MORGAN STANLEY
Form 10-K
February 26, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2009

Commission File Number 1-11758

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ANNUAL REPORT ON FORM 10-K

for the year ended December 31, 2009

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Forward-Looking Statements

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

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

- the effect of political and economic conditions and geopolitical events;
- the effect of market conditions, particularly in the global equity, fixed income and credit markets, including corporate and mortgage (commercial and residential) lending and commercial real estate investments;
- the impact of current, pending and future legislation, regulation, and legal actions in the U.S. and worldwide;
- the level and volatility of equity, fixed income and commodity prices and interest rates, currency values and other market indices;
- the availability and cost of both credit and capital as well as the credit ratings assigned to Morgan Stanley s unsecured short-term and long-term debt;
- investor sentiment and confidence in the financial markets;
- our reputation;
- the actions and initiatives of current and potential competitors;
- technological changes; and
- other risks and uncertainties detailed under Competition and Supervision and Regulation in Part I, Item 1, Risk Factors in Part I, Item 1A, and elsewhere throughout this report.

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

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Part I

Item 1. Business.

Overview.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. Morgan Stanley is a financial holding company regulated by the Board of Governors of the Federal Reserve System (the Fed) under the Bank Holding Company Act of 1956, as amended (the BHC Act). Morgan Stanley conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers. At December 31, 2009, Morgan Stanley had 61,388* employees worldwide. Unless the context otherwise requires, the terms Morgan Stanley, the Company, we, us and our mean Morgan Stanley and its consolidated subsidiaries.

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

Available Information.

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

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

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

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;

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

Charters for its Audit Committee; Internal Audit Subcommittee; Compensation, Management Development and Succession Committee; Nominating and Governance Committee; and Risk Committee;

Corporate Governance Policies;

Policy Regarding Communication with the Board of Directors;

Policy Regarding Director Candidates Recommended by Shareholders;

Policy Regarding Corporate Political Contributions;

Policy Regarding Shareholder Rights Plan;

Code of Ethics and Business Conduct;

Code of Conduct; and

Integrity Hotline information.

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

Business Segments.

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

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

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

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

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

Institutional Securities.

Morgan Stanley provides financial advisory and capital-raising services to a diverse group of corporate and other institutional clients globally, primarily through wholly owned subsidiaries that include Morgan Stanley & Co. Incorporated (MS&Co.), Morgan Stanley & Co. International plc, Morgan Stanley Japan Securities Co., Ltd. and Morgan Stanley Asia Limited. These and other subsidiaries also conduct sales and trading activities worldwide, as principal and agent, and provide related financing services on behalf of institutional investors.

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Investment Banking and Corporate Lending Activities.

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

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

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

Sales and Trading Activities.

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

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

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

Interest Rates, Credit and Currencies. Morgan Stanley trades, makes markets and takes long and short proprietary positions in fixed income securities and related products globally, including, among other products, investment and non-investment grade corporate debt, distressed debt, bank loans, U.S. and other sovereign securities, emerging market bonds and loans, convertible bonds, collateralized debt obligations, credit, currency and other fixed income-linked notes, and securities issued by structured investment vehicles, mortgage-related and other asset-backed securities and real estate-loan products, municipal securities, preferred stock and commercial paper, money-market and other short-term securities. Morgan Stanley is a primary dealer of U.S. Federal Government securities and a member of the selling groups that distribute various U.S. agency and other debt securities. Morgan Stanley is also a primary dealer or market maker of government securities in numerous European, Asian and emerging market countries.

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

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

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

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

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

Commodities. Morgan Stanley trades as principal and maintains long and short proprietary trading positions in the spot, forward and futures markets in several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, liquefied natural gas and related products and indices. Morgan Stanley is a market-maker in exchange-traded options and futures and OTC options and swaps on commodities, and offers counterparties hedging programs relating to production, consumption, reserve/inventory management and structured transactions, including energy-contract securitizations. Morgan Stanley is an electricity power marketer in the U.S. and owns electricity generating facilities in the U.S. and Europe.

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

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

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

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

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Operations and Information Technology.

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

Global Wealth Management Group.

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

Clients.

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

Products and Services.

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

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

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

Operations and Information Technology.

As a result of the MSSB joint venture, most of the operations and technology supporting the Global Wealth Management Group are provided either by Morgan Stanley s Operations and Information Technology departments or by Citi. Pursuant to contractual agreements, Morgan Stanley and Citi perform various

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broker-dealer related functions, such as execution and clearing of brokerage transactions, margin lending and custody of client assets. For Morgan Stanley, these activities are undertaken through Morgan Stanley s own facilities, through memberships in various clearing and settlement organizations, and through agreements with unaffiliated third parties. Morgan Stanley and Citi provide certain other services and systems to support the Global Wealth Management Group, including through transition services agreements with MSSB.

Asset Management.

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

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

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

Institutional Investors.

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

Individual Investors.

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

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

Operations and Information Technology.

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

Research.

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

Competition.

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

Institutional Securities and Global Wealth Management Group.

Morgan Stanley s competitive position depends on innovation, execution capability and relative pricing. Morgan Stanley competes directly in the U.S. and globally with other securities and financial services firms and broker-dealers, and with others on a regional or product basis.

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

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

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

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

Asset Management.

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

Supervision and Regulation.

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

Regulatory Outlook.

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

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

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

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

Financial Holding Company.

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

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

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

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

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

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

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

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

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

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

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

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

Morgan Stanley currently calculates its capital ratios and risk-weighted assets in accordance with the capital adequacy standards for financial holding companies adopted by the Fed, which are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. U.S. banking regulators are in the process of incorporating the Basel II Accord into the existing risk based capital requirements and Morgan Stanley is working with its regulators accordingly to transition to these requirements.

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

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

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

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

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

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

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

Anti-Money Laundering.

Morgan Stanley s Anti-Money Laundering (AML) program is coordinated on an enterprise-wide basis. In the U.S., for example, the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (the BSA/USA PATRIOT Act), imposes significant obligations on financial institutions to detect and deter money laundering and terrorist financing activity, including requiring banks, bank holding company subsidiaries, broker-dealers, future commission merchants, and mutual funds to identify and verify customers that maintain accounts. The BSA/USA PATRIOT Act also mandates that financial institutions have policies, procedures and internal processes in place to monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Financial institutions subject to the BSA/USA PATRIOT Act also must designate a BSA/AML compliance officer, provide employees with training on money laundering prevention, and undergo an annual, independent audit to assess the effectiveness of its AML program. Outside the U.S., applicable laws, rules and regulations similarly subject designated types of financial institutions to AML program requirements. Morgan Stanley has implemented policies, procedures and internal controls that are designed to comply with AML program requirements. Morgan Stanley has also implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Department of the Treasury s Office of Foreign Assets Control (OFAC), which enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals, and other multi-national organizations and governmental agencies worldwide.

Anti-Corruption.

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

Protection of Client Information.

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

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Research.

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

Institutional Securities and Global Wealth Management Group.

Broker-Dealer Regulation. Morgan Stanley s primary U.S. broker-dealer subsidiaries, MS&Co. and MSSB LLC, are registered broker-dealers with the SEC and in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and are members of various self-regulatory organizations, including the Financial Industry Regulatory Authority, Inc. (FINRA) and securities exchanges, including the NYSE. In addition, MS&Co. and MSSB LLC are registered investment advisers with the SEC. Broker-dealers are subject to laws and regulations covering all aspects of the securities business, including sales and trading practices, securities offerings, publication of research reports, use of customers funds and securities, capital structure, record-keeping and retention and the conduct of their directors, officers, representatives and other associated persons. Broker-dealers are also regulated by securities administrators in those states where they do business. Violations of the laws and regulations governing a broker-dealer s actions could result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of such broker-dealer or its officers or employees, or other similar consequences by both federal and state securities administrators.

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

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

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

MS&Co. and MSSB LLC are members of the Securities Investor Protection Corporation (SIPC), which provides protection for customers of broker-dealers against losses in the event of the liquidation of a broker-dealer. SIPC protects customers securities accounts held by a member broker-dealer up to $500,000 for each eligible customer, subject to a limitation of $100,000 for claims for cash balances. To supplement this

SIPC

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

Regulation of Certain Commodities Activities. The commodities activities in the Institutional Securities business segment are subject to extensive and evolving energy, commodities, environmental, health and safety and other governmental laws and regulations in the U.S. and abroad. Intensified scrutiny of certain energy markets by U.S. federal, state and local authorities in the U.S. and abroad and by the public has resulted in increased regulatory and legal enforcement and remedial proceedings involving energy companies, including those engaged in power generation and liquid hydrocarbons trading.

Terminal facilities and other assets relating to Morgan Stanley s commodities activities are also subject to environmental laws both in the U.S. and abroad. In addition, pipeline, transport and terminal operations are subject to state laws in connection with the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent wastes for disposal.

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

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

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Japanese Securities Dealers Association and several Japanese securities and futures exchanges, including the Tokyo Stock Exchange, the Osaka Securities Exchange and the Tokyo International Financial Futures Exchange, regulate its activities in Japan; the Hong Kong Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited regulate its operations in Hong Kong; and the Monetary Authority of Singapore and the Singapore Exchange Limited regulate its business in Singapore.

Asset Management.

Many of the subsidiaries engaged in Morgan Stanley s asset management activities are registered as investment advisers with the SEC and, in certain states, some employees or representatives of subsidiaries are registered as investment adviser representatives. Many aspects of Morgan Stanley s asset management activities are subject to federal and state laws and regulations primarily intended to benefit the investor or client. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Morgan Stanley from carrying on its asset management activities in the event that it fails to comply with such laws and regulations. Sanctions that may be imposed for such failure include the suspension of individual employees, limitations on Morgan Stanley engaging in various asset management activities for specified periods of time or specified types of clients, the revocation of registrations, other censures and fines.

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

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

Executive Officers of Morgan Stanley.

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

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

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

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

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

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

Gregory J. Fleming (46). Executive Vice President and President of Asset Management and Research of Morgan Stanley (since February 2010). Senior Research Scholar at Yale Law School and Distinguished Visiting Fellow of the Center for the Study of Corporate Law at Yale Law School (January 2009 to December 2009). President of Merrill Lynch (February 2008 to January 2009). Co-President of Merrill Lynch (May 2007 February 2008). Executive Vice President and Co-President of the Global Markets and Investment Banking Group of Merrill Lynch (August 2003 to May 2007).

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

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

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

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

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

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Item 1A. Risk Factors.

Liquidity and Funding Risk.

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

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

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

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

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

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

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

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

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

Our ability to raise funding in the long-term or short-term debt capital markets or the equity markets, or to access secured lending markets, has in the past been, and could in the future be, adversely affected by conditions in the U.S. and international markets and economy. Global market and economic conditions have been particularly disrupted and volatile during the past two years, with volatility reaching unprecedented levels in the Fall of 2008 and into 2009. In particular, our cost and availability of funding have been, and may in the future be, adversely affected by illiquid credit markets and wider credit spreads. Renewed turbulence in the U.S. and international markets and economy could adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices of commodities or securities, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio. For more information on how we monitor and manage market risk, see Qualitative and Quantitative Disclosure about Market Risk Risk Management Market Risk in Part II, Item 7A herein.

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

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

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

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

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

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, such as crowded trades. Morgan Stanley s risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have historically been difficult to predict, however, and Morgan Stanley could realize significant losses if unprecedented extreme market events were to occur, such as conditions in the global financial markets and global economy that prevailed from 2008 into 2009.

Holding large and concentrated positions may expose us to losses.

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

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

We finance and acquire principal positions in a number of real estate and real estate-related products for our own account, for investment vehicles managed by affiliates in which we also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets. We also originate loans secured by commercial and residential properties. Further, we securitize and trade in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. These businesses have been, and may continue to be, adversely affected by the downturn in the real estate sector.

Credit Risk.

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

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

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

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

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

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

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

Operational Risk.

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

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

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

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

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

Legal Risk.

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

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

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

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

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

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

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

Substantial legal liability could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. For more information regarding legal proceedings in which we are involved see Legal Proceedings in Part I, Item 3 herein.

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

We are affected by fiscal and monetary policies adopted by regulatory authorities and bodies of the U.S. and other governments. For example, the actions of the Fed and international central banking authorities directly impact our cost of funds for lending, capital raising and investment activities and may impact the value of financial instruments we hold. In addition, such changes in monetary policy may affect the credit quality of our customers. Changes in domestic and international monetary policy are beyond our control and difficult to predict.

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

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

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

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

A failure to deal with conflicts of interest appropriately could adversely affect our businesses.

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

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

Competitive Environment.

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

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

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

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

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

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

International Risk.

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

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

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

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

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

Acquisition Risk.

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

In connection with past or future acquisitions, combinations, joint ventures or strategic alliances, we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients and business partners. In the case of joint ventures and minority stakes, we are subject to additional risks and uncertainties because we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control. In addition, conflicts or disagreements between us and our joint venture partners may negatively impact the benefits to be achieved by the joint venture. There is no assurance that any of our acquisitions will be successfully integrated or yield all of the positive benefits anticipated. If we are not able to integrate successfully our past and future acquisitions, there is a risk that our results of operations, financial condition and cash flows may be materially and adversely affected.

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

Risk Management.

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

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

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including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of market, credit, liquidity, operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. For more information on how we monitor and manage market and certain other risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk in Part II, Item 7A herein.

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

Item 1B. Unresolved Staff Comments.

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

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Item 2. Properties.

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

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

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

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

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Item 3. Legal Proceedings.

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

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

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

Residential Mortgage-Related Matters.

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

Class Actions. Beginning in December 2007, several purported class action complaints were filed in the U.S. District Court for the Southern District of New York (the SDNY) asserting claims on behalf of participants in the Company s 401(k) plan and employee stock ownership plan against the Company and other parties, including certain present and former directors and officers, under the Employee Retirement Income Security Act of 1974 (ERISA). In February 2008, these actions were consolidated in a single proceeding, which is styled *In re Morgan Stanley ERISA Litigation*. The consolidated complaint relates in large part to the Company s subprime and other mortgage related losses, but also includes allegations regarding the Company s disclosures, internal controls, accounting and other matters. The consolidated complaint alleges, among other things, that the Company s stock was not a prudent investment and that risks associated with its stock and its financial condition were not adequately disclosed. On December 9, 2009, the court denied defendants motion to dismiss the consolidated complaint.

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

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

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

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

Auction Rate Securities Matters.

On August 27, 2008, a shareholder derivative complaint, which was styled *Louisiana Municipal Police Employees Retirement System v. Mack, et al.*, was filed in the SDNY. On September 12, 2008, a second complaint, which was styled *Thomas v. Mack, et al.*, was filed in the SDNY. The complaints were substantially similar and named as defendants the members of the Company s Board of Directors as well as certain current and former officers. Morgan Stanley, on whose behalf the suits were purportedly brought, is named as a nominal defendant in each action. The complaints raised claims of breach of fiduciary duty, abuse of control, gross mismanagement, and violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934, as amended, related to the Company s sale of auction rate securities (ARS) over the period from June 20, 2007 to the present. Among other things, the complaints alleged that, over the relevant period, Morgan Stanley s public filings and statements were materially false and misleading in that they failed to disclose the illiquid nature of its ARS inventories and that Morgan Stanley s practices in the sale of ARS exposed it to significant liability for settlements and judgments. The complaints also alleged that during the relevant period certain defendants sold Morgan Stanley s stock while in possession of material non-public information. The complaints sought, among other things, unspecified compensatory damages, restitution from the defendants with respect to compensation, benefits and profits obtained, and the institution of certain reforms to Morgan Stanley s internal control functions. On November 24, 2008, the SDNY ordered the consolidation of the two actions. On February 2, 2009, plaintiffs filed a consolidated amended complaint, styled as *In re Morgan Stanley & Co. Inc. Auction Rate Securities Derivative Litigation*. On June 23, 2009, the SDNY granted defendants motion to dismiss the consolidated complaint for failure by plaintiffs to make a pre-litigation demand on the Company s Board of Directors. In addition, the SDNY set a schedule for plaintiffs to make such a demand, for the Board of Directors to respond thereto, and for further proceedings before the SDNY, which may include a motion for leave to file an amended complaint.

Executive Compensation-Related Matter.

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

China Matter.

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

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

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

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Part II

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

Morgan Stanley s common stock trades on the NYSE under the symbol MS. As of February 22, 2010, Morgan Stanley had approximately 92,935 holders of record; however, Morgan Stanley believes the number of beneficial owners of common stock exceeds this number.

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

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

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

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

Issuer Purchases of Equity Securities

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (C)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (October 1, 2009 October 31, 2009)				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	99,543	$ 31.98		
Month #2 (November 1, 2009 November 30, 2009)				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	103,633	$ 31.14		
Month #3 (December 1, 2009 December 31, 2009)				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	198,857	$ 30.05		
Total				
Share Repurchase Program (A)				$ 1,560
Employee Transactions (B)	402,033	$ 30.81		

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

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

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

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

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

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Item 6. Selected Financial Data.

MORGAN STANLEY

SELECTED FINANCIAL DATA

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

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

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

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

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

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

Introduction.

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

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

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

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

Change in Fiscal Year-End.

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

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

Discontinued Operations.

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

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

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

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

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

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

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

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Executive Summary.

Financial Information.

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

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

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

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

N/M Not Meaningful.

N/A Not Applicable.

(1) Information includes MSSB effective from May 31, 2009 (see Note 3 to the consolidated financial statements).

(2) Certain prior-period information has been reclassified to conform to the current period s presentation.

(3) Amounts include operating results and gains on secondary offerings related to MSCI, operating results and gains (losses) related to the disposition of Crescent, operating results of Retail Asset Management and other discontinued operations.

(4) For the calculation of basic and diluted EPS, see Note 14 to the consolidated financial statements.

(5) Regional net revenues in Europe, Middle East and Africa were negatively impacted by the tightening of the Company s credit spreads resulting from the increase in fair value of certain of the Company s long-term and short-term borrowings, primarily structured notes, in 2009. Regional net revenues reflect the regional view of the Company s consolidated net revenues, on a managed basis, based on the following methodology:
Institutional Securities: advisory and equity underwriting client location; debt underwriting revenue recording location; sales and trading trading desk location. Global Wealth Management Group: global representative location. Asset Management: client location, except for the merchant banking business, which is based on asset location.

(6) The computation of average common equity for each business segment is based upon an economic capital framework that estimates the amount of equity capital required to support the businesses over a wide range of market environments while simultaneously satisfying regulatory, rating agency and investor requirements. Economic capital is assigned to each business segment based on a regulatory capital framework plus additional capital for stress losses. Economic capital requirements are met by regulatory Tier 1 equity (including Morgan Stanley shareholders equity, certain preferred stock, eligible hybrid capital instruments, non-controlling interests and deductions of certain goodwill, intangible assets, net deferred tax assets and debt valuation adjustment (DVA)), subject to regulatory limits. The economic capital framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The effective tax rates used in the computation of business segment return on average common equity were determined on a separate entity basis.

(7) Book value per common share equals common shareholders equity of $37,091 million as of December 31, 2009, $31,676 million as of November 30, 2008, $30,169 million as of November 30, 2007 and $29,585 million as of December 31, 2008, divided by common shares outstanding of 1,361 million as of December 31, 2009, 1,048 million as of November 30, 2008, 1,056 million as of November 30, 2007 and 1,074 million as of December 31, 2008.

(8) Tangible common equity equals common shareholders equity less goodwill and intangible assets net of allowable mortgage servicing rights. The deduction for goodwill and intangible assets in 2009 includes only the Company s share of MSSB s goodwill and intangible assets.

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

Global Market and Economic Conditions in 2009.

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

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

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

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

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

Overview of 2009 Financial Results Compared with Fiscal 2008.

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

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

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

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

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

Overview of 2009 Segment Results Compared with Fiscal 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Certain Factors Affecting Results of Operations.

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

Results of Operations.

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

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

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

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

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

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

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

See Other Matters Real Estate herein for further information.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity Capital-Related Transactions.

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

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

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

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

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

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

Business Segments.

Substantially all of the Company s operating revenues and operating expenses can be directly attributed to its business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective revenues or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company s consolidated results. Income before taxes in Intersegment Eliminations primarily represents the effect of timing differences associated with the revenue and expense recognition of commissions paid by the Asset Management business segment to the Global Wealth Management Group business segment associated with sales of certain products and the related compensation costs paid to the Global Wealth Management Group business segment s global representatives. Intersegment eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Global Wealth Management Group business segment related to the bank deposit program. Losses before income taxes recorded in Intersegment Eliminations were $11 million, $17 million, $84 million and $1 million in 2009, fiscal 2008, fiscal 2007 and the one month ended December 31, 2008, respectively.

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INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

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

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

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Other Financial Information.

Investment Banking.

Investment banking revenues were as follows:

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

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

Sales and Trading.

Sales and trading revenues were as follows:

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

Sales and trading revenues are composed of principal transactions trading revenues, commissions and net interest revenues (expenses). In assessing the profitability of its sales and trading activities, the Company views principal trading, commissions and net interest revenues (expenses) in the aggregate. In addition, decisions relating to principal transactions are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions, dividends, the interest income or expense associated with financing or hedging the Company s positions, and other related expenses.