index and Basket Credit Default Swaps. Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. Generally, in the event of a default on one of the underlying names, the Company will have to pay a pro rata portion of the total notional amount of the credit default index or basket contract. In order to provide an indication of the current payment status or performance risk of these credit default swaps, the weighted average external credit ratings of the underlying reference entities comprising the basket or index were calculated and disclosed.

The Company also enters into index and basket credit default swaps where the credit protection provided is based upon the application of tranching techniques. In tranched transactions, the credit risk of an index or basket is separated into various portions of the capital structure, with different levels of subordination. The most junior tranches cover initial defaults, and once losses exceed the notional of the tranche, they are passed on to the next most senior tranche in the capital structure.

When external credit ratings are not available, credit ratings were determined based upon an internal methodology.

Credit Protection Sold through CLNs and CDOs. The Company has invested in CLNs and CDOs, which are hybrid instruments containing embedded derivatives, in which credit protection has been sold to the issuer of the note. If there is a credit event of a reference entity underlying the instrument, the principal balance of the note may not be repaid in full to the Company.

Purchased Credit Protection with Identical Underlying Reference Obligations. For single name credit default swaps and non−tranched index and basket credit default swaps, the Company has purchased protection with a notional amount of approximately $1.2 trillion and $1.5 trillion at September 30, 2013 and December 31, 2012, respectively, compared with a notional amount of approximately $1.3 trillion and $1.6 trillion at September 30, 2013 and December 31, 2012, of credit protection sold with identical underlying reference obligations. In order to identify purchased protection with the same underlying reference obligations, the notional amount for individual reference obligations within non−tranched indices and baskets was determined on a pro rata basis and matched off against single name and non−tranched index and basket credit default swaps where credit protection was sold with identical underlying reference obligations.

The purchase of credit protection does not represent the sole manner in which the Company risk manages its exposure to credit derivatives. The Company manages its exposure to these derivative contracts through a variety of risk mitigation strategies, which include managing the credit and correlation risk across single name, non−tranched indices and baskets, tranched indices and baskets, and cash positions. Aggregate market risk limits have been established for credit derivatives, and market risk measures are routinely monitored against these limits. The Company may also recover amounts on the underlying reference obligation delivered to the Company under credit default swaps where credit protection was sold.

12. Commitments, Guarantees and Contingencies.

Commitments.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, mortgage lending and margin lending at September 30, 2013 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				
	Less than 1	1–3	3–5	Over 5	Total at September 30, 2013
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 682	$ 7	$ —	$ 1	$ 690
Investment activities	690	112	36	257	1,095
Primary lending commitments—investment grade(1)	11,384	13,934	34,859	504	60,681
Primary lending commitments—non–investment grade(1)	2,684	5,088	9,505	1,836	19,113
Secondary lending commitments(2)	68	32	20	16	136
Commitments for secured lending transactions	964	—	—	4	968
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	70,411	—	—	—	70,411
Commercial and residential mortgage–related commitments	1,254	40	309	818	2,421
Underwriting commitments	410	—	—	—	410
Other commitments	2,284	376	206	79	2,945
Total	$90,831	$19,589	$44,935	$3,515	$ 158,870

(1) This amount includes $44.9 billion of investment grade and $10.8 billion of non–investment grade unfunded commitments accounted for as held for investment and $5.9 billion of investment grade and $5.1 billion of non–investment grade unfunded commitments accounted for as held for sale at September 30, 2013. The remainder of these lending commitments is carried at fair value.
(2) These commitments are recorded at fair value within Trading assets and Trading liabilities in the condensed consolidated statements of financial condition (see Note 4).
(3) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to September 30, 2013 and settle subsequent to period–end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days and of the total amount at September 30, 2013, $66.5 billion settled within three business days.
(4) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $1.9 billion.

For further description of these commitments, refer to Note 13 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K.

The Company sponsors several non–consolidated investment funds for third–party investors where the Company typically acts as general partner of, and investment advisor to, these funds and typically commits to invest a minority of the capital of such funds, with subscribing third–party investors contributing the majority. The Company's employees, including its senior officers, as well as the Company's directors, may participate on the same terms and conditions as other investors in certain of these funds that the Company forms primarily for client investment, except that the Company may waive or lower applicable fees and charges for its employees. The Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to these investment funds.

Guarantees.

The table below summarizes certain information regarding the Company's obligations under guarantee arrangements at September 30, 2013:

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)	$ 354,698	$493,531	$630,774	$ 98,783	$1,577,786	$ (4,909)	$ —
Other credit contracts	376	10	137	1,165	1,688	(171)	—
Non–credit derivative contracts(1)	1,423,753	873,318	304,554	507,865	3,109,490	61,134	—
Standby letters of credit and other financial guarantees issued(2)(3)	1,258	687	1,309	5,137	8,391	(210)	7,409
Market value guarantees	—	64	148	504	716	8	111
Liquidity facilities	2,220	148	—	—	2,368	(4)	3,143
Whole loan sales representations and warranties	—	—	—	23,803	23,803	69	—
Securitization representations and warranties	—	—	—	67,130	67,130	90	—
General partner guarantees	83	45	58	241	427	75	—

(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 11.

(2) Approximately $2.1 billion of standby letters of credit are also reflected in the "Commitments" table above in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Trading assets or Trading liabilities in the condensed consolidated statements of financial condition.

(3) Amounts include guarantees issued by consolidated real estate funds sponsored by the Company of approximately $13 million. 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 $4 million are reflected as a reduction of the carrying value of the related fund investments, which are reflected in Trading assets on the condensed consolidated statement of financial condition.

For further description of these guarantees, refer to Note 13 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K.

The Company has obligations under certain guarantee arrangements, including contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non–occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others. The Company's use of guarantees is described below by type of guarantee:

Other Guarantees and Indemnities.

In the normal course of business, the Company provides guarantees and indemnifications in a variety of commercial transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications are described below.

- Trust Preferred Securities. The Company has established Morgan Stanley Capital Trusts for the limited purpose of issuing trust preferred securities to third parties and lending the proceeds to the Company in exchange for junior subordinated debentures. The Company has directly guaranteed the repayment of the trust preferred securities to the holders thereof to the extent that the Company has made payments to a

Morgan Stanley Capital Trust on the junior subordinated debentures. In the event that the Company does not make payments to a Morgan Stanley Capital Trust, holders of such series of trust preferred securities would not be able to rely upon the guarantee for payment of those amounts. The Company has not recorded any liability in the condensed consolidated financial statements for these guarantees and believes that the occurrence of any events (*i.e.*, non−performance on the part of the paying agent) that would trigger payments under these contracts is remote. See Note 11 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10−K for details on the Company's junior subordinated debentures.

- Indemnities. The Company provides standard indemnities to counterparties for certain contingent exposures and taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, certain annuity products and other financial arrangements. These indemnity payments could be required based on a change in the tax laws or change in interpretation of applicable tax rulings or a change in factual circumstances. Certain contracts contain provisions that enable the Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated.
- Exchange/Clearinghouse Member Guarantees. The Company is a member of various U.S. and non−U.S. exchanges and clearinghouses that trade and clear securities and/or derivative contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's guarantee obligations would arise only if the exchange or clearinghouse had previously exhausted its resources. The maximum potential payout under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the condensed consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.
- Merger and Acquisition Guarantees. The Company may, from time to time, in its role as investment banking advisor be required to provide guarantees in connection with certain European merger and acquisition transactions. If required by the regulating authorities, the Company provides a guarantee that the acquirer in the merger and acquisition transaction has or will have sufficient funds to complete the transaction and would then be required to make the acquisition payments in the event the acquirer's funds are insufficient at the completion date of the transaction. These arrangements generally cover the time frame from the transaction offer date to its closing date and, therefore, are generally short term in nature. The maximum potential amount of future payments that the Company could be required to make cannot be estimated. The Company believes the likelihood of any payment by the Company under these arrangements is remote given the level of the Company's due diligence associated with its role as investment banking advisor.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the Company's condensed consolidated financial statements.

Contingencies.

Legal. In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions

include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis related matters. Over the last several years, the level of litigation and investigatory activity focused on residential mortgage and credit crisis related matters has increased materially in the financial services industry. As a result, the Company expects that it may become the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future and, while the Company has identified below any individual proceedings where the Company believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been notified to the Company or are not yet determined to be probable or possible and reasonably estimable losses.

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

The Company contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. The Company expects future litigation accruals in general to continue to be elevated and the changes in accruals from period to period may fluctuate significantly, given the current environment regarding financial crisis related government investigations and private litigation affecting global financial services firms, including the Company.

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding.

For certain other legal proceedings, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's condensed consolidated financial statements as a whole, other than the matters referred to in the following paragraphs.

On March 15, 2010, the Federal Home Loan Bank of San Francisco filed two complaints against the Company and other defendants in the Superior Court of the State of California. These actions are styled *Federal Home Loan Bank of San Francisco v. Credit Suisse Securities (USA) LLC, et al.*, and *Federal Home Loan Bank of San Francisco v. Deutsche Bank Securities Inc. et al.*, respectively. Amended complaints filed on June 10, 2010 allege that defendants made untrue statements and material omissions in connection with the sale to plaintiff of a number of mortgage pass–through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly sold to plaintiff by the Company in these cases was approximately

$704 million and $276 million, respectively. The complaints raise claims under both the federal securities laws and California law and seek, among other things, to rescind the plaintiff's purchase of such certificates. On July 29, 2011 and September 8, 2011, the court presiding over both actions sustained defendants' demurrers with respect to claims brought under the Securities Act of 1933, as amended, and overruled defendants' demurrers with respect to all other claims. At September 25, 2013, the current unpaid balance of the mortgage pass–through certificates at issue in these cases was approximately $326 million, and the certificates had incurred actual losses of approximately $4 million. Based on currently available information, the Company believes it could incur a loss for this action up to the difference between the $326 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre– and post–judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 9, 2010 and February 11, 2011, Cambridge Place Investment Management Inc. filed two separate complaints against the Company and other defendants in the Superior Court of the Commonwealth of Massachusetts, both styled *Cambridge Place Investment Management Inc. v. Morgan Stanley & Co., Inc., et al.* The complaints assert claims on behalf of certain clients of plaintiff's affiliates and allege that defendants made untrue statements and material omissions in the sale of a number of mortgage pass–through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company or sold to plaintiff's affiliates' clients by the Company in the two matters was approximately $263 million. Plaintiff filed amended complaints on October 14, 2011, which raise claims under the Massachusetts Uniform Securities Act and seek, among other things, to rescind the plaintiff's purchase of such certificates. Defendants' motions to dismiss the amended complaints, with respect to plaintiff's standing to bring suit and for failure to state a claim upon which relief can be granted were denied in March and October 2012, respectively. At September 25, 2013, the current unpaid balance of the mortgage pass–through certificates at issue in these cases was approximately $105 million, and the certificates had incurred actual losses of approximately $109 million. Based on currently available information, the Company believes it could incur a loss for these actions of up to the difference between the $105 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre– and post–judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Company, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al*., which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"). The complaint relates to a $275 million credit default swap referencing the super senior portion of the STACK 2006–1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Company misrepresented the risks of the STACK 2006–1 CDO to CDIB, and that the Company knew that the assets backing the CDO were of poor quality when it entered into the credit default swap with CDIB. The complaint seeks compensatory damages related to the approximately $228 million that CDIB alleges it has already lost under the credit default swap, rescission of CDIB's obligation to pay an additional $12 million, punitive damages, equitable relief, fees and costs. On February 28, 2011, the court denied the Company's motion to dismiss the complaint. Based on currently available information, the Company believes it could incur a loss of up to approximately $240 million plus pre– and post–judgment interest, fees and costs.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a complaint against the Company and other defendants in the Circuit Court of the State of Illinois styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiff of a number of mortgage pass–through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sold to plaintiff by the Company

in this action was approximately $203 million. The complaint raises claims under Illinois law and seeks, among other things, to rescind the plaintiff's purchase of such certificates. On March 24, 2011, the court granted plaintiff leave to file an amended complaint. The defendants' motion to dismiss the amended complaint was denied on September 19, 2012. The Company filed its answer on December 21, 2012. At September 25, 2013, the current unpaid balance of the mortgage pass–through certificates at issue in this action was approximately $98 million and certain certificates had incurred actual losses of approximately $1 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $98 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre– and post–judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 18, 2011, the Western and Southern Life Insurance Company and certain affiliated companies filed a complaint against the Company and other defendants in the Court of Common Pleas in Ohio, styled *Western and Southern Life Insurance Company, et al. v. Morgan Stanley Mortgage Capital Inc., et al*. An amended complaint was filed on April 2, 2012 and alleges that defendants made untrue statements and material omissions in the sale to plaintiffs of certain mortgage pass–through certificates backed by securitization trusts containing residential mortgage loans. The amount of the certificates allegedly sold to plaintiffs by the Company was approximately $153 million. The amended complaint raises claims under the Ohio Securities Act, federal securities laws, and common law and seeks, among other things, to rescind the plaintiffs' purchases of such certificates. On May 21, 2012, the Company filed a motion to dismiss the amended complaint, which motion was denied on August 3, 2012. The court has set a trial date in May 2015. At September 25, 2013, the current unpaid balance of the mortgage pass–through certificates at issue in this action was approximately $119 million, and the certificates had incurred actual losses of approximately $1 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $119 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus post–judgment interest, fees and costs. The Company may be entitled to an offset for interest received by the plaintiff prior to a judgment.

On September 2, 2011, the Federal Housing Finance Agency ("FHFA"), as conservator for Fannie Mae and Freddie Mac, filed 17 complaints against numerous financial services companies, including the Company. A complaint against the Company and other defendants was filed in the Supreme Court of NY, styled *Federal Housing Finance Agency, as Conservator v. Morgan Stanley et al*. The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to Fannie Mae and Freddie Mac of residential mortgage pass–through certificates with an original unpaid balance of approximately $11 billion. The complaint raises claims under federal and state securities laws and common law and seeks, among other things, rescission and compensatory and punitive damages. On September 26, 2011, defendants removed the action to the United States District Court for the Southern District of New York. On July 13, 2012, the Company filed a motion to dismiss the complaint, which motion was denied in large part on November 19, 2012. Trial is currently scheduled to begin in January 2015. At September 25, 2013, the current unpaid balance of the mortgage pass–through certificates at issue in this action was approximately $2.8 billion, and the certificates had incurred actual losses of approximately $68 million. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $2.8 billion unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre– and post–judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On April 25, 2012, Metropolitan Life Insurance Company and certain affiliates filed a complaint against the Company and certain affiliates in the Supreme Court of NY styled *Metropolitan Life Insurance Company, et al.*

v. Morgan Stanley, et al. An amended complaint was filed on June 29, 2012 and alleges that defendants made untrue statements and material omissions in the sale to plaintiffs of certain mortgage pass−through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company was approximately $758 million. The amended complaint raises common law claims of fraud, fraudulent inducement, and aiding and abetting fraud and seeks, among other things, rescission, compensatory and/or rescissionary damages, as well as punitive damages, associated with plaintiffs' purchases of such certificates. On September 21, 2012, the Company filed a motion to dismiss the amended complaint, which was granted in part and denied in part on July 16, 2013. Defendants filed a notice of appeal of that decision on August 16, 2013. Following that decision, the total amount of certificates allegedly sponsored, underwritten and/or sold by the Company was approximately $656 million. At September 25, 2013, the current unpaid balance of the mortgage pass−through certificates remaining at issue in this case was approximately $324 million, and the certificates incurred actual losses of approximately $35 million. Based on currently available information, the Company believes it could incur a loss up to the difference between the $324 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre− and post−judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass−through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company is approximately $1 billion. The complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud and tortious interference with contract and seeks, among other things, compensatory damages, punitive damages, rescission and rescissionary damages associated with plaintiffs' purchases of such certificates. On October 16, 2012, plaintiffs filed an amended complaint which, among other things, increases the total amount of the certificates at issue by approximately $80 million, adds causes of action for fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On March 15, 2013, defendants' motion to dismiss was denied. At September 25, 2013, the current unpaid balance of the mortgage pass−through certificates at issue in this action was approximately $663 million, and the certificates had not yet incurred actual losses. Based on currently available information, the Company believes it could incur a loss in this action up to the difference between the $663 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre− and post−judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

13. Regulatory Requirements.

Morgan Stanley. The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well−capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency establishes similar capital requirements and standards for Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association.

The Company calculates its capital ratios and risk−weighted assets ("RWAs") in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based

upon a framework described in the "International Convergence of Capital Measurement and Capital Standards," July 1988, as amended, also referred to as Basel I. In December 2007, the U.S. banking regulators published final regulation incorporating the Basel II Accord, which requires internationally active banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In December 2010, the Basel Committee reached an agreement on Basel III. In July 2013, the U.S. banking regulators issued a final rule to implement many aspects of Basel III (the "U.S. Basel III final rule"). The U.S. Basel III final rule contains new capital standards that raise the capital requirements, strengthen counterparty credit risk capital requirements and replace the use of externally developed credit ratings with alternatives such as the Organisation for Economic Co−operation and Development's country risk classifications. The U.S. Basel III final rule also requires certain banking organizations, including the Company, to maintain both a capital conservation buffer and, if deployed, a countercyclical capital buffer, above the minimum risk−based capital ratios. Failure to maintain such buffers will result in restrictions on the banking organization's ability to make capital distributions and pay discretionary bonuses to executive officers. Under the U.S. Basel III final rule, the Company will be subject to a minimum Common Equity Tier 1 risk−based capital ratio of 4.5%, a minimum Tier 1 risk−based capital ratio of 6% and a minimum total risk−based capital ratio of 8% on a fully phased−in basis. In addition, the final rule provides that certain new items be deducted from Common Equity Tier 1 capital and certain Basel I deductions be modified. The majority of these capital deductions are subject to a phase−in schedule and will be fully phased−in by 2018. The Company will also be subject to a 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed, up to a 2.5% Common Equity Tier 1 countercyclical buffer on a fully phased−in basis by 2019. Under the U.S. Basel III final rule, unrealized gains and losses on available−for−sale securities will be reflected in Common Equity Tier 1 capital, subject to a phase−in schedule. The U.S. Basel III final rule also subjects certain banking organizations, including the Company, to a minimum supplementary leverage ratio of 3%. The calibration of the supplementary leverage ratio is broadly similar to the December 2010 version of the Basel III leverage ratio and includes off−balance sheet exposures in the denominator. The Company will become subject to the U.S. Basel III final rule beginning on January 1, 2014. Certain requirements in the U.S. Basel III final rule, including the new capital buffers, will be phased in over several years.

In June 2011, the U.S. banking regulators published final regulations implementing a provision of the Dodd−Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to minimum capital requirements that are not less than the generally applicable risk−based capital requirements. Currently, this minimum "capital floor" is based on Basel I. Beginning January 1, 2015, the U.S. Basel III final rule will replace the current Basel I−based "capital floor" with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes and which is applicable to both minimum capital requirements and the sum of conservation and countercyclical capital buffers if deployed. On January 1, 2013, the U.S. banking regulators' rules to implement the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book as well as incorporated add−ons for stressed VaR and incremental risk requirements ("market risk capital framework amendment").

At September 30, 2013, the Company's capital levels calculated under Basel I, inclusive of the market risk capital framework amendment, were in excess of well−capitalized levels with ratios of Tier 1 capital to RWAs of 15.3% and total capital to RWAs of 16.1% (6% and 10% being well−capitalized for regulatory purposes, respectively). The Company's ratio of Tier 1 common capital to RWAs was 12.6% (5% under stressed conditions is the current minimum under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") framework). Financial holding companies, including the Company, are subject to a Tier 1 leverage ratio defined

by the Federal Reserve. Consistent with the Federal Reserve's definition, the Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets and financial and non−financial equity investments). The adjusted average total assets are derived using weekly balances for the period. At September 30, 2013, the Company was in compliance with the Federal Reserve's Tier 1 leverage requirement, with a Tier 1 leverage ratio of 7.3% (5% is the current well−capitalized standard for regulatory purposes).

The following table summarizes the capital measures for the Company:

	September 30, 2013		December 31, 2012	
	Balance	Ratio	Balance	Ratio
	(dollars in millions)			
Tier 1 common capital	$ 48,696	12.6%	$ 44,794	14.6%
Tier 1 capital	58,903	15.3%	54,360	17.7%
Total capital	62,055	16.1%	56,626	18.5%
RWAs	385,664	—	306,746	—
Adjusted average total assets	807,368	—	769,495	—
Tier 1 leverage	—	7.3%	—	7.1%

The Company's U.S. Bank Operating Subsidiaries. The Company's U.S. bank operating subsidiaries are subject to various regulatory capital requirements as administered by U.S. federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's U.S. bank operating subsidiaries' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company's U.S. bank operating subsidiaries must meet specific capital guidelines that involve quantitative measures of the Company's U.S. bank operating subsidiaries' assets, liabilities and certain off−balance sheet items as calculated under regulatory accounting practices.

At September 30, 2013, the Company's U.S. bank operating subsidiaries met all capital adequacy requirements to which they are subject and exceeded all regulatory mandated and targeted minimum regulatory capital requirements to be well−capitalized. There are no conditions or events that management believes have changed the Company's U.S. bank operating subsidiaries' category.

The table below sets forth the capital information for the Company's U.S. bank operating subsidiaries, which are U.S. depository institutions, calculated in a manner consistent with the guidelines described under Basel I, inclusive of the market risk capital framework amendment:

	September 30, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(dollars in millions)			
Total capital (to RWAs):				
MSBNA(1)	$ 12,211	16.7%	$ 11,509	16.7%
MSPBNA	$ 2,154	29.6%	$ 1,673	28.8%
Tier 1 capital (to RWAs):				
MSBNA(1)	$ 10,549	14.5%	$ 9,918	14.4%
MSPBNA	$ 2,148	29.5%	$ 1,665	28.7%
Tier 1 leverage:				
MSBNA	$ 10,549	10.8%	$ 9,918	13.3%
MSPBNA	$ 2,148	10.6%	$ 1,665	10.6%

(1) MSBNA's Tier 1 capital ratio and Total capital ratio at December 31, 2012 were each reduced by approximately 50 basis points due to an approximate $2.0 billion adjustment to notional value of derivative contracts, which resulted in an increase to MSBNA's RWAs by such amount.

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well–capitalized, must maintain a ratio of total capital to RWAs of 10%, a capital ratio of Tier 1 capital to RWAs of 6%, and a ratio of Tier 1 capital to average total assets (leverage ratio) of 5%. Each U.S. depository institution subsidiary of the Company must be well–capitalized in order for the Company to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At September 30, 2013 and December 31, 2012, the Company's U.S. depository institutions maintained capital at levels in excess of the universally mandated well–capitalized levels. These subsidiary depository institutions maintain capital at levels sufficiently in excess of the "well–capitalized" requirements to address any additional capital needs and requirements identified by the federal banking regulators.

MS&Co. and Other Broker–Dealers. MS&Co. is a registered broker–dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the U.S. Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority, Inc. and the U.S. Commodity Futures Trading Commission (the "CFTC"). MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co.'s net capital totaled $7,222 million and $7,820 million at September 30, 2013 and December 31, 2012, respectively, which exceeded the amount required by $5,691 million and $6,453 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3–1. MS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. At September 30, 2013, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

MSSB LLC is a registered broker–dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the SEC, the Financial Industry Regulatory Authority, Inc. and the CFTC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements.

MSIP, a London–based broker–dealer subsidiary, is subject to the capital requirements of the Prudential Regulation Authority, and MSMS, a Tokyo–based broker–dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated with capital in excess of their respective regulatory capital requirements.

Other Regulated Subsidiaries. Certain other U.S. and non–U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated with capital in excess of their local capital adequacy requirements.

Morgan Stanley Derivative Products Inc. ("MSDP"), a derivative products subsidiary rated A2 by Moody's and AA– by S&P, maintains certain operating restrictions that have been reviewed by Moody's and S&P. MSDP is operated such that creditors of the Company should not expect to have any claims on the assets of MSDP, unless and until the obligations to its own creditors are satisfied in full. Creditors of MSDP should not expect to have any claims on the assets of the Company or any of its affiliates, other than the respective assets of MSDP.

14. Redeemable Noncontrolling Interests and Total Equity.

Redeemable Noncontrolling Interests.

Redeemable noncontrolling interests related to the Wealth Management JV (see Note 3). Changes in redeemable noncontrolling interests for the nine months ended September 30, 2013 were as follows (dollars in millions):

Balance at December 31, 2012	$ 4,309
Net income applicable to redeemable noncontrolling interests	222
Distributions	(38)
Other	(11)
Carrying value of additional stake in Wealth Management JV purchased from Citi	(4,482)
Balance at September 30, 2013	$ —

Total Equity.

Morgan Stanley Shareholders' Equity.

In July 2013, the Company received no objection from the Federal Reserve to repurchase up to $500 million of the Company's outstanding common stock under rules permitting annual capital distributions (12 Code of Federal Regulations 225.8, *Capital Planning*). Share repurchases are made pursuant to the share repurchase program previously authorized by the Company's Board of Directors and will be exercised from time to time through March 31, 2014, at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5−1 plans, and may be suspended at any time (see "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2).

During the quarter ended September 30, 2013, the Company repurchased approximately $123 million of the Company's outstanding common stock as part of its share repurchase program. During the quarter and nine months ended September 30, 2012, the Company did not repurchase common stock as part of its share repurchase program. At September 30, 2013, the Company had approximately $1.4 billion remaining under its current share repurchase program. Share repurchases by the Company are subject to regulatory approval.

Series E Preferred Stock. On September 30, 2013, the Company issued 34,500,000 Depositary Shares, for an aggregate price of $862 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series E Fixed−to−Floating Rate Non−Cumulative Preferred Stock, $0.01 par value ("Series E Preferred Stock"). The Series E Preferred Stock is redeemable at the Company's option, (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2023 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as defined therein), in each case at a redemption price of $25,000 per share (equivalent to $25 per Depositary Share). The Series E Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series E Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $854 million.

Accumulated Other Comprehensive Income (Loss).

The following table presents changes in Accumulated other comprehensive income (loss) by component, net of tax and net of noncontrolling interests, in the quarter ended September 30, 2013 (dollars in millions):

	Foreign Currency Translation Adjustments	Net Change in Cash Flow Hedges	Change in Net Unrealized Gains (Losses) on Securities Available for Sale	Pension, Postretirement and Other Related Adjustments	Total
Balance at June 30, 2013	$ (420)	$ (3)	$ (218)	$ (528)	$(1,169)
Other comprehensive income (loss) before reclassifications	117	—	37	—	154
Amounts reclassified from accumulated other comprehensive income (loss)	—	1	(4)	4	1
Net other comprehensive income (loss) during the period	117	1	33	4	155
Balance at September 30, 2013	$ (303)	$ (2)	$ (185)	$ (524)	$(1,014)

The following table presents changes in Accumulated other comprehensive income (loss) by component, net of tax and net of noncontrolling interests, in the nine months ended September 30, 2013 (dollars in millions):

	Foreign Currency Translation Adjustments	Net Change in Cash Flow Hedges	Change in Net Unrealized Gains (Losses) on Securities Available for Sale	Pension, Postretirement and Other Related Adjustments	Total
Balance at December 31, 2012	$ (123)	$ (5)	$ 151	$ (539)	$ (516)
Other comprehensive income (loss) before reclassifications	(180)	—	(310)	2	(488)
Amounts reclassified from accumulated other comprehensive income (loss)	—	3	(26)	13	(10)
Net other comprehensive income (loss) during the period	(180)	3	(336)	15	(498)
Balance at September 30, 2013	$ (303)	$ (2)	$ (185)	$ (524)	$(1,014)

The Company had no significant reclassifications out of Accumulated other comprehensive income (loss) for the quarter and nine months ended September 30, 2013.

Nonredeemable Noncontrolling Interests.

Changes in nonredeemable noncontrolling interests primarily resulted from distributions related to MSMS of $292 million and a real estate fund of $195 million in the nine months ended September 30, 2013. In September 2012, the Company reclassified approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests for Citi's remaining 35% interest in the Wealth Management JV (see Note 3). Changes in nonredeemable noncontrolling interests in the nine months ended September 30, 2012 also included distributions related to MSMS of $151 million.

15. Earnings per Common Share.

Basic earnings per common share ("EPS") is computed by dividing earnings (loss) applicable to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Common shares outstanding include common stock and vested restricted stock units ("RSUs") where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. The Company calculates EPS using the two–class method and determines whether instruments granted in share–based payment transactions are participating securities (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 in the Form 10–K). The following table presents the calculation of basic and diluted EPS (in millions, except for per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic EPS:				
Income (loss) from continuing operations	$ 1,000	$ (958)	$ 3,470	$ (97)
Net gain (loss) from discontinued operations	18	2	(30)	25
Net income (loss)	1,018	(956)	3,440	(72)
Net income applicable to redeemable noncontrolling interests	—	8	222	8
Net income applicable to nonredeemable noncontrolling interests	112	59	370	446
Net income (loss) applicable to Morgan Stanley	906	(1,023)	2,848	(526)
Less: Preferred dividends (Series A Preferred Stock)	(11)	(11)	(33)	(33)
Less: Preferred dividends (Series C Preferred Stock)	(13)	(13)	(39)	(39)
Less: Wealth Management JV redemption value adjustment (see Note 3)	—	—	(151)	—
Less: Allocation of (earnings) loss to participating RSUs(1):				
From continuing operations	(2)	—	(6)	(1)
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 880	$ (1,047)	$ 2,619	$ (599)
Weighted average common shares outstanding	1,909	1,889	1,906	1,884
Earnings (loss) per basic common share:				
Income (loss) from continuing operations	$ 0.45	$ (0.55)	$ 1.39	$ (0.32)
Net gain (loss) from discontinued operations	0.01	—	(0.02)	—
Earnings (loss) per basic common share	$ 0.46	$ (0.55)	$ 1.37	$ (0.32)
Diluted EPS:				
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 880	$ (1,047)	$ 2,619	$ (599)
Weighted average common shares outstanding	1,909	1,889	1,906	1,884
Effect of dilutive securities:				
Stock options and RSUs(1)	56	—	46	—
Weighted average common shares outstanding and common stock equivalents	1,965	1,889	1,952	1,884
Earnings (loss) per diluted common share:				
Income (loss) from continuing operations	$ 0.44	$ (0.55)	$ 1.36	$ (0.32)
Net gain (loss) from discontinued operations	0.01	—	(0.02)	—
Earnings (loss) per diluted common share	$ 0.45	$ (0.55)	$ 1.34	$ (0.32)

(1) RSUs that are considered participating securities participate in all of the earnings of the Company in the computation of basic EPS, and, therefore, such RSUs are not included as incremental shares in the diluted calculation.

The following securities were considered antidilutive and, therefore, were excluded from the computation of diluted EPS:

Number of Antidilutive Securities Outstanding at End of Period:	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(shares in millions)			
RSUs and performance−based stock units	4	87	4	87
Stock options	32	44	32	44
Total	36	131	36	131

16. Interest Income and Interest Expense.

Details of Interest income and Interest expense were as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(dollars in millions)			
Interest income(1):				
Trading assets(2)	$ 494	$ 648	$ 1,742	$ 2,101
Securities available for sale	111	80	317	242
Loans	299	161	790	418
Interest bearing deposits with banks	38	44	89	95
Federal funds sold and securities purchased under agreements to resell and Securities borrowed	50	64	213	223
Other	319	382	980	1,165
Total interest income	$ 1,311	$ 1,379	$ 4,131	$ 4,244
Interest expense(1):				
Deposits	$ 44	$ 46	$ 126	$ 136
Commercial paper and other short−term borrowings	4	11	18	35
Long−term debt	957	1,256	2,834	3,597
Securities sold under agreements to repurchase and Securities loaned	403	453	1,371	1,445
Other	(208)	(232)	(718)	(595)
Total interest expense	$ 1,200	$ 1,534	$ 3,631	$ 4,618
Net interest	$ 111	$ (155)	$ 500	$ (374)

(1) Interest income and expense are recorded within the condensed consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instrument's fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.

(2) Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.

17. Employee Benefit Plans.

The Company sponsors various pension plans for the majority of its U.S. and non−U.S. employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. employees. The Company also provides certain postemployment benefits to certain former employees or inactive employees prior to retirement.

The components of the Company's net periodic benefit expense for its pension and postretirement plans were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Service cost, benefits earned during the period	$ 6	$ 7	$ 20	$ 22
Interest cost on projected benefit obligation	40	40	118	122
Expected return on plan assets	(28)	(27)	(85)	(82)
Net amortization of prior service costs	(3)	(3)	(10)	(10)
Net amortization of actuarial loss	9	7	29	21
Net periodic benefit expense	$ 24	$ 24	$ 72	$ 73

18. Income Taxes.

The Company is under continuous examination by the Internal Revenue Service (the "IRS") and other tax authorities in certain countries, such as Japan and the U.K., and in states in which the Company has significant business operations, such as New York. The Company is currently under review by the IRS Appeals Office for the remaining issues covering tax years 1999 – 2005. Also, the Company is currently at various levels of field examination with respect to audits with the IRS, as well as New York State, New York City and Japan, for tax years 2006 – 2008, 2007 – 2009 and 2012, respectively. During 2013, the Company expects to reach a conclusion with the U.K. tax authorities on substantially all issues through tax year 2010.

The Company believes that the resolution of tax matters will not have a material effect on the condensed consolidated statements of financial condition of the Company, although a resolution could have a material impact on the Company's condensed consolidated statements of income for a particular future period and on the Company's effective income tax rate for any period in which such resolution occurs. The Company has established a liability for unrecognized tax benefits that the Company believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and impact on the effective tax rate over the next 12 months.

The Company's effective tax rate from continuing operations for the quarter and nine months ended September 30, 2013 included a discrete net tax benefit of $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non–U.S. subsidiaries. Additionally, the Company's effective tax rate from continuing operations for the nine months ended September 30, 2013 included a discrete tax benefit of $81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act"). The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside of the U.S. until such income is repatriated to the U.S. as a dividend. Also, the Company's effective tax rate from continuing operations for the nine months ended September 30, 2013 included a discrete net tax benefit of $61 million associated with remeasurement of reserves and related interest based on new information regarding the status of certain tax authority examinations. Excluding these discrete net tax benefits, the annual effective tax rate in the nine months ended September 30, 2013 would have been 30.7%.

The Company's effective tax rate from continuing operations for the quarter and nine months ended September 30, 2012 included an $82 million out−of−period net income tax provision adjustment in the Institutional Securities business segment primarily related to the overstatement of tax benefits associated with repatriated earnings of a non−U.S. subsidiary in 2010. The Company has evaluated the effects of the understatement of income tax provision both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Excluding this out−of−period net income tax provision adjustment, the annual effective tax rate for the nine months ended September 30, 2012 would have been 95.6%.

19. Segment and Geographic Information.

Segment Information.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company provides a wide range of financial products and services to its customers in each of its business segments: Institutional Securities, Wealth Management and Investment Management. For further discussion of the Company's business segments, see Note 1.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, generally based on each segment's respective net revenues, non−interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company's consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Wealth Management business segment related to the bank deposit program.

Selected financial information for the Company's segments is presented below:

Three Months Ended September 30, 2013	Institutional Securities	Wealth Management	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non−interest revenues	$ 4,071	$ 2,988	$ 828	$ (66)	$7,821
Interest income	897	532	2	(120)	1,311
Interest expense	1,282	39	2	(123)	1,200
Net interest	(385)	493	—	3	111
Net revenues(1)	$ 3,686	$ 3,481	$ 828	$ (63)	$7,932
Income from continuing operations before income taxes	$ 371	$ 668	$ 300	$ —	$1,339
Provision for income taxes	—	238	101	—	339
Income from continuing operations	371	430	199	—	1,000
Discontinued operations(2):					
Gain (loss) from discontinued operations	(7)	—	8	15	16
Provision for (benefit from) income taxes	(5)	—	—	3	(2)
Net gain (loss) on discontinued operations	(2)	—	8	12	18
Net income	369	430	207	12	1,018
Net income applicable to nonredeemable noncontrolling interests	48	—	64	—	112
Net income applicable to Morgan Stanley	$ 321	$ 430	$ 143	$ 12	$ 906

Three Months Ended September 30, 2012	Institutional Securities(3)	Wealth Management(3)	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non–interest revenues	$ 2,031	$ 2,823	$ 635	$ (54)	$ 5,435
Interest income	1,017	476	2	(116)	1,379
Interest expense	1,567	77	6	(116)	1,534
Net interest	(550)	399	(4)	—	(155)
Net revenues(1)	$ 1,481	$ 3,222	$ 631	$ (54)	$ 5,280
Income (loss) from continuing operations before income taxes	$ (1,928)	$ 247	$ 198	$ —	$ (1,483)
Provision for (benefit from) income taxes	(662)	93	44	—	(525)
Income (loss) from continuing operations	(1,266)	154	154	—	(958)
Discontinued operations(2):					
Gain (loss) from discontinued operations	(23)	—	12	—	(11)
Provision for (benefit from) income taxes	(8)	(5)	—	—	(13)
Net gain (loss) on discontinued operations	(15)	5	12	—	2
Net income (loss)	(1,281)	159	166	—	(956)
Net income applicable to redeemable noncontrolling interests	—	8	—	—	8
Net income applicable to nonredeemable noncontrolling interests	8	1	50	—	59
Net income (loss) applicable to Morgan Stanley	$ (1,289)	$ 150	$ 116	$ —	$ (1,023)

Nine Months Ended September 30, 2013	Institutional Securities	Wealth Management	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non–interest revenues	$ 12,970	$ 9,130	$ 2,151	$ (158)	$24,093
Interest income	2,950	1,531	7	(357)	4,131
Interest expense	3,799	179	12	(359)	3,631
Net interest	(849)	1,352	(5)	2	500
Net revenues(1)	$ 12,121	$ 10,482	$ 2,146	$ (156)	$24,593
Income from continuing operations before income taxes	$ 2,129	$ 1,920	$ 647	$ —	$ 4,696
Provision for income taxes	348	687	191	—	1,226
Income from continuing operations	1,781	1,233	456	—	3,470
Discontinued operations(2):					
Gain (loss) from discontinued operations	(64)	(1)	9	1	(55)
Provision for (benefit from) income taxes	(25)	—	—	—	(25)
Net gain (loss) on discontinued operations	(39)	(1)	9	1	(30)
Net income	1,742	1,232	465	1	3,440
Net income applicable to redeemable noncontrolling interests	1	221	—	—	222
Net income applicable to nonredeemable noncontrolling interests	234	—	136	—	370
Net income applicable to Morgan Stanley	$ 1,507	$ 1,011	$ 329	$ 1	$ 2,848

Table of Contents

Nine Months Ended September 30, 2012	Institutional Securities(3)	Wealth Management(3)	Investment Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non–interest revenues	$ 9,480	$ 8,530	$ 1,641	$ (131)	$19,520
Interest income	3,158	1,390	7	(311)	4,244
Interest expense	4,690	211	28	(311)	4,618
Net interest	(1,532)	1,179	(21)	—	(374)
Net revenues(1)	$ 7,948	$ 9,709	$ 1,620	$ (131)	$19,146
Income (loss) from continuing operations before income taxes	$ (1,769)	$ 1,060	$ 369	$ (4)	$ (344)
Provision for (benefit from) income taxes	(699)	364	88	—	(247)
Income (loss) from continuing operations	(1,070)	696	281	(4)	(97)
Discontinued operations(2):					
Gain (loss) from discontinued operations	(41)	93	13	3	68
Provision for (benefit from) income taxes	18	26	—	(1)	43
Net gain (loss) on discontinued operations	(59)	67	13	4	25
Net income (loss)	(1,129)	763	294	—	(72)
Net income applicable to redeemable noncontrolling interests	—	8	—	—	8
Net income applicable to nonredeemable noncontrolling interests	132	176	138	—	446
Net income (loss) applicable to Morgan Stanley	$ (1,261)	$ 579	$ 156	$ —	$ (526)

(1) In certain management fee arrangements, the Company is entitled to receive performance–based fees (also referred to as incentive fees) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenue is accrued (or reversed) quarterly based on measuring account fund performance to date versus the performance benchmark stated in the investment management agreement. The amount of performance–based fee revenue at risk of reversing if fund performance falls below stated investment management agreement benchmarks was approximately $446 million at September 30, 2013 and approximately $205 million at December 31, 2012 (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K).

(2) See Notes 1 and 21 for discussion of discontinued operations.

(3) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.

Total Assets(1)	Institutional Securities(2)	Wealth Management(2)	Investment Management	Total
		(dollars in millions)		
At September 30, 2013	$ 675,676	$ 149,156	$ 7,391	$832,223
At December 31, 2012	$ 648,049	$ 125,565	$ 7,346	$780,960

(1) Corporate assets have been fully allocated to the Company's business segments.

(2) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Geographic Information.

The Company operates in both U.S. and non−U.S. markets. The Company's non−U.S. business activities are principally conducted and managed through European and Asian locations. The net revenues disclosed in the following table reflect the regional view of the Company's consolidated net revenues on a managed basis, based on the following methodology:

- Institutional Securities: advisory and equity underwriting—client location, debt underwriting—revenue recording location, sales and trading—trading desk location.
- Wealth Management: wealth management representative coverage location.
- Investment Management: client location, except for Merchant Banking and Real Estate Investing businesses, which are based on asset location.

Net Revenues	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Americas	$ 5,665	$ 4,744	$17,635	$14,632
Europe, Middle East and Africa	1,148	296	3,346	2,422
Asia	1,119	240	3,612	2,092
Net revenues	$ 7,932	$ 5,280	$24,593	$19,146

20. Equity Method Investments.

The Company has investments accounted for under the equity method of accounting (see Note 1) of $4,756 million and $4,682 million at September 30, 2013 and December 31, 2012, respectively, included in Other investments in the condensed consolidated statements of financial condition. Income from these investments were $148 million and $339 million for the quarter and nine months ended September 30, 2013, respectively, and are included in Other revenues in the condensed consolidated statements of income. Losses from these investments were $3 million and $24 million for the quarter and nine months ended September 30, 2012, respectively.

Japanese Securities Joint Venture.

The Company holds a 40% voting interest and Mitsubishi UFJ Financial Group, Inc. ("MUFG") holds a 60% voting interest in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS"), while the Company holds a 51% voting interest and MUFG holds a 49% voting interest in MSMS. The Company consolidates MSMS in its condensed consolidated financial statements and accounts for its interest in MUMSS as an equity method investment within the Institutional Securities business segment (see Note 14). During the quarters ended September 30, 2013 and 2012, the Company recorded income of $188 million and $36 million, respectively, and income of $487 million and $117 million in the nine months ended September 30, 2013 and 2012, respectively, within Other revenues in the condensed consolidated statements of income, arising from the Company's 40% stake in MUMSS.

In June 2013, MUMSS paid a dividend of approximately $287 million, of which the Company received approximately $115 million for its proportionate share of MUMSS.

21. Discontinued Operations.

See Note 1 for a discussion of the Company's discontinued operations.

The table below provides information regarding amounts included in discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Net revenues(1):				
Saxon	$ —	$ (1)	$ —	$ 76
Quilter	—	—	(1)	163
Other(2)	15	21	(3)	35
	$ 15	$ 20	$ (4)	$ 274
Pre–tax gain (loss) on discontinued operations(1):				
Saxon	$ (14)	$ (25)	$ (53)	$ (40)
Quilter(3)	—	—	(1)	97
Other(2)	30	14	(1)	11
	$ 16	$ (11)	$ (55)	$ 68

(1) Amounts included eliminations of intersegment activity.
(2) Amounts included in Other are related to the sale of the Company's retail asset management business, a principal investment and other.
(3) Amount for the nine months ended September 30, 2012 included a pre–tax gain of approximately $108 million in connection with the sale of Quilter.

22. Subsequent Events.

The Company has evaluated subsequent events for adjustment to or disclosure in the condensed consolidated financial statements through the date of this report and the Company has not identified any recordable or disclosable events, not otherwise reported in these condensed consolidated financial statements or the notes thereto, except for the following:

Common Dividend.

On October 18, 2013, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. The dividend is payable on November 15, 2013 to common shareholders of record on October 31, 2013.

Long–Term Borrowing.

Subsequent to September 30, 2013 and through October 31, 2013, the Company's long–term borrowings (net of issuances) decreased by approximately $1.3 billion.

Deposits.

In October 2013, approximately $1.7 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions (see Note 3).

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have reviewed the accompanying condensed consolidated statement of financial condition of Morgan Stanley and subsidiaries (the "Company") as of September 30, 2013, the related condensed consolidated statements of income and comprehensive income for the three–month and nine–month periods ended September 30, 2013 and 2012, and the condensed consolidated statements of cash flows and changes in total equity for the nine–month periods ended September 30, 2013 and 2012. These condensed consolidated financial statements are the responsibility of the management of the Company.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of December 31, 2012, and the consolidated statements of income, comprehensive income, cash flows and changes in total equity for the year then ended (not presented herein) included in the Company's Annual Report on Form 10–K; and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ Deloitte & Touche LLP
New York, New York
November 4, 2013

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction.

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

Effective with the quarter ended June 30, 2013, the Global Wealth Management Group and Asset Management business segments were re–titled Wealth Management and Investment Management, respectively.

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

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

Wealth Management provides brokerage and investment advisory services to individual investors and small–to–medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income trading, which primarily facilitates clients' trading or investments in such securities.

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

See Notes 1 and 21 to the condensed consolidated financial statements for a discussion of the Company's discontinued operations.

The results of operations in the past have been, and in the future may continue to be, materially affected by many factors, including the effect of economic and political conditions and geopolitical events; the effect of market conditions, particularly in the global equity, fixed income, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets; the impact of current, pending and future legislation (including the Dodd–Frank Wall Street Reform and Consumer Protection Act (the "Dodd–Frank Act")), regulation (including capital, leverage and liquidity requirements), and legal actions in the United States of America ("U.S.") and worldwide; the level and volatility of equity, fixed income, and commodity prices and interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to the Company's unsecured short–term and long–term debt; investor, consumer and business sentiment and confidence in the financial markets; the performance of the Company's acquisitions, joint ventures, strategic alliances or other strategic arrangements (including with Mitsubishi UFJ Financial Group, Inc. ("MUFG")); the Company's reputation; inflation, natural disasters and acts of war or terrorism; the actions and initiatives of current and potential competitors as well as governments, regulators and self–regulatory organizations; the effectiveness of the Company's risk management policies; and technological changes; or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to the Company's businesses are likely to increase costs, thereby affecting results of operations. These factors also may have an adverse impact on the Company's ability to achieve its strategic objectives. For a further discussion of these and other important factors that could affect the Company's business, see "Business—Competition" and "Business—Supervision and Regulation" in Part I, Item 1, and "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10–K for the year ended December 31, 2012 (the "Form 10–K"), and "Other Matters" herein.

The discussion of the Company's results of operations below may contain forward–looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect the Company's future results, please see "Forward–Looking Statements" immediately preceding "Business—Competition" and "Business—Supervision and Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A, and "Executive Summary—Significant Items" in Part II, Item 7 of the Form 10–K and "Other Matters" herein.

Executive Summary.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net revenues:				
Institutional Securities(1)	$ 3,686	$ 1,481	$12,121	$ 7,948
Wealth Management(1)	3,481	3,222	10,482	9,709
Investment Management	828	631	2,146	1,620
Intersegment Eliminations	(63)	(54)	(156)	(131)
Consolidated net revenues	$ 7,932	$ 5,280	$24,593	$19,146
Net income (loss)	$ 1,018	$ (956)	$ 3,440	$ (72)
Net income applicable to redeemable noncontrolling interests(2)	—	8	222	8
Net income applicable to nonredeemable noncontrolling interests(2)	112	59	370	446
Net income (loss) applicable to Morgan Stanley	$ 906	$ (1,023)	$ 2,848	$ (526)
Income (loss) from continuing operations applicable to Morgan Stanley:				
Institutional Securities(1)	$ 323	$ (1,273)	$ 1,546	$ (1,201)
Wealth Management(1)	430	161	1,012	537
Investment Management	135	104	320	143
Intersegment Eliminations	—	—	—	(4)
Income (loss) from continuing operations applicable to Morgan Stanley	$ 888	$ (1,008)	$ 2,878	$ (525)
Amounts applicable to Morgan Stanley:				
Income (loss) from continuing operations applicable to Morgan Stanley	$ 888	$ (1,008)	$ 2,878	$ (525)
Net gain (loss) from discontinued operations applicable to Morgan Stanley(3)	18	(15)	(30)	(1)
Net income (loss) applicable to Morgan Stanley	$ 906	$ (1,023)	$ 2,848	$ (526)
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 880	$ (1,047)	$ 2,619	$ (599)
Earnings (loss) per basic common share:				
Income (loss) from continuing operations	$ 0.45	$ (0.55)	$ 1.39	$ (0.32)
Net gain (loss) from discontinued operations(3)	0.01	—	(0.02)	—
Earnings (loss) per basic common share(4)	$ 0.46	$ (0.55)	$ 1.37	$ (0.32)
Earnings (loss) per diluted common share:				
Income (loss) from continuing operations	$ 0.44	$ (0.55)	$ 1.36	$ (0.32)
Net gain (loss) from discontinued operations(3)	0.01	—	(0.02)	—
Earnings (loss) per diluted common share(4)	$ 0.45	$ (0.55)	$ 1.34	$ (0.32)
Regional net revenues:				
Americas	$ 5,665	$ 4,744	$17,635	$14,632
Europe, Middle East and Africa	1,148	296	3,346	2,422
Asia	1,119	240	3,612	2,092
Net revenues	$ 7,932	$ 5,280	$24,593	$19,146

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Average common equity (dollars in billions):				
Institutional Securities	$ 37.0	$ 28.8	$ 38.5	$ 29.3
Wealth Management	13.1	13.2	13.3	13.3
Investment Management	2.8	2.4	2.8	2.4
Parent capital	9.2	16.6	6.9	16.0
Consolidated average common equity	$ 62.1	$ 61.0	$ 61.5	$ 61.0
Return on average common equity(5):				
Institutional Securities	3.3%	N/M	5.1%	N/M
Wealth Management	13.0%	4.7%	8.6%	5.3%
Investment Management	19.0%	16.9%	15.0%	7.6%
Consolidated	5.6%	N/M	5.8%	N/M
Book value per common share(6)	$ 32.13	$ 30.53	$ 32.13	$ 30.53
Average tangible common equity (dollars in billions)(7)	$ 52.0	$ 54.2	$ 53.0	$ 54.2
Return on average tangible common equity(8)	6.7%	N/M	6.7%	N/M
Tangible book value per common share(9)	$ 26.96	$ 26.65	$ 26.96	$ 26.65
Effective income tax rate from continuing operations(10)	25.3%	35.4%	26.1%	71.8%
Worldwide employees at September 30, 2013 and 2012	56,101	57,726	56,101	57,726
Global liquidity reserve held by bank and non–bank legal entities at September 30, 2013 and 2012 (dollars in billions)(11)	$ 198	$ 170	$ 198	$ 170
Average global liquidity reserve (dollars in billions)(11):				
Bank legal entities	$ 80	$ 61	$ 71	$ 63
Non–bank legal entities	121	112	119	113
Total average global liquidity reserve	$ 201	$ 173	$ 190	$ 176
Long–term borrowings at September 30, 2013 and 2012	$157,805	$168,444	$157,805	$168,444
Maturities of long–term borrowings outstanding at September 30, 2013 and 2012 (next 12 months)	$ 24,232	$ 20,214	$ 24,232	$ 20,214
Capital ratios at September 30, 2013 and 2012:				
Total capital ratio(12)	16.1%	17.0%	16.1%	17.0%
Tier 1 common capital ratio(12)	12.6%	13.9%	12.6%	13.9%
Tier 1 capital ratio(12)	15.3%	16.9%	15.3%	16.9%
Tier 1 leverage ratio(13)	7.3%	7.2%	7.3%	7.2%
Consolidated assets under management or supervision at September 30, 2013 and 2012 (dollars in billions)(14):				
Investment Management(15)	$ 360	$ 331	$ 360	$ 331
Wealth Management(1)(16)	647	534	647	534
Total	$ 1,007	$ 865	$ 1,007	$ 865

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Institutional Securities(1):				
Pre−tax profit margin(17)	10%	N/M	18%	N/M
Wealth Management(1)(16):				
Wealth Management representatives at September 30, 2013 and 2012(18)	16,517	16,378	16,517	16,378
Annualized revenues per representative (dollars in thousands)(19)	$ 848	$ 785	$ 854	$ 777
Assets by client segment at September 30, 2013 and 2012 (dollars in billions):				
$10 million or more	$ 631	$ 528	$ 631	$ 528
$1 million to $10 million	741	699	741	699
Subtotal $1 million or more	1,372	1,227	1,372	1,227
$100,000 to $1 million	411	418	411	418
Less than $100,000	42	46	42	46
Total client assets	$ 1,825	$ 1,691	$ 1,825	$ 1,691
Fee−based client assets as a percentage of total client assets(20)	36%	32%	36%	32%
Client assets per representative(21)	$ 110	$ 103	$ 110	$ 103
Fee−based client asset flows (dollars in billions)(22)	$ 15.0	$ 6.8	$ 40.3	$ 20.0
Bank deposits at September 30, 2013 and 2012 (dollars in billions)(23)	$ 130	$ 118	$ 130	$ 118
Retail locations at September 30, 2013 and 2012	650	709	650	709
Pre−tax profit margin(17)	19%	8%	18%	11%
Investment Management:				
Pre−tax profit margin(17)	36%	31%	30%	23%
Selected management financial measures, excluding DVA(24):				
Net revenues, excluding DVA(24)	$ 8,103	$ 7,542	$24,906	$23,036
Income from continuing operations applicable to Morgan Stanley, excluding DVA(24)	$ 1,009	$ 560	$ 3,089	$ 2,272
Income per diluted common share from continuing operations, excluding DVA(24)	$ 0.50	$ 0.28	$ 1.47	$ 1.14
Return on average common equity, excluding DVA(5)	6.2%	3.5%	6.1%	4.9%
Return on average tangible common equity, excluding DVA(8)	7.4%	4.0%	7.1%	5.5%

N/M—Not Meaningful.

DVA—Debt Valuation Adjustment represents the change in the fair value of certain of the Company's long−term and short−term borrowings resulting from the fluctuation in the Company's credit spreads and other credit factors.

(1) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, all results and statistical data have been recast for all periods to reflect the International Wealth Management business as part of the Institutional Securities business segment.

(2) See Notes 2, 3 and 15 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10−K and Notes 3 and 14 to the condensed consolidated financial statements for information on redeemable and nonredeemable noncontrolling interests.

(3) See Notes 1 and 21 to the condensed consolidated financial statements for information on discontinued operations.

(4) For the calculation of basic and diluted earnings per share ("EPS"), see Note 15 to the condensed consolidated financial statements.

(5) The calculation of each business segment's return on average common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of each business segment's average common equity. The return on average common equity is a non−generally accepted accounting principle ("non−GAAP") financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance. The computation of average common equity for each business segment is determined using the Company's Required Capital framework ("Required Capital Framework"), an internal capital

adequacy measure (see “Liquidity and Capital Resources—Regulatory Requirements—Required Capital” herein). The effective tax rates used in the computation of business segment’s return on average common equity were determined on a separate legal entity basis. To determine the return on consolidated average common equity, excluding the impact of DVA, also a non−GAAP financial measure, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA for the quarters ended September 30, 2013 and 2012 was (0.6)% and (10.3)%, and the impact of DVA for the nine months ended September 30, 2013 and 2012 was (0.3)% and (6.2)%, respectively.

(6) Book value per common share equals common shareholders’ equity of $62,758 million at September 30, 2013 and $60,291 million at September 30, 2012 divided by common shares outstanding of 1,953 million at September 30, 2013 and 1,975 million at September 30, 2012.

(7) Tangible common equity is a non−GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. For a discussion of tangible common equity, see “Liquidity and Capital Resources—Capital Management” herein.

(8) Return on average tangible common equity is a non−GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. The calculation of return on average tangible common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity. To determine the return on average tangible common equity, excluding the impact of DVA, also a non−GAAP financial measure, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA for the quarters ended September 30, 2013 and 2012 was (0.7)% and (11.6)%, and the impact of DVA for the nine months ended September 30, 2013 and 2012 was (0.4)% and (7.0)%, respectively.

(9) Tangible book value per common share equals tangible common equity of $52,660 million at September 30, 2013 and $52,626 million at September 30, 2012 divided by common shares outstanding of 1,953 million at September 30, 2013 and 1,975 million at September 30, 2012. Tangible book value per common share is a non−GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy.

(10) For a discussion of the effective income tax rate, see “Overview of the Quarter Ended September 30, 2013 Financial Results” and “Significant Items—Income Tax Items” herein.

(11) For a discussion of global liquidity reserve, see “Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve” herein.

(12) The Company calculates its Total, Tier 1 and Tier 1 common capital ratios and risk−weighted assets (“RWAs”) in accordance with the capital adequacy standards for financial holding companies adopted by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. On January 1, 2013, the U.S. banking regulators’ rules to implement the Basel Committee on Banking Supervision’s market risk capital framework amendment, commonly referred to as “Basel 2.5”, became effective, which increased the capital requirements for securitizations and correlation trading within the Company’s trading book, as well as incorporated add−ons for stressed Value−at−Risk (“VaR”) and incremental risk requirements (“market risk capital framework amendment”). The Company’s Total, Tier 1 and Tier 1 common capital ratios and RWAs for the current periods were calculated under this revised framework. The Company’s Total, Tier 1 and Tier 1 common capital ratios and RWAs for prior periods have not been recalculated under this revised framework. For a discussion of Total, Tier 1 and Tier 1 common capital ratios, see “Liquidity and Capital Resources—Regulatory Requirements” herein.

(13) For a discussion of Tier 1 leverage ratio, see “Liquidity and Capital Resources—Regulatory Requirements” herein.

(14) Revenues and expenses associated with these assets are included in the Company’s Wealth Management and Investment Management business segments.

(15) Amounts exclude the Investment Management business segment’s proportionate share of assets managed by entities in which it owns a minority stake.

(16) Prior period amounts have been recast to exclude Quilter & Co. Ltd. (“Quilter”). See Notes 1 and 21 to the condensed consolidated financial statements for information on discontinued operations.

(17) Pre−tax profit margin is a non−GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess operating performance. Percentages represent income from continuing operations before income taxes as a percentage of net revenues.

(18) For the quarters ended September 30, 2013 and 2012, global representatives for the Company are 16,901 and 16,829, which include approximately 384 and 451 representatives associated with the International Wealth Management business, the results of which are reported in the Institutional Securities business segment, respectively.

(19) Annualized revenues per representative for the quarters ended September 30, 2013 and 2012 equal Wealth Management business segment’s annualized revenues divided by the average representative headcount for the quarters ended September 30, 2013 and 2012, respectively.

(20) Fee−based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets. Effective from the quarter ended March 31, 2013, client assets also include certain additional non−custodied assets as a result of the completion of the Morgan Stanley Wealth Management platform conversion.

(21) Client assets per representative equal total period−end client assets divided by period−end representative headcount.

(22) Beginning January 1, 2013, the Company enhanced its definition of fee−based asset flows. Fee−based asset flows have been recast for all periods to include dividends, interest and client fees, and to exclude cash management related activity.

(23) Approximately $94 billion and $60 billion of the bank deposit balances at September 30, 2013 and 2012, respectively, are held at Company−affiliated depositories with the remainder held at Citigroup Inc. (“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 the Company’s clients through their accounts. For additional information regarding deposits, see “Liquidity and Capital Resources—Funding Management—Deposits” herein and Notes 3 and 22 to the condensed consolidated financial statements.

(24) From time to time, the Company may disclose certain "non–GAAP financial measures" in the course of its earnings releases, earnings conference calls, financial presentations and otherwise. For these purposes, "GAAP" refers to generally accepted accounting principles in the U.S. The U.S. Securities and Exchange Commission defines a "non–GAAP financial measure" as a numerical measure of historical or future financial performance, financial positions, or cash flows that excludes or includes amounts or is subject to adjustments that effectively exclude, or include, amounts from the most directly comparable measure calculated and presented in accordance with GAAP. Non–GAAP financial measures disclosed by the Company are provided as additional information to investors in order to provide them with further transparency about, or an alternative method for assessing, our financial condition and operating results. These measures are not in accordance with, or a substitute for, GAAP, and may be different from or inconsistent with non–GAAP financial measures used by other companies. Whenever the Company refers to a non–GAAP financial measure, the Company will also generally present the most directly comparable financial measure calculated and presented in accordance with GAAP, along with a reconciliation of the differences between the non–GAAP financial measure and the GAAP financial measure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Reconciliation of Selected Management Financial Measures from a Non–GAAP to a GAAP Basis (dollars in millions, except per share amounts):				
Net revenues				
Net revenues—Non–GAAP	$ 8,103	$ 7,542	$ 24,906	$ 23,036
Impact of DVA	(171)	(2,262)	(313)	(3,890)
Net revenues—GAAP	$ 7,932	$ 5,280	$ 24,593	$ 19,146
Income (loss) from continuing operations applicable to Morgan Stanley				
Income applicable to Morgan Stanley—Non–GAAP	$ 1,009	$ 560	$ 3,089	$ 2,272
Impact of DVA	(121)	(1,568)	(211)	(2,797)
Income (loss) applicable to Morgan Stanley—GAAP	$ 888	$ (1,008)	$ 2,878	$ (525)
Earnings (loss) per diluted common share				
Income per diluted common share from continuing operations—Non–GAAP	$ 0.50	$ 0.28	$ 1.47	$ 1.14
Impact of DVA	(0.06)	(0.83)	(0.11)	(1.46)
Income (loss) per diluted common share from continuing operations—GAAP	$ 0.44	$ (0.55)	$ 1.36	$ (0.32)
Average diluted shares—Non–GAAP (in millions)	1,965	1,924	1,952	1,913
Impact of DVA (in millions)	—	(35)	—	(29)
Average diluted shares—GAAP (in millions)*	1,965	1,889	1,952	1,884

* Due to GAAP loss in the 2012 periods, average diluted shares equal average basic shares.

Global Market and Economic Conditions.

During the nine months ended September 30, 2013, global market and economic conditions improved modestly from 2012 year−end. Investor sentiment was boosted by encouraging signs about the global economy during the third quarter of 2013. The U.S. economy continued to grow moderately and the recession in the euro−area appeared to be coming to an end. Despite these improvements, global market and economic conditions continued to be challenged by investor concerns about the longer−term budget outlook and the scaling back of the monetary stimulus plan in the U.S., the remaining European sovereign debt issues, and slowing economic growth in emerging markets. On October 1, 2013, due to budget disagreements between U.S. lawmakers, the U.S. federal government was shut down and remained closed for 16 days. On October 16, 2013, U.S. lawmakers reached an agreement to raise the federal debt ceiling, to reopen the U.S. federal government and to continue budget discussions through early 2014.

In the U.S., major equity market indices ended the third quarter and the first nine months of 2013 higher compared with the beginning of the quarter and the year, primarily due to improved investor confidence. The U.S. economy continued its moderate growth pace in the third quarter of 2013. Labor market conditions improved in the third quarter, but the unemployment rate remained elevated and was 7.2% in September 2013 compared to 7.8% at 2012 year−end. Consumer spending and business investment advanced during the third quarter of 2013. The housing market has been strengthening, although rising mortgage rates have resulted in recent softness in housing starts and home sales. Apart from fluctuations due to changes in energy prices, inflation has been running below the Federal Reserve's longer−run objective, but longer−term inflation expectations have remained stable. The Federal Open Market Committee ("FOMC") of the Federal Reserve kept key interest rates at historically low levels. At September 30, 2013, the federal funds target rate remained between 0.0% and 0.25% and the discount rate remained at 0.75%. Since the spring of 2013, concerns about the Federal Reserve's plan to scale back its monetary stimulus plan later this year caused investors to sell off significant amounts of stocks and bonds, resulting in the rapid increase in interest rates. In September and October of 2013, the FOMC refrained from winding down its monetary stimulus plan in order to promote a stronger economic recovery. The U.S. federal debt ceiling, unbalanced budgets and the need for deficit reduction remained critical focus items at the federal, state and local levels of government during 2013.

In Europe, major equity market indices at September 30, 2013 were higher compared with the beginning of the quarter and the year. Euro−area gross domestic production started to grow in the second quarter of 2013, although the European Central Bank ("ECB") viewed this recovery as weak and fragile while the euro−area unemployment rate increased to a record of 12.2% in September 2013 from 11.7% at 2012 year−end. At September 30, 2013, Bank of England's benchmark interest rate was 0.5%, which was unchanged from December 31, 2012. To stimulate economic activity in Europe, in early May 2013 the ECB lowered the benchmark interest rate from 0.75% to 0.5% and indicated it will keep open its special liquidity facilities until at least the middle of 2014.

Major equity market indices in Asia, except for Japan's Nikkei 225 index, ended the first nine months of 2013 either lower or flat compared with the beginning of the year. At September 30, 2013, most of these indices were higher compared with the beginning of the third quarter of 2013. Japan's economic activities grew moderately during the third quarter of 2013, primarily resulting from a series of economic stimulus packages announced by the Japanese government and the Bank of Japan ("BOJ") in early 2013. BOJ maintained its monetary stimulus plan during the third quarter of 2013. The pace of China's economic growth increased in the third quarter of 2013, but the increase is expected to slow in the fourth quarter of 2013 as the Chinese government restructures its economy toward more sustainable growth driven by domestic consumption away from reliance on exports and investments.

Overview of the Quarter and Nine Months Ended September 30, 2013 Financial Results.

Consolidated Results. The Company recorded net income applicable to Morgan Stanley of $906 million on net revenues of $7,932 million during the quarter ended September 30, 2013 ("current quarter") compared with a net loss applicable to Morgan Stanley of $1,023 million on net revenues of $5,280 million during the quarter ended September 30, 2012 ("prior year quarter").

Net revenues in the current quarter included negative revenues due to the impact of DVA of $171 million compared with negative revenues of $2,262 million in the prior year quarter. Non−interest expenses decreased 3% to $6,593 million in the current quarter compared with $6,763 million in the prior year quarter. Compensation expenses increased 1% to $3,968 million in the current quarter compared with $3,928 million in the prior year quarter. Non−compensation expenses decreased 7% to $2,625 million in the current quarter compared with $2,835 million in the prior year quarter, primarily due to the absence of non−recurring costs associated with Morgan Stanley Smith Barney Holdings LLC ("Wealth Management JV") in the prior year quarter.

Earnings per diluted common share ("diluted EPS") and diluted EPS from continuing operations were $0.45 and $0.44, respectively, in the current quarter compared with $(0.55) and $(0.55), respectively, in the prior year quarter.

Excluding the impact of DVA, net revenues were $8,103 million and diluted EPS from continuing operations were $0.50 per share in the current quarter, compared with $7,542 million and $0.28 per share, respectively, in the prior year quarter.

For the nine months ended September 30, 2013, the Company recorded net income applicable to Morgan Stanley of $2,848 million on net revenues of $24,593 million, compared with a net loss applicable to Morgan Stanley of $526 million on net revenues of $19,146 million in the nine months ended September 30, 2012. Non−interest expenses increased 2% to $19,897 million from the prior year period. Diluted EPS and diluted EPS from continuing operations were $1.34 and $1.36, respectively, in the nine months ended September 30, 2013, compared with $(0.32) and $(0.32), respectively, in the prior year period. The EPS calculation for the nine months ended September 30, 2013 included a negative adjustment of approximately $151 million related to the purchase of the remaining interest in the Wealth Management JV, which was completed in June 2013.

The Company's effective tax rate from continuing operations was 25.3% and 26.1% for the quarter and nine months ended September 30, 2013, respectively. The results for the quarter and nine months ended September 30, 2013 included a discrete net tax benefit of $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non−U.S. subsidiaries. The results for the nine months ended September 30, 2013 also included a discrete net tax benefit of $142 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the "Relief Act") and remeasurement of reserves and related interest based on new information regarding the status of certain tax authority examinations. Excluding these discrete net tax benefits, the annual effective tax rate for the quarter and nine months ended September 30, 2013 would have been 30.8% and 30.7%, respectively. The effective tax rates are reflective of the geographic mix of earnings.

The Company's effective tax rate from continuing operations was 35.4% and 71.8% for the quarter and nine months ended September 30, 2012, respectively. The results for the quarter and nine months ended September 30, 2012 included an out−of−period net income tax provision adjustment of $82 million, primarily related to the overstatement of tax benefits associated with repatriated earnings of a non−U.S. subsidiary in 2010. Excluding this out−of−period net income tax provision adjustment, the annual effective tax rate for the quarter and nine months ended September 30, 2012 would have been 40.9% and 95.6%, respectively. The effective tax rates are reflective of the level and geographic mix of earnings, specifically the significant impact of tax benefits associated with DVA losses for the quarter and nine months ended September 30, 2012, respectively. For further discussion of the discrete net tax benefit and out−of−period adjustment, see "Executive Summary—Significant Items—Income Tax Items" herein.

On April 2, 2012, the Company completed the sale of Quilter, its retail wealth management business in the U.K., resulting in a pre−tax gain of $108 million. In addition, the first phase of the asset sale of Saxon closed on April 2, 2012. The results of Quilter (reported in the Wealth Management business segment) and Saxon (reported in the Institutional Securities business segment) are presented as discontinued operations for all periods presented. Discontinued operations were a net gain of $18 million and $2 million for the quarters ended September 30, 2013 and 2012, respectively, and a net gain (loss) of $(30) million and $25 million in the nine months ended September 30, 2013 and 2012, respectively.

Institutional Securities. Income from continuing operations before taxes was $371 million in the current quarter compared with a loss from continuing operations before taxes of $1,928 million in the prior year quarter. Net revenues for the current quarter were $3,686 million compared with $1,481 million in the prior year quarter. The results in the current quarter included negative revenues due to the impact of DVA of $171 million compared with negative revenues of $2,262 million in the prior year quarter. Investment banking revenues for the current quarter increased 2% to $992 million from the prior year quarter, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower advisory revenues. The following sales and trading net revenues results exclude the impact of DVA. The presentation of net revenues excluding the impact of DVA is a non−GAAP financial measure that the Company considers useful for the Company and investors to allow further comparability of period−to−period operating performance. See “Business Segments—Institutional Securities—Sales and Trading Net Revenues” for more information. Equity sales and trading net revenues, excluding the impact of DVA, of $1,710 million increased 28% from the prior year quarter, reflecting strong performance across all products and regions, with particular strength in derivatives and prime brokerage. Excluding the impact of DVA, fixed income and commodities sales and trading net revenues were $835 million in the current quarter, a decrease of 43% from the prior year quarter, reflecting lower levels of client activity and market volumes across all products. Net investment gains of $337 million were recognized in the quarter ended September 30, 2013, compared with net investment gains of $74 million in the prior year quarter. Due to the anticipated disposition of an investment in an insurance broker, the Company recorded an increase in fair value on the investment in the quarter ended September 30, 2013. On October 2, 2013, the Company disposed of this investment. Other revenues of $138 million were recognized in the current quarter compared with other revenues of $64 million in the prior year quarter. The results included income arising from the Company’s 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”) (see “Executive Summary—Significant Items—Japanese Securities Joint Venture” herein). Non−interest expenses decreased 3% to $3,315 million in the current quarter, primarily due to lower compensation expenses. Compensation and benefits expenses in the current quarter decreased 6% to $1,619 million from the prior quarter, primarily due to lower headcount. Non−compensation expenses were $1,696 million in the current quarter compared with $1,692 million in the prior year quarter.

Wealth Management. Income from continuing operations before taxes was $668 million in the current quarter compared with $247 million in the prior year quarter. Net revenues were $3,481 million in the current quarter compared with $3,222 million in the prior year quarter. Transactional revenues, consisting of Commissions and fees, Trading and Investment banking increased 6% to $1,009 million from the prior year quarter. Trading revenues increased 16% to $317 million in the current quarter from the prior year quarter, primarily due to higher gains related to positions associated with certain employee deferred compensation plans and higher revenues from fixed income products. Commissions and fees revenues increased 6% to $507 million in the current quarter from the prior year quarter, primarily due to higher equity, mutual fund and alternatives activity. Investment banking revenues decreased 7% to $185 million in the current quarter from the prior year quarter, primarily due to lower revenues from closed−end funds and fixed income underwriting, partially offset by higher revenues from structured products. Asset management, distribution and administration fees increased 6% to $1,900 million in the current quarter from the prior year quarter, primarily due to higher fee−based revenues, partially offset by lower revenues from the bank deposit program. Net interest increased 24% to $493 million in the current quarter from the prior year quarter, primarily resulting from higher revenues from Portfolio Loan Account (“PLA”) non−purpose securities−based lending products, mortgages and lower interest expense in 2013 relating to the Company’s redemption of all Class A Preferred Interests owned by Citi and its affiliates, in connection with the Company’s acquisition of 100% of ownership of the Wealth Management JV effective in the second quarter of 2013. Total client asset balances were $1,825 billion at September 30, 2013 and client assets in fee−based accounts were $652 billion, or 36% of total client assets. Fee−based client asset flows for the current quarter were $15.0 billion compared with $6.8 billion in the prior year quarter. Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment and for the Company’s enhanced definition of fee−based asset flows (see “Business Segments” herein). Compensation and benefit expenses increased 2% to $2,017 million in the current quarter from the prior year quarter, primarily due to higher compensable revenues. Non−compensation expenses decreased 21% to $796 million in the current quarter from the prior year quarter, partially driven by the absence of platform integration costs.

Table of Contents
Investment Management. Income from continuing operations before taxes was $300 million in the current quarter compared with $198 million in the prior year quarter. Net revenues were $828 million in the current quarter compared with $631 million in the prior year quarter. The increase in net revenues reflected higher net gains predominantly within the Company's Merchant Banking and Real Estate Investing businesses. Results in the quarter ended September 30, 2013 also included an additional allocation of fund income to the Company as general partner, upon exceeding cumulative fund performance thresholds ("carried interest"). Non−interest expenses were $528 million in the current quarter compared with $433 million in the prior year quarter. Compensation and benefits expenses increased 38% to $332 million in the current quarter, primarily due to higher net revenues. Non−compensation expenses increased 2% to $196 million in the current quarter, primarily due to higher brokerage and clearing and professional services expenses, partially offset by lower information processing expenses.

Significant Items.

Wealth Management JV. The Company completed the purchase of the remaining 35% interest in the Wealth Management JV from Citi on June 28, 2013 for the previously established price of $4.725 billion. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) in the nine months ended September 30, 2013 to reflect the difference between the purchase price for the 35% redeemable noncontrolling interest in the joint venture and its carrying value. In the third quarter of 2012, the Wealth Management business segment's non−compensation expenses included approximately $176 million of non−recurring costs associated with the Wealth Management JV and the purchase of an additional 14% stake in the Wealth Management JV.

Litigation Accruals. During the quarter and nine months ended September 30, 2013, the Company incurred litigation accruals of approximately $265 million and $549 million, respectively, compared with approximately $360 million and $381 million during the quarter and nine months ended September 30, 2012, respectively. Litigation accruals are included in Other non−interest expenses in the condensed consolidated statements of income. The Company expects future litigation accruals in general to continue to be elevated and the changes in accruals from period to period may fluctuate significantly, given the current environment regarding financial crisis related government investigations and private litigation affecting global financial services firms, including the Company.

Available for Sale Securities. During the nine months ended September 30, 2013 and 2012, the available for sale portfolio held within the Wealth Management segment reported unrealized gains (losses) of $ (336) million and $84 million, net of tax, respectively, and were included in Accumulated other comprehensive income. During the quarters ended September 30, 2013 and 2012, these gains were $33 million and $62 million, net of tax, respectively. The unrealized gains and losses for the quarter and nine months ended September 30, 2013 were due to changes in interest rates.

Severance Costs. In the nine months ended September 30, 2013, the Company incurred severance costs of approximately $164 million compared to approximately $153 million in the nine months ended September 30, 2012. The severance costs are associated with reduction in force events which are included in Compensation and benefits expenses in the condensed consolidated statements of income. The Company did not incur severance costs in the quarter ended September 30, 2013 or 2012.

Corporate Lending. The Company recorded the following amounts primarily associated with loans and lending commitments within the Institutional Securities business segment (see "Business Segments—Institutional Securities" herein):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Other sales and trading:				
Gains on loans and lending commitments and Net interest	$ 56	$ 491	$ 459	$ 1,309
Losses on hedges	(32)	(238)	(111)	(784)
Total Other sales and trading revenues	$ 24	$ 253	$ 348	$ 525
Other revenues:				
Provision for loan losses	$ (33)	$ (27)	$ (60)	$ (79)
Losses on loans held for sale	(21)	(2)	(51)	(21)
Total Other revenues	$ (54)	$ (29)	$ (111)	$ (100)
Other expenses: Provision for unfunded commitments	(13)	(33)	(42)	(42)
Total	$ (43)	$ 191	$ 195	$ 383

Investment Gains. The Company's Investments revenues increased to $728 million and $1,254 million in the quarter and nine months ended September 30, 2013, respectively, compared to $290 million and $438 million in the prior year periods, respectively. Increases of $175 million and $355 million in the quarter and nine months ended September 30, 2013, respectively, included higher net investment gains and to a lesser extent the benefit of carried interest within the Company's Merchant Banking and Real Estate Investing businesses in the Investment Management business segment. In addition, due to the anticipated disposition of an investment in an insurance broker, the Company recorded an increase in fair value on the investment in the quarter and nine months ended September 30, 2013 in the Institutional Securities business segment.

Income Tax Items. The Company's effective tax rate from continuing operations for the quarter and nine months ended September 30, 2013 included a discrete net tax benefit of $73 million that is attributable to tax planning strategies to optimize foreign tax credit utilization as a result of the anticipated repatriation of earnings from certain non−U.S. subsidiaries. Additionally, the Company's effective tax rate from continuing operations for the nine months ended September 30, 2013 included a discrete tax benefit of $81 million due to the retroactive effective date of the Relief Act. The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside of the U.S. until such income is repatriated to the U.S. as a dividend. Also, the Company's effective tax rate from continuing operations for the nine months ended September 30, 2013 included a discrete net tax benefit of $61 million associated with the remeasurement of reserves and related interest based on new information regarding the status of certain tax authority examinations.

The Company's effective tax rate from continuing operations for the quarter and nine months ended September 30, 2012 included an $82 million out−of−period net income tax provision adjustment in the Institutional Securities business segment primarily related to the overstatement of tax benefits associated with repatriated earnings of a non−U.S. subsidiary in 2010. The Company evaluated the effects of the understatement of income tax provision both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements.

Japanese Securities Joint Venture. During the quarters ended September 30, 2013 and 2012, the Company recorded income of $188 million and $36 million, respectively, within Other revenues in the condensed consolidated statements of income, arising from the Company's 40% stake in MUMSS, and income of $487 million and $117 million for the nine months ended September 30, 2013 and 2012, respectively. Net income applicable to nonredeemable noncontrolling interests associated with MUFG's interest in Morgan Stanley MUFG Securities Co., Ltd. ("MSMS") was $46 million and $3 million for the quarters ended September 30, 2013 and 2012, respectively, and $218 million and $133 million for the nine months ended September 30, 2013 and 2012, respectively (see Note 20 to the condensed consolidated financial statements).

In June 2013, MUMSS paid a dividend of approximately $287 million, of which the Company received approximately $115 million for its proportionate share of MUMSS.

Business Segments.

Substantially all of the Company's operating revenues and operating expenses are allocated to its business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non−interest expenses or other relevant measures.

Effective with the quarter ended June 30, 2013, the Global Wealth Management Group and Asset Management business segments were re−titled Wealth Management and Investment Management, respectively.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company's consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Wealth Management business segment related to the bank deposit program. The Company did not recognize any gains or losses from continuing operations before income taxes in Intersegment Elimination in the quarter and nine months ended September 30, 2013. Losses from continuing operations before income taxes recorded in Intersegment Eliminations were zero and $4 million in the quarter and nine months ended September 30, 2012, respectively.

On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, all results and statistical data have been recast for all periods to reflect the International Wealth Management business as part of the Institutional Securities business segment.

***Net Revenues*.**

Trading. Trading revenues include revenues from customers' purchases and sales of financial instruments in which the Company acts as a market maker and gains and losses on the Company's related positions. Trading revenues include the realized gains and losses from sales of cash instruments and derivative settlements, unrealized gains and losses from ongoing fair value changes of the Company's positions related to market−making activities, and gains and losses related to investments associated with certain employee deferred compensation plans. In many markets, the realized and unrealized gains and losses from the purchase and sale transactions will include any spreads between bids and offers. Certain fees received on loans carried at fair value and dividends from equity securities are also recorded in this line item since they relate to market−making positions. Commissions received for purchasing and selling listed equity securities and options are recorded separately in the Commissions and fees line item. Other cash and derivative instruments typically do not have fees associated with them, and fees for related services would be recorded in Commissions and fees.

The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues. Expenses associated with the related deferred compensation plans are recorded in Compensation and benefits. Compensation expense is calculated based on the notional value of the award granted, adjusted for upward and downward changes in fair value of the referenced investment and is recognized ratably over the prescribed vesting period for the award. Generally, changes in compensation expense resulting from changes in fair value of the referenced investment will be offset by changes in fair value of investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company's investments and the deferred recognition of the related compensation expense over the vesting period.

As a market maker, the Company stands ready to buy, sell or otherwise transact with customers under a variety of market conditions and provide firm or indicative prices in response to customer requests. The Company's liquidity obligations can be explicit and obligatory in some cases, and in others, customers expect the Company to be willing to transact with them. In order to most effectively fulfill its market−making function, the Company engages in activities, across all of its trading businesses, that include, but are not limited to: (i) taking positions in

anticipation of, and in response to, customer demand to buy or sell and—depending on the liquidity of the relevant market and the size of the position—holding those positions for a period of time; (ii) managing and assuming basis risk (risk associated with imperfect hedging) between customized customer risks and the standardized products available in the market to hedge those risks; (iii) building, maintaining and rebalancing inventory, through trades with other market participants, and engaging in accumulation activities to accommodate anticipated customer demand; (iv) trading in the market to remain current on pricing and trends; and (v) engaging in other activities to provide efficiency and liquidity for markets. Interest income and expense are also impacted by market–making activities as debt securities held by the Company earn interest and securities are loaned, borrowed, sold with agreement to repurchase and purchased with agreement to resell.

Investments. The Company's investments generally are held for long–term appreciation and generally are subject to significant sales restrictions. Estimates of the fair value of the investments may involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions. In some cases, such investments are required or are a necessary part of offering other products. The revenues recorded are the result of realized gains and losses from sales and unrealized gains and losses from ongoing fair value changes of the Company's holdings as well as from investments associated with certain employee deferred compensation plans (as mentioned in the paragraph above). Typically, there are no fee revenues from these investments. The sales restrictions on the investments relate primarily to redemption and withdrawal restrictions on investments in real estate funds, hedge funds and private equity funds, which include investments made in connection with certain employee deferred compensation plans (see Note 4 to the condensed consolidated financial statements). Restrictions on interests in exchanges and clearinghouses generally include a requirement to hold those interests for the period of time that the Company is clearing trades on that exchange or clearinghouse. Additionally, there are certain investments related to assets held by consolidated real estate funds, which are primarily related to holders of noncontrolling interests.

Commissions and Fees. Commission and fee revenues primarily arise from agency transactions in listed and OTC equity securities, services related to sales and trading activities, and sales of mutual funds, futures, insurance products and options.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include fees associated with the management and supervision of assets, account services and administration, performance–based fees relating to certain funds, separately managed accounts, shareholder servicing and the distribution of certain open–ended mutual funds.

Asset management, distribution and administration fees in the Wealth Management business segment also include revenues from individual investors electing a fee–based pricing arrangement and fees for investment management. Mutual fund distribution fees in the Wealth Management business segment are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management fees in the Investment Management business segment arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. The Company receives fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity for other vehicles. Performance–based fees in the Investment Management business segment are earned on certain funds as a percentage of appreciation earned by those funds and, in certain cases, are based upon the achievement of performance criteria. These fees are normally earned annually and are recognized on a monthly or quarterly basis.

Net Interest. Interest income and Interest expense are a function of the level and mix of total assets and liabilities, including trading assets and trading liabilities, securities available for sale, securities borrowed or purchased under agreements to resell, securities loaned or sold under agreements to repurchase, loans, deposits, commercial paper and other short–term borrowings, long–term borrowings, trading strategies, customer activity in

the Company’s prime brokerage business, and the prevailing level, term structure and volatility of interest rates. Certain Securities purchased under agreements to resell (“reverse repurchase agreements”) and Securities sold under agreements to repurchase (“repurchase agreements”) and Securities borrowed and Securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest revenue on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions.

INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012(1)	2013	2012(1)
	(dollars in millions)			
Revenues:				
Investment banking	$ 992	$ 969	$ 3,015	$ 2,704
Trading	1,959	352	6,971	4,714
Investments	337	74	530	71
Commissions and fees	572	510	1,831	1,660
Asset management, distribution and administration fees	73	62	208	175
Other	138	64	415	156
Total non−interest revenues	4,071	2,031	12,970	9,480
Interest income	897	1,017	2,950	3,158
Interest expense	1,282	1,567	3,799	4,690
Net interest	(385)	(550)	(849)	(1,532)
Net revenues	3,686	1,481	12,121	7,948
Compensation and benefits	1,619	1,717	5,277	5,426
Non−compensation expenses	1,696	1,692	4,715	4,291
Total non−interest expenses	3,315	3,409	9,992	9,717
Income (loss) from continuing operations before income taxes	371	(1,928)	2,129	(1,769)
Provision for (benefit from) income taxes	—	(662)	348	(699)
Income (loss) from continuing operations	371	(1,266)	1,781	(1,070)
Discontinued operations:				
Gain (loss) from discontinued operations	(7)	(23)	(64)	(41)
Provision for (benefit from) income taxes	(5)	(8)	(25)	18
Net gains (losses) on discontinued operations	(2)	(15)	(39)	(59)
Net income (loss)	369	(1,281)	1,742	(1,129)
Net income applicable to redeemable noncontrolling interests	—	—	1	—
Net income applicable to nonredeemable noncontrolling interests	48	8	234	132
Net income (loss) applicable to Morgan Stanley	$ 321	$ (1,289)	$ 1,507	$ (1,261)
Amounts applicable to Morgan Stanley:				
Income (loss) from continuing operations	$ 323	$ (1,273)	$ 1,546	$ (1,201)
Net gains (losses) from discontinued operations	(2)	(16)	(39)	(60)
Net income (loss) applicable to Morgan Stanley	$ 321	$ (1,289)	$ 1,507	$ (1,261)

(1) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Table of Contents

Investment Banking. Investment banking revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Advisory revenues	$ 275	$ 339	$ 859	$ 915
Underwriting revenues:				
Equity underwriting revenues	236	199	846	654
Fixed income underwriting revenues	481	431	1,310	1,135
Total underwriting revenues	717	630	2,156	1,789
Total investment banking revenues	$ 992	$ 969	$ 3,015	$ 2,704

The following table presents the Company's volumes of announced and completed mergers and acquisitions, equity and equity–related offerings, and fixed income offerings:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013(1)	2012(1)	2013(1)	2012(1)
	(dollars in billions)			
Announced mergers and acquisitions(2)	$ 242	$ 116	$ 410	$ 353
Completed mergers and acquisitions(2)	78	81	413	266
Equity and equity–related offerings(3)	10	15	39	38
Fixed income offerings(4)	71	79	221	214

(1) Source: Thomson Reuters, data at October 16, 2013. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity–related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.

(2) Amounts include transactions of $100 million or more. Announced mergers and acquisitions exclude terminated transactions.

(3) Amounts include Rule 144A and public common stock, convertible and rights offerings.

(4) Amounts include non–convertible preferred stock, mortgage–backed and asset–backed securities and taxable municipal debt. Amounts also include publicly registered and Rule 144A issues. Amounts exclude leveraged loans and self–led issuances.

Investment banking revenues for the quarter ended September 30, 2013 increased 2% from the comparable period in 2012, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower advisory revenues. Overall, underwriting revenues of $717 million increased 14% from the quarter ended September 30, 2012. Equity underwriting revenues increased 19% to $236 million in the quarter ended September 30, 2013, largely driven by increased client activity across Europe, Japan and the U.S. Fixed income underwriting revenues were $481 million in the quarter ended September 30, 2013, an increase of 12% from the comparable period of 2012, reflecting a favorable debt underwriting environment, primarily in investment grade bond issuances and loan syndication. Advisory revenues from merger, acquisition and restructuring transactions ("M&A") were $275 million in the quarter ended September 30, 2013, a decrease of 19% from the comparable period of 2012, with lower levels of completed market activity. Industry–wide announced M&A activity for the quarter ended September 30, 2013 increased compared with the quarter ended September 30, 2012. Industry–wide completed M&A activity for the quarter ended September 30, 2013 declined compared with the quarter ended September 30, 2012.

Investment banking revenues for the nine months ended September 30, 2013 increased 12% from the comparable period in 2012, primarily due to higher revenues from equity and fixed income underwriting transactions reflecting higher market volumes, partially offset by lower advisory revenues.

Sales and Trading Net Revenues. Sales and trading net revenues are composed of Trading revenues; Commissions and fees; Asset management, distribution and administration fees; and Net interest revenues

Table of Contents
(expenses). See “Business Segments—Net Revenues” herein for further information about what is included in the above–referenced components of sales and trading revenues. In assessing the profitability of its sales and trading activities, the Company views these net revenues in the aggregate. In addition, decisions relating to trading are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions and fees, dividends, the interest income or expense associated with financing or hedging the Company’s positions, and other related expenses. See Note 11 to the condensed consolidated financial statements for further information related to gains (losses) on derivative instruments.

Sales and trading net revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012(1)	2013	2012(1)
	(dollars in millions)			
Trading	$ 1,959	$ 352	$ 6,971	$ 4,714
Commissions and fees	572	510	1,831	1,660
Asset management, distribution and administration fees	73	62	208	175
Net interest	(385)	(550)	(849)	(1,532)
Total sales and trading net revenues	$ 2,219	$ 374	$ 8,161	$ 5,017

(1) All prior period amounts have been recast to conform to the current year’s presentation. For further information, see “Business Segments” herein and Notes 1 and 21 to the condensed consolidated financial statements.

Sales and trading net revenues by business were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012(1)	2013	2012(1)
	(dollars in millions)			
Equity	$ 1,680	$ 700	$ 5,115	$ 3,601
Fixed income and commodities	694	(163)	3,185	1,877
Other(2)	(155)	(163)	(139)	(461)
Total sales and trading net revenues	$ 2,219	$ 374	$ 8,161	$ 5,017

(1) All prior period amounts have been recast to conform to the current year’s presentation. For further information, see “Business Segments” herein and Notes 1 and 21 to the condensed consolidated financial statements.
(2) Other sales and trading net revenues include net gains (losses) from certain loans and lending commitments and related hedges associated with the Company’s lending activities, net gains (losses) on economic hedges related to the Company’s long–term debt and net losses associated with costs related to the amount of liquidity held (“negative carry”).

Total sales and trading net revenues increased to $2,219 million in the quarter ended September 30, 2013 from $374 million in the quarter ended September 30, 2012, reflecting higher revenues in equity sales and trading net revenues and lower losses in other sales and trading net revenues. The results also included fixed income and commodities sales and trading net revenues compared with net losses in the prior year quarter.

Table of Contents

The following sales and trading net revenues results exclude the impact of DVA (see footnote 2 in the following table). The reconciliation of sales and trading, including equity sales and trading and fixed income and commodities sales and trading net revenues, from a non–GAAP to a GAAP basis is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012(1)	2013	2012(1)
	(dollars in millions)			
Total sales and trading net revenues—non–GAAP(2)	$ 2,390	$ 2,636	$ 8,474	$ 8,907
Impact of DVA	(171)	(2,262)	(313)	(3,890)
Total sales and trading net revenues	$ 2,219	$ 374	$ 8,161	$ 5,017
Equity sales and trading net revenues—non–GAAP(2)	$ 1,710	$ 1,341	$ 5,110	$ 4,549
Impact of DVA	(30)	(641)	5	(948)
Equity sales and trading net revenues	$ 1,680	$ 700	$ 5,115	$ 3,601
Fixed income and commodities sales and trading net revenues—non–GAAP(2)	$ 835	$ 1,458	$ 3,503	$ 4,819
Impact of DVA	(141)	(1,621)	(318)	(2,942)
Fixed income and commodities sales and trading net revenues	$ 694	$ (163)	$ 3,185	$ 1,877

(1) All prior period amounts have been recast to conform to the current year's presentation. For further information, see "Business Segments" herein and Notes 1 and 21 to the condensed consolidated financial statements.
(2) Sales and trading net revenues, including fixed income and commodities and equity sales and trading net revenues that exclude the impact of DVA, are non–GAAP financial measures that the Company considers useful for the Company and investors to allow further comparability of period–to–period operating performance.

Equity. Equity sales and trading net revenues increased to $1,680 million in the quarter ended September 30, 2013 from $700 million in the comparable period in 2012. The results in equity sales and trading net revenues included negative revenue due to the impact of DVA of $30 million in the quarter ended September 30, 2013 compared with negative revenue of $641 million in the quarter ended September 30, 2012. Equity sales and trading net revenues, excluding the impact of DVA, increased 28% to $1,710 million in the quarter ended September 30, 2013 from the comparable period in 2012, reflecting strong performance across all products and regions, with particular strength in derivatives and prime brokerage.

In the quarter ended September 30, 2013, equity sales and trading net revenues also reflected gains of $14 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' credit default swap ("CDS") spreads and other factors compared with gains of $17 million in the quarter ended September 30, 2012. The Company also recorded gains of $2 million in the quarter ended September 30, 2013 related to changes in the fair value of net derivative contracts attributable to the widening of the Company's CDS spreads and other factors compared with losses of $70 million in the quarter ended September 30, 2012 due to the tightening of such spreads and other factors. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Fixed Income and Commodities. Fixed income and commodities sales and trading net revenues were $694 million in the quarter ended September 30, 2013 compared with net losses of $163 million in the quarter ended September 30, 2012. Results in the quarter ended September 30, 2013 included negative revenue of $141 million due to the impact of DVA, compared with negative revenue of $1,621 million in the quarter ended September 30, 2012. Fixed income product net revenues, excluding the impact of DVA, in the quarter ended September 30, 2013 decreased 50% over the comparable period in 2012, primarily reflecting lower levels of client activity and market volumes across all products with significant declines in interest rates and securitized products. Commodity net revenues, excluding the impact of DVA, in the quarter ended September 30, 2013 decreased 15%

over the comparable period in 2012, primarily reflecting lower levels of client activity in oil and liquids markets and in the North American power market, partially offset by higher net revenues in the metals markets.

In the quarter ended September 30, 2013, fixed income and commodities sales and trading net revenues reflected net gains of $28 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties' CDS spreads and other factors compared with gains of $77 million in the quarter ended September 30, 2012. The Company also recorded losses of $63 million in the quarter ended September 30, 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company's CDS spreads and other factors compared with losses of $338 million in the quarter ended September 30, 2012. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Other. In addition to the equity and fixed income and commodities sales and trading net revenues discussed above, sales and trading net revenues included other trading revenues, consisting of certain activities associated with the Company's corporate lending activities, gains (losses) on economic hedges related to the Company's long−term debt and costs related to negative carry. Effective April 1, 2012, the Company began accounting for all new corporate loans and lending commitments as either held for investment or held for sale. This corporate lending portfolio has grown, and the Company expects this trend to continue. See "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part I, Item 3, herein.

Other sales and trading net losses were $155 million in the quarter ended September 30, 2013 compared with net losses of $163 million in the quarter ended September 30, 2012, primarily due to lower losses on economic hedges and other costs related to the Company's long−term debt, partially offset by lower net gains associated with corporate loans and lending commitments. The results in the quarters ended September 30, 2013 and 2012 included net gains of $24 million and $253 million, respectively, associated with corporate loans and lending commitments.

Net Interest. Net interest expense decreased to $385 million in the quarter ended September 30, 2013 from net interest expense of $550 million in the quarter ended September 30, 2012, primarily due to lower interest costs associated with the Company's long−term borrowings.

Sales and Trading Net Revenues in the Nine Months Ended September 30, 2013. Total sales and trading revenues increased 63% in the nine months ended September 30, 2013 from the comparable period of 2012, reflecting higher equity and fixed income and commodities sales and trading net revenues and lower losses in other sales and trading net revenues. Equity sales and trading net revenues increased 42% in the nine months ended September 30, 2013 from the comparable period in 2012. The results in equity sales and trading net revenues included positive revenue in the nine months ended September 30, 2013 of $5 million due to the impact of DVA compared with negative revenue of approximately $948 million in the nine months ended September 30, 2012 due to the impact of DVA. Equity sales and trading net revenues, excluding the impact of DVA, in the nine months ended September 30, 2013 increased 12% over the comparable period in 2012, primarily due to higher revenues in the prime brokerage and derivatives businesses reflecting increased client activity. Fixed income and commodities sales and trading net revenues increased 70% in the nine months ended September 30, 2013 from the comparable period in 2012. Results in the nine months ended September 30, 2013 included negative revenue of $318 million due to the impact of DVA, compared with negative revenue of approximately $2,942 million in the nine months ended September 30, 2012. Fixed income and commodities sales and trading net revenues, excluding the impact of DVA, in the nine months ended September 30, 2013 decreased 27% over the comparable period in 2012, primarily due to lower results in the interest rates business due to global volatility. In the nine months ended September 30, 2013, other sales and trading net losses were $139 million compared with losses of $461 million in the nine months ended September 30, 2012. Results in both periods included net losses related to negative carry and losses on economic hedges and other costs related to the Company's long−term debt. Results in both periods also included gains related to certain activities associated with the Company's corporate loans and lending commitments. Also included in the results for the nine months ended September 30, 2012 was an out of period pre−tax gain of approximately $109 million in other sales and trading net revenues, related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts previously designated as net investment hedges of certain non−U.S. dollar denominated subsidiaries (see Note 11 to the condensed consolidated financial statements). Net interest expense

decreased to $849 million in the nine months ended September 30, 2013 from $1,532 million in the nine months ended September 30, 2012, primarily due to lower interest costs associated with the Company's long−term borrowings.

Investments. Net investment gains of $337 million and $530 million were recognized in the quarter and nine months ended September 30, 2013, respectively, compared with net investment gains of $74 million and $71 million in the quarter and nine months ended September 30, 2012, respectively. Due to the anticipated disposition of an investment in an insurance broker, the Company recorded an increase in fair value on the investment in the quarter and nine months ended September 30, 2013. On October 2, 2013, the Company disposed of this investment. The results in all periods included net gains from investments associated with the Company's deferred compensation and co−investment plans and mark−to−market gains on principal investments in real estate funds.

Other. Other revenues of $138 million and $415 million were recognized in the quarter and nine months ended September 30, 2013, respectively, compared with other revenues of $64 million and $156 million in the quarter and nine months ended September 30, 2012, respectively. The results in the quarter and nine months ended September 30, 2013 primarily included income of $188 million and $487 million, respectively, arising from the Company's 40% stake in MUMSS, compared with income of $36 million and $117 million in the quarter and nine months ended September 30, 2012, respectively (see "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein). The gains in all periods were partially offset by the provision for loan losses. The results in the nine months ended September 30, 2012 also included gains from the Company's retirement of certain of its debt.

Non−interest Expenses. Non−interest expenses decreased 3% in the quarter ended September 30, 2013 and increased 3% in the nine months ended September 30, 2013. The decrease in the quarter ended September 30, 2013 was primarily due to lower compensation expenses. The results in the nine months ended September 30, 2013 was primarily due to higher non−compensation expenses, partially offset by lower compensation and benefits expenses. Compensation and benefits expenses decreased 6% in the quarter ended September 30, 2013 and 3% in the nine months ended September 30, 2013, primarily due to lower headcount. Results included severance expenses of $141 million related to reductions in force in the nine months ended September 30, 2013, compared with $120 million in the nine months ended September 30, 2012. Non−compensation expenses remained flat in the quarter ended September 30, 2013, compared with the prior year period. Non−compensation expenses increased 10% in the nine months ended September 30, 2013, compared with the prior year period. Brokerage, clearing and exchange expenses increased 20% and 15% in the quarter and nine months ended September 30, 2013, respectively, primarily due to higher volumes of activity. Information processing and communications expense decreased 11% and 10% in the quarter and nine months ended September 30, 2013, respectively, primarily due to lower technology costs. Professional services expenses decreased 2% in the quarter ended September 30, 2013 and increased 8% in the nine months ended September 30, 2013. The decrease in the current quarter was primarily due to lower legal expenditures. The results in the nine months ended September 30, 2013 were primarily due to higher consulting expenses. Other expenses decreased 3% in the quarter ended September 30, 2013 and increased 34% in the nine months ended September 30, 2013, respectively. The activity in both periods was primarily related to changes in litigation accruals.

Discontinued Operations.

On October 24, 2011, the Company announced that it had reached an agreement to sell Saxon, a provider of servicing and subservicing of residential mortgage loans, to Ocwen Financial Corporation. The transaction, which was restructured as a sale of Saxon's assets during the first quarter of 2012, was substantially completed in the second quarter of 2012. The results of Saxon are reported as discontinued operations within the Institutional Securities business segment for all periods presented.

For further information, see Notes 1 and 21 to the condensed consolidated financial statements.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests primarily relate to MUFG's interest in MSMS (see "Executive Summary—Significant Items—Japanese Securities Joint Venture" herein).

Table of Contents

WEALTH MANAGEMENT
INCOME STATEMENT INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012(1)	2013	2012(1)
	(dollars in millions)			
Revenues:				
Investment banking	$ 185	$ 199	$ 717	$ 627
Trading	317	274	838	798
Investments	4	4	9	7
Commissions and fees	507	479	1,633	1,547
Asset management, distribution and administration fees	1,900	1,789	5,654	5,337
Other	75	78	279	214
Total non−interest revenues	2,988	2,823	9,130	8,530
Interest income	532	476	1,531	1,390
Interest expense	39	77	179	211
Net interest	493	399	1,352	1,179
Net revenues	3,481	3,222	10,482	9,709
Compensation and benefits	2,017	1,970	6,124	5,890
Non−compensation expenses	796	1,005	2,438	2,759
Total non−interest expenses	2,813	2,975	8,562	8,649
Income from continuing operations before income taxes	668	247	1,920	1,060
Provision for income taxes	238	93	687	364
Income from continuing operations	430	154	1,233	696
Discontinued operations:				
Income (loss) from discontinued operations	—	—	(1)	93
Provision for (benefit from) income taxes	—	(5)	—	26
Net gain (loss) from discontinued operations	—	5	(1)	67
Net income	430	159	1,232	763
Net income applicable to redeemable noncontrolling interests	—	8	221	8
Net income applicable to nonredeemable noncontrolling interests	—	1	—	176
Net income applicable to Morgan Stanley	$ 430	$ 150	$ 1,011	$ 579
Amounts applicable to Morgan Stanley:				
Income from continuing operations	$ 430	$ 161	$ 1,012	$ 537
Net gain (loss) from discontinued operations	—	(11)	(1)	42
Net income applicable to Morgan Stanley	$ 430	$ 150	$ 1,011	$ 579

(1) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Net Revenues. Wealth Management business segment's net revenues are composed of Transactional, Asset management, Net interest and Other revenues. Transactional revenues include Investment banking, Trading, and Commissions and fees. Asset management revenues include Asset management, distribution and administration fees, and fees related to the bank deposit program. Net interest revenues include net interest revenues related to the bank deposit program, interest on securities available for sale and all other net interest revenues. Other revenues include revenues from available for sale securities, customer account services fees, other miscellaneous revenues and revenues from Investments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012(1)	2013	2012(1)
	(dollars in millions)			
Net revenues:				
Transactional	$ 1,009	$ 952	$ 3,188	$ 2,972
Asset management	1,900	1,789	5,654	5,337
Net interest	493	399	1,352	1,179
Other	79	82	288	221
Net revenues	$ 3,481	$ 3,222	$ 10,482	$ 9,709

(1) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Wealth Management business segment to the Institutional Securities business segment.

Wealth Management JV. On June 28, 2013, the Company completed the purchase of the remaining 35% stake in the Wealth Management JV that it did not own for $4.725 billion. As a 100% owner of the Wealth Management JV, the Company retains all of the related net income previously applicable to the noncontrolling interests in the Wealth Management JV, and benefit from the termination of certain related debt and operating agreements with the Wealth Management JV partner.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. During the quarter ended September 30, 2013, approximately $21 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions. At September 30, 2013, approximately $35 billion of deposits will be transferred to the Company's depository institutions on an agreed upon basis through June 2015.

For further information, see Note 3 to the condensed consolidated financial statements.

Transactional.

Investment Banking. Investment banking revenues decreased 7% to $185 million in the quarter ended September 30, 2013 from the comparable period of 2012, primarily due to lower revenues from closed−end funds and fixed income underwriting, partially offset by higher revenues from structured products. Investment banking revenues increased 14% to $717 million in the nine months ended September 30, 2013 from the comparable period of 2012, primarily due to higher revenues from closed−end funds.

Trading. Trading revenues increased 16% to $317 million in the quarter ended September 30, 2013 from the comparable period of 2012, primarily due to higher gains related to positions associated with certain employee deferred compensation plans and higher revenues from fixed income products. Trading revenues increased 5% to $838 million in the nine months ended September 30, 2013 from the comparable period of 2012, primarily due to higher revenues from fixed income products.

Commissions and Fees. Commissions and fees revenues increased 6% to $507 million in the quarter ended September 30, 2013 from the comparable period of 2012, and increased 6% to $1,633 million in the nine months ended September 30, 2013 from the comparable period of 2012. The increase in both periods was primarily due to higher equity, mutual fund and alternatives activity.

Asset Management.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 6% to $1,900 million in the quarter ended September 30, 2013 from the comparable period of 2012 and increased 6% to $5,654 million in the nine months ended September 30, 2013 from the comparable period of 2012. The increase in both periods was primarily due to higher fee−based revenues, partially offset by lower revenues from the bank deposit program. The referral fees for deposits placed with Citi−affiliated depository institutions were $47 million and $100 million in the quarters ended September 30, 2013 and 2012, respectively, and $203 million and $280 million in the nine months ended September 30, 2013 and 2012, respectively.

Balances in the bank deposit program increased to $130 billion at September 30, 2013 from $118 billion at September 30, 2012. Deposits held by Company−affiliated FDIC−insured depository institutions were $94 billion at September 30, 2013 and $60 billion at September 30, 2012. As a result of the Company's 100% ownership of the Wealth Management JV, the deposits held in non−affiliated depositories will transfer to the Company−affiliated depositories on an agreed−upon basis through June 2015.

Client assets in fee−based accounts increased to $652 billion and represented 36% of total client assets at September 30, 2013 compared with $536 billion and 32% at September 30, 2012, respectively. Total client asset balances increased to $1,825 billion at September 30, 2013 from $1,691 billion at September 30, 2012, primarily due to the impact of market conditions and net new asset inflows. Client asset balances in households with assets greater than $1 million increased to $1,372 billion at September 30, 2013 from $1,227 billion at September 30, 2012. Effective from the quarter ended March 31, 2013, client assets also include certain additional non−custodied assets as a result of the completion of the Wealth Management JV platform conversion. Fee−based client asset flows for the quarter ended September 30, 2013 were $15.0 billion compared with $6.8 billion in the quarter ended September 30, 2012.

Beginning January 1, 2013, the Company enhanced its definition of fee−based asset flows. Fee−based asset flows have been recast for all periods to include dividends, interest and client fees, and to exclude cash management related activity.

Net Interest.

Net interest increased 24% to $493 million in the quarter ended September 30, 2013 from the comparable period of 2012. Net interest increased 15% to $1,352 million in the nine months ended September 30, 2013 from the comparable period of 2012. The increase in both periods was primarily due to higher revenues from PLA non−purpose securities−based lending products, mortgages and lower interest expense in 2013 relating to the Company's redemption of all of the Class A Preferred Interests owned by Citi and its affiliates, in connection with the Company's acquisition of 100% of ownership of the Wealth Management JV effective in the second quarter of 2013. The loans and lending commitments in the Company's Wealth Management business segment have grown in the quarter ended September 30, 2013, and the Company expects this trend to continue. See "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part I, Item 3, herein.

Other.

Other revenues were $75 million and $279 million in the quarter and nine months ended September 30, 2013, respectively, a decrease of 4% and an increase of 30%, respectively, from the comparable periods of 2012. The increase in the nine months ended September 30, 2013 was primarily due to a gain on sale of the global stock plan business.

Non−interest Expenses.

Non−interest expenses decreased 5% and 1% in the quarter and nine months ended September 30, 2013, respectively, from the comparable periods of 2012. Compensation and benefits expenses increased 2% and 4% in the quarter and nine months ended September 30, 2013, respectively, from the comparable periods of 2012,

primarily due to higher compensable revenues. Non−compensation expenses decreased 21% and 12% in the quarter and nine months ended September 30, 2013, respectively, from the comparable periods of 2012, primarily driven by the absence of platform integration costs. Professional services expenses decreased 22% and 20% in the quarter and nine months ended September 30, 2013, respectively, from the comparable periods of 2012, primarily due to the absence of costs related to the purchase of the 14% interest in the Wealth Management JV in the prior year. Other expenses decreased 29% and 18% in the quarter and nine months ended September 30, 2013, respectively, from the comparable periods of 2012, primarily due to non−recurring technology write offs.

Discontinued Operations.

On April 2, 2012, the Company completed the sale of Quilter, its retail wealth management business in the U.K., resulting in a pre−tax gain of $108 million for the nine months ended September 30, 2012 in the Wealth Management business segment. The results of Quilter are reported as discontinued operations for all periods presented. See Notes 1 and 21 to the condensed consolidated financial statements.

Table of Contents

INVESTMENT MANAGEMENT
INCOME STATEMENT INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Revenues:				
Investment banking	$ 1	$ 4	$ 7	$ 12
Trading	(21)	(17)	26	(26)
Investments	387	212	715	360
Asset management, distribution and administration fees	450	437	1,378	1,256
Other	11	(1)	25	39
Total non−interest revenues	828	635	2,151	1,641
Interest income	2	2	7	7
Interest expense	2	6	12	28
Net interest	—	(4)	(5)	(21)
Net revenues	828	631	2,146	1,620
Compensation and benefits	332	241	888	673
Non−compensation expenses	196	192	611	578
Total non−interest expenses	528	433	1,499	1,251
Income from continuing operations before income taxes	300	198	647	369
Provision for income taxes	101	44	191	88
Income from continuing operations	199	154	456	281
Discontinued operations:				
Gain from discontinued operations	8	12	9	13
Provision for income taxes	—	—	—	—
Net gain from discontinued operations	8	12	9	13
Net income	207	166	465	294
Net income applicable to nonredeemable noncontrolling interests	64	50	136	138
Net income applicable to Morgan Stanley	$ 143	$ 116	$ 329	$ 156
Amounts applicable to Morgan Stanley:				
Income from continuing operations	$ 135	$ 104	$ 320	$ 143
Net gain from discontinued operations	8	12	9	13
Net income applicable to Morgan Stanley	$ 143	$ 116	$ 329	$ 156

Table of Contents

Statistical Data.

The Investment Management business segment's period–end and average assets under management or supervision were as follows:

	At September 30,		Average For The Three Months Ended September 30,		Average for the Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012
	(dollars in billions)					
Assets under management or supervision by asset class:						
Traditional Asset Management:						
Equity	$ 133	$ 117	$ 129	$ 114	$ 128	$ 113
Fixed income	58	57	58	57	61	58
Liquidity	110	102	108	96	103	84
Alternatives(1)	30	27	29	27	28	26
Total Traditional Asset Management	331	303	324	294	320	281
Real Estate Investing	20	19	20	19	20	19
Merchant Banking	9	9	9	9	9	9
Total assets under management or supervision	$ 360	$ 331	$ 353	$ 322	$ 349	$ 309
Share of minority stake assets(2)	$ 6	$ 5	$ 6	$ 5	$ 6	$ 5

(1) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.
(2) Amounts represent the Investment Management business segment's proportional share of assets managed by entities in which it owns a minority stake.

Activity in the Investment Management business segment's assets under management or supervision during the quarters and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in billions)			
Balance at beginning of period	$ 347	$ 311	$ 338	$ 287
Net flows by asset class:				
Traditional Asset Management:				
Equity	—	(2)	—	(2)
Fixed income	(3)	(3)	(3)	(4)
Liquidity	4	16	10	29
Alternatives(1)	1	—	2	1
Total Traditional Asset Management	2	11	9	24
Real Estate Investing	—	—	(1)	—
Merchant Banking	—	—	1	—
Total net flows	2	11	9	24
Net market appreciation	11	9	13	20
Total net increase	13	20	22	44
Balance at end of period	$ 360	$ 331	$ 360	$ 331

(1) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.

Table of Contents

Trading. The Company recognized losses of $21 million and gains of $26 million in the quarter and nine months ended September 30, 2013, respectively, compared with losses of $17 million and $26 million in the quarter and nine months ended September 30, 2012, respectively. Trading results in the nine months ended September 30, 2013, primarily reflected gains related to certain consolidated real estate funds sponsored by the Company. Trading results in the quarters ended September 30, 2013 and 2012 and the nine months ended September 30, 2012, primarily reflected losses related to certain consolidated real estate funds sponsored by the Company, as well as losses on hedges on certain investments.

Investments. The Company recorded net investment gains of $387 million and $715 million in the quarter and nine months ended September 30, 2013, respectively, compared with gains of $212 million and $360 million in the quarter and nine months ended September 30, 2012, respectively. The increase in the quarter and nine months ended September 30, 2013 was primarily related to higher net investment gains predominantly within the Company's Merchant Banking and Real Estate Investing businesses. Results in the quarter and nine months ended September 30, 2013 also included the benefit of carried interest. Results in all periods included gains on certain investments associated with the Company's employee deferred compensation and co−investment plans.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 3% to $450 million and 10% to $1,378 million in the quarter and nine months ended September 30, 2013, respectively. The increase primarily reflected higher management and administration revenues, primarily due to higher average assets under management and higher performance fees.

The Company's assets under management increased $29 billion from $331 billion at September 30, 2012 to $360 billion at September 30, 2013, reflecting market appreciation and positive net flows. The Company recorded net inflows of $2 billion and $9 billion in the quarter and nine months ended September 30, 2013, respectively, primarily reflecting net customer inflows in liquidity funds, partially offset by net customer outflows in fixed income funds. The Company recorded net customer inflows of $11 billion and $24 billion in the quarter and nine months ended September 30, 2012, respectively, which included approximately $4.5 billion and $8.8 billion, respectively, related to the conversion of Wealth Management JV client money fund holdings from third party managers into Morgan Stanley managed funds.

Other. Other revenues were $11 million and $25 million in the quarter and nine months ended September 30, 2013, respectively, as compared with Other losses of $1 million and Other revenues of $39 million in the comparable periods of 2012, respectively. The results in the quarter and nine months ended September 30, 2013 included gains associated with the Company's minority investments in Avenue Capital Group, a New York−based investment manager, and Lansdowne Partners, a London−based investment manager. The results in the nine months ended September 30, 2012 included gains associated with the expiration of a lending facility to a real estate fund sponsored by the Company.

Non−interest Expenses. Non−interest expenses were $528 million and $1,499 million in the quarter and nine months ended September 30, 2013, respectively, as compared with $433 million and $1,251 million in the comparable periods of 2012, respectively. Compensation and benefits expenses increased 38% and 32% in the quarter and nine months ended September 30, 2013, respectively, primarily due to higher net revenues. Non−compensation expenses increased 2% and 6% in the quarter and nine months ended September 30, 2013, respectively, primarily due to higher brokerage and clearing and professional services expenses, partially offset by lower information processing expenses.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests are primarily related to the consolidation of certain real estate funds sponsored by the Company. Investment gains associated with these consolidated funds were $81 million and $122 million in the quarter and nine months ended September 30, 2013, respectively, compared with gains of $62 million and $163 million in the quarter and nine months ended September 30, 2012, respectively.

Table of Contents

Accounting Developments.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.

In July 2013, the Financial Accounting Standards Board ("FASB") issued an accounting update providing guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. This guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance is effective for the Company beginning January 1, 2014. This guidance is expected to be applied prospectively to all unrecognized tax benefits that exist at the effective date. The adoption of this accounting guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

Amendments to the Scope, Measurement, and Disclosure Requirements of an Investment Company.

In June 2013, the FASB issued an accounting update that modifies the criteria used in defining an investment company under GAAP and sets forth certain measurement and disclosure requirements. This update requires an investment company to measure noncontrolling interests in another investment company at fair value and requires an entity to disclose the fact that it is an investment company, and provide information about changes, if any, in its status as an investment company. An entity will also need to include disclosures around financial support that has been provided or is contractually required to be provided to any of its investees. This guidance is effective for the Company prospectively beginning January 1, 2014. The Company is currently evaluating the potential impact of adopting this accounting update.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.

In March 2013, the FASB issued an accounting update requiring the parent entity to release any related cumulative translation adjustment into net income when the parent ceases to have a controlling financial interest in a subsidiary that is a foreign entity. When the parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the related cumulative translation adjustment would be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for the Company prospectively beginning on January 1, 2014. The adoption of this accounting guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.

In February 2013, the FASB issued an accounting update that requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay and any additional amount the reporting entity expects to pay on behalf of its co–obligors. This update also requires additional disclosures about those obligations. This guidance is effective for the Company retrospectively beginning on January 1, 2014. The adoption of this accounting guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

Other Matters.

Real Estate.

The Company acts as the general partner for various real estate funds and also invests in certain of these funds as a limited partner. The Company's real estate investments at September 30, 2013 and December 31, 2012 are described below. Such amounts exclude investments associated with certain employee deferred compensation and co−investment plans.

At September 30, 2013 and December 31, 2012, the condensed consolidated statements of financial condition included amounts representing real estate investment assets of condensed consolidated subsidiaries of approximately $2.2 billion in both periods, including noncontrolling interests of approximately $1.7 billion and $1.8 billion, respectively, for a net amount of $0.4 billion in both periods. This net presentation is a non−GAAP financial measure that the Company considers to be a useful measure for the Company and investors to use in assessing the Company's net exposure. In addition, the Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to real estate investments of $0.4 billion at September 30, 2013.

In addition to the Company's real estate investments, the Company engages in various real estate−related activities, including origination of loans secured by commercial and residential properties. The Company also securitizes and trades in a wide range of commercial and residential real estate and real estate−related whole loans, mortgages and other real estate. In connection with these activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. The Company continues to monitor its real estate−related activities in order to manage its exposures and potential liability from these markets and businesses. See "Legal Proceedings—Residential Mortgage and Credit Crisis Related Matters" in Part II, Item 1, herein and Note 12 to the condensed consolidated financial statements for further information.

Regulatory Outlook.

The Dodd−Frank Act was enacted on July 21, 2010. While certain portions of the Dodd−Frank Act were effective immediately, other portions will be effective following extended transition periods or through numerous rulemakings by multiple governmental agencies, and only a portion of those rulemakings have been completed. It remains difficult to assess fully the impact that the Dodd−Frank Act will have on the Company and on the financial services industry generally. In addition, various international developments, such as the adoption and ongoing revision and recalibration of risk−based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision ("Basel Committee") will continue to impact the Company in the coming years.

It is likely that the remainder of 2013 and subsequent years will see further material changes in the way major financial institutions are regulated in both the U.S. and other markets in which the Company operates, although it remains difficult to predict the exact impact these changes will have on the Company's business, financial condition, results of operations and cash flows for a particular future period.

In July 2013, the U.S. banking regulators issued a final rule to implement the Basel III (the "U.S. Basel III final rule") capital framework in the United States. For certain U.S. banking organizations, including the Company, the U.S. Basel III final rule will become effective on January 1, 2014, and the new requirements will be phased in over a number of years. In July 2013, the U.S. banking regulators also proposed higher leverage capital requirements for certain U.S. banking organizations, including the Company. The Federal Reserve has indicated that it intends to propose additional capital−related requirements for large U.S. banking organizations. For a further discussion of final and proposed regulatory capital requirements applicable to the Company, please refer to "Liquidity and Capital Resources—Regulatory Requirements—Capital" herein.

The Federal Reserve has indicated that it intends to issue a final rule pursuant to the Dodd−Frank Act that would apply certain enhanced prudential standards to large U.S. bank holding companies, including the Company. For a further discussion regarding the regulatory outlook for the Company, please refer to “Business—Supervision and Regulation” in Part I, Item 1 included in the Form 10−K.

Critical Accounting Policies.

The Company's condensed 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 condensed consolidated financial statements). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K and Note 2 to the condensed consolidated financial statements), the following policies involve a higher degree of judgment and complexity.

Fair Value.

Financial Instruments Measured at Fair Value. A significant number of the Company's financial instruments are carried at fair value. The Company makes estimates regarding valuation of assets and liabilities measured at fair value in preparing the condensed consolidated financial statements. These assets and liabilities include but are not limited to:

- Trading assets and Trading liabilities;
- Securities available for sale;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Securities purchased under agreements to resell;
- Certain Deposits;
- Certain Commercial paper and other short–term borrowings, primarily structured notes;
- Certain Securities sold under agreements to repurchase;
- Certain Other secured financings; and
- Certain Long–term borrowings, primarily structured notes.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the relevant observable inputs be used when available. The hierarchy is broken down into three levels, wherein Level 1 uses observable prices in active markets, and Level 3 consists of valuation techniques that incorporate significant unobservable inputs and, therefore, require the greatest use of judgment. In periods of market disruption, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be recategorized from Level 1 to Level 2 or Level 2 to Level 3. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments. For further information on the valuation process, fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, and quantitative information about and sensitivity of significant unobservable inputs used in Level 3 fair value measurements, see Notes 2 and 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K and Note 4 to the condensed consolidated financial statements.

Level 3 Assets and Liabilities. The Company's Level 3 assets before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $17.9 billion and $20.4 billion at September 30, 2013 and December 31, 2012, respectively, and represented approximately 5% and 6% at September 30, 2013 and December 31, 2012, respectively, of the assets measured at fair value (approximately 2% and 3% of total assets at September 30, 2013 and December 31, 2012, respectively). Level 3 liabilities before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $6.6

billion and $7.7 billion at September 30, 2013 and December 31, 2012, respectively, and represented approximately 3% and 4% of the Company's liabilities measured at fair value, at September 30, 2013 and December 31, 2012, respectively. During the quarters ended September 30, 2013 and 2012, Net derivative and other contracts categorized as Level 3 had net losses of approximately $0.3 billion and $1.3 billion, respectively. During the nine months ended September 30, 2013 and 2012, Net derivative and other contracts categorized as Level 3 had net losses of approximately $1.0 billion and $1.9 billion, respectively. See Note 4 to the condensed consolidated financial statements for further information about changes in Level 3 assets and liabilities.

Assets and Liabilities Measured at Fair Value on a Non−recurring Basis. At September 30, 2013, certain of the Company's assets were measured at fair value on a non−recurring basis, primarily relating to loans, other investments, premises, equipment and software costs, and intangible assets. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non−recurring basis, fair value is determined by using various valuation approaches. The same hierarchy as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

See Note 4 to the condensed consolidated financial statements for further information on assets and liabilities that are measured at fair value on a non−recurring basis.

Fair Value Control Processes. The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

See Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10−K for additional information regarding the Company's valuation policies, processes and procedures.

Goodwill and Intangible Assets.

Goodwill. The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. Goodwill no longer retains its association with a particular acquisition once it has been assigned to a reporting unit. As such, all of the activities of a reporting unit, whether acquired or organically developed, are available to support the value of the goodwill. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two−step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two−step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair 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 and price−to−earnings multiples of certain

comparable companies. The Company also utilizes a discounted cash flow methodology for certain reporting units. At July 1, 2013 and December 31, 2012, each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

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

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

See Notes 4 and 9 to the condensed consolidated financial statements for additional information about goodwill and intangible assets.

Legal and Regulatory Contingencies.

In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution.

Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

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

Accruals for litigation and regulatory proceedings are generally determined on a case–by–case basis. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. For certain legal proceedings, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding.

Significant judgment is required in deciding when and if to make these accruals and the actual cost of a legal claim or regulatory fine/penalty may ultimately be materially different from the recorded accruals.

See Note 12 to the condensed consolidated financial statements for additional information on legal proceedings.

Income Taxes.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

The Company's provision for income taxes is composed of current and deferred taxes. Current income taxes approximate taxes to be paid or refunded for the current period. The Company's deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company's deferred tax balances also include deferred assets related to tax attributes carryforwards, such as net operating losses and tax credits that will be realized through reduction of future tax liabilities and, in some cases, are subject to expiration if not utilized within certain periods. The Company performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management's estimates and assumptions regarding future taxable income and incorporate various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. Once the deferred tax asset balances have been determined, the Company may record a valuation allowance against the deferred tax asset balances to reflect the amount of these balances (net of valuation allowance) that the Company estimates it is more likely than not to realize at a future date. Both current and deferred income taxes could reflect adjustments related to the Company's unrecognized tax benefits.

Significant judgment is required in estimating the consolidated provision for (benefit from) income taxes, current and deferred tax balances (including valuation allowance, if any), accrued interest or penalties and uncertain tax positions. Revisions in our estimates and/or the actual costs of a tax assessment may ultimately be materially different from the recorded accruals and unrecognized tax benefits, if any.

See Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K for additional information on the Company's significant assumptions, judgments and interpretations associated with the accounting for income taxes and Note 18 to the condensed consolidated financial statements for additional information on the Company's tax examinations.

Table of Contents

Liquidity and Capital Resources.

The Company's senior management establishes the liquidity and capital policies. Through various risk and control committees, the Company's senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate and currency sensitivity of the Company's asset and liability position. The Company's Treasury Department, Firm Risk Committee, Asset and Liability Management Committee and other control groups assist in evaluating, monitoring and controlling the impact that the Company's business activities have on its condensed consolidated statements of financial condition, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board's Risk Committee.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet on a regular basis. The Company's balance sheet management process includes quarterly planning, business specific limits, monitoring of business specific usage versus limits, key metrics and new business impact assessments.

The Company establishes balance sheet limits at the consolidated, business segment and business unit levels. The Company monitors balance sheet usage versus limits and variances resulting from business activity or market fluctuations are reviewed. On a regular basis, the Company reviews current performance versus limits and assesses the need to re–allocate limits based on business unit needs. The Company also monitors key metrics, including asset and liability size, composition of the balance sheet, limit utilization and capital usage.

The tables below summarize total assets for the Company's business segments at September 30, 2013 and December 31, 2012:

	At September 30, 2013			
	Institutional Securities	Wealth Management	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 25,048	$ 32,016	$ 717	$ 57,781
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	34,970	2,422	—	37,392
Trading assets	267,148	1,817	4,693	273,658
Securities available for sale	—	46,866	—	46,866
Securities received as collateral(2)	16,042	—	—	16,042
Federal funds sold and securities purchased under agreements to resell(2)	123,505	10,483	—	133,988
Securities borrowed(2)	138,700	469	—	139,169
Customer and other receivables(2)	35,041	21,966	703	57,710
Loans, net of allowance	14,989	22,745	—	37,734
Other assets(3)	20,233	10,372	1,278	31,883
Total assets(4)	$ 675,676	$ 149,156	$ 7,391	$832,223

	At December 31, 2012			
	Institutional Securities(5)	Wealth Management(5)	Investment Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 33,370	$ 12,714	$ 820	$ 46,904
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	26,116	4,854	—	30,970
Trading assets	260,885	2,285	4,433	267,603
Securities available for sale	—	39,869	—	39,869
Securities received as collateral(2)	14,278	—	—	14,278
Federal funds sold and securities purchased under agreements to resell(2)	120,957	13,455	—	134,412
Securities borrowed(2)	121,302	399	—	121,701
Customer and other receivables(2)	39,362	24,161	765	64,288
Loans, net of allowance	12,078	16,968	—	29,046
Other assets(3)	19,701	10,860	1,328	31,889
Total assets(4)	$ 648,049	$ 125,565	$ 7,346	$780,960

(1) Cash and cash equivalents include Cash and due from banks and Interest bearing deposits with banks.
(2) Certain of these assets are included in secured financing assets (see “Secured Financing” herein).
(3) Other assets include Other investments; Premises, equipment and software costs; Goodwill; Intangible assets; and Other assets.
(4) Total assets include Global Liquidity Reserves of $198 billion and $182 billion at September 30, 2013 and December 31, 2012, respectively.
(5) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.

A substantial portion of the Company’s total assets consists of liquid marketable securities and short–term receivables arising principally from sales and trading activities in the Institutional Securities business segment. The liquid nature of these assets provides the Company with flexibility in managing the size of its balance sheet. The Company’s total assets increased to $832,223 million at September 30, 2013 from $780,960 million at December 31, 2012. The increase in total assets was primarily due to an increase in Securities borrowed and Cash and cash equivalents (see Notes 3 and 22 to the condensed consolidated financial statements).

The Company’s assets and liabilities are primarily related to transactions attributable to sales and trading and securities financing activities. At September 30, 2013, securities financing assets and liabilities were $371 billion and $340 billion, respectively. At December 31, 2012, securities financing assets and liabilities were $348 billion and $300 billion, respectively. Securities financing transactions include cash deposited with clearing organizations or segregated under federal and other regulations or requirements, repurchase and resale agreements, securities borrowed and loaned transactions, securities received as collateral and obligation to return securities received and customer and other receivables and payables. Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10–K and Note 6 to the condensed consolidated financial statements). Securities sold under agreements to repurchase and Securities loaned were $172 billion at September 30, 2013 and averaged $176 billion and $178 billion during the quarter and nine months ended September 30, 2013, respectively. Securities purchased under agreements to resell and Securities borrowed were $273 billion at September 30, 2013 and averaged $285 billion and $287 billion during the quarter and nine months ended September 30, 2013, respectively. The Securities purchased under agreements to resell and Securities borrowed period end balance was lower than the average balances during the quarter and nine months ended September 30, 2013 due to a reduction in the Company’s requirements for collateral over the periods.

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer–owned securities, and customer cash, which is segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company's prime brokerage customers. The Company's risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company's credit exposure to customers. Included within securities financing assets were $16 billion and $14 billion at September 30, 2013 and December 31, 2012, respectively, recorded in accordance with accounting guidance for the transfer of financial assets that represented offsetting assets and liabilities for fully collateralized non–cash loan transactions.

Liquidity Risk Management Framework.

The primary goal of the Company's liquidity risk management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfill its financial obligations and support the execution of the Company's business strategies.

The following principles guide the Company's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short–term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Limited access to funding should be anticipated through the Contingency Funding Plan ("CFP").

The core components of the Company's liquidity risk management framework are the CFP, Liquidity Stress Tests and the Global Liquidity Reserve (as defined below), which support the Company's target liquidity profile.

Contingency Funding Plan.

The Company's CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the Company's liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests.

The Company uses liquidity stress tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- No government support;
- No access to equity and unsecured debt markets;
- Repayment of all unsecured debt maturing within the stress horizon;
- Higher haircuts and significantly lower availability of secured funding;
- Additional collateral that would be required by trading counterparties, certain exchanges and clearing organizations related to credit rating downgrades;

- Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;
- Discretionary unsecured debt buybacks;
- Drawdowns on unfunded commitments provided to third parties;
- Client cash withdrawals and reduction in customer short positions that fund long positions;
- Limited access to the foreign exchange swap markets;
- Return of securities borrowed on an uncollateralized basis; and
- Maturity roll–off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for the Parent and major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability across the Company. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from the Parent. The Parent will support its subsidiaries and will not have access to subsidiaries' liquidity reserves that are subject to any regulatory, legal or tax constraints.

At September 30, 2013, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its Liquidity Stress Tests.

Global Liquidity Reserve.

The Company maintains sufficient liquidity reserves ("Global Liquidity Reserve") to cover daily funding needs and meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. Additionally, the Global Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Company's risk tolerance and is subject to change dependent on market and firm–specific events.

The Global Liquidity Reserve is held within the Parent and major operating subsidiaries. The Global Liquidity Reserve is composed of diversified cash and cash equivalents and highly liquid unencumbered securities. Eligible unencumbered securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage–backed securities, non–U.S. government securities and other highly liquid investment grade securities.

Global Liquidity Reserve by Type of Investment.

The table below summarizes the Company's Global Liquidity Reserve by type of investment:

	At September 30, 2013 (dollars in billions)
Cash deposits with banks	$ 15
Cash deposits with central banks	39
Unencumbered highly liquid securities:	
U.S. government obligations	72
U.S. agency and agency mortgage–backed securities	33
Non–U.S. sovereign obligations(1)	22
Investments in money market funds	—
Other investment grade securities	17
Global Liquidity Reserve	$ 198

(1) Non–U.S. sovereign obligations are composed of unencumbered German, French, Dutch, U.K., Brazilian and Japanese government obligations.

The ability to monetize assets during a liquidity crisis is critical. The Company believes that the assets held in the Global Liquidity Reserve can be monetized within five business days in a stressed environment given the highly liquid and diversified nature of the reserves. The currency profile of the Global Liquidity Reserve is consistent with the CFP and Liquidity Stress Tests. In addition to the Global Liquidity Reserve, the Company has other cash and cash equivalents and other unencumbered assets that are available for monetization that are not included in the balances in the table above.

Global Liquidity Reserve Held by Bank and Non−Bank Legal Entities.

The table below summarizes the Global Liquidity Reserve held by bank and non−bank legal entities:

	At September 30, 2013	At June 30, 2013	Average Balance(1) For the Three Months Ended September 30, 2013	Average Balance(1) For the Three Months Ended June 30, 2013
	(dollars in billions)			
Bank legal entities:				
Domestic	$ 80	$ 60	$ 76	$ 61
Foreign	4	4	4	4
Total Bank legal entities	84	64	80	65
Non−Bank legal entities:				
Domestic(2)	81	78	83	86
Foreign	33	39	38	33
Total Non−Bank legal entities	114	117	121	119
Total	$ 198	$ 181	$ 201	$ 184

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.
(2) The Parent held $60 billion at September 30, 2013, which averaged $58 billion for the quarter ended September 30, 2013.

The Global Liquidity Reserve at September 30, 2013 was higher than the preceding quarter primarily due to approximately $21 billion of deposits relating to customer accounts that were transferred to the Company’s depository institutions from Citi during the third quarter (see Note 3 to the condensed consolidated financial statements).

The Company is exposed to intra−day settlement risk in connection with liquidity provided to its major broker−dealer subsidiaries for intra−day clearing and settlement of its securities and financing activity.

Funding Management.

The Company manages its funding in a manner that reduces the risk of disruption to the Company’s operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company’s liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company’s equity capital, long−term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing. A substantial portion of the Company’s total assets consists of liquid marketable securities and arises principally from its Institutional Securities business segment’s sales and trading activities. The liquid nature of these assets provides the Company with flexibility in funding these assets with secured financing. The Company’s goal is to achieve an optimal mix of durable secured and unsecured financing. Secured financing investors principally focus on the quality of the eligible collateral posted. Accordingly, the Company actively manages its secured financing book based on the quality of the assets being funded.

Table of Contents
The Company utilizes shorter−term secured financing only for highly liquid assets and has established longer tenor limits for less liquid asset classes, for which funding may be at risk in the event of a market disruption. The Company defines highly liquid assets as those which are consistent with the standards of the Global Liquidity Reserve, and less liquid assets as those which do not meet these standards. At September 30, 2013, the weighted average maturity of the Company's secured financing against less liquid assets was greater than 120 days. To further minimize the refinancing risk of secured financing for less liquid assets, the Company has established concentration limits to diversify its investor base and reduce the amount of monthly maturities for secured financing of less liquid assets. Furthermore, the Company obtains spare capacity, or term secured funding liabilities in excess of less liquid inventory, as an additional risk mitigant to replace maturing trades in the event that secured financing markets or our ability to access them become limited. Finally, in addition to the above risk management framework, the Company holds a portion of its Global Liquidity Reserve against the potential disruption to its secured financing capabilities.

Unsecured Financing. The Company views long−term debt and deposits as stable sources of funding. Unencumbered securities and non−security assets are financed with a combination of long− and short−term debt and deposits. The Company's unsecured financings include structured borrowings, whose payments and redemption values are based on the performance of certain underlying assets, including equity, credit, foreign exchange, interest rates and commodities. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to the Company's interest rate and structured borrowings risk profile (see Note 12 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10−K).

Short−Term Borrowings. The Company's unsecured short−term borrowings consist of commercial paper, bank loans, bank notes and structured notes with maturities of 12 months or less at issuance.

The table below summarizes the Company's short−term unsecured borrowings:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Commercial paper	$ 54	$ 306
Other short−term borrowings	2,279	1,832
Total	$ 2,333	$ 2,138

Deposits. The Company's bank subsidiaries' funding sources include time deposits, money market deposit accounts, demand deposit accounts, repurchase agreements, federal funds purchased, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in Morgan Stanley Bank, N.A.("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA") (the "Subsidiary Banks") are sourced from the Company's retail brokerage accounts and are considered to have stable, low−cost funding characteristics. Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. During the quarter ended September 30, 2013, approximately $21 billion of deposits held by Citi relating to customer accounts were transferred to the Company's depository institutions. At September 30, 2013, approximately $35 billion of deposits will be transferred to the Company's depository institutions on an agreed upon basis through June 2015 (see Note 3 to the condensed consolidated financial statements).

Table of Contents
Deposits were as follows:

	At September 30, 2013(1)	At December 31, 2012(1)
	(dollars in millions)	
Savings and demand deposits(2)	$ 101,166	$ 80,058
Time deposits(3)	3,641	3,208
Total	$ 104,807	$ 83,266

(1) Total deposits subject to FDIC insurance at September 30, 2013 and December 31, 2012 were $79 billion and $62 billion, respectively.
(2) Amounts include non−interest bearing deposits of $1,037 million at December 31, 2012.
(3) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4 to the condensed consolidated financial statements).

Senior Indebtedness. At September 30, 2013, the aggregate outstanding carrying amount of the Company's senior indebtedness was approximately $149 billion (including guaranteed obligations of the indebtedness of subsidiaries) compared with $158 billion at December 31, 2012. The decrease in the amount of senior indebtedness was primarily due to repayments of notes, net of new issuances of long−term borrowings.

Long−Term Borrowings. The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long−term debt allows the Company to reduce reliance on short−term credit sensitive instruments (*e.g*., commercial paper and other unsecured short−term borrowings). Long−term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company's credit ratings and the overall availability of credit.

The Company may from time to time engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Long−term borrowings at September 30, 2013 consisted of the following:

	Parent	Subsidiaries	Total
		(dollars in millions)	
Due in 2013	$ 5,852	$ 805	$ 6,657
Due in 2014	22,487	606	23,093
Due in 2015	19,885	1,402	21,287
Due in 2016	21,235	2,013	23,248
Due in 2017	24,839	1,840	26,679
Thereafter	53,565	3,276	56,841
Total	$147,863	$ 9,942	$157,805

Long−Term Borrowing Activity for the Nine Months Ended September 30, 2013. During the nine months ended September 30, 2013, the Company issued and reissued notes with a principal amount of approximately $25 billion. This amount included the Company's issuance of $2.0 billion in 10 year subordinated debt on May 21, 2013, $3.7 billion in senior unsecured debt on April 25, 2013 and $4.5 billion in senior unsecured debt on February 25, 2013. In connection with the note issuances, the Company generally enters into certain transactions to obtain floating interest rates. The weighted average maturity of the Company's long−term borrowings, based upon stated maturity dates, was approximately 5.3 years at September 30, 2013. During the nine months ended September 30, 2013, approximately $31 billion in aggregate long−term borrowings matured or were retired. Subsequent to September 30, 2013 and through October 31, 2013, the Company's long−term borrowings (net of issuances) decreased by approximately $1.3 billion.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day−to−day operations. The cost and availability of financing generally is impacted by the Company's credit ratings. In addition, the Company's credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies will look at company specific factors, other industry factors such as regulatory or legislative changes, the macro−economic environment and perceived levels of government support among other things.

The rating agencies have stated that they currently incorporate various degrees of credit rating uplift from external sources of potential support, as well as perceived government support of systemically important banks, including the credit ratings of the Company. Rating agencies continue to monitor the progress of U.S. financial reform legislation to assess whether the possibility of extraordinary government support for the financial system in any future financial crises is negatively impacted. Legislative and rulemaking outcomes may lead to reduced uplift assumptions for U.S. banks and thereby place downward pressure on credit ratings. At the same time, proposed U.S. financial reform legislation and attendant rulemaking also have positive implications for credit ratings such as higher standards for capital and liquidity levels. The net result on credit ratings and the timing of any change in rating agency assumptions on support is currently uncertain.

At October 31, 2013, the Parent's and Morgan Stanley Bank, N.A.'s senior unsecured ratings were as set forth below:

	Parent			Morgan Stanley Bank, N.A.		
	Short−Term Debt	Long−Term Debt	Rating Outlook	Short−Term Debt	Long−Term Debt	Rating Outlook
DBRS, Inc.	R−1 (middle)	A (high)	Negative	—	—	—
Fitch Ratings, Inc.	F1	A	Stable	F1	A	Stable
Moody's Investor Services, Inc.(1)	P−2	Baa1	Ratings Under Review	P−2	A3	Stable
Rating and Investment Information, Inc.	a−1	A	Negative	—	—	—
Standard & Poor's Financial Services LLC(2)	A−2	A−	Negative	A−1	A	Negative

(1) On August 22, 2013, Moody's Investor Services, Inc. ("Moody's") placed the senior and subordinated debt ratings of the holding companies for the six largest U.S. banks on review as it continues to consider reducing its government (or systemic) support assumptions to reflect the impact of U.S. bank resolution policies. As part of this review, Moody's placed the Company's "Baa1" long−term senior, "Baa2" long−term subordinated, and "P−2" short−term on review for downgrade.

(2) On June 11, 2013, Standard & Poor's Financial Services LLC ("S&P") announced that it continues to assess the degree to which it factors extraordinary government support into its ratings on non operating bank holding companies and was factoring that assessment into the negative outlooks on the non operating bank holding companies of the eight U.S. bank groups that S&P classifies as having high systematic importance. S&P's negative outlook for Company's issuer credit ratings reflects not only S&P's continued assessment of extraordinary government support, but also the impact that yet−to−be−final regulations, particularly the Volcker Rule, could have on the Company's business.

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the company is in a net asset or liability position.

As noted in the table above, the long−term credit ratings on the Company by Moody's and S&P are currently at different levels (commonly referred to as "split ratings"). The table below shows the future potential collateral

Table of Contents
amounts that could be called by counterparties or exchanges and clearing organizations in the event of the following credit rating scenarios for Moody's and S&P at September 30, 2013:

Company Rating Scenario (Moody's/S&P)	OTC Agreements	Other Agreements	Exchanges and Clearing Organizations
		(dollars in millions)	
Baa1/BBB+	$ 451	$ —	$ —
Baa2/BBB	$ 3,547	$ —	$ —
Baa3/BBB–	$ 4,257	$ 288	$ —

While certain aspects of a credit ratings downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Company's business and results of operation in future periods is inherently uncertain and will depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, individual client behavior and future mitigating actions the Company may take. The liquidity impact of additional collateral requirements is included in the Company's Liquidity Stress Tests.

Capital Management.

The Company's senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries' equity.

At September 30, 2013, the Company had approximately $1.4 billion remaining under its current share repurchase program out of the $6 billion authorized by the Board of Directors in December 2006. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity–based compensation and benefit plan requirements. Share repurchases by the Company are subject to regulatory approval.

In July 2013, the Company received no objection from the Federal Reserve to repurchase up to $500 million of the Company's outstanding common stock under rules permitting annual capital distributions (12 Code of Federal Regulations 225.8, *Capital Planning*). Share repurchases are made pursuant to the share repurchase program previously authorized by the Company's Board of Directors and is exercised from time to time through March 31, 2014, at prices the Company deems appropriate subject to various factors, including the Company's capital position and market conditions. The share repurchases may be effected through open market purchases or privately negotiated transactions, including through Rule 10b5–1 plans, and may be suspended at any time (see also "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2). During the quarter ended September 30, 2013, the Company repurchased approximately $123 million of the Company's outstanding common stock as part of its share repurchase program.

Series E Preferred Stock. On September 30, 2013, the Company issued 34,500,000 Depositary Shares, for an aggregate price of $862 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Series E Fixed–to–Floating Rate Non–Cumulative Preferred Stock, $0.01 par value ("Series E Preferred Stock"). The Series E Preferred Stock is redeemable at the Company's option, (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2023 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as defined therein), in each case at a redemption price of $25,000 per share (equivalent to $25 per Depositary Share). The Series E Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series E Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $854 million (see Note 14 to the condensed consolidated financial statements).

Table of Contents
The Board of Directors determines the declaration and payment of dividends on a quarterly basis. In October 2013, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. In September 2013, the Company also announced that the Board of Directors declared a quarterly dividend of $255.56 per share of Series A Floating Rate Non−Cumulative Preferred Stock (represented by depositary shares, each representing a 1/1,000th interest in a share of preferred stock and each having a dividend of $0.25556) and a quarterly dividend of $25.00 per share of Series C Non−Cumulative Non−Voting Perpetual Preferred Stock.

The following table sets forth the Company's tangible common equity at September 30, 2013 and December 31, 2012 and average balances during the nine months ended September 30, 2013:

	Balance at		Average Balance(1)
	September 30, 2013	December 31, 2012	For the Nine Months Ended September 30, 2013
	(dollars in millions)		
Common equity	$ 62,758	$ 60,601	$ 61,538
Preferred equity	2,370	1,508	1,593
Morgan Stanley shareholders' equity	65,128	62,109	63,131
Junior subordinated debentures issued to capital trusts	4,812	4,827	4,821
Less: Goodwill and net intangible assets(2)	(10,098)	(7,587)	(8,571)
Tangible Morgan Stanley shareholders' equity	$ 59,842	$ 59,349	$ 59,381
Common equity	$ 62,758	$ 60,601	$ 61,538
Less: Goodwill and net intangible assets(2)	(10,098)	(7,587)	(8,571)
Tangible common equity(3)	$ 52,660	$ 53,014	$ 52,967

(1) The Company calculates its average balances based upon month−end balances.
(2) The goodwill and net intangible assets deduction exclude mortgage servicing rights (net of disallowable mortgage servicing rights) of $7 million and $6 million at September 30, 2013 and December 31, 2012, respectively, and include only the Company's share of the Wealth Management JV's goodwill and intangible assets at each respective period (100% at September 30, 2013 and 65% at December 31, 2012) (see Note 3 to the condensed consolidated financial statements). The increase in goodwill and net intangible assets at September 30, 2013 from December 31, 2012 is primarily due to the purchase of the remaining 35% interest in the Wealth Management JV.
(3) Tangible common equity, a non−GAAP financial measure, equals common equity less goodwill and net intangible assets as defined above. The Company views tangible common equity as a useful measure to investors because it is a commonly utilized metric and reflects the common equity deployed in the Company's businesses.

Capital Covenants.

In October 2006 and April 2007, the Company executed replacement capital covenants in connection with offerings by Morgan Stanley Capital Trust VII and Morgan Stanley Capital Trust VIII (the "Capital Securities"), which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenants, see the Company's Current Reports on Form 8−K dated October 12, 2006 and April 26, 2007.

Regulatory Requirements.

Capital.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well−capitalized standards, and evaluates the Company's compliance

with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Subsidiary Banks.

The Company calculates its capital ratios and RWAs in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based upon a framework described in the "International Convergence of Capital Measurement and Capital Standards," July 1988, as amended, also referred to as Basel I. On January 1, 2013, the U.S. banking regulators' rules to implement the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book, as well as incorporated add−ons for stressed VaR and incremental risk requirements ("market risk capital framework amendment"). The Company's Total, Tier 1 and Tier 1 common capital ratios and RWAs for quarters subsequent to the Basel 2.5 effective date were calculated under this revised framework. The Company's Total, Tier 1 and Tier 1 common capital ratios and RWAs for quarters prior to the Basel 2.5 effective date have not been recalculated under the revised framework. RWAs reflect both on and off−balance sheet risk of the Company. The risk capital calculations will evolve over time as the Company enhances its risk management methodology and incorporates improvements in modeling techniques while maintaining compliance with the regulatory requirements and interpretations.

Market RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company's market risks and models such as VaR model, see "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A, of the Form 10−K and in Part I, Item 3 herein.

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" in Part II, Item 7A, of the Form 10−K and in Part I, Item 3 herein.

Under the Federal Reserve's existing regulatory capital framework, total allowable capital is composed of Tier 1 capital, which includes Tier 1 common capital, and Tier 2 capital. Tier 1 common capital is defined as Tier 1 capital less qualifying perpetual preferred stock and qualifying restricted core capital elements (qualifying trust preferred securities and noncontrolling interests). Tier 1 capital consists predominantly of common shareholders' equity as well as qualifying preferred stock and qualifying restricted core capital elements less goodwill, non−servicing intangible assets (excluding allowable mortgage servicing rights), net deferred tax assets (recoverable in excess of one year), an after−tax debt valuation adjustment and certain other deductions, including equity investments. The debt valuation adjustment in the below table represents the cumulative change in fair value of certain long−term and short−term borrowings that was attributable to the Company's own instrument−specific credit spreads and is included in retained earnings. For a further discussion of fair value, see Note 4 to the condensed consolidated financial statements. As discussed below, the U.S. banking regulators have issued a final rule to implement Basel III, which changes the definition of each tier of regulatory capital.

At September 30, 2013, the Company's capital levels calculated under Basel I, inclusive of the market risk capital framework amendment, were in excess of well−capitalized levels with ratios of Tier 1 capital to RWAs of 15.3% and total capital to RWAs of 16.1% (6% and 10% being well−capitalized for regulatory purposes, respectively). The Company's ratio of Tier 1 common capital to RWAs was 12.6% (5% under stressed conditions is the current minimum under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") framework). Financial holding companies, including the Company, are subject to a Tier 1 leverage ratio defined by the Federal Reserve. Consistent with the Federal Reserve's definition, the Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets and financial and non−financial equity investments). The adjusted average total assets are derived using weekly balances for the period. At September 30, 2013, the Company was in compliance with the Federal Reserve's Tier 1 leverage requirement with a Tier 1 leverage ratio of 7.3% (5% is the current well−capitalized standard for regulatory purposes).

Table of Contents

The following table reconciles the Company's total shareholders' equity to Tier 1 common, Tier 1, Tier 2 and Total allowable capital as defined by the regulations issued by the Federal Reserve and presents the Company's consolidated capital ratios at September 30, 2013 and December 31, 2012:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Allowable capital		
Common shareholders' equity	$ 62,758	$ 60,601
Less: Goodwill	(6,591)	(6,650)
Less: Non–servicing intangible assets	(3,507)	(3,777)
Less: Net deferred tax assets	(3,592)	(4,785)
After–tax debt valuation adjustment	1,034	823
Other deductions	(1,406)	(1,418)
Tier 1 common capital	48,696	44,794
Qualifying preferred stock	2,370	1,508
Qualifying restricted core capital elements	7,837	8,058
Tier 1 capital	58,903	54,360
Qualifying subordinated debt and restricted core capital elements	3,722	2,783
Other qualifying amounts	289	197
Other deductions	(859)	(714)
Tier 2 capital	3,152	2,266
Total allowable capital	$ 62,055	$ 56,626
Risk–weighted assets(1)		
Market risk	$ 135,629	$ 54,042
Credit risk	250,035	252,704
Total	$ 385,664	$ 306,746
Capital ratios		
Total capital ratio(1)	16.1%	18.5%
Tier 1 common capital ratio(1)	12.6%	14.6%
Tier 1 capital ratio(1)	15.3%	17.7%
Tier 1 leverage ratio	7.3%	7.1%

(1) Effective January 1, 2013, in accordance with the U.S. banking regulators' rules the Company implemented the Basel Committee's market risk capital framework amendment, commonly referred to as "Basel 2.5", which increased the capital requirement for securitizations and correlation trading within the Company's trading book as well as incorporated add–ons for stressed VaR and incremental risk requirements. Under the market risk capital framework amendment, total RWAs would have been approximately $424 billion at December 31, 2012. At December 31, 2012, the capital ratios would have been approximately as follows: Total capital ratio 13.4%, Tier 1 common capital ratio 10.6% and Tier 1 capital ratio 12.8%.

***Capital Plans and Stress Tests*.** In November 2011 the Federal Reserve issued a final rule regarding capital plans. The final rule requires large bank holding companies such as the Company to submit annual capital plans in order for the Federal Reserve to assess their systems and processes that incorporate forward–looking projections of revenues and losses to monitor and maintain their internal capital adequacy. The rule also requires that such companies receive no objection from the Federal Reserve before making a capital action.

In addition, the Dodd–Frank Act imposes stress test requirements on large bank holding companies, including the Company. In October 2012, the Federal Reserve issued its stress test final rule under the Dodd–Frank Act, which

requires the Company to conduct semi−annual company−run stress tests. In July 2013, the Company submitted its 2013 semi−annual stress test to the Federal Reserve. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve.

The Company submitted its 2013 annual capital plan to the Federal Reserve in January 2013. In March 2013, the Federal Reserve published a summary of the supervisory stress test results of each company subject to the final rule, including the Company. The Company received no objection to its 2013 capital plan, including the acquisition of the remaining 35% interest in the Wealth Management JV, which was completed on June 28, 2013, and ongoing payment of current common and preferred dividends.

The Dodd−Frank Act also requires a national bank or federal savings association with total consolidated assets of more than $10 billion to conduct an annual company−run stress test. Beginning in 2012, the OCC's implementing regulation required national banks with $50 billion or more in average total consolidated assets, including MSBNA, to conduct its first Dodd−Frank stress test. MSBNA submitted its stress test results to the OCC and the Federal Reserve in January 2013. The OCC's regulation also requires a national bank with more than $10 billion but less than $50 billion in average total consolidated assets, including MSPBNA, to submit the results of its first Dodd−Frank stress test by March 31, 2014.

In September 2013, the Federal Reserve issued an interim final rule specifying how large bank holding companies, including the Company, should incorporate the U.S. Basel III capital standards into their 2014 capital plans and 2014 Dodd−Frank Act stress test projections. Among other things, the interim final rule requires large bank holding companies to project both Tier 1 Common capital ratio using the methodology currently in effect under existing capital guidelines and Common Equity Tier 1 under the U.S. Basel III capital standards inclusive of phase−in provisions.

Basel Capital Framework. In December 2007, the U.S. banking regulators published final regulations incorporating the Basel II Accord, which requires internationally active U.S. banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In December 2010, the Basel Committee reached an agreement on Basel III. In July 2013, the U.S. banking regulators issued the U.S. Basel III final rule. The U.S. Basel III final rule contains new capital standards that raise the capital requirements, strengthen counterparty credit risk capital requirements and replace the use of externally developed credit ratings with alternatives such as the Organisation for Economic Co−operation and Development's country risk classifications. The U.S. Basel III final rule also requires certain banking organizations, including the Company, to maintain both a capital conservation buffer and, if deployed, a countercyclical capital buffer, above the minimum risk−based capital ratios. Failure to maintain such buffers will result in restrictions on the banking organization's ability to make capital distributions and pay discretionary bonuses to executive officers. Under the U.S. Basel III final rule, the Company will be subject to a minimum Common Equity Tier 1 risk−based capital ratio of 4.5%, a minimum Tier 1 risk−based capital ratio of 6% and a minimum total risk−based capital ratio of 8% on a fully phased−in basis. In addition, the final rule provides that certain new items be deducted from Common Equity Tier 1 capital and certain Basel I deductions be modified. The majority of these capital deductions are subject to a phase−in schedule and will be fully phased−in by 2018. The Company will also be subject to a 2.5% Common Equity Tier 1 capital conservation buffer and, if deployed, up to a 2.5% Common Equity Tier 1 countercyclical buffer, on a fully phased−in basis by 2019. Under the U.S. Basel III final rule, unrealized gains and losses on available−for−sale securities will be reflected in Common Equity Tier 1 capital, subject to a phase−in schedule. The U.S. Basel III final rule also subjects certain banking organizations, including the Company, to a minimum supplementary leverage ratio of 3%. The calibration of the supplementary leverage ratio is broadly similar to the December 2010 version of the Basel III leverage ratio and includes off−balance sheet exposures in the denominator.

The Company and other large and internationally active U.S. banking organizations will become subject to the U.S. Basel III final rule beginning on January 1, 2014. Certain requirements in the U.S. Basel III final rule, including the new capital buffers, will be phased–in over several years. Pursuant to the U.S. Basel III final rule, existing trust preferred securities will be fully phased out of the Company's Tier 1 capital by January 1, 2016. Thereafter, existing trust preferred securities that do not satisfy the U.S. Basel III final rule's eligibility criteria for Tier 2 capital will be phased out of the Company's regulatory capital by January 1, 2022.

In June 2011, the U.S. banking regulators published final regulations implementing a provision of the Dodd–Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to minimum capital requirements that are not less than the generally applicable risk–based capital requirements. Currently, this minimum "capital floor" is based on Basel I. Beginning January 1, 2015, the U.S. Basel III final rule will replace the current Basel I–based "capital floor" with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes and which is applicable to both minimum capital requirements and the sum of conservation and countercyclical capital buffers if deployed.

In addition to the U.S. Basel III final rule, the Dodd–Frank Act requires the Federal Reserve to establish more stringent capital requirements for certain bank holding companies, including Morgan Stanley. The Federal Reserve has indicated that it intends to implement the Basel Committee's capital surcharge for global systemically important banks ("G–SIB"). The Financial Stability Board has provisionally identified the G–SIBs and assigned each G–SIB a Common Equity Tier 1 capital surcharge ranging from 1.0% to 2.5% of RWAs. Morgan Stanley is provisionally assigned a G–SIB capital surcharge of 1.5%. The Financial Stability Board has stated that it intends to update the list of G–SIBs annually based on new data.

The Company estimates its pro forma risk–based Common Equity Tier 1 capital ratio under the U.S. Basel III final rule to be approximately 10.8% as of September 30, 2013. This estimate is based on the Company's current understanding of the U.S. Basel III final rule and other factors, including approvals of relevant advanced approach regulatory models. If the Company does not receive the model approvals, this could have a significant impact on its U.S. Basel III capital ratio estimates. The estimate may also be subject to change as the Company receives additional clarification and implementation guidance from regulators relating to the U.S. Basel III final rule and as the interpretation of the final rule evolves over time. In addition, the estimate may not be comparable with that of other financial services firms. The pro forma risk–based Common Equity Tier 1 capital ratio estimate is a non–GAAP financial measure that the Company considers to be a useful measure for evaluating compliance with new regulatory capital requirements that have not yet become effective. The pro forma risk–based Common Equity Tier 1 capital ratio estimate is based on shareholders' equity, Common Equity Tier 1 capital, RWAs and certain other data inputs at September 30, 2013. This preliminary estimate is subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what the Company's capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, please see "Risk Factors" in Part I, Item 1A of the Form 10–K.

In July 2013, the U.S. banking regulators proposed a rule to implement enhanced supplementary leverage standards for bank holding companies (and their insured depository institutions subsidiaries) with at least $700 billion in total consolidated assets or $10 trillion in assets under custody. Under this proposal, a covered bank holding company would need to maintain a leverage buffer of Tier 1 capital of greater than 2% in addition to the 3% minimum (for a total of greater than 5%), in order to avoid limitations on capital distributions and discretionary bonus payments. This proposal would further establish a "well capitalized" threshold based on a supplementary leverage ratio of 6% for insured depository institution subsidiaries, including MSBNA and MSPBNA. If the proposal is adopted, its requirements would become effective on January 1, 2018 with public disclosure beginning in 2015.

Required Capital.

The Company's required capital ("Required Capital") estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk–based use–of–capital measure, which is compared with the Company's regulatory capital to ensure the Company maintains an amount of risk–based going concern capital after absorbing potential losses from extreme stress events where applicable, at a point in time. The Company defines the difference between its regulatory capital and aggregate Required Capital as Parent capital. Average Tier 1 common capital, aggregate Required Capital and Parent capital for the quarter ended September 30, 2013 were approximately $48.3 billion, $38.1 billion and $10.2 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

Tier 1 common capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital Framework. In principle, each business segment is capitalized as if it were an independent operating entity with limited diversification benefit between the business segments. Required Capital is assessed at each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk–adjusted basis. The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

The following table presents the business segments' and Parent's average Tier 1 common capital and average common equity for the quarter ended September 30, 2013 and the quarter ended June 30, 2013:

	September 30, 2013		June 30, 2013	
	Average Tier 1 Common Capital	Average Common Equity	Average Tier 1 Common Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities(1)	$ 32.0	$ 37.0	$ 33.1	$ 38.3
Wealth Management	4.4	13.1	4.2	13.3
Investment Management	1.7	2.8	1.7	2.8
Parent capital(1)	10.2	9.2	8.1	7.1
Total	$ 48.3	$ 62.1	$ 47.1	$ 61.5

(1) Average Parent capital increased from the quarter ended June 30, 2013 driven mainly by the Required Capital reduction in Institutional Securities due to lower RWAs.

Liquidity.

The Basel Committee has developed two standards intended for use in liquidity risk supervision, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

The LCR was developed to ensure banks have sufficient high–quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard's objective is to promote the short–term resilience of the liquidity risk profile of banks and bank holding companies. The Company is compliant with the Basel Committee's version of the LCR.

The NSFR has a time horizon of one year and builds on traditional "net liquid asset" and "cash capital" methodologies used widely by internationally active banking organizations to provide a sustainable maturity structure of assets and liabilities. The NSFR is defined as the amount of available stable funding to the amount of required stable funding. This standard's objective is to promote resilience over a longer time horizon. Under the Basel Committee's proposal, the NSFR, including any revisions, will introduce a minimum standard by January 1, 2018.

Table of Contents
In late October 2013, the U.S. banking regulators proposed a rule to implement the LCR in the United States ("U.S. LCR proposal"). The U.S. LCR proposal would apply to the Company and the Subsidiary Banks. The U.S. LCR proposal is more stringent in certain respects compared to the Basel Committee's version of the LCR, and includes a generally narrower definition of high–quality liquid assets, a different methodology for calculating net cash outflows during the 30–day stress period as well as a shorter, two–year phase–in period that ends on December 31, 2016. The Company continues to evaluate the U.S. LCR proposal and its potential impact on the Company's current liquidity and funding requirements.

Off–Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entities ("VIE"), primarily in connection with its Institutional Securities and Investment Management business segments. See "Off–Balance Sheet Arrangements with Unconsolidated Entities" included in Part II, Item 7, of the Form 10–K and Note 7 to the condensed consolidated financial statements for further information.

See Note 12 to the condensed consolidated financial statements for further information on guarantees.

Commitments.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, mortgage lending and margin lending at September 30, 2013 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				
	Less than 1	1–3	3–5	Over 5	Total at September 30, 2013
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 682	$ 7	$ —	$ 1	$ 690
Investment activities	690	112	36	257	1,095
Primary lending commitments—investment grade(1)	11,384	13,934	34,859	504	60,681
Primary lending commitments—non–investment grade(1)	2,684	5,088	9,505	1,836	19,113
Secondary lending commitments(2)	68	32	20	16	136
Commitments for secured lending transactions	964	—	—	4	968
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	70,411	—	—	—	70,411
Commercial and residential mortgage–related commitments	1,254	40	309	818	2,421
Underwriting commitments	410	—	—	—	410
Other commitments	2,284	376	206	79	2,945
Total	$90,831	$19,589	$44,935	$3,515	$ 158,870

(1) This amount includes $44.9 billion of investment grade and $10.8 billion of non–investment grade unfunded commitments accounted for as held for investment and $5.9 billion of investment grade and $5.1 billion of non–investment grade unfunded commitments accounted for as held for sale at September 30, 2013. The remainder of these lending commitments is carried at fair value.
(2) These commitments are recorded at fair value within Trading assets and Trading liabilities in the condensed consolidated statements of financial condition (see Note 4 to the condensed consolidated financial statements).
(3) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to September 30, 2013 and settle subsequent to period–end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days and of the total amount at September 30, 2013, $66.5 billion settled within three business days.
(4) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $1.9 billion.

Effects of Inflation and Changes in Foreign Exchange Rates.

To the extent that a worsening inflation outlook results in rising interest rates or has negative impacts on the valuation of financial instruments that exceed the impact on the value of the Company's liabilities, it may adversely affect the Company's financial position and profitability. Rising inflation may also result in increases in the Company's non–interest expenses that may not be readily recoverable in higher prices of services offered.

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of the Company's Value−at−Risk ("VaR") for market risk exposures is generated. In addition, the Company incurs trading−related market risk within the Wealth Management business segment. The Investment Management business segment incurs principally Non−trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles. For a further discussion of the Company's Market Risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management" in Part II, Item 7A of the Form 10−K.

VaR.

The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR−based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations.

The Company estimates VaR using a model based on volatility adjusted historical simulation for general market risk factors and Monte Carlo simulation for name−specific risk in corporate shares, bonds, loans and related derivatives. The model constructs a distribution of hypothetical daily changes in the value of trading portfolios based on the following: historical observation of daily changes in key market indices or other market risk factors; and information on the sensitivity of the portfolio values to these market risk factor changes. The Company's VaR model uses four years of historical data with a volatility adjustment to reflect current market conditions. The Company's VaR for risk management purposes ("Management VaR") is computed at a 95% level of confidence over a one−day time horizon, which is a useful indicator of possible trading losses resulting from adverse daily market moves. The Company's 95%/one−day VaR corresponds to the unrealized loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held constant for one day.

The Company's VaR model generally takes into account linear and non−linear exposures to equity and commodity price risk, interest rate risk, credit spread risk and foreign exchange rates. The model also takes into account linear exposures to implied volatility risks for all asset classes and non−linear exposures to implied volatility risks for equity, commodity and foreign exchange referenced products. The VaR model also captures certain implied correlation risks associated with portfolio credit derivatives as well as certain basis risks (*e.g.,* corporate debt and related credit derivatives).

The Company uses VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk

associated with severe events, such as periods of extreme illiquidity. The Company is aware of these and other limitations and, therefore, uses VaR as only one component in its risk management oversight process. This process also incorporates stress testing and scenario analyses and extensive risk monitoring, analysis, and control at the trading desk, division and Company levels.

The Company's VaR model evolves over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name–specific risk factors may be added to improve the VaR model's ability to more accurately estimate risks to specific asset classes or industry sectors.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the Company's future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days for a 95%/one–day VaR. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

VaR statistics are not readily comparable across firms because of differences in the firms' portfolios, modeling assumptions and methodologies. These differences can result in materially different VaR estimates across firms for similar portfolios. The impact of such differences varies depending on the factor history assumptions, the frequency with which the factor history is updated, and the confidence level. As a result, VaR statistics are more useful when interpreted as indicators of trends in a firm's risk profile, rather than as an absolute measure of risk to be compared across firms.

The Company utilizes the same VaR model for both risk management purposes as well as regulatory capital calculations. The Company's VaR model has been approved by the Company's regulators for use in regulatory capital calculations.

The portfolio of positions used for the Company's Management VaR differs from that used for its VaR that was determined by regulatory capital requirements ("Regulatory VaR"), as it contains certain positions which are excluded from Regulatory VaR. Examples include counterparty credit valuation adjustments, and loans that are carried at fair value and associated hedges. Additionally, the Company's Management VaR excludes certain risks contained in its Regulatory VaR, such as hedges to counterparty exposures related to the Company's own credit spread.

Table 1 below presents the Management VaR for the Company's Trading portfolio, on a quarter–end, quarterly average and quarterly high and low basis. The Credit Portfolio is disclosed as a separate category from the Primary Risk Categories, and includes loans that are carried at fair value and associated hedges, as well as counterparty credit valuation adjustments and related hedges.

Trading Risks.

The table below presents the Company's 95%/one–day Management VaR:

Table 1: 95% Management VaR	95%/One–Day VaR for the Quarter Ended September 30, 2013				95%/One–Day VaR for the Quarter Ended June 30, 2013			
Market Risk Category	Period End	Average	High	Low	Period End	Average	High	Low
	(dollars in millions)							
Interest rate and credit spread	$ 36	$ 37	$ 45	$ 33	$ 46	$ 46	$ 56	$ 39
Equity price	21	18	43	15	17	19	33	15
Foreign exchange rate	12	13	17	9	14	13	19	8
Commodity price	22	20	24	18	23	24	31	18
Less: Diversification benefit(1)(2)	(42)	(42)	N/A	N/A	(48)	(47)	N/A	N/A
Primary Risk Categories	$ 49	$ 46	$ 60	$ 42	$ 52	$ 55	$ 73	$ 51
Credit Portfolio	15	15	17	14	16	14	16	12
Less: Diversification benefit(1)(2)	(8)	(9)	N/A	N/A	(8)	(8)	N/A	N/A
Total Management VaR	$ 56	$ 52	$ 64	$ 47	$ 60	$ 61	$ 77	$ 56

(1) Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one–day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.
(2) N/A–Not Applicable. The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the quarter, and therefore the diversification benefit is not an applicable measure.

The Company's average Management VaR for the Primary Risk Categories for the quarter ended September 30, 2013 was $46 million compared with $55 million for the quarter ended June 30, 2013. This decrease was primarily driven by reduced risk in interest rate and credit spread products.

The average Credit Portfolio VaR for the quarter ended September 30, 2013 was $15 million compared with $14 million for the quarter ended June 30, 2013. This increase was driven by increased counterparty credit risk.

The average Total Management VaR for the quarter ended September 30, 2013 was $52 million compared with $61 million for the quarter ended June 30, 2013. This decrease was driven by the reduced risk in Primary Risk Categories.

Distribution of VaR Statistics and Net Revenues for the quarter ended September 30, 2013.

One method of evaluating the reasonableness of the Company's VaR model as a measure of the Company's potential volatility of net revenues is to compare the VaR with actual trading revenues. Assuming no intra–day trading, for a 95%/one–day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model could be questioned. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Company, as well as individual business units. For days where losses exceed the VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results.

The distribution of VaR Statistics and Net Revenues are presented in the histograms below for both the Primary Risk Categories and the Total Trading populations.

Primary Risk Categories.

As shown in Table 1, the Company's average 95%/one−day Primary Risk Categories VaR for the quarter ended September 30, 2013 was $46 million. The histogram below presents the distribution of the Company's daily 95%/one−day Primary Risk Categories VaR for the quarter ended September 30, 2013, which was in a range between $42 million and $52 million for approximately 94% of the trading days during the quarter.

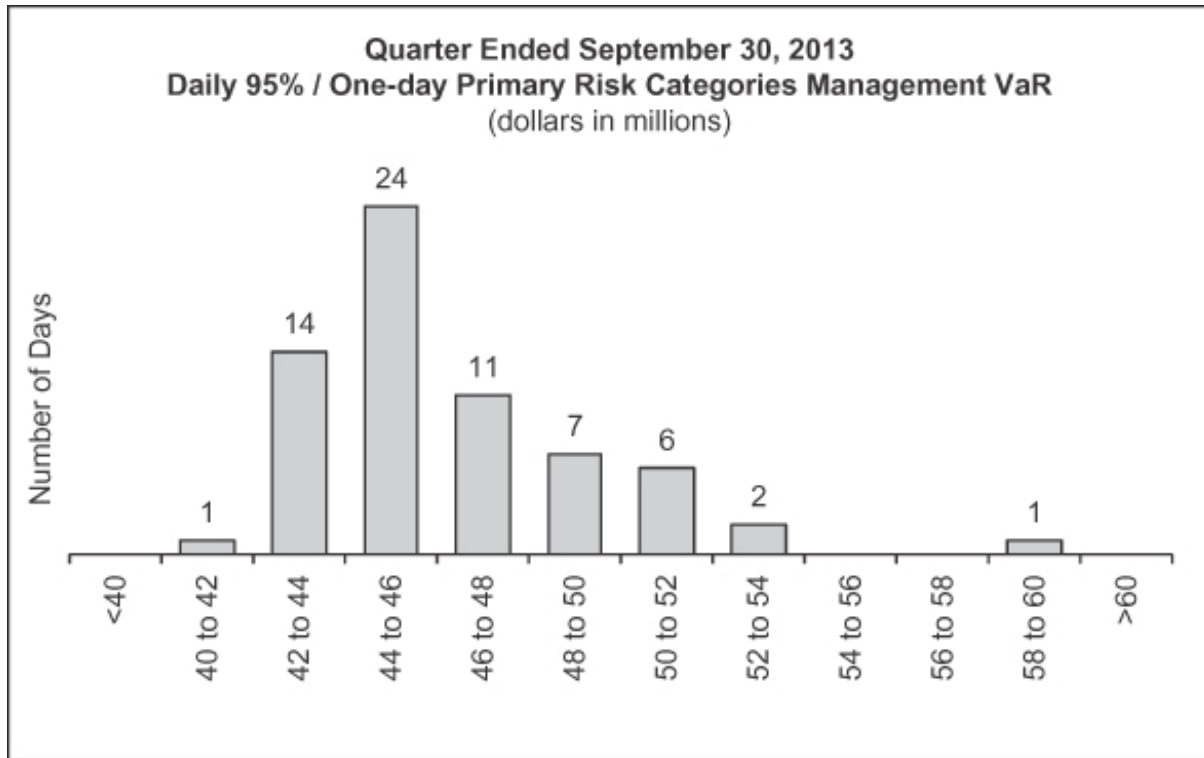
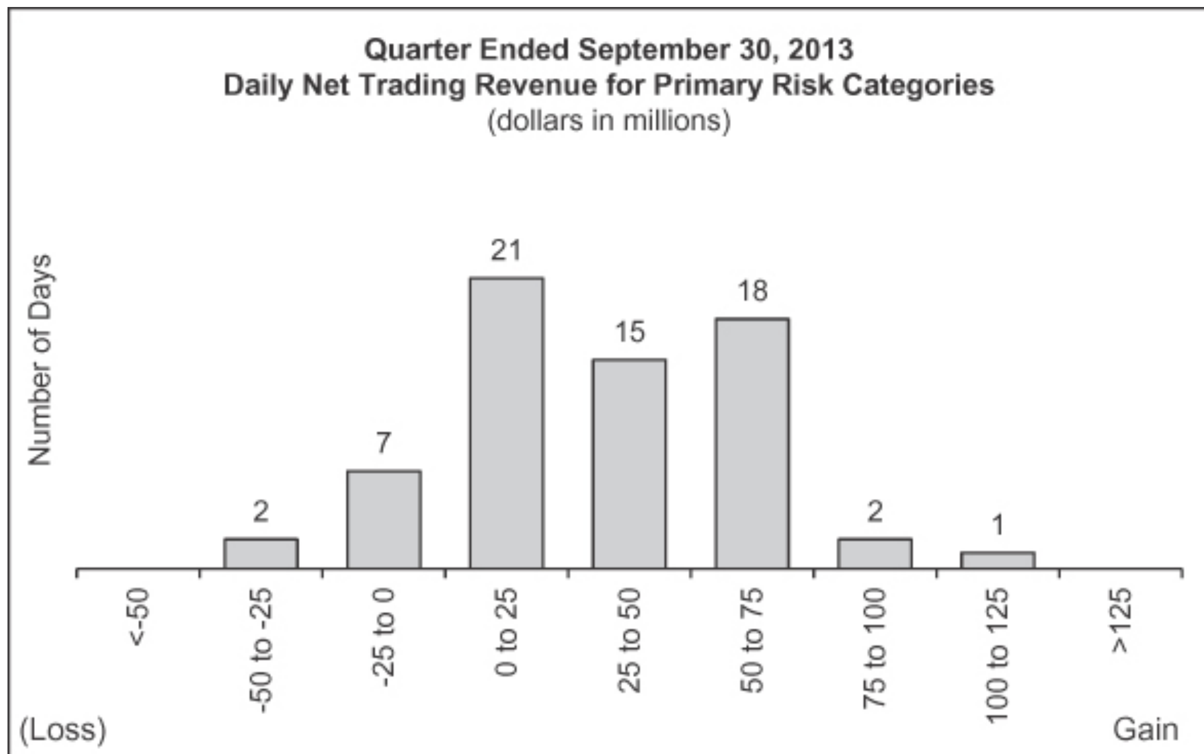


Table of Contents
The histogram below shows the distribution of daily net trading revenues for the Company's businesses that comprise the Primary Risk Categories for the quarter ended September 30, 2013. This excludes non–trading revenues of these businesses and revenues associated with the Company's own credit risk. During the quarter ended September 30, 2013, the Company's businesses that comprise the Primary Risk Categories experienced net trading losses on 9 days, of which no day was in excess of the 95%/one–day Primary Risk Categories VaR.



Total Trading—including the Primary Risk Categories and the Credit Portfolio.

As shown in Table 1, the Company's average 95%/one–day Total Management VaR, which includes the Primary Risk Categories and the Credit Portfolio, for the quarter ended September 30, 2013 was $52 million. The histogram below presents the distribution of the Company's daily 95%/one–day Total Management VaR for the quarter ended September 30, 2013, which was in a range between $47 million and $61 million for approximately 94% of trading days during the quarter.

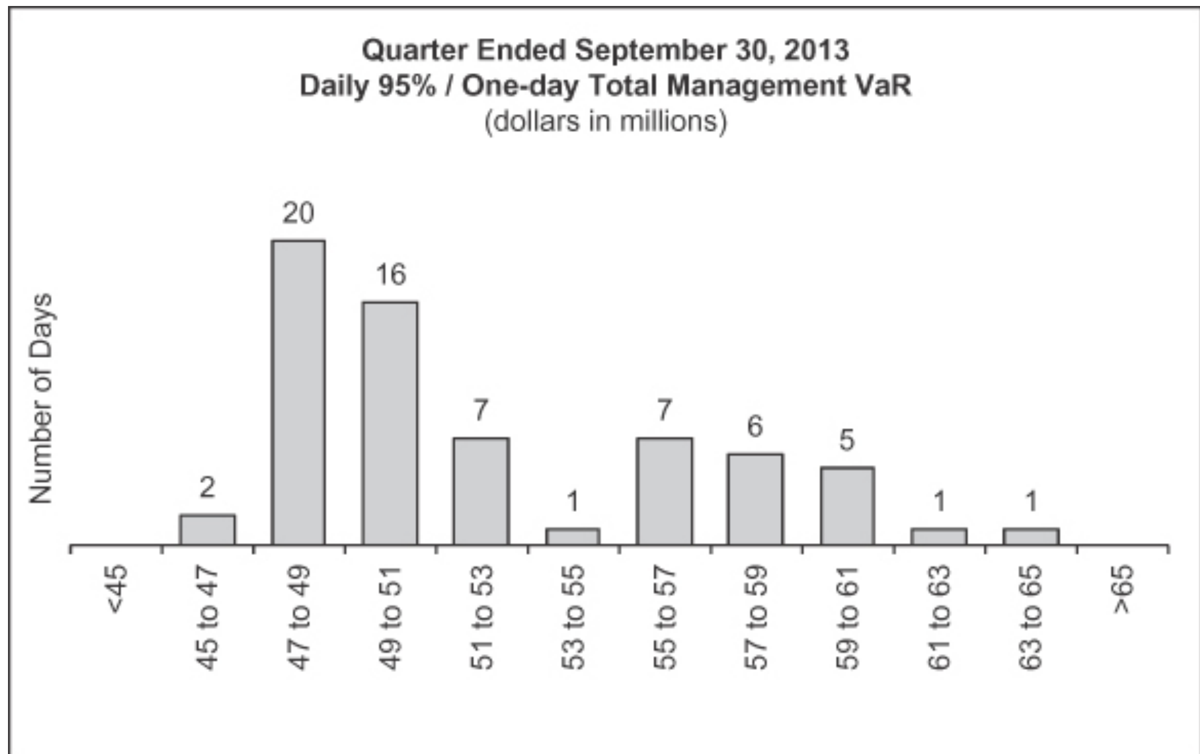
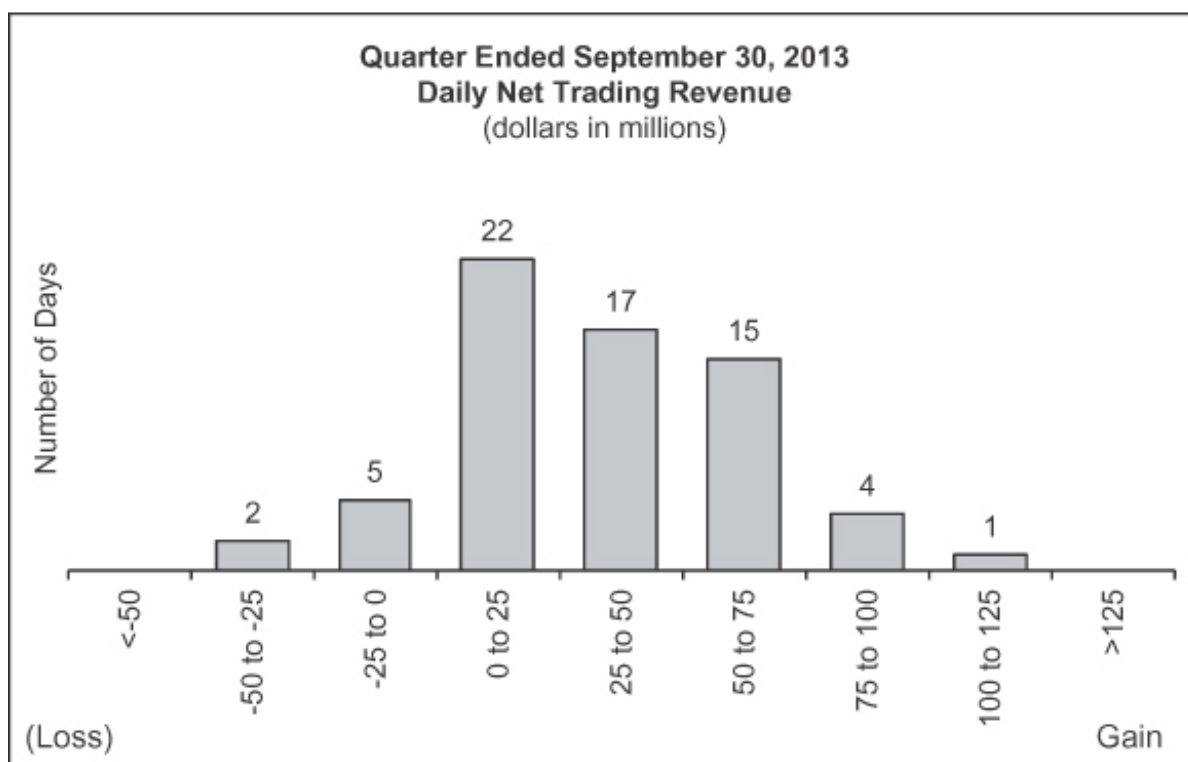


Table of Contents
The histogram below shows the distribution of daily net trading revenues for the Company's Trading businesses for the quarter ended September 30, 2013. This excludes non−trading revenues of these businesses and revenues associated with the Company's own credit risk. During the quarter ended September 30, 2013, the Company experienced net trading losses on 7 days, of which no day was in excess of the 95%/one−day Management VaR.



Non−Trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company's non−trading risks. Reflected below is this analysis, which covers substantially all of the non−trading risk in the Company's portfolio.

Counterparty Exposure Related to the Company's Own Spread.

The credit spread risk relating to the Company's own mark−to−market derivative counterparty exposure is managed separately from VaR. The credit spread risk sensitivity of this exposure corresponds to an increase in value of approximately $5 million for each 1 basis point widening in the Company's credit spread level for both September 30, 2013 and June 30, 2013.

Funding Liabilities.

The credit spread risk sensitivity of the Company's mark−to−market funding liabilities corresponded to an increase in value of approximately $11 million for each 1 basis point widening in the Company's credit spread level for both September 30, 2013 and June 30, 2013.

Interest Rate Risk Sensitivity on Income from Continuing Operations.

The Company measures the interest rate risk of certain assets and liabilities by calculating the hypothetical sensitivity of net interest income to potential changes in the level of interest rates over the next twelve months. This sensitivity analysis includes positions that are mark−to−market, as well as positions that are accounted for on

an accrual basis. For interest rate derivatives that are perfect economic hedges to non−mark−to−market assets or liabilities, the disclosed sensitivities include only the impact of the coupon accrual mismatch. This treatment mitigates the effects caused by the measurement basis differences between the economic hedge and the corresponding hedged instrument.

Given the currently low interest rate environment, the Company uses the following two interest rate scenarios to quantify the Company's sensitivity: instantaneous parallel shocks of 100 and 200 basis point increases to all points on all yield curves simultaneously.

The hypothetical model does not assume any growth, change in business focus, asset pricing philosophy or asset/liability funding mix and does not capture how the Company would respond to significant changes in market conditions. Furthermore, the model does not reflect the Company's expectations regarding the movement of interest rates in the near term, nor the actual effect on income from continuing operations before income taxes if such changes were to occur.

	September 30, 2013		June 30, 2013	
	+100 Basis Points	+200 Basis Points	+100 Basis Points	+200 Basis Points
	(dollars in millions)			
Impact on income from continuing operations before income taxes	$ 612	$ 1,003	$ 655	$ 1,099

Investments.

The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values.

	10% Sensitivity	
Investments	September 30, 2013	June 30, 2013
	(dollars in millions)	
Investments related to Investment Management activities:		
Hedge fund investments	$ 104	$ 102
Private equity and infrastructure funds	144	132
Real estate funds	146	138
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	163	143
Other Company investments	275	262

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Part II, Item 7A of the Form 10−K. See Notes 8 and 12 to the condensed consolidated financial statements for additional information about the Company's financing receivables and lending commitments, respectively.

Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, the Company purchases loans in the secondary market. The table below summarizes the Company's loans classified as loans held for investment and loans held for sale in Loans and loans carried at fair value in Trading assets in the condensed consolidated statements of financial condition at September 30, 2013. See Notes 4 and 8 to the condensed consolidated financial statements for further information.

	Institutional Securities Corporate Lending(1)	Institutional Securities Other(2)	Wealth Management(3)	Total
	(dollars in millions)			
Commercial and industrial	$ 7,248	$ 1,521	$ 3,036	$11,805
Consumer loans	—	76	10,222	10,298
Residential real estate loans	—	1	8,779	8,780
Wholesale real estate loans	—	1,489	600	2,089
Loans held for investment, net of allowance	7,248	3,087	22,637	32,972
Loans held for sale	4,541	113	108	4,762
Loans held at fair value	3,856	9,606	—	13,462
Total loans	$ 15,645	$ 12,806	$ 22,745	$51,196

(1) In addition to loans, at September 30, 2013, $55.7 billion of unfunded lending commitments were accounted for as held for investment, $11.0 billion of unfunded lending commitments were accounted for as held for sale and $13.1 billion of unfunded lending commitments were accounted for at fair value.
(2) In addition to loans, at September 30, 2013, $0.9 billion of unfunded lending commitments were accounted for as held for investment and $1.6 billion of unfunded lending commitments were accounted for at fair value.
(3) In addition to loans, at September 30, 2013, $3.9 billion of unfunded lending commitments were accounted for as held for investment and $0.1 billion of unfunded lending commitments were accounted for as held for sale.

Institutional Securities Corporate Lending Activities. In connection with certain of its Institutional Securities business segment activities, the Company provides loans or lending commitments to select corporate clients. These loans and lending commitments have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by the Company.

The Company's corporate lending credit exposure is primarily from loan and lending commitments used for general corporate purposes, working capital and liquidity purposes and typically consist of revolving lines of credit, letter of credit facilities and certain term loans. In addition, the Company provides "event–driven" loans and lending commitments associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization activities. The Company's "event–driven" loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans.

Corporate lending commitments may not be indicative of the Company's actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment or the Company's portion of the commitment may be reduced through the syndication or sales process. Such syndications or sales may involve third–party institutional investors where the Company may have a custodial relationship, such as prime brokerage clients.

The Company may hedge and/or sell its exposures in connection with loans and lending commitments. Additionally, the Company may mitigate credit risk by requiring borrowers to pledge collateral and include financial covenants in lending commitments. In the condensed consolidated statements of financial condition, these loans are carried at either fair value with changes in fair value recorded in earnings or held for investment, which is recorded at amortized cost, or held for sale, which is recorded at lower of cost or fair value.

Table of Contents

Effective April 1, 2012, the Company began accounting for all new originated corporate loans and lending commitments as either held for investment or held for sale.

The table below presents the Company's credit exposure from its corporate lending positions and lending commitments, which are measured in accordance with the Company's internal risk management standards at September 30, 2013. The "total corporate lending exposure" column includes funded and unfunded loans and lending commitments. Lending commitments represent legally binding obligations to provide funding to clients at September 30, 2013 for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.

Corporate Lending Commitments and Funded Loans at September 30, 2013

	Years to Maturity				Total Corporate Lending
Credit Rating(1)	Less than 1	1–3	3–5	Over 5	Exposure(2)
			(dollars in millions)		
AAA	$ 859	$ 113	$ 121	$ —	$ 1,093
AA	2,755	2,092	4,179	—	9,026
A	6,508	4,285	11,539	596	22,928
BBB	3,769	9,167	21,928	548	35,412
Investment grade	13,891	15,657	37,767	1,144	68,459
Non−investment grade	3,757	6,899	12,999	3,038	26,693
Total	$ 17,648	$22,556	$50,766	$4,182	$ 95,152

(1) Obligor credit ratings are determined by the Credit Risk Management Department.
(2) Total corporate lending exposure represents the Company's potential loss assuming the market price of funded loans and lending commitments was zero.

At September 30, 2013, the aggregate amount of investment grade funded loans was $7.8 billion and the aggregate amount of non−investment grade funded loans was $7.6 billion. In connection with these corporate lending activities (which include corporate funded and unfunded loans and lending commitments), the Company had hedges (which include "single name," "sector" and "index" hedges) with a notional amount of $10.5 billion related to the total corporate lending exposure of $95.2 billion at September 30, 2013.

"Event−Driven" Loans and Lending Commitments at September 30, 2013.

Included in the total corporate lending exposure amounts in the table above at September 30, 2013 were "event−driven" exposures of $13.7 billion composed of funded loans of $2.8 billion and lending commitments of $10.9 billion. Included in the "event−driven" exposure at September 30, 2013 were $7.6 billion of loans and lending commitments to non−investment grade borrowers. The maturity profile of the "event−driven" loans and lending commitments at September 30, 2013 was as follows: 61% will mature in less than 1 year, 8% will mature within 1 to 3 years, 21% will mature within 3 to 5 years and 10% will mature in over 5 years.

At September 30, 2013, $596 million of the Company's "event−driven" loans were on a non−accrual basis; all other "event−driven" loans were current. These loans primarily are those the Company originated prior to the financial crisis in 2008 and was unable to sell or syndicate. For loans carried at fair value that are on non−accrual status, interest income is recognized on a cash basis.

Institutional Securities Other Lending Activities. In addition to the primary corporate lending activity described above, the Institutional Securities business segment engages in other lending activity. These loans include corporate loans purchased in the secondary market, commercial and residential mortgage loans, asset−

backed loans and financing extended to equities and commodities customers. At September 30, 2013, approximately 99% of Institutional Securities Other lending activities held for investment were current; less than 1% were on non−accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

Wealth Management Lending Activities. The principal Wealth Management activities that result in credit risk to the Company include purpose and non−purpose securities−based lending, structured credit facilities and residential mortgage lending. During the quarter ended September 30, 2013, the loans and lending commitments in the Wealth Management business segment increased 7%, mainly due to growth in Portfolio Loan Account non−purpose securities−based lending products. At September 30, 2013, approximately 99% of the Wealth Management business segment's loans held for investment portfolio were current. For a further discussion of the Company's credit risks associated with Wealth Management business segment, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk—Global Wealth Management Group" in Part II, Item 7A of the Form 10−K.

Credit Exposure—Derivatives.

For credit exposure information on the Company's OTC derivative products, see Note 11 to the condensed consolidated financial statements.

Credit Derivatives. A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on one or more debt obligations issued by a specified reference entity. The beneficiary typically pays a periodic premium over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events, as defined in the contract, may be one or more of the following defined events: bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation, payment moratorium and restructurings.

The Company trades in a variety of credit derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. In transactions referencing a portfolio of entities or securities, protection may be limited to a tranche of exposure or a single name within the portfolio. The Company is an active market maker in the credit derivatives markets. As a market maker, the Company works to earn a bid−offer spread on client flow business and manages any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented. The effectiveness of the Company's CDS protection as a hedge of the Company's exposures may vary depending upon a number of factors, including the contractual terms of the CDS.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company's counterparties is comprised of banks, broker−dealers, insurance and other financial institutions. Contracts with these counterparties may include provisions related to counterparty rating downgrades, which may result in additional collateral being required by the Company. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate within Trading in the condensed consolidated statements of income.

The following table summarizes the key characteristics of the Company's credit derivative portfolio by counterparty at September 30, 2013. The fair values shown are before the application of any counterparty or cash collateral netting. For additional credit exposure information on the Company's credit derivative portfolio, see Note 11 to the condensed consolidated financial statements.

	At September 30, 2013				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$ 42,048	$ 40,231	$ 1,817	$ 1,279,588	$ 1,245,630
Insurance and other financial institutions	7,537	7,275	262	293,618	329,531
Non−financial entities	86	70	16	3,698	2,625
Total	$ 49,671	$ 47,576	$ 2,095	$ 1,576,904	$ 1,577,786

(1) The Company's CDS are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 7% of receivable fair values and 5% of payable fair values represent Level 3 amounts (see Note 4 to the condensed consolidated financial statements).

Country Risk Exposure.

Country risk exposure is the risk that events within a country, such as currency crisis, regulatory changes and other political events, will adversely affect the ability of the sovereign government and/or obligors within the country to honor their obligations to the Company. Country risk exposure is measured in accordance with the Company's internal risk management standards and includes obligations from sovereign governments, corporations, clearinghouses and financial institutions. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Company to effectively identify, monitor and limit country risk. Country risk exposure before and after hedges is monitored and managed.

The Company's obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country risk.

The Company conducts periodic stress testing that seeks to measure the impact on the Company's credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by the Company's risk managers, the stress test scenarios include country exit from the Euro−zone and possible contagion effects. Second order risks such as the impact for core European banks of their peripheral exposures may also be considered. The Company also conducts legal and documentation analysis of its exposures to obligors in peripheral jurisdictions, which are defined as exposures in Greece, Ireland, Italy, Portugal and Spain (the "European Peripherals"), to identify the risk that such exposures could be redenominated into new currencies or subject to capital controls in the case of country exit from the Euro−zone. This analysis, and results of the stress tests, may result in the amendment of limits or exposure mitigation. For a further discussion of the Company's country risk exposure, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk—Country Risk Exposure" in Part II, Item 7A of the Form 10−K.

The Company's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non−sovereign exposures comprise exposures to primarily corporations and financial institutions. The following table shows the Company's significant non−U.S. country risk exposure except for select European countries (see the table in "Country Risk Exposure—Select European Countries" herein) at September 30, 2013. Index credit derivatives are included in the Company's country risk exposure tables. Each reference entity within an index is allocated to that reference entity's country of risk. Index exposures are

allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country which references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)
				(dollars in millions)			
United Kingdom:							
Sovereigns	$ 142	$ 13	$ —	$ —	$ 155	$ (73)	$ 82
Non–sovereigns	1,142	12,180	1,700	5,252	20,274	(3,002)	17,272
Subtotal	$ 1,284	$ 12,193	$ 1,700	$ 5,252	$ 20,429	$ (3,075)	$ 17,354
Japan:							
Sovereigns	$ 4,998	$ 94	$ —	$ —	$ 5,092	$ (11)	$ 5,081
Non–sovereigns	915	2,508	34	—	3,457	(77)	3,380
Subtotal	$ 5,913	$ 2,602	$ 34	$ —	$ 8,549	$ (88)	$ 8,461
Germany:							
Sovereigns	$ 1,252	$ 786	$ —	$ —	$ 2,038	$ (1,383)	$ 655
Non–sovereigns	(430)	4,100	988	4,209	8,867	(1,992)	6,875
Subtotal	$ 822	$ 4,886	$ 988	$ 4,209	$ 10,905	$ (3,375)	$ 7,530
Brazil:							
Sovereigns	$ 2,539	$ —	$ —	$ —	$ 2,539	$ —	$ 2,539
Non–sovereigns	42	313	1,143	214	1,712	(312)	1,400
Subtotal	$ 2,581	$ 313	$ 1,143	$ 214	$ 4,251	$ (312)	$ 3,939
Canada:							
Sovereigns	$ 450	$ 31	$ —	$ —	$ 481	$ —	$ 481
Non–sovereigns	277	1,182	98	1,420	2,977	(206)	2,771
Subtotal	$ 727	$ 1,213	$ 98	$ 1,420	$ 3,458	$ (206)	$ 3,252

(1) Net inventory represents exposure to both long and short single–name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At September 30, 2013, gross purchased protection, gross written protection and net exposures related to single–name and index credit derivatives for those countries were $(209.7) billion, $207.9 billion and $(1.78) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company's hedges, see "Credit Exposure—Derivatives" herein.
(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) taking into consideration legally enforceable master netting agreements and collateral.
(3) At September 30, 2013, the benefit of collateral received against counterparty credit exposure was $9.5 billion in the U.K., with 98% of collateral consisting of cash, U.S. and U.K. government obligations, and $14.6 billion in Germany with 97% of collateral consisting of cash and government obligations of France, Belgium and Netherlands. The benefit of collateral received against counterparty credit exposure in the three other countries totaled approximately $3.4 billion, with collateral primarily consisting of cash, U.S. and Japan government obligations. These amounts do not include collateral received on secured financing transactions.
(4) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(5) In addition, at September 30, 2013, the Company had exposure to these countries for overnight deposits with banks of approximately $8.2 billion.

[Table of Contents](#)

Country Risk Exposure—Select European Countries. In connection with certain of its Institutional Securities business segment activities, the Company has exposure to many foreign countries. During the quarter ended September 30, 2013, certain European countries, which include the European Peripherals and France, continued to experience challenges to their creditworthiness due to weakness in their economic and fiscal situations. The following table shows the Company's exposure to the European Peripherals and France at September 30, 2013. Country exposure is measured in accordance with the Company's internal risk management standards and includes obligations from sovereign and non–sovereigns, which includes governments, corporations, clearinghouses and financial institutions.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	CDS Adjustment(4)	Exposure Before Hedges	Hedges(5)	Net Exposure
				(dollars in millions)				
Greece:								
Sovereigns	$ 11	$ 49	$ —	$ —	$ —	$ 60	$ —	$ 60
Non–sovereigns	50	9	—	—	—	59	(44)	15
Subtotal	$ 61	$ 58	$ —	$ —	$ —	$ 119	$ (44)	$ 75
Ireland:								
Sovereigns	$ 54	$ 2	$ —	$ —	$ 5	$ 61	$ 36	$ 97
Non–sovereigns	151	20	—	—	12	183	(7)	176
Subtotal	$ 205	$ 22	$ —	$ —	$ 17	$ 244	$ 29	$ 273
Italy:								
Sovereigns	$ 733	$ 246	$ —	$ —	$ 498	$ 1,477	$ (210)	$ 1,267
Non–sovereigns	243	466	270	964	97	2,040	(426)	1,614
Subtotal	$ 976	$ 712	$ 270	$ 964	$ 595	$ 3,517	$ (636)	$ 2,881
Spain:								
Sovereigns	$ 261	$ 8	$ —	$ —	$ 17	$ 286	$ 9	$ 295
Non–sovereigns	(284)	353	97	1,091	142	1,399	(358)	1,041
Subtotal	$ (23)	$ 361	$ 97	$ 1,091	$ 159	$ 1,685	$ (349)	$ 1,336
Portugal:								
Sovereigns	$ (209)	$ (1)	$ —	$ —	$ 46	$ (164)	$ —	$ (164)
Non–sovereigns	(65)	22	100	—	31	88	(4)	84
Subtotal	$ (274)	$ 21	$ 100	$ —	$ 77	$ (76)	$ (4)	$ (80)
Sovereigns	$ 850	$ 304	$ —	$ —	$ 566	$ 1,720	$ (165)	$ 1,555
Non–sovereigns	95	870	467	2,055	282	3,769	(839)	2,930
Total European Peripherals(6)	$ 945	$ 1,174	$ 467	$ 2,055	$ 848	$ 5,489	$ (1,004)	$ 4,485
France(6):								
Sovereigns	$ (266)	$ 12	$ —	$ —	$ 34	$ (220)	$ (237)	$ (457)
Non–sovereigns	(560)	3,117	199	2,021	133	4,910	(616)	4,294
Total France(6)	$ (826)	$ 3,129	$ 199	$ 2,021	$ 167	$ 4,690	$ (853)	$ 3,837

(1) Net inventory represents exposure to both long and short single–name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At September 30, 2013, gross purchased protection, gross written protection and net exposures related to single–name and index credit derivatives for the European Peripherals were $(116.8) billion, $116.7 billion and $(0.1) billion, respectively. Gross purchased protection, gross written protection and net exposures related to single–name and index credit derivatives for France were $(81.8) billion, $80.4 billion and $(1.4) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company's hedges, see "Credit Exposure—Derivatives" herein.

(2) Net counterparty exposure (*i.e*., repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.
(3) At September 30, 2013, the benefit of collateral received against counterparty credit exposure was $3.8 billion in the European Peripherals with 93% of collateral consisting of cash and German government obligations and $5.7 billion in France with nearly all collateral consisting of cash and U.S. government obligations. These amounts do not include collateral received on secured financing transactions.
(4) CDS adjustment represents credit protection purchased from European Peripherals' banks on European Peripherals' sovereign and financial institution risk or French banks on French sovereign and financial institution risk. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(5) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(6) In addition, at September 30, 2013, the Company had European Peripherals and French exposure for overnight deposits with banks of approximately $155 million and $87 million, respectively.

Industry Exposure—Corporate Lending and OTC Derivative Products. The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company's OTC derivative contracts.

The following tables show the Company's credit exposure from its primary corporate loans and lending commitments and OTC derivative products by industry at September 30, 2013:

Industry	Corporate Lending Exposure
	(dollars in millions)
Energy	$ 12,165
Consumer discretionary	10,411
Utilities	9,958
Industrials	9,917
Healthcare	8,412
Telecommunications services	8,211
Consumer staples	8,095
Funds, exchanges and other financial services(1)	7,158
Information technology	5,990
Materials	4,817
Real Estate	4,430
Other	5,588
Total	$ 95,152

Industry	OTC Derivative Products(2)
	(dollars in millions)
Banks and securities firms	$ 3,702
Utilities	3,564
Special purpose vehicles	2,262
Funds, exchanges and other financial services(1)	2,019
Regional governments	1,877
Healthcare	1,171
Industrials	1,026
Not–for–profit organizations	803
Sovereign governments	685
Consumer staples	525
Insurance	503
Other	1,856
Total	$ 19,993

(1) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.
(2) For further information on derivative instruments and hedging activities, see Note 11 to the condensed consolidated financial statements.

Item 4. Controls and Procedures.

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a−15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the Company's internal control over financial reporting (as defined in Rule 13a−15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

FINANCIAL DATA SUPPLEMENT (Unaudited)
Average Balances and Interest Rates and Net Interest Income

	Three Months Ended September 30, 2013		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 111,974	$ 428	1.6%
Non–U.S.	102,620	66	0.3
Securities available for sale:			
U.S.	44,639	111	1.0
Loans:			
U.S.	36,276	281	3.1
Non–U.S.	472	18	15.5
Interest bearing deposits with banks:			
U.S.	45,672	27	0.2
Non–U.S.	7,578	11	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	187,507	(45)	(0.1)
Non–U.S.	97,509	95	0.4
Other:			
U.S.	59,561	166	1.1
Non–U.S.	20,317	153	3.1
Total	$ 714,125	$ 1,311	0.7%
Non–interest earning assets	117,002		
Total assets	$ 831,127		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 98,522	$ 44	0.2%
Non–U.S.	244	—	—
Commercial paper and other short–term borrowings:			
U.S.	976	1	0.4
Non–U.S.	1,375	3	0.9
Long–term debt:			
U.S.	142,501	939	2.7
Non–U.S.	20,112	18	0.4
Trading liabilities(1):			
U.S.	30,312	—	—
Non–U.S.	60,632	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	105,898	160	0.6
Non–U.S.	69,612	243	1.4
Other:			
U.S.	100,462	(250)	(1.0)
Non–U.S.	40,597	42	0.4
Total	$ 671,243	$ 1,200	0.7
Non–interest bearing liabilities and equity	159,884		
Total liabilities and equity	$ 831,127		
Net interest income and net interest rate spread		$ 111	— %

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	Three Months Ended September 30, 2012		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 131,417	$ 544	1.7%
Non–U.S.	75,449	104	0.6
Securities available for sale:			
U.S.	37,200	80	0.9
Loans:			
U.S.	22,523	150	2.7
Non–U.S.	409	11	10.9
Interest bearing deposits with banks:			
U.S.	24,580	30	0.5
Non–U.S.	9,712	14	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	170,363	(32)	(0.1)
Non–U.S.	104,363	96	0.4
Other:			
U.S.	56,346	17	0.1
Non–U.S.	15,794	365	9.4
Total	$ 648,156	$ 1,379	0.9%
Non–interest earning assets	118,116		
Total assets	$ 766,272		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 69,568	$ 46	0.3%
Non–U.S.	201	—	—
Commercial paper and other short–term borrowings:			
U.S.	628	1	0.6
Non–U.S.	997	10	4.1
Long–term debt:			
U.S.	158,623	1,233	3.2
Non–U.S.	7,687	23	1.2
Trading liabilities(1):			
U.S.	41,735	—	—
Non–U.S.	49,516	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	98,793	203	0.8
Non–U.S.	57,513	250	1.8
Other:			
U.S.	82,516	(450)	(2.2)
Non–U.S.	33,898	218	2.6
Total	$ 601,675	$ 1,534	1.0
Non–interest bearing liabilities and equity	164,597		
Total liabilities and equity	$ 766,272		
Net interest income and net interest rate spread		$ (155)	(0.1)%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	Nine Months Ended September 30, 2013		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 122,089	$ 1,504	1.6%
Non–U.S.	101,226	238	0.3
Securities available for sale:			
U.S.	42,392	317	1.0
Loans:			
U.S.	32,284	741	3.1
Non–U.S.	522	49	12.6
Interest bearing deposits with banks:			
U.S.	30,683	57	0.2
Non–U.S.	7,716	32	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	188,057	(130)	(0.1)
Non–U.S.	98,894	343	0.5
Other:			
U.S.	61,912	535	1.2
Non–U.S.	18,996	445	3.1
Total	$ 704,771	$ 4,131	0.8%
Non–interest earning assets	123,615		
Total assets	$ 828,386		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 85,799	$ 126	0.2%
Non–U.S.	939	—	—
Commercial paper and other short–term borrowings:			
U.S.	947	2	0.3
Non–U.S.	1,123	16	1.9
Long–term debt:			
U.S.	152,684	2,781	2.4
Non–U.S.	14,388	53	0.5
Trading liabilities(1):			
U.S.	33,844	—	—
Non–U.S.	61,083	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	106,192	554	0.7
Non–U.S.	71,441	817	1.5
Other:			
U.S.	96,583	(842)	(1.2)
Non–U.S.	36,268	124	0.5
Total	$ 661,291	$ 3,631	0.7
Non–interest bearing liabilities and equity	167,095		
Total liabilities and equity	$ 828,386		
Net interest income and net interest rate spread		$ 500	0.1%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Average Balances and Interest Rates and Net Interest Income

	Nine Months Ended September 30, 2012		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 132,073	$ 1,710	1.7%
Non–U.S.	80,812	391	0.6
Securities available for sale:			
U.S.	33,597	242	1.0
Loans:			
U.S.	18,946	392	2.8
Non–U.S.	296	26	11.7
Interest bearing deposits with banks:			
U.S.	26,635	43	0.2
Non–U.S.	11,404	52	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	176,065	(127)	(0.1)
Non–U.S.	107,460	350	0.4
Other:			
U.S.	52,197	398	1.0
Non–U.S.	15,848	767	6.5
Total	$ 655,333	$ 4,244	0.9%
Non–interest earning assets	123,439		
Total assets	$ 778,772		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 67,149	$ 136	0.3%
Non–U.S.	181	—	—
Commercial paper and other short–term borrowings:			
U.S.	514	4	1.0
Non–U.S.	1,638	31	2.5
Long–term debt:			
U.S.	165,487	3,539	2.9
Non–U.S.	7,169	58	1.1
Trading liabilities(1):			
U.S.	37,580	—	—
Non–U.S.	52,839	—	—
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	97,719	617	0.8
Non–U.S.	58,850	828	1.9
Other:			
U.S.	82,110	(1,285)	(2.1)
Non–U.S.	34,397	690	2.7
Total	$ 605,633	$ 4,618	1.0
Non–interest bearing liabilities and equity	173,139		
Total liabilities and equity	$ 778,772		
Net interest income and net interest rate spread		$ (374)	(0.1)%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

The following tables set forth an analysis of the effect on net interest income of volume and rate changes:

	Three Months Ended September 30, 2013 versus Three Months Ended September 30, 2012		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading Assets:			
U.S.	$ (80)	$ (36)	$ (116)
Non–U.S.	37	(75)	(38)
Securities available for sale:			
U.S.	16	15	31
Loans:			
U.S.	92	39	131
Non–U.S.	2	5	7
Interest bearing deposits with banks:			
U.S.	26	(29)	(3)
Non–U.S.	(3)	—	(3)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	(3)	(10)	(13)
Non–U.S.	(6)	5	(1)
Other:			
U.S.	—	149	149
Non–U.S.	104	(316)	(212)
Change in interest income	$ 185	$ (253)	$ (68)
Interest bearing liabilities			
Deposits:			
U.S.	$ 19	$ (21)	$ (2)
Commercial paper and other short–term borrowings:			
U.S.	1	(1)	—
Non–U.S.	4	(11)	(7)
Long–term debt:			
U.S.	(125)	(169)	(294)
Non–U.S.	37	(42)	(5)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	15	(58)	(43)
Non–U.S.	53	(60)	(7)
Other:			
U.S.	(99)	299	200
Non–U.S.	43	(219)	(176)
Change in interest expense	$ (52)	$ (282)	$ (334)
Change in net interest income	$ 237	$ 29	$ 266

FINANCIAL DATA SUPPLEMENT (Unaudited)—(Continued)
Rate/Volume Analysis

	Nine Months Ended September 30, 2013 versus Nine Months Ended September 30, 2012		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Trading assets:			
U.S.	$ (129)	$ (77)	$ (206)
Non–U.S.	99	(252)	(153)
Securities available for sale:			
U.S.	63	12	75
Loans:			
U.S.	276	73	349
Non–U.S.	20	3	23
Interest bearing deposits with banks:			
U.S.	7	7	14
Non–U.S.	(17)	(3)	(20)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	(9)	6	(3)
Non–U.S.	(28)	21	(7)
Other:			
U.S.	74	63	137
Non–U.S.	152	(474)	(322)
Change in interest income	$ 508	$ (621)	$ (113)
Interest bearing liabilities			
Deposits:			
U.S.	$ 38	$ (48)	$ (10)
Commercial paper and other short–term borrowings:			
U.S.	3	(5)	(2)
Non–U.S.	(10)	(5)	(15)
Long–term debt:			
U.S.	(274)	(484)	(758)
Non–U.S.	58	(63)	(5)
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	53	(116)	(63)
Non–U.S.	177	(188)	(11)
Other:			
U.S.	(226)	669	443
Non–U.S.	38	(604)	(566)
Change in interest expense	$ (143)	$ (844)	$ (987)
Change in net interest income	$ 651	$ 223	$ 874

Part II—Other Information.

Item 1. Legal Proceedings.

In addition to the matters described in the Company's Annual Report on Form 10–K for the year ended December 31, 2012 (the "Form 10–K"), the Company's Quarterly Reports on Form 10–Q for the quarterly periods ended March 31, 2013 (the "First Quarter Form 10–Q") and June 30, 2013 (the "Second Quarter Form 10–Q") and those described below, in the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

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

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

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

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

The following developments have occurred with respect to certain matters previously reported in the Form 10–K, the First Quarter Form 10–Q and the Second Quarter Form 10–Q or concern new actions that have been filed since the Second Quarter Form 10–Q:

Residential Mortgage and Credit Crisis Related Matters.

Class Actions.

On September 6, 2013, plaintiffs in *In re Morgan Stanley Mortgage Pass–Through Certificate Litigation* filed a motion for class certification.

On August 30, 2013, plaintiffs in *In re IndyMac Mortgage–Backed Securities Litigation* filed a motion to expand the certified class to include the reinstated offerings.

Other Litigation.

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

On August 2, 2013, the court presiding in *Federal Deposit Insurance Corporation, as Receiver for Franklin Bank S.S.B v. Morgan Stanley & Company LLC F/K/A Morgan Stanley & Co. Inc*. denied the Company's motion for an interlocutory appeal of its ruling on the Company's motion to dismiss.

On October 16, 2013, the court presiding in *Dexia SA/NV et al. v. Morgan Stanley, et al*. granted the defendants' motion to dismiss the amended complaint.

On October 14, 2013, the parties reached an agreement in principle to settle the *Bayerische Landesbank, New York Branch v. Morgan Stanley, et al*. litigation.

On August 16, 2013, defendants in *Metropolitan Life Insurance Company, et al. v. Morgan Stanley, et al*. filed a notice of appeal concerning the court's ruling that granted in part and denied in part the defendants' motion to dismiss. Plaintiffs filed a notice of cross–appeal on August 26, 2013.

On August 16, 2013, the court presiding in *Morgan Stanley Mortgage Loan Trust 2006–14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor to Morgan Stanley Mortgage Capital Inc.* granted in part and denied in part the Company's motion to dismiss the complaint. On September 17, 2013, the Company filed its answer to the complaint. On September 26, 2013, and October 7, 2013, the Company and the plaintiffs, respectively, filed notices of appeal with respect to the court's August 16, 2013 decision.

On August 1, 2013, the court in *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Citigroup Mortgage Loan Trust Inc. et al*. granted plaintiff's motion to remand the case to Alabama state court.

On September 12, 2013, plaintiffs in *Asset Management Fund d/b/a AMF Funds et al. v. Morgan Stanley et al.* filed a notice of appeal concerning the court's decision granting in part and denying in part the defendants' motion to dismiss. Defendants filed a notice of cross–appeal on September 26, 2013.

On October 2, 2013, the parties reached an agreement in principle to settle the *Stichting Pensioenfonds ABP v. Morgan Stanley, et al*. litigation.

On August 26, 2013, the Company filed a motion to dismiss the complaint in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007–NC1 v. Morgan Stanley ABS Capital I, Inc*.

On August 22, 2013, the Company a filed a motion to dismiss the complaint in *Morgan Stanley Mortgage Loan Trust 2007−2AX, by U.S. Bank National Association, solely in its capacity as Trustee v. Morgan Stanley Mortgage Capital Holdings LLC, as successor−by−merger to Morgan Stanley Mortgage Capital Inc., and Greenpoint Mortgage Funding, Inc.*

On September 11, 2013, the Company filed a motion to dismiss the summons with notice in *Seagull Point, LLC, individually and on behalf of Morgan Stanley ABS Capital I Inc. Trust 2007 HE−5 v. WMC Mortgage Corp., et al.* On October 4, 2013, plaintiff filed a complaint in the action. The complaint, filed in the Supreme Court of the State of New York, New York County ("Supreme Court of NY"), asserts claims for breach of contract and alleges, among other things, that the loans in the Trust, which had an original principal balance of approximately $1.19 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents and compensatory damages, including damages of not less than $475 million plus expenses, interest and fees.

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

On July 26, 2013, defendants in *IKB International S.A. In Liquidation v. Morgan Stanley et al.* filed a motion to dismiss the complaint.

On October 16, 2013, the Company filed a motion to dismiss the summons with notice in *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Morgan Stanley ABS Capital I Inc. Trust, Series 2007−NC3 (MSAC 2007−NC3) v. Morgan Stanley Mortgage Capital Holdings LLC as Successor−by−Merger to Morgan Stanley Mortgage Capital Inc.*

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

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

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

Other Matters.

American International Group, Inc., together with certain of its subsidiaries and affiliates (collectively "AIG"), terminated a tolling agreement with the Company, which termination will be effective November 7, 2013, and may file a lawsuit against the Company related to AIG's purchases of mortgage pass−through certificates sponsored or underwritten by the Company which were issued by securitization trusts containing residential loans. Between 2005 and 2007, the Company sponsored or underwrote approximately $3.7 billion of mortgage pass−through certificates purchased by AIG.

Matters Related to the CDS Market.

On October 16, 2013, the United States Judicial Panel on Multidistrict Litigation issued an order consolidating *The Sheet Metal Workers Local No. 33 Cleveland District Pension Plan vs. Bank of America Corporation et al.* and *Unipension Fondsmaeglerselskab A/S. et al. v. Bank of America Corporation et al.* actions, along with five additional actions, into a single proceeding in the SDNY styled *In Re: Credit Default Swaps Antitrust Litigation*.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the quarterly period ended September 30, 2013.

Issuer Purchases of Equity Securities
(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs(C)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (July 1, 2013—July 31, 2013)				
Share Repurchase Program(A)	—	—	—	$ 1,560
Employee Transactions(B)	366,272	$ 25.39	—	—
Month #2 (August 1, 2013—August 31, 2013)				
Share Repurchase Program(A)	1,525,000	$ 26.17	1,525,000	$ 1,520
Employee Transactions(B)	148,942	$ 26.37	—	—
Month #3 (September 1, 2013—September 30, 2013)				
Share Repurchase Program(A)	3,005,811	$ 27.49	3,005,811	$ 1,438
Employee Transactions(B)	73,506	$ 28.19	—	—
Total				
Share Repurchase Program(A)	4,530,811	$ 27.05	4,530,811	$ 1,438
Employee Transactions(B)	588,720	$ 25.99	—	—

(A) On December 19, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $6 billion of the Company's outstanding stock under a share repurchase program (the "Share Repurchase Program"). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity–based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Company are subject to regulatory approval. In July 2013, the Company received no objection from the Federal Reserve to repurchase up to $500 million of the Company's outstanding common stock under rules permitting annual capital distributions (12 Code of Federal Regulations 225.8, *Capital Planning*). For further information, see "Liquidity and Capital Resources—Capital Management" in Part I, Item 2.

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

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

Item 6. Exhibits.

An exhibit index has been filed as part of this Report on Page E–1.

SIGNATURE

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

MORGAN STANLEY
(Registrant)

By: /s/ RUTH PORAT
Ruth Porat
Executive Vice President and
Chief Financial Officer

By: /s/ PAUL C. WIRTH
Paul C. Wirth
Deputy Chief Financial Officer

Date: November 4, 2013

EXHIBIT INDEX

MORGAN STANLEY

Quarter Ended September 30, 2013

Exhibit No.	Description
3	Amended and Restated Certificate of Incorporation of Morgan Stanley, as amended to date (Exhibit 3 to Morgan Stanley's Quarterly Report on Form 10–Q for the quarter ended June 30, 2009), as amended by the Certificate of Elimination of Series B Non–Cumulative Non–Voting Perpetual Convertible Preferred Stock (Exhibit 3.1 Morgan Stanley's Current Report on Form 8–K dated July 20, 2011), as amended by the Certificate of Merger of Domestic Corporations dated December 29, 2011 (Exhibit 3.3 to Morgan Stanley's Annual Report on Form 10–K for the year ended December 31, 2012), as amended by the Certificate of Designation of Preferences and Rights of the Fixed–to–Floating Rate Non–Cumulative Preferred Stock, Series E (Exhibit 2.5 to Morgan Stanley's Registration Statement on Form 8–A dated September 27, 2013).
10.1	Third Amendment to Investor Agreement, dated October 3, 2013, between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc.
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Earnings to Fixed Charges and Preferred Stock Dividends.
15	Letter of awareness from Deloitte & Touche LLP, dated November 4, 2013, concerning unaudited interim financial information.
31.1	Rule 13a–14(a) Certification of Chief Executive Officer.
31.2	Rule 13a–14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S–T: (i) the Condensed Consolidated Statements of Financial Condition—September 30, 2013 and December 31, 2012, (ii) the Condensed Consolidated Statements of Income—Three Months and Nine Months Ended September 30, 2013 and 2012, (iii) the Condensed Consolidated Statements of Comprehensive Income—Three Months and Nine Months Ended September 30, 2013 and 2012, (iv) the Condensed Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2013 and 2012, (v) the Condensed Consolidated Statements of Changes in Total Equity—Nine Months Ended September 30, 2013 and 2012, and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–10.1

EX–10.1
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

Exhibit 10.1

Third Amendment to Investor Agreement

THIS THIRD AMENDMENT TO THE INVESTOR AGREEMENT (this "Amendment"), dated as of October 3, 2013, is made by and between Morgan Stanley, a Delaware corporation (the "Company"), and Mitsubishi UFJ Financial Group, Inc., a joint stock company organized under the laws of Japan (the "Investor").

W I T N E S S E T H:

WHEREAS, the Company and the Investor are parties to that certain Investor Agreement, dated as of October 13, 2008, and amended by the First Amendment to Investor Agreement, dated as of October 27, 2008, and amended and restated by the Amended and Restated Investor Agreement, dated as of June 30, 2011 (the Investor Agreement, as so amended and restated, the "Investor Agreement"); and

WHEREAS, the Company and the Investor have determined to further amend the Investor Agreement as set forth herein.

NOW THEREFORE, in consideration of the premises and of the respective representations, warranties, covenants and conditions contained herein, the parties hereto agree as follows:

1. Defined Terms. Capitalized terms used but not defined in this Amendment shall have the respective meanings ascribed to them in the Investor Agreement.

2. Amendments. The Investor Agreement is hereby amended as follows:

   2.1. The first sentence of Section 3.4 is amended and restated in its entirety as follows: ""Standstill Period" shall mean the period from the date hereof until the earlier of (i) April 13, 2016, and (ii) the occurrence of an Investor Rights Termination Event; provided, however, that the parties shall, prior to the expiration of the Standstill Period, discuss in good faith whether to extend the Standstill Period (with no obligation to extend)."

   2.2. Section 5.6 is amended and restated in its entirety as follows: "The preemptive right to purchase Covered Securities granted by this Article V shall not be available for any offering that commences at any time after (i) April 13, 2016 (the "Preemptive Rights Expiration Date") or (ii) the date on which the Investor Transfers any of the Securities that it acquired on the Closing Date or the Common Stock issued upon conversion of any Securities, or Hedges its exposure to the Common Stock, except as contemplated by clause (i) or (ii) of the first sentence of Section 4.1(a) and Section 4.1(e); provided, however, that the parties shall, no later than 3 months prior to the Preemptive Rights Expiration Date, discuss in good faith whether to extend the Preemptive Rights Expiration Date (with no obligation to extend)."

3. No Other Amendments. Except as expressly set forth herein, the Investor Agreement remains in full force and effect in accordance with its terms and nothing contained herein shall be deemed to be a waiver, amendment, modification or other change of any term, condition or provision of the Investor Agreement (or a consent to any such waiver, amendment, modification or other change). All references in the Investor Agreement to the Investor Agreement shall be deemed to be references to the Investor Agreement after giving effect to this Amendment.

4. Changes. This Amendment may not be modified or amended except pursuant to an instrument in writing signed by the Company and the Investor.

5. Headings. The headings of the various sections of this Amendment have been inserted for convenience or reference only and shall not be deemed to be part of this Amendment.

6. Applicable Law and Submission to Jurisdiction. This Amendment will be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts made and to be performed within the State of Delaware. The provisions of Sections 9.5 and 9.12 of the Investor Agreement shall apply to this Amendment as if each such provision were set forth herein in their entirety.

7. Counterparts. This Amendment may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement.

Please confirm that the foregoing correctly sets forth the agreement between us by signing in the space provided below for that purpose.

AGREED AND ACCEPTED:

MORGAN STANLEY		MITSUBISHI UFJ FINANCIAL GROUP, INC.	
By:	/s/ Ruth Porat	By:	/s/ Masaaki Tanaka
Name:	Ruth Porat	Name:	Masaaki Tanaka
Title:	Chief Financial Officer	Title:	Deputy President

[*Signature Page to Third Amendment to Investor Agreement*]

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–12

EX–12
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

EXHIBIT 12

Morgan Stanley
Ratio of Earnings to Fixed Charges
and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
(dollars in millions)
(unaudited)

	Nine Months Ended September 30, 2013	2012	2011	2010	2009	Fiscal 2008	One Month Ended December 31, 2008
Ratio of Earnings to Fixed Charges							
Earnings:							
Income (loss) before income taxes(1)	$ 3,765	$ (110)	$ 6,559	$ 4,568	$1,117	$ 1,081	$ (1,993)
Add: Fixed charges, net	3,843	6,206	7,166	6,684	7,112	36,636	1,180
Income (loss) before income taxes and fixed charges, net	$ 7,608	$6,096	$13,725	$11,252	$8,229	$37,717	$ (813)
Fixed Charges:							
Total interest expense	$ 3,631	$5,912	$ 6,880	$ 6,405	$6,861	$36,412	$ 1,160
Interest factor in rents	212	294	286	279	251	224	20
Total fixed charges	$ 3,843	$6,206	$ 7,166	$ 6,684	$7,112	$36,636	$ 1,180
Ratio of earnings to fixed charges	2.0	1.0	1.9	1.7	1.2	1.0	*
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends							
Earnings:							
Income (loss) before income taxes(1)	$ 3,765	$ (110)	$ 6,559	$ 4,568	$1,117	$ 1,081	$ (1,993)
Add: Fixed charges, net	3,843	6,206	7,166	6,684	7,112	36,636	1,180
Income (loss) before income taxes and fixed charges, net	$ 7,608	$6,096	$13,725	$11,252	$8,229	$37,717	$ (813)
Fixed Charges:							
Total interest expense	$ 3,631	$5,912	$ 6,880	$ 6,405	$6,861	$36,412	$ 1,160
Interest factor in rents	212	294	286	279	251	224	20
Preferred stock dividends	97	96	380	1,001	2,041	122	496
Total fixed charges and preferred stock dividends	$ 3,940	$6,302	$ 7,546	$ 7,685	$9,153	$36,758	$ 1,676
Ratio of earnings to fixed charges and preferred stock dividends	1.9	1.0	1.8	1.5	0.9	1.0	*

(1) Income (loss) from continuing operations before income taxes does not include dividends on preferred securities subject to mandatory redemption, gain (loss) on discontinued operations, noncontrolling interests and income or loss from equity investees.

Fixed charges consist of interest cost, including interest on deposits, interest on discontinued operations, dividends on preferred securities subject to mandatory redemption, and that portion of rent expense to be representative of the interest factor.

Fixed charges do not include interest expense on uncertain tax liabilities as the Company records these amounts within the Provision for income taxes.

The preferred stock dividend amounts represent pre−tax earnings required to cover dividends on preferred stock.

* The earnings for the one month ended December 31, 2008 were inadequate to cover total fixed charges and total fixed charges and preferred stock dividends.

The coverage deficiency for total fixed charges for the one month ended December 31, 2008 was $1,993 million.

The coverage deficiency for total fixed charges and preferred stock dividends for the one month ended December 31, 2008 was $2,489 million.

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–15

EX–15
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

EXHIBIT 15

To the Board of Directors and Shareholders of Morgan Stanley:

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited condensed consolidated financial information of Morgan Stanley and subsidiaries for the three–month and nine–month periods ended September 30, 2013 and 2012, and have issued our report dated November 4, 2013. As indicated in such report, because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10–Q for the quarter ended September 30, 2013, is being incorporated by reference in the following Registration Statements of Morgan Stanley:

Filed on Form S–3:
Registration Statement No. 33–57202
Registration Statement No. 33–60734
Registration Statement No. 33–89748
Registration Statement No. 33–92172
Registration Statement No. 333–07947
Registration Statement No. 333–27881
Registration Statement No. 333–27893
Registration Statement No. 333–27919
Registration Statement No. 333–46403
Registration Statement No. 333–46935
Registration Statement No. 333–76111
Registration Statement No. 333–75289
Registration Statement No. 333–34392
Registration Statement No. 333–47576
Registration Statement No. 333–83616
Registration Statement No. 333–106789
Registration Statement No. 333–117752
Registration Statement No. 333–129243
Registration Statement No. 333–131266
Registration Statement No. 333–155622
Registration Statement No. 333–156423
Registration Statement No. 333–178081

Filed on Form S–4:
Registration Statement No. 333–25003

Filed on Form S–8:
Registration Statement No. 33–63024
Registration Statement No. 33–63026
Registration Statement No. 33–78038
Registration Statement No. 33–79516
Registration Statement No. 33–82240
Registration Statement No. 33–82242
Registration Statement No. 33–82244
Registration Statement No. 333–04212
Registration Statement No. 333–28141
Registration Statement No. 333–28263
Registration Statement No. 333–62869
Registration Statement No. 333–78081
Registration Statement No. 333–95303
Registration Statement No. 333–85148
Registration Statement No. 333–85150
Registration Statement No. 333–108223
Registration Statement No. 333–142874
Registration Statement No. 333–146954
Registration Statement No. 333–159503
Registration Statement No. 333–159504
Registration Statement No. 333–159505
Registration Statement No. 333–168278
Registration Statement No. 333–172634
Registration Statement No. 333–177454
Registration Statement No. 333–183595
Registration Statement No. 333–188649

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statements prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP
New York, New York
November 4, 2013

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–31.1

EX–31.1
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

EXHIBIT 31.1

Certification

I, James P. Gorman, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Morgan Stanley;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2013

/s/ JAMES P. GORMAN
James P. Gorman
Chairman and Chief Executive Officer

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–31.2

EX–31.2
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

EXHIBIT 31.2

Certification

I, Ruth Porat, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Morgan Stanley;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2013

/s/ RUTH PORAT
Ruth Porat
Executive Vice President and Chief Financial Officer

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–32.1

EX–32.1
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of Morgan Stanley (the "Company") on Form 10–Q for the quarter ended September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Gorman, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES P. GORMAN
James P. Gorman
Chairman and Chief Executive Officer

Dated: November 4, 2013

MORGAN STANLEY (MS)

1585 BROADWAY
NEW YORK, NY 10036
212–761–4000

EX–32.2

EX–32.2
10–Q Filed on 11/04/2013 – Period: 09/30/2013
File Number 001–11758

THOMSON REUTERS

LIVEDGAR® Information Provided by Thomson Reuters Westlaw, ©2011. All Rights Reserved.
800.669.1154
www.gsionline.com

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of Morgan Stanley (the "Company") on Form 10–Q for the quarter ended September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ruth Porat, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RUTH PORAT
Ruth Porat
Executive Vice President and Chief Financial Officer

Dated: November 4, 2013