

NO ACT

PE  
1-2-11



DIVISION OF  
CORPORATION FINANCE

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549-4561



11005745

February 17, 2011

Marc O. Williams  
Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, NY 10017

Received SEC  
FEB 17 2011  
Washington, DC 20549

Act: 1934  
Section: \_\_\_\_\_  
Rule: 14a-8  
Public  
Availability: 02-17-2011

Re: Morgan Stanley  
Incoming letter dated January 7, 2011

Dear Mr. Williams:

This is in response to your letter dated January 7, 2011 concerning the shareholder proposal submitted to Morgan Stanley by the Missionary Oblates of Mary Immaculate, the Marianist Province of the United States, and the Libra Fund, L.P. Our response is attached to the enclosed photocopy of your correspondence. By doing this, we avoid having to recite or summarize the facts set forth in the correspondence. Copies of all of the correspondence also will be provided to the proponents.

In connection with this matter, your attention is directed to the enclosure, which sets forth a brief discussion of the Division's informal procedures regarding shareholder proposals.

Sincerely,

Gregory S. Belliston  
Special Counsel

Enclosures

cc: Séamus P. Finn, OMI  
Director  
Justice, Peace and Integrity of Creation Office  
Missionary Oblates of Mary Immaculate  
391 Michigan Avenue, NE  
Washington, DC 20017

Davis Polk & Wardwell, LLP  
February 17, 2011  
Page 2

Myles McCabe  
Director of Peace and Justice  
Marianist Province of the US  
4425 West Pine Boulevard  
St. Louis, MO 63108-2301

Farha-Joyce Haboucha  
Managing Director/Director,  
Socially Responsive Investments  
Rockefeller Financial  
10 Rockefeller Plaza  
3rd Floor  
New York, NY 10020

February 17, 2011

**Response of the Office of Chief Counsel**  
**Division of Corporation Finance**

Re: Morgan Stanley  
Incoming letter dated January 7, 2011

The proposal requests that the board report to shareholders “the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company’s business lines.”

There appears to be some basis for your view that Morgan Stanley may exclude the proposal under rule 14a-8(i)(7), as relating to Morgan Stanley’s ordinary business operations. We note that the proposal relates to the manner in which Morgan Stanley manages risk. Accordingly, we will not recommend enforcement action to the Commission if Morgan Stanley omits the proposal from its proxy materials in reliance on rule 14a-8(i)(7). In reaching this position, we have not found it necessary to address the alternative bases for omission upon which Morgan Stanley relies.

Sincerely,

Robert Errett  
Attorney-Adviser

**DIVISION OF CORPORATION FINANCE  
INFORMAL PROCEDURES REGARDING SHAREHOLDER PROPOSALS**

The Division of Corporation Finance believes that its responsibility with respect to matters arising under Rule 14a-8 [17 CFR 240.14a-8], as with other matters under the proxy rules, is to aid those who must comply with the rule by offering informal advice and suggestions and to determine, initially, whether or not it may be appropriate in a particular matter to recommend enforcement action to the Commission. In connection with a shareholder proposal under Rule 14a-8, the Division's staff considers the information furnished to it by the Company in support of its intention to exclude the proposals from the Company's proxy materials, as well as any information furnished by the proponent or the proponent's representative.

Although Rule 14a-8(k) does not require any communications from shareholders to the Commission's staff, the staff will always consider information concerning alleged violations of the statutes administered by the Commission, including argument as to whether or not activities proposed to be taken would be violative of the statute or rule involved. The receipt by the staff of such information, however, should not be construed as changing the staff's informal procedures and proxy review into a formal or adversary procedure.

It is important to note that the staff's and Commission's no-action responses to Rule 14a-8(j) submissions reflect only informal views. The determinations reached in these no-action letters do not and cannot adjudicate the merits of a company's position with respect to the proposal. Only a court such as a U.S. District Court can decide whether a company is obligated to include shareholder proposals in its proxy materials. Accordingly a discretionary determination not to recommend or take Commission enforcement action, does not preclude a proponent, or any shareholder of a company, from pursuing any rights he or she may have against the company in court, should the management omit the proposal from the company's proxy material.

New York  
Menlo Park  
Washington DC  
London  
Paris  
Madrid  
Tokyo  
Beijing  
Hong Kong

# Davis Polk

Marc O. Williams

Davis Polk & Wardwell LLP    212 450 6145 tel  
450 Lexington Avenue        212 701 5843 fax  
New York, NY 10017         marc.williams@davispolk.com

January 7, 2011

Office of Chief Counsel  
Division of Corporation Finance  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549  
via email: [shareholderproposals@sec.gov](mailto:shareholderproposals@sec.gov)

Ladies and Gentlemen:

On behalf of Morgan Stanley, a Delaware corporation (the “Company”), and in accordance with Rule 14a-8(j) under the Securities Exchange Act of 1934, as amended (the “’34 Act”), we are filing this letter with respect to the shareholder proposal and supporting statements (the “Proposal”) submitted by the Missionary Oblates of Mary Immaculate, the Marianists Province of the United States and the Libra Fund, L.P. (collectively, the “Proponents”) on December 10, 2010, December 13, 2010 and December 13, 2010, respectively, for inclusion in the proxy materials Morgan Stanley intends to distribute in connection with its 2011 Annual Meeting of Shareholders (the “2011 Proxy Materials”). The Proposal and respective correspondence are attached hereto as Exhibit A.

We hereby request confirmation that the Staff of the Division of Corporation Finance (the “Staff”) will not recommend any enforcement action if, in reliance on Rule 14a-8, Morgan Stanley omits the Proposal from the 2011 Proxy Materials. In accordance with Rule 14a-8(j), this letter is being filed with the Securities and Exchange Commission (the “Commission”) not less than 80 days before Morgan Stanley plans to file its definitive proxy statement.

Pursuant to Staff Legal Bulletin No. 14D (CF), Shareholder Proposals (November 7, 2008), question C, we have submitted this letter and any related correspondence via email to [shareholderproposals@sec.gov](mailto:shareholderproposals@sec.gov). Also, in accordance with Rule 14a-8(j), a copy of this submission is being sent simultaneously to the Proponents as notification of the Company’s intention to omit the Proposal from its 2011 Proxy Materials. This letter constitutes the Company’s statement of the reasons it deems the omission of the Proposal to be proper.

## THE PROPOSAL

The Proposal directs “that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company’s business lines.”

## REASONS FOR EXCLUSION OF PROPOSAL

The Company believes that the Proposal may be properly omitted from the 2011 Proxy Materials pursuant to:

- Rule 14a-8(i)(10) because the Company has already substantially implemented the Proposal;
- Rule 14a-8(i)(3) because the Proposal is impermissibly vague and indefinite so as to be misleading in violation of Rule 14a-9;
- Rule 14a-8(i)(7) because the Proposal deals with a matter relating to the ordinary business operations of the Company; and
- Rule 14a-8(i)(1) because the Proposal deals with a matter that is not a proper subject for action by stockholders under Delaware law.

**1. The Company may omit the Proposal pursuant to Rule 14a-8(i)(10) because it has been substantially implemented.**

The Proposal directs the Board to report to shareholders on “the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all operations of the company’s business lines.” The Company’s public filings already provide extensive information of the very type requested by the Proposal. Accordingly, the Company believes that the Proposal may be excluded pursuant to Rule 14a-8(i)(10).

Rule 14a-8(i)(10) permits the Company to exclude a proposal if “the company has already substantially implemented the proposal.” The Commission has stated that the predecessor to Rule 14a-8(i)(10) “was designed to avoid the possibility of shareholders having to consider matters which have already been favorably acted upon by management.” Exchange Act Release No. 12598 (July 7, 1976). It is settled that a company need not comply with every detail of a proposal in order to exclude it under Rule 14a-8(i)(10); differences between a company’s actions and the proposal are permitted so long as such actions satisfactorily address the proposal’s underlying concerns. *See, e.g., Masco Corporation* (March 29, 1999) (permitting exclusion of proposal because the company had “substantially implemented” the proposal by adopting a version of it with slight modifications and a clarification as to one of its terms). Proposals have been considered “substantially implemented” where a company has implemented part but not all of a multifaceted proposal. *See, e.g., Columbia/HCA Healthcare Corp.* (February 18, 1998) (permitting exclusion of proposal on grounds of “substantial implementation” after the company took steps to at least partially implement three of four actions requested by the proposal).

This understanding was reaffirmed in the 1998 amendments to the proxy rules that implemented the current Rule 14a-8(i)(10), which confirmed that a proposal need not be “fully effected” by the company in order to be excluded as substantially implemented. *See* Amendments to Rules on Shareholders Proposals, SEC Release No. 40018 (May 21, 1988) at n.30 and accompanying text. When a company can demonstrate that it has already taken actions to address most elements of a shareholder proposal, the Staff has concurred that the proposal has been “substantially implemented” and may be excluded. The Staff has maintained that “a determination that the [c]ompany has substantially implemented the proposal depends upon whether [the company’s] particular policies, practices, and procedures compare favorably with the guidelines of the proposal.” *Symantec Corporation* (June 3, 2010) (quoting *Texaco, Inc.* (March 28, 1991)); *see also The Procter & Gamble Company* (August 4, 2010); and *Wal-Mart Stores, Inc.* (March 30, 2010). Therefore, substantial implementation is evaluated according to whether the actions of the company satisfactorily address the “essential objective” of the proposal. *See, e.g., Anheuser-Busch Cos., Inc.* (January 17, 2007); *ConAgra Foods, Inc.* (July 3, 2006); *Johnson & Johnson* (February 17, 2006); and *Exxon Mobil Corporation* (March 18, 2004); *see also Wal-Mart Stores, Inc.* (March 30, 2010); *Caterpillar, Inc.* (March 11, 2008); and *The Dow Chemical Co.* (March 5, 2008).

As a general matter, the Company’s periodic reports pursuant to the ’34 Act include extensive disclosure with respect to risk and risk management. The Board of Directors is required under the ’34 Act to publicly disclose the actions that it takes and the process that it follows in order to manage risk both annually and quarterly. The Company’s Annual Report on Form 10-K for the year ended December 31, 2009 (the “2010 Annual Report”), excerpts of which are attached as Exhibit B, dedicates over 20 pages to a discussion of Risk and Risk Management. *See* 2010 Annual Report, Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” at 74-89 and Item 7A “Quantitative and Qualitative Disclosures about Market Risk,” at 89-111. Risk is also discussed in other relevant sections of the 2010 Annual Report. *See, e.g.,* 2010 Annual Report at 9-11, 17-20 and 23-25. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (the “Quarterly Report”), excerpts of which are attached as Exhibit C, dedicates over 10 pages to a quarterly update of the Risk Management disclosure. *See* Quarterly Report, Item 3. Quantitative and Qualitative Disclosures about Market Risk, at 131-142. Risk and risk management are further addressed in the Company’s definitive proxy statement with respect to its 2010 annual meeting filed with the Commission on April 12, 2010 (the “2010 Proxy”), excerpts of which are attached as Exhibit D. As described in further detail below, this disclosure substantially implements each aspect of the report called for by the Proposal.

**Risk Management Structure.** The Company has substantially implemented the Proponents’ request for information detailing the Company’s risk management structure in its annual and quarterly public disclosure.

Shareholders are informed as to the philosophy and goals of the Company which underlie the risk management structure: “[t]he cornerstone of the Company’s risk management philosophy is the execution of risk-adjusted returns through prudent risk-taking that protects the

Company's capital base and franchise. The Company's risk management philosophy is based on the following principles: comprehensiveness, independence, accountability, defined risk tolerance and transparency. Given the importance of effective risk management to the Company's reputation, senior management requires thorough and frequent communication and appropriate escalation of risk matters." 2010 Annual Report at 89.

The Company details its current risk management structure as well as the corresponding annual review and update in its 2010 Annual Report. The risk disclosure provided in the 2010 Annual Report covers the structure of risk management at the holding company level as well as across the Company's domestic and foreign business units:

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

*Id.* The risk management structure is subject to continued review and update: "the Company's risk management philosophy, with its attendant policies, procedures and methodologies, is evolutionary in nature and subject to ongoing review and modification." *Id.*

In addition to the structural framework, the disclosure details the principal risks faced by the Company and its different divisions, the Company's risk management activities including hedging, the statistical techniques used to measure, monitor and review risk and other risk-related information. *See* 2010 Annual Report at 91-92, 92-98, 100 and 109. The disclosure also contains sections specifically addressing Market Risk (pgs. 91-99), Credit Risk (pgs. 99-109), Operational Risk (pgs. 110-111) and Legal Risk (pg. 111); each section identifies the various types of risk that fall into these categories and the Company's process for mitigating such risk. *See* 2010 Annual Report at 91-111.

**Staffing and Reporting Lines.** The Company has substantially implemented the Proponents' request for information detailing the staffing and reporting lines of the Company's risk management structure.

The Company, through its public disclosure, describes the extensive staff that it employs and the resources it devotes to identify and manage risk:

The Board has oversight for the Company's enterprise risk management framework and is responsible for helping to ensure that the Company's risks are managed in a sound manner. . . . Effective January 1, 2010, the Board established



another standing committee, the Risk Committee, which is comprised solely of non-management directors, to assist the Board in the oversight of (i) the Company's risk governance structure, (ii) the Company's risk management and risk assessment guidelines and policies regarding market, credit and liquidity and funding risk, (iii) the Company's risk tolerance and (iv) the performance of the Chief Risk Officer. The Audit Committee continues to review the major operational, franchise, reputational, legal and compliance risk exposures of the Company and the steps management has taken to monitor and control such exposure. The Risk Committee, Audit Committee and Chief Risk Officer report to the full Board on a regular basis.

The Board has also authorized the FRC, a management committee appointed and chaired by the Chief Executive Officer that includes the most senior officers of the Company, including the Chief Risk Officer, Chief Legal Officer and Chief Financial Officer, to oversee the Company's global risk management structure. The FRC's responsibilities include oversight of the Company's risk management principles, procedures and limits, and the monitoring of capital levels and material market, credit, liquidity and funding, legal, operational, franchise and regulatory risk matters and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. The FRC reports to the full Board, the Audit Committee and the Risk Committee through the Company's Chief Risk Officer.

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

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

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

*Id.* at 90; *see also* 2010 Proxy at 12-13 and 14-15. In addition to the reporting described above, the Chief Risk Officer also reports to the Risk Committee as described in the Risk Committee Charter available at: <http://www.morganstanley.com/about/company/governance/rcchart.html>. The Risk Committee in turn is responsible for evaluating the performance of the Chief Risk

Officer. 2010 Proxy at 13. The disclosure above also clearly sets out the reporting lines of the risk management staff and the responsibilities assigned to each division of the risk management staff. In addition, as further described below under "Integration," the Company has also disclosed that each of its business segments has designated officers, committees and groups to manage, monitor and report on risks related to the relevant business segment. *Id.* at 90.

**Integration.** The Company has substantially implemented the Proponents' request for information detailing the integration of risk management into its business model across all operations of its business lines.

The Company's 2010 Annual Report describes its integrated risk management structure: "The Company has policies and procedures in place for measuring, monitoring and managing each of the various types of significant risks involved in the activities of its Institutional Securities, Global Wealth Management Group and Asset Management business segments and support functions as well as at the holding company level." *Id.* at 89. The Company has identified and detailed the operating lines in connection with which it perceives the most significant risks and the procedures in place to manage such risks:

Each business segment has a risk committee that is responsible for helping to ensure that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies and procedures that are consistent with the risk framework established by the FRC; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management policies and procedures, and related controls.

Each of the Company's business segments also has designated operations officers, committees and groups to manage and monitor specific risks and report to the business segment risk committee. The Company control groups work with business segment control groups (including the Operations Division and Information Technology Division) to review the risk monitoring and risk management policies and procedures relating to, among other things, the business segment's market, credit and operational risk profile, sales practices, reputation, legal enforceability, and operational and technological risks. Participation by the senior officers of the Company and business segment control groups helps ensure that risk policies and procedures, exceptions to risk limits, new products and business ventures, and transactions with risk elements undergo a thorough review.

*Id.* at 90. The 2010 Annual Report then lays out in numerous tables the risks faced by the Company's different business divisions. *See* 2010 Annual Report at 94-99 and 102-109.

In the 2010 Proxy, the Company informs its shareholders how risk management is integrated into the Company's compensation procedures:

The [Compensation, Management Development and Succession Committee (the "CMDS Committee")] worked with the Company's Chief Risk Officer and the CMDS Committee's independent consultant to evaluate whether the Company's compensation arrangements encourage unnecessary or excessive risk-taking and whether risks arising from the Company's compensation arrangements are reasonably likely to have a material adverse effect on the Company. Morgan Stanley is a financial institution that engages in significant trading and capital market activities that are subject to market and other risks. The Company employs risk management practices, including trading limits, marking-to-market positions, stress testing and employment of models. The Company believes in pay for performance and as a result also evaluates its compensation programs to recognize these risks.

2010 Proxy at 17.

The Company believes it may exclude the Proposal because the disclosure in the Company's '34 Act filings substantially implements the requirements of the Proposal. In addition, the Company believes that no significant additional detail could be provided beyond that described above and in its public filings without divulging proprietary information, an act which the Proponents themselves explicitly state is unnecessary. See Exhibit A ("omitting proprietary information").

**2. The Company may omit the Proposal pursuant to Rule 14a-8(i)(3) because it is impermissibly vague and indefinite as to be misleading in violation of Rule 14a-9.**

The Proposal contains vague and overly-broad wording that, in light of the extensive disclosure regarding the Company's risk management structure, staffing and reporting lines and integration described above, would leave both the Company and stockholders voting on the Proposal uncertain as to exactly what actions would be required to be taken if the Proposal were approved. Accordingly, we believe that the Company may properly exclude the Proposal under Rule 14a-8(i)(3).

Under Rule 14a-8(i)(3), a proposal may be excluded if "the proposal or supporting statement is contrary to any of the Commission's proxy rules, including Rule 14a-9, which prohibits materially false or misleading statements in the proxy materials." In Staff Legal Bulletin No. 14B (CF) (September 15, 2004), the Staff stated that "reliance on [R]ule 14a-8(i)(3) to exclude or modify a statement may be appropriate where . . . the company demonstrates objectively that a factual statement is materially false or misleading [or] the resolution contained in the proposal is so inherently vague or indefinite that neither the stockholders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires . . . ."

If the Proposal were to be approved by the shareholders, it is unclear to the Company what additional disclosure would be required of it to fulfill the Proposal. The Proposal directs that the Company's Board of Directors provide a risk report to shareholders; it does not, however, provide guidelines or requirements for such report other than by reference to three vague and

broad terms, namely the “risk management structure, staffing and reporting lines of the institution.” The Proposal does not describe the level of detail or specific information required to be in the report. As discussed in Section I above, the Company already provides extensive public disclosure on risk matters, and it is not clear what specific information is called for by the Proposal beyond such disclosure.

The Company believes it may exclude the Proposal because the Proposal falls squarely within the criteria for exclusion established by the Staff because it is vague and fails to provide sufficient guidance for implementation. Without guidance, the Company could not be expected to know with a reasonable degree of certainty what additional disclosure is expected of it in order to implement the Proposal if the Proposal is adopted.

**3. The Company may omit the Proposal pursuant to Rule 14a-8(i)(7) because it deals with matters relating to the Company’s ordinary business operations.**

The Proposal directs the Board to report to shareholders on issues relating to risk management. As described in detail above, the Company provides, in compliance with its disclosure obligations, extensive information with respect to its risk management structure and practices. To the extent that the Proposal calls for a report that provides disclosure on risk management beyond that which is already required and provided, the Proposal is addressing matters that are at the heart of the day-to-day business operations of the Company. Accordingly, the Company believes that the Proposal may be excluded pursuant to Rule 14a-8(i)(7).

Under Rule 14a-8(i)(7), a proposal may be excluded if it “deals with a matter relating to the conduct of the ordinary business operations of the registrant,” provided that the proposal does not have “significant policy, economic or other implications inherent in” it. Exchange Act Release No. 34-12999 (November 22, 1976). The Staff has indicated that where a proposal requests a report on a specific aspect of the registrant’s business, as is the case with the Proposal, the Staff will consider whether the subject matter of the proposal relates to the conduct of ordinary business operations. Where it does, the proposal, although only requesting the preparation of a report, will be excludable. See Exchange Act Release No. 34-20091 (August 16, 1983). In Exchange Act Release No. 34-40018 (May 21, 1998) (the “1998 Release”), the Commission stated that the general policy consideration behind the 14a-8(i)(7) exclusion “is consistent with the policy of most state corporate laws: to confine the resolution of ordinary business problems to management and the board of directors, since it is impracticable for shareholders to decide how to solve such problems at an annual shareholders meeting” and that “[c]ertain tasks are so fundamental to management’s ability to run a company on a day-to-day basis that they could not, as a practical matter, be subject to direct shareholder oversight.” The 1998 Release further provides that determinations as to whether proposals intrude on ordinary business matters “will be made on a case-by-case basis, taking into account factors such as the nature of the proposal and the circumstances of the company to which it is directed.”

In Staff Legal Bulletin No. 14E (CF) (October 27, 2009) (“SLB 14E”), the Staff stated that, in connection with the application of Rule 14a-8(i)(7) to proposals related to risk, it would no longer focus on whether a proposal relates to the company engaging in an evaluation of risk, and instead would “consider whether the underlying subject matter of the risk evaluation

involves a matter of ordinary business to the company.” SLB 14E provides that proposals related to risk are not excludable if the underlying subject matter transcends the day-to-day business of the company and raises policy issues so significant that it would be appropriate for stockholder vote, as long as a sufficient nexus exists between the nature of the proposal and the company.

The Proposal directs that the Board produce a report on risk management. Risk management is core to nearly all aspects of the Company’s business. Indeed, the Company’s management and employees deal with risk management on a day-to-day basis in connection with all aspects of the ordinary operations of the Company’s business: “[t]he Company’s senior management takes an active role in the identification, assessment and management of various risks at both the Company and business segments level.” 2010 Annual Report at 89. The Company has an established Risk Committee of its Board whose sole purpose is to oversee the development and implementation of a risk management structure. This Committee works with the Board, the other Committees (such as the Audit Committee) and management to review and assess the Company’s risk governance structure, risk management and risk assessment guidelines and policies regarding market, credit, liquidity and funding risk and risk tolerance. More information about the Risk Committee can be found by the general public at: <http://www.morganstanley.com/about/company/governance/rcchart.html>.

In addition, “[t]hrough various risk and control committees, the Company’s senior management reviews business performance relative to [the Company’s liquidity and capital] policies . . . . The Company’s Treasury Department, Firm Risk Committee (“FRC”), Asset and Liability Management Committee (“ALCO”) and other control groups assist in evaluating, monitoring and controlling the impact that the Company’s business activities have on its consolidated statements of financial condition, liquidity and capital structure.” 2010 Annual Report at 74.

As this disclosure and the disclosure referenced above make clear, it would be difficult to identify a function more deeply integrated into the ordinary operations of the Company than risk management. Moreover, the Company’s existing disclosure clearly explains to shareholders the structure and practices implemented by the Company’s Board of Directors and management for the purpose of risk management. Further disclosure would not just fail to “transcend the day-to-day business matters” of the Company; it would require the Company to provide details with respect to its risk management operations that are the very essence of day-to-day business operations and many of which, as noted above, are proprietary.

For the reasons stated above, the Company believes that the Proposal directs a review of activities central to the ordinary operations of the Company, and, therefore, is excludable under Rule 14a-8(i)(7).

4. **The Company may omit the Proposal pursuant to Rule 14a-8(i)(1) because it deals with a matter that is not a proper subject for action by stockholders under Delaware law.**

The Proposal is not a proper matter for shareholder action under the laws of Delaware, the jurisdiction in which the Company is incorporated. Accordingly, we believe that the Company may properly exclude the Proposal under Rule 14a-8(i).

Rule 14a-8(i)(1) allows a company to omit from its proxy materials shareholder proposals that are “not a proper subject for action by shareholders under the laws of the jurisdiction of the company’s organization.” The Proposal would require action that, under state law, falls within the scope of the powers of the Company’s Board of Directors. The Company is a Delaware corporation. Section 141(a) of the Delaware General Corporation Law states that the “business and affairs of every corporation organized under this chapter shall be managed by or under the direction of a board of directors, except as may be otherwise provided in this chapter or in its certificate of incorporation.” In this regard, the note to Rule 14a-8(i)(1) provides, in part, that “[d]epending on the subject matter, some proposals are not considered proper under state law if they would be binding on the company if approved by shareholders.”

The proposal is not precatory and is not cast as a recommendation that the board of directors take any specified action. Accordingly, the Proposal is not proper for shareholder action under Delaware law. Attached as Exhibit E is an opinion of Richards, Layton & Finger, P.A., Delaware counsel to the Company, to this effect. The Staff has consistently permitted the exclusion of stockholder proposals mandating or directing a company’s board of directors to take certain action inconsistent with the discretionary authority provided to the board of directors under state law pursuant to Rule 14a-8(i)(1). See *Bank of America* (February 24, 2010); *MGM Mirage* (February 6, 2008); *Cisco Systems, Inc.* (July 29, 2005); *Constellation Energy Group, Inc.* (March 2, 2004); *Philips Petroleum Company* (March 13, 2002); *Ford Motor Co.* (March 19, 2001); *American National Bankshares, Inc.* (February 26, 2001); and *AMERCO* (July 21, 2000).

## CONCLUSION

The Company respectfully requests confirmation that the Staff will not recommend any enforcement action if, in reliance on the foregoing, Morgan Stanley omits the Proposal from its 2011 Proxy Materials. Please call the undersigned at (212) 450-6145 if you should have any questions or need additional information. If the Staff does not concur with the Company's position, we would appreciate an opportunity to confer with the Staff concerning these matters prior to the issuance of its response.

Respectfully yours,

  
Marc O. Williams

## Attachment

cc w/ att: Martin Cohen, Corporate Secretary, Morgan Stanley

Jeanne Greeley O'Regan, Assistant Secretary,  
Morgan Stanley

William J. Haubert, Richards, Layton &  
Finger, P.A.

Rev. Séamus P. Finn, Director, The Missionary  
Oblates of Mary Immaculate

Myles McCabe, Director of Peace and Justice,  
The Marianists, Province of the United States

Farha-Joyce Haboucha, Managing  
Director/Director, The Libra Fund, L.P.

**Exhibit A**



**Restore Confidence in the Financial System**  
**2011 – Morgan Stanley**

**WHEREAS**, the Securities and Exchange Commission is proposing the reinstatement of a rule that was eliminated in 1994 that would require companies to report each quarter their average daily or monthly amount of outstanding short-term debt, the maximum level of those borrowings and their weighted average interest rate;

**WHEREAS**, Mary Schapiro, SEC Chair, has commented that: "Under these proposals, investors would have better information about a company's financing activities during the course of a reporting period — not just a period-end snapshot," and "With this information, investors would be better able to evaluate the company's ongoing liquidity and leverage risks." (Opening Statement, SEC Open Meeting, September 17, 2010);

**WHEREAS** data compiled by Bloomberg states that: "For more than a decade, banks and insurance companies convinced governments and nonprofits (e.g., Bay Area Toll Authority in Oakland, CA, Cornell University, NY) that financial engineering would lower interest rates on bonds sold for public projects such as roads, bridges and schools." The Bloomberg article said, "That failed promise has cost [these entities] more than \$4 billion;

**Whereas** the US government found it necessary to commit more than \$700 billion, the Troubled Assets Relief Program in 2009, to prevent a complete meltdown of the financial system;

**Whereas** our company according to the Financial Times tapped the Federal Reserves' Primary Dealer Credit Facility 212 times between March 2008 and March 2009, and according to Fox Business News, accessed the Federal Reserve Term Securities Lending Facility 34 times during the crisis;

**Whereas** the chairman of our company, in a written submission to the Financial Crisis Inquiry Commission stated, "We at Morgan Stanley believe the financial crisis exposed fundamental flaws in our financial system. In retrospect many firms were too highly leveraged, took on too much risk and did not have sufficient resources to manage those risks effectively in a rapidly changing environment"; therefore,

**BE IT RESOLVED** that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company's business lines.

**Supporting Statement:** Restoring public trust and confidence in the financial system and in the corporations and institutions that operate in the financial services sector will not be accomplished alone by the Dodd-Frank financial reform legislation unless it is accompanied by greater transparency and accountability across the sector and especially by the systemically significant financial institutions.

The proponents of this resolution have discussed with the Company the issue of risk management structure that is in place to protect the institution, its stakeholders and financial system. This includes the systemic risk that the activities of a single institution can engender. Continuous reporting on the monitoring, testing and strenuous evaluation of these instruments for soundness, suitability, integrity and safety is needed and can be advanced through the adoption of this resolution.

Recvd 12/13/10

## Missionary Oblates of Mary Immaculate

Justice & Peace / Integrity of Creation Office, United States Province



December 10, 2010

Mr. James Gorman  
Chief Executive Officer  
Morgan Stanley Group  
1585 Broadway  
New York, NY 10036

Dear Mr. Gorman,

The Missionary Oblates of Mary Immaculate are a religious order in the Roman Catholic tradition with over 4,000 members and missionaries in more than 65 countries throughout the world. We are members of the Interfaith Center on Corporate Responsibility a coalition of 275 faith-based institutions committed to socially responsible investments. We are the beneficial owners of 2000 shares of Morgan Stanley Group, Inc. Verification of our ownership of this stock is enclosed.

The work to reform the financial system and to restore the confidence of the public in that system has barely begun. Millions of people across the world are still struggling as a result of the meltdown of September 2008. Millions have lost their homes and many others are underwater. Millions have lost jobs and still looking for new ones. Thousands have seen their plans for retirement evaporate before their eyes. Furthermore we continue to remain concerned about the long term impact of the crisis on the safety and soundness of the global financial system and the confidence and trust of the general public in the institutions and regulators in the sector.

The federal government, and therefore the US taxpayer, has had to intervene to an unprecedented extent over the past 24 months to support and stabilize the financial system. Continuous revelations have made us all aware of the extent to which a number of major domestic and international financial institutions, including Morgan Stanley, made use of various facilities that were made available by the Federal Reserve. We believe that the work of reform and regulatory enhancement, which was mandated by Dodd-Frank legislation and other international bodies, by itself will not restore the trust that has been destroyed. We believe that all stakeholders have a role to play in this process, and that there are additional measures around transparency and accountability that our company can contribute to this crucial confidence restoration enterprise.

It is with this in mind that I write at this time to inform you of our intention to file the enclosed stockholder resolution for consideration and action by the stockholders at the annual meeting. I hereby submit it for inclusion in the proxy statement in accordance with Rule 14-a-8 of the General Rules and Regulations of the Securities Exchange Act of 1934. I will be the primary contact for this resolution.

If you have any questions or concerns on this, please do not hesitate to contact me.

Sincerely,

*Séamus P. Finn, OMI*  
*(ms)*

Rev. Séamus P. Finn, OMI  
Director  
Justice, Peace and Integrity of Creation Office  
Missionary Oblates of Mary Immaculate

**Restore Confidence in the Financial System**  
**2011 – Morgan Stanley**

**WHEREAS**, the Securities and Exchange Commission is proposing the reinstatement of a rule that was eliminated in 1994 that would require companies to report each quarter their average daily or monthly amount of outstanding short-term debt, the maximum level of those borrowings and their weighted average interest rate;

**WHEREAS**, Mary Schapiro, SEC Chair, has commented that: "Under these proposals, investors would have better information about a company's financing activities during the course of a reporting period — not just a period-end snapshot," and "With this information, investors would be better able to evaluate the company's ongoing liquidity and leverage risks." (Opening Statement, SEC Open Meeting, September 17, 2010);

**WHEREAS** data compiled by Bloomberg states that: "For more than a decade, banks and insurance companies convinced governments and nonprofits (e.g., Bay Area Toll Authority in Oakland, CA, Cornell University, NY) that financial engineering would lower interest rates on bonds sold for public projects such as roads, bridges and schools." The Bloomberg article said, "That failed promise has cost [these entities] more than \$4 billion;

**Whereas** the US government found it necessary to commit more than \$700 billion, the Troubled Assets Relief Program in 2009, to prevent a complete meltdown of the financial system;

**Whereas** our company according to the Financial Times tapped the Federal Reserves' Primary Dealer Credit Facility 212 times between March 2008 and March 2009, and according to Fox Business News, accessed the Federal Reserve Term Securities Lending Facility 34 times during the crisis;

**Whereas** the chairman of our company, in a written submission to the Financial Crisis Inquiry Commission stated, "We at Morgan Stanley believe the financial crisis exposed fundamental flaws in our financial system. In retrospect many firms were too highly leveraged, took on too much risk and did not have sufficient resources to manage those risks effectively in a rapidly changing environment"; therefore,

**BE IT RESOLVED** that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company's business lines.

**Supporting Statement:** Restoring public trust and confidence in the financial system and in the corporations and institutions that operate in the financial services sector will not be accomplished alone by the Dodd-Frank financial reform legislation unless it is accompanied by greater transparency and accountability across the sector and especially by the systemically significant financial institutions.

The proponents of this resolution have discussed with the Company the issue of risk management structure that is in place to protect the institution, its stakeholders and financial system. This includes the systemic risk that the activities of a single institution can engender. Continuous reporting on the monitoring, testing and strenuous evaluation of these instruments for soundness, suitability, integrity and safety is needed and can be advanced through the adoption of this resolution.

 **M&T Investment Group**

M&T Bank, MD1-MP33, 1800 Washington Blvd, P.O. Box 1598, Baltimore, MD 21203-1598  
410 545 2719 TOLLFREE 866 848 0383 FAX 410 545 2762

December 8, 2010


Rev. Seamus P. Finn  
Missionary Oblates of Mary Immaculate  
Justice and Peace Office – United States Province  
391 Michigan Avenue, NE  
Washington, DC 20017-1516

Dear Father Finn:

The United States Province of Missionary Oblates of Mary Immaculate owns 2,000 shares of Morgan Stanley Group and has owned these shares for at least one year.

Please don't hesitate to call me with any questions.

Very truly yours,

  
S Bernadette Greaver  
Assistant Vice President - Custody Administration  
M & T Bank

1221 Avenue of the Americas  
New York, NY 10020

## Morgan Stanley

*Direct Dial: (212) 762-7325*  
*Facsimile No: (212) 507-0010*  
*Email: [Jacob.Tyler@morganstanley.com](mailto:Jacob.Tyler@morganstanley.com)*

### VIA EMAIL AND OVERNIGHT MAIL

December 17, 2010

Reverend Séamus P. Finn, OMI  
Director  
Justice, Peace and Integrity of Creation Office  
Missionary Oblates of Mary Immaculate  
391 Michigan Ave., NE  
Washington, D.C. 20017

#### **Re: Morgan Stanley Stockholder Proposal**

Dear Reverend Finn:

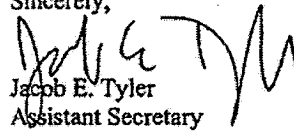
On December 13, 2010, we received the Missionary Oblates of Mary Immaculate's ("OMI") letter dated December 10, 2010 submitting a proposal for inclusion in Morgan Stanley's 2011 proxy statement.

The federal securities laws require that in order to be eligible to submit a proposal for inclusion in our proxy statement OMI must, among other things, have continuously held at least \$2,000 in market value of Morgan Stanley's common stock for at least one year by the date it submitted the proposal and OMI must state that it will continue to hold at least \$2,000 in market value of Morgan Stanley's common stock through the date of Morgan Stanley's 2011 Annual Meeting of Shareholders. (A copy of SEC rule 14a-8, which applies to shareholder proposals submitted for inclusion in proxy statements, is enclosed for your reference.) OMI is not currently the registered holder on Morgan Stanley's books and records of any shares of Morgan Stanley common stock and has not provided adequate proof of ownership. Accordingly, OMI must submit to us a written statement from the "record" holder of the shares (usually a broker or bank) verifying that at the time OMI submitted the proposal, OMI had continuously held at least \$2,000 in market value of Morgan Stanley common stock for at least the one year period prior to and including the date you submitted the proposal. The statement you provided is insufficient because it only verifies proof of ownership for at least one year as of December 8, 2010. Therefore, you may either provide verification of your ownership for the full one year period as described above, or alternatively, provide us with verification of OMI's ownership from December 8, 2010 through December 10, 2010, the date OMI submitted the proposal. In addition, OMI must provide a statement of its intent to continue to hold the required amount of Morgan Stanley common stock through the date of Morgan Stanley's 2011 Annual Meeting of Shareholders.

Rev. Séamus P. Finn, OMI  
December 15, 2010  
Page 2 of 2

In order to meet the eligibility requirements for submitting a shareholder proposal, you must provide the requested information to us no later than 14 calendar days from the date you receive this letter. If you provide us with documentation correcting these eligibility deficiencies, postmarked or transmitted electronically no later than 14 calendar days after the date you receive this letter, we will review the proposal to determine whether it is appropriate for inclusion in our proxy statement.

Sincerely,



Jacob E. Tyler  
Assistant Secretary

cc: Ms. Farha-Joyce Haboucha  
Mr. Myles McCabe

Enclosure

# Justice and Peace/Integrity of Creation

Missionary Oblates of Mary Immaculate, United States Province

Web Address: [omiusajpic.org](http://omiusajpic.org)

---

## FAX TRANSMITTAL COVER SHEET

**TO:** Jacob E. Tyler

**FAX NUMBER:** 212-507-0010

**RE:** Attached letter

**DATE:** December 21, 2010

**SENDER:** Rev. Séamus Finn, OMI

**NUMBER OF PAGES TO FOLLOW THIS COVER SHEET:** 1

Dear Mr. Tyler:

I received your letter and packet of information of December 17, 2010.

In response to that, please find attached a new letter of verification of ownership of shares of Morgan Stanley by the Missionary Oblates of Mary Immaculate that we hope is more in line with what is needed.

In addition, please be assured that we plan to hold our shares at least until the annual meeting.

Please get back to me if anything else is required.

Sincerely,

Séamus P. Finn, OMI  
Director  
Justice, Peace and Integrity of Creation Office  
Missionary Oblates of Mary Immaculate



 **M&T Investment Group**

M&T Bank, MD1-MP33, 1800 Washington Blvd, P.O. Box 1598, Baltimore, MD 21203-1598  
410 545 2719 voice: 888 848 0383 fax 410 545 2782

December 21, 2010

Rev. Seamus P. Finn  
Missionary Oblates of Mary Immaculate  
Justice and Peace Office – United States Province  
391 Michigan Avenue, NE  
Washington, DC 20017-1516

Dear Father Finn:

As of December 10, 2010, the United States Province of Missionary Oblates of Mary Immaculate owns 2,000 shares of Morgan Stanley and has owned these shares continuously for at least one year. These shares are held in nominee name in the M & T Banks' account at the Depository Trust Company

Please don't hesitate to call me with any questions.

Very truly yours,



S Bernadette Greaver  
Assistant Vice President  
Custody Administration

Recvd 12/14/10.



December 13, 2010

Sent via FedEx

Mr. James Gorman  
Chief Executive Officer  
Morgan Stanley Group  
1585 Broadway  
New York, NY 10036

Dear Mr. Gorman,

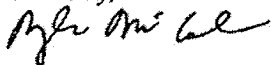
I am writing you on behalf of the Marianist Province of the United States in support of the stockholder resolution on Restore Confidence in the Financial System. In brief, the proposal asks that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company's business lines.

I am hereby authorized to notify you of our intention to co-file this shareholder proposal with the Missionary Oblates of Mary Immaculate for consideration and action by the shareholders at the 2011 Annual Meeting. I hereby submit it for inclusion in the proxy statement for consideration and action by the shareholders at the 2011 annual meeting in accordance with Rule 14-a-8 of the General Rules and Regulations of the Securities and Exchange Act of 1934. A representative of the shareholders will attend the annual meeting to move the resolution as required by SEC rules.

We are the owners of more than \$2000 in shares of Morgan Stanley stock and intend to hold \$2,000 worth through the date of the 2011 Annual Meeting. Verification of ownership will follow.

We truly hope that the company will be willing to dialogue with the filers about this proposal. Please note that the contact person for this resolution/proposal will be: Rev. Séamus P. Finn, OMI, Director Justice, Peace and Integrity of Creation Office, Missionary Oblates of Mary Immaculate, [scamus@omiusa.org](mailto:scamus@omiusa.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Myles McCabe". The signature is fluid and cursive, with the first name "Myles" being more prominent than the last name "McCabe".

Myles McCabe  
Director of Peace and Justice  
Marianist Province of the US

Enclosure: 2011 Shareholder Resolution - Restore Confidence in the Financial System

**Restore Confidence in the Financial System**  
**2011 – Morgan Stanley**

**WHEREAS**, the Securities and Exchange Commission is proposing the reinstatement of a rule that was eliminated in 1994 that would require companies to report each quarter their average daily or monthly amount of outstanding short-term debt, the maximum level of those borrowings and their weighted average interest rate;

**WHEREAS**, Mary Schapiro, SEC Chair, has commented that: "Under these proposals, investors would have better information about a company's financing activities during the course of a reporting period — not just a period-end snapshot," and "With this information, investors would be better able to evaluate the company's ongoing liquidity and leverage risks." (Opening Statement, SEC Open Meeting, September 17, 2010);

**WHEREAS** data compiled by Bloomberg states that: "For more than a decade, banks and insurance companies convinced governments and nonprofits (e.g., Bay Area Toll Authority in Oakland, CA, Cornell University, NY) that financial engineering would lower interest rates on bonds sold for public projects such as roads, bridges and schools." The Bloomberg article said, "That failed promise has cost [these entities] more than \$4 billion;

**Whereas** the US government found it necessary to commit more than \$700 billion, the Troubled Assets Relief Program in 2009, to prevent a complete meltdown of the financial system;

**Whereas** our company according to the Financial Times tapped the Federal Reserves' Primary Dealer Credit Facility 212 times between March 2008 and March 2009, and according to Fox Business News, accessed the Federal Reserve Term Securities Lending Facility 34 times during the crisis;

**Whereas** the chairman of our company, in a written submission to the Financial Crisis Inquiry Commission stated, "We at Morgan Stanley believe the financial crisis exposed fundamental flaws in our financial system. In retrospect many firms were too highly leveraged, took on too much risk and did not have sufficient resources to manage those risks effectively in a rapidly changing environment"; therefore,

**BE IT RESOLVED** that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company's business lines.

**Supporting Statement:** Restoring public trust and confidence in the financial system and in the corporations and institutions that operate in the financial services sector will not be accomplished alone by the Dodd-Frank financial reform legislation unless it is accompanied by greater transparency and accountability across the sector and especially by the systemically significant financial institutions.

The proponents of this resolution have discussed with the Company the issue of risk management structure that is in place to protect the institution, its stakeholders and financial system. This includes the systemic risk that the activities of a single institution can engender. Continuous reporting on the monitoring, testing and strenuous evaluation of these instruments for soundness, suitability, integrity and safety is needed and can be advanced through the adoption of this resolution.

1221 Avenue of the Americas  
New York, NY 10020

## Morgan Stanley

Direct Dial: (212) 762-7325  
Facsimile No: (212) 507-0010  
Email: [Jacob.Tyler@morganstanley.com](mailto:Jacob.Tyler@morganstanley.com)

### VIA FACSIMILE AND OVERNIGHT MAIL

December 17, 2010

Mr. Myles McCabe  
Director of Peace and Justice  
Marianist Province of the United States  
4425 West Pine Boulevard  
St. Louis, MO 63108-2301

#### **Re: Morgan Stanley Stockholder Proposal**

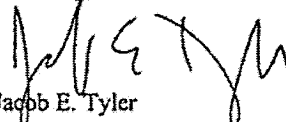
Dear Mr. McCabe:

On December 14, 2010, we received The Marianist Province of the United States' (the "Marianists") letter dated December 13, 2010 submitting a proposal for inclusion in Morgan Stanley's 2011 proxy statement.

The federal securities laws require that in order to be eligible to submit a proposal for inclusion in our proxy statement the Marianists must, among other things, have continuously held at least \$2,000 in market value of Morgan Stanley's common stock for at least one year by the date they submitted the proposal. (A copy of SEC rule 14a-8, which applies to shareholder proposals submitted for inclusion in proxy statements, is enclosed for your reference.) The Marianists are not currently the registered holder on Morgan Stanley's books and records of any shares of Morgan Stanley common stock and have not provided proof of ownership. Accordingly, the Marianists must submit to us a written statement from the "record" holder of the shares (usually a broker or bank) verifying that at the time the Marianists submitted the proposal, December 13, 2010, they had continuously held at least \$2,000 in market value of Morgan Stanley common stock for at least the one year period prior to and including December 13, 2010.

In order to meet the eligibility requirements for submitting a shareholder proposal, you must provide the requested information to us no later than 14 calendar days from the date you receive this letter. If you provide us with documentation correcting this eligibility deficiency, postmarked or transmitted electronically no later than 14 calendar days after the date you receive this letter, we will review the proposal to determine whether it is appropriate for inclusion in our proxy statement.

Sincerely,



Jacob E. Tyler  
Assistant Secretary

cc: Ms. Farha-Joyce Haboucha  
Rev. Séamus P. Finn

Enclosure

**FAX COVER SHEET**

**BY FACSIMILE**

**TO: Mr. Myles McCabe  
Director of Peace and Justice  
Marianist Province of the United States  
314-533-1207 (p)  
314-533-0778 (f)**

**FROM: Jacob Tyler  
Morgan Stanley  
Legal and Compliance Division  
212-762-7325**

**DATE: December 17, 2010**

**7 Pages Including Cover Sheet**

**If you experience any problems with this transmission, please contact  
Patricia Foley @ 212-762-5639**

\*\*\*\*\* -CONF. JOURNAL- \*\*\*\*\* DATE DEC-17-2010 \*\*\*\*\* TIME 15:53 \*\*\*\*\*

MODE = MEMORY TRANSMISSION

START=DEC-17 15:46

END=DEC-17 15:53

FILE NO.=541

STN NO.	COMM.	ONE-TOUCH/ ABBR NO.	STATION NAME/EMAIL ADDRESS/TELEPHONE NO.	PAGES	DURATION
001	OK	*	913145330778	007/007	00:02:53

-MORGAN STANLEY -

\*\*\*\*\*

- \*\*\*\*\* - 212 762 4830- \*\*\*\*\*

**FAX COVER SHEET**

**BY FACSIMILE**

**TO:** Mr. Myles McCabe  
Director of Peace and Justice  
Marianist Province of the United States  
314-533-1207 (p)  
314-533-0778 (f)

**FROM:** Jacob Tyler  
Morgan Stanley  
Legal and Compliance Division  
212-762-7325

**DATE:** December 17, 2010

**7 Pages Including Cover Sheet**

**If you experience any problems with this transmission, please contact  
Patricia Foley @ 212-762-5639**

Recvd 12/23/10



December 22, 2010

Sent via FedEx

Mr. James Gorman  
Chief Executive Officer  
Morgan Stanley Group  
1585 Broadway  
New York, NY 10036

Re: Filing of Stockholder Resolution by Marianist Province of the United States

Dear Mr. Gorman:

Attached is the verification of ownership for our stock in Morgan Stanley in support of our co-filing of the shareholder resolution on Restore Confidence in the Financial System for consideration and action by the shareholders at the 2011 Annual Meeting.

Sincerely,

Myles McCabe  
Director of Peace and Justice  
Marianist Province of the U.S.





**INSTITUTIONAL TRUST SERVICES**

Direct Dial: (913) 233-1557  
FAX: (913) 469-0124  
Toll Free: (800) 240-6436  
Email: brande.anderson@mfi.com

11301 Nall Avenue Ste. 203  
Leawood, KS 66211 1655  
800 240 6436 Toll Free  
913 469 0423 Fax  
mfiwcaoh.com

December 14, 2010

Mr. John Mack, CEO  
Morgan Stanley  
1585 Broadway  
New York, NY 10036

Re: Filing of Stockholder Resolution by Marianist Province of the United States

Dear Mr. Mack

This letter shall serve as verification that the Marianist Province of the US, St Louis own at least \$2,000 worth of stock in Morgan Stanley. The shares are held in the account of the Marianist Province of the United States at Marshall & Ilsley Trust Company N.A. The shares have been held by the Marianist Province of the United States for at least one year and it is our understanding the Marianist Province of the United States intends to hold the shares until the 2011 Annual Meeting.

Sincerely,

*Brand L Anderson*  
Brand L. Anderson, CTFA  
Vice President

M&I Institutional Trust Services offers products and services through various affiliates of Marshall & Ilsley Corporation, including Marshall & Ilsley Trust Company N.A., M&I Investment Management Corp., M&I Financial Advisors, Inc. (member FINRA/SIPC), maintaining its principal offices at 111 E. Kilbourn Ave., Milwaukee, WI 53203, New York State Trust Company and Toplin, Gonda & Habscht, P.C.  
Investment products are:  Not FDIC Insured  No Bank Guarantee  May Lose Value

Products and services are provided by M&I Marshall & Ilsley Bank or M&I Bank FSB. Members FDIC.



**ROCKEFELLER**  
FINANCIAL | ASSET  
MANAGEMENT

Recvd 12/14/10

10 Rockefeller Plaza  
3rd Floor  
New York, NY 10020  
212 549 5100 P  
www.rockefellerfinancial.com

December 13, 2010

Mr. James Gorman  
Chief Executive Officer  
Morgan Stanley Group  
1585 Broadway  
New York, NY 10036

Dear Mr. Gorman,

Libra Fund, L.P. (the "Fund" or "we") is a socially responsive private investment limited partnership that is the beneficial owner of 36,020 shares of Morgan Stanley common stock as of December 13, 2010. We are presenting this resolution with Rev. Seamus P. Finn, Missionary Oblates of Mary Immaculate, as primary filer. In brief, the proposal requests the Board of Directors of Morgan Stanley to report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into its business model and across all the operations of the Company's business lines.

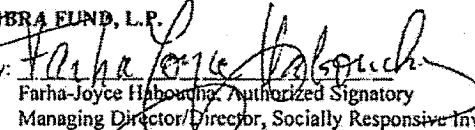
We believe that the work of reform and regulatory enhancement, which was mandated by Dodd-Frank legislation and other international bodies, by itself will not in and of itself restore investor trust. We believe that all stakeholders have a role to play in this process, and that there are additional measures around transparency and accountability that Morgan Stanley can contribute to that end.

The attached proposal is submitted for inclusion in the 2011 proxy statement in accordance with Rule 14a-8 of the General Rules and Regulations of the Securities Exchange Act of 1934. The Fund has continuously held Morgan Stanley shares totaling at least \$2,000 in market value for at least one year prior to the date of this filing. Proof of ownership will be forthcoming from the Fund's custodian. It is the Fund's intention to maintain ownership of shares in the Company through the date of the 2011 annual meeting.

Please direct any correspondence to the primary filer of this resolution, Rev. Seamus P. Finn, Director, Missionary Oblates of Mary Immaculate by email at [seamus@omiusa.org](mailto:seamus@omiusa.org) or by phone at 202-269-6715. You may also contact the undersigned Director of Socially Responsive Investments, by email at [jhaboucha@rockco.com](mailto:jhaboucha@rockco.com) or by phone at 212-549-5220 if you have questions or comments regarding the proposal.

Thank you in advance for your time and attention. I look forward to working with you or members of your team regarding the issues raised in this proposal.

Sincerely,

LIBRA FUND, L.P.  
By:   
Farha-Joyce Habbouch, Authorized Signatory  
Managing Director/Director, Socially Responsive Investments

Encl.  
cc: Rev. Seamus P. Finn, Director Missionary Oblates of Mary Immaculate

**Restore Confidence in the Financial System**  
**2011 – Morgan Stanley**

**WHEREAS**, the Securities and Exchange Commission is proposing the reinstatement of a rule that was eliminated in 1994 that would require companies to report each quarter their average daily or monthly amount of outstanding short-term debt, the maximum level of those borrowings and their weighted average interest rate;

**WHEREAS**, Mary Schapiro, SEC Chair, has commented that: "Under these proposals, investors would have better information about a company's financing activities during the course of a reporting period — not just a period-end snapshot," and "With this information, investors would be better able to evaluate the company's ongoing liquidity and leverage risks." (Opening Statement, SEC Open Meeting, September 17, 2010);

**WHEREAS** data compiled by Bloomberg states that: "For more than a decade, banks and insurance companies convinced governments and nonprofits (e.g., Bay Area Toll Authority in Oakland, CA, Cornell University, NY) that financial engineering would lower interest rates on bonds sold for public projects such as roads, bridges and schools." The Bloomberg article said, "That failed promise has cost [these entities] more than \$4 billion;

**Whereas** the US government found it necessary to commit more than \$700 billion, the Troubled Assets Relief Program in 2009, to prevent a complete meltdown of the financial system;

**Whereas** our company according to the Financial Times tapped the Federal Reserves' Primary Dealer Credit Facility 212 times between March 2008 and March 2009, and according to Fox Business News, accessed the Federal Reserve Term Securities Lending Facility 34 times during the crisis;

**Whereas** the chairman of our company, in a written submission to the Financial Crisis Inquiry Commission stated, "We at Morgan Stanley believe the financial crisis exposed fundamental flaws in our financial system. In retrospect many firms were too highly leveraged, took on too much risk and did not have sufficient resources to manage those risks effectively in a rapidly changing environment"; therefore,

**BE IT RESOLVED** that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company's business lines.

**Supporting Statement:** Restoring public trust and confidence in the financial system and in the corporations and institutions that operate in the financial services sector will not be accomplished alone by the Dodd-Frank financial reform legislation unless it is accompanied by greater transparency and accountability across the sector and especially by the systemically significant financial institutions.

The proponents of this resolution have discussed with the Company the issue of risk management structure that is in place to protect the institution, its stakeholders and financial system. This includes the systemic risk that the activities of a single institution can engender. Continuous reporting on the monitoring, testing and strenuous evaluation of these instruments for soundness, suitability, integrity and safety is needed and can be advanced through the adoption of this resolution.

1221 Avenue of the Americas  
New York, NY 10020

## Morgan Stanley

Direct Dial: (212) 762-7325  
Facsimile No: (212) 507-0010  
Email: [Jacob.Tyler@morganstanley.com](mailto:Jacob.Tyler@morganstanley.com)

### VIA EMAIL AND OVERNIGHT MAIL

December 17, 2010

Ms. Farha-Joyce Haboucha  
Managing Director/Director, Socially Responsive Investments  
Rockefeller Financial Asset Management  
10 Rockefeller Plaza, 3<sup>rd</sup> Floor  
New York, NY 10020

**Re: Morgan Stanley Stockholder Proposal**

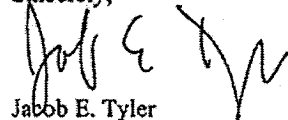
Dear Ms. Haboucha:

On December 14, 2010, we received Rockefeller Financial Asset Management's letter dated December 13, 2010 submitting a proposal on behalf of the Libra Fund, L.P. (the "Fund") for inclusion in Morgan Stanley's 2011 proxy statement.

The federal securities laws require that in order to be eligible to submit a proposal for inclusion in our proxy statement the Fund must, among other things, have continuously held at least \$2,000 in market value of Morgan Stanley's common stock for at least one year by the date it submitted the proposal. (A copy of SEC rule 14a-8, which applies to shareholder proposals submitted for inclusion in proxy statements, is enclosed for your reference.) The Fund is not currently the registered holder on Morgan Stanley's books and records of any shares of Morgan Stanley common stock and has not provided proof of ownership. Accordingly, the Fund must submit to us a written statement from the "record" holder of the shares (usually a broker or bank) verifying that at the time the Fund submitted the proposal, December 13, 2010, the Fund continuously held at least \$2,000 in market value of Morgan Stanley common stock for at least the one year period prior to and including December 13, 2010.

In order to meet the eligibility requirements for submitting a shareholder proposal, you must provide the requested information to us no later than 14 calendar days from the date you receive this letter. If you provide us with documentation correcting this eligibility deficiency, postmarked or transmitted electronically no later than 14 calendar days after the date you receive this letter, we will review the proposal to determine whether it is appropriate for inclusion in our proxy statement.

Sincerely,



Jacob E. Tyler  
Assistant Secretary

cc: Rev. Séamus P. Finn  
Mr. Myles McCabe

Enclosure

Record 12/23/10



STATE STREET.

Wealth Manager Services  
1200 Crown Colony Drive - CC1-2  
Quincy, MA 02169

December 13, 2010

Mr. James Gorman  
Morgan Stanley  
1585 Broadway  
New York, NY 10036

Re: Morgan Stanley

Dear Mr. Gorman:

State Street Corp. is the custodian for the account of Libra Fund. As of December 13, 2010, the account of Libra Fund held 36,020 shares of Morgan Stanley common stock (Cusip 617446448).

The Fund has continuously owned shares of Morgan Stanley common stock totaling at least \$2,000 in market value for at least one year prior to and through December 13, 2010.

Sincerely,

A handwritten signature in cursive script that reads "Mary Buckley".

Mary Buckley  
Assistant Vice President

**Exhibit B**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2009

Commission File Number 1-11758

Morgan Stanley

(Exact name of Registrant as specified in its charter)

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

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
----------------------------	---

**Securities registered pursuant to Section 12(b) of the Act:**

Common Stock, \$0.01 par value .....	New York Stock Exchange
Depository 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 3/4% Capital Securities of Morgan Stanley Capital Trust III (and Registrant's guaranty with respect thereto) .....	New York Stock Exchange
6 3/4% 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
BRI DGES <sup>SM</sup> 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 <sup>SM</sup> 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 <sup>SM</sup> due December 30, 2010; Buffered PLUS due March 20, 2011 .....	NYSE Arca, Inc.
PROPELS <sup>SM</sup> 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 .....	NYSE Arca, Inc.
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  NO

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

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

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

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

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

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

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

As of June 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.

## **Liquidity and Capital Resources.**

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

### **The Balance Sheet.**

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

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

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

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer owned securities, and customer cash, which is segregated according to regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company's prime brokerage clients. The Company's risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company's credit exposure to customers. Included within securities financing assets was \$14 billion and \$5 billion as of December 31, 2009 and December 31, 2008, respectively, recorded in accordance with accounting guidance for the transfer of financial assets that represented equal and offsetting assets and liabilities for fully collateralized non-cash loan transactions.

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



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

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

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

(1) The Company calculates its average balances based upon weekly amounts, except where weekly balances are unavailable, the month-end balances are used.

(2) Goodwill and net intangible assets exclude mortgage servicing rights of \$123 million (net of disallowable mortgage servicing rights in 2009) and \$184 million as of December 31, 2009 and December 31, 2008, respectively. In 2009, amounts included only the Company's share of MSSB's goodwill and intangible assets.

(3) Tangible common equity equals common equity less goodwill and net intangible assets as defined above. The Company views tangible common equity as a useful measure to investors because it is a commonly utilized metric and reflects the common equity deployed in the Company's businesses.

(4) Leverage ratio equals total assets divided by tangible Morgan Stanley shareholders' equity.

(5) The Tier 1 common ratio equals Tier 1 common equity divided by RWAs. The Company defines Tier 1 common equity as Tier 1 capital less qualifying perpetual preferred stock, qualifying trust preferred securities and qualifying restricted core capital elements, adjusted for the portion of goodwill and non-servicing assets associated with MSSB's non-controlling interests (i.e., Citi's share of MSSB's goodwill and intangibles). The Company views its definition of the Tier 1 common equity as a useful measure for investors as it reflects the actual ownership structure and economics of the joint venture. This definition of Tier 1 common equity differs from the Tier 1 common capital measure that was used by the federal bank regulatory agencies in the Supervisory Capital Assessment Program ("SCAP") conducted during the period February through April 2009. In SCAP, Tier 1 common capital was defined as Tier 1 capital less non-common elements, including qualifying perpetual preferred stock, qualifying minority interest in subsidiaries, and qualifying trust preferred securities. Accordingly, the SCAP measure would not be adjusted for the \$4.5 billion portion of goodwill and non-servicing intangible assets associated with MSSB's non-controlling interests as though the Company had already acquired the remaining 49% interest in MSSB owned by Citi. For a discussion of RWAs and Tier 1 capital, see "Regulatory Requirements" herein.

#### Balance Sheet and Funding Activity in 2009.

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

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

#### **Equity Capital-Related Transactions.**

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

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

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

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

#### **Equity Capital Management Policies.**

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

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

As of December 31, 2009, the Company had approximately \$1.6 billion remaining under its current share repurchase program out of the \$6 billion authorized by the Board in December 2006. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases by the Company are subject to regulatory approval. During 2009, the Company did not repurchase common stock as part of its capital management share repurchase program (see also "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II, Item 5).

The Board determines the declaration and payment of dividends on a quarterly basis. In January 2010, the Company announced that its Board declared a quarterly dividend per common share of \$0.05 (see Note 27 to the consolidated financial statements). The Company also announced that its Board declared a quarterly dividend of \$255.56 per share of Series A Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing 1/1,000th interest in a share of preferred stock and each having a dividend of \$0.25556); a quarterly dividend of \$25.00 per share of Series B Preferred Stock and a quarterly dividend of \$25.00 per share of Series C Preferred Stock.

### Economic Capital.

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

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

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

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

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

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

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

### Liquidity and Funding Management Policies.

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

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

#### **Liquidity Management Policies.**

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

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

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

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

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

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

#### **Capital Covenants.**

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

### **Funding Management Policies.**

The Company's funding management policies are designed to provide for financings that are executed in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. Maturities of financings are designed to manage exposure to refinancing risk in any one period.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products in the U.S., European and Asian markets, targeting global investors and currencies such as the U.S. dollar, euro, British pound, Australian dollar and Japanese yen.

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

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

In addition, the Company, through several of its subsidiaries, maintains committed credit facilities to support various businesses, including the collateralized commercial and residential mortgage whole loan, derivative contracts, warehouse lending, emerging market loan, structured product, corporate loan, investment banking and prime brokerage businesses.

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

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

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

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

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

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

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

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

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

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

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

Deposits were as follows:

	At December 31, 2009(1)	At December 31, 2008(1)
	(dollars in millions)	
Savings and demand deposits .....	\$57,114	\$41,226
Time deposits(2) .....	5,101	10,129
Total .....	<u>\$62,215</u>	<u>\$51,355</u>

(1) Total deposits insured by the FDIC at December 31, 2009 and December 31, 2008 were \$46 billion and \$47 billion, respectively.

(2) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4 to the consolidated financial statements).

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

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

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

**Long-Term Borrowings.** The Company uses a variety of long-term debt funding sources to generate liquidity, taking into consideration the results of the CFP requirements. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments (e.g., commercial paper and other unsecured short-term borrowings). Financing transactions are generally structured to ensure staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company's credit ratings and the overall availability of credit.

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

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

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

	U.S. Dollar	Non-U.S. Dollar	At December 31, 2009
Due in 2010 .....	\$ 19,973	\$ 6,115	\$ 26,088
Due in 2011 .....	17,386	9,424	26,810
Due in 2012 .....	21,815	16,224	38,039
Due in 2013 .....	3,378	21,642	25,020
Due in 2014 .....	10,657	6,209	16,866
Thereafter .....	39,181	21,370	60,551
Total .....	<u>\$112,390</u>	<u>\$80,984</u>	<u>\$193,374</u>

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

**Credit Ratings.**

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally are dependent on the Company's short-term and long-term credit ratings. In

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

In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties in the event of a credit rating downgrade. As of December 31, 2009, the amount of additional collateral or termination payments that could be called by counterparties under the terms of such agreements in the event of a one-notch downgrade of the Company's long-term credit rating was approximately \$1,405 million. A total of approximately \$2,523 million in collateral or termination payments could be called in the event of a two-notch downgrade. A total of approximately \$3,417 million in collateral or termination payments could be called in the event of a three-notch downgrade.

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

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

#### Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entities, primarily in connection with its Institutional Securities business segment.

**Institutional Securities Activities.** The Company utilizes SPEs primarily in connection with securitization activities. The Company engages in securitization activities related to commercial and residential mortgage loans, U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bonds and other types of financial assets. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income. Retained interests in securitized financial assets were approximately \$2.0 billion and \$1.2 billion at December 31, 2009 and December 31, 2008, respectively, substantially all of which were related to U.S. agency collateralized mortgage obligations, commercial mortgage loan and residential mortgage loan securitization transactions. For further information about the Company's securitization activities, see Notes 2 and 6 to the consolidated financial statements.

The Company has entered into liquidity facilities with SPEs and other counterparties, whereby the Company is required to make certain payments if losses or defaults occur. The Company often may have recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity facilities (see Note 11 to the consolidated financial statements).

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



an underlying measure (such as an interest or foreign exchange rate, a security or commodity price, an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. The FASB also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The table below summarizes certain information regarding the Company's obligations under guarantee arrangements as of December 31, 2009:

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

(1) Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 10 to the consolidated financial statements.

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

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

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

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

Type of Guarantee	Maximum Potential Payout/Notional					Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	Years to Maturity						
	Less than 1	1-3	3-5	Over 5	Total		
	(dollars in millions)						
Credit derivative contracts(1) . . . .	\$225,742	\$778,266	\$1,593,218	\$989,207	\$3,586,433	\$427,338	\$ —
Other credit contracts . . . . .	53	43	188	3,014	3,298	3,379	—
Credit-linked notes . . . . .	207	486	326	640	1,659	(242)	—
Non-credit derivative contracts(1) . . . . .	684,432	385,734	195,419	274,652	1,540,237	145,609	—
Standby letters of credit and other financial guarantees issued . . . . .	779	1,964	1,817	4,418	8,978	78	4,787
Market value guarantees . . . . .	—	—	—	645	645	36	134
Liquidity facilities . . . . .	3,152	698	188	376	4,414	25	3,741
Whole loan sales guarantees . . . . .	—	—	—	42,045	42,045	—	—
General partner guarantees . . . . .	54	198	33	150	435	29	—
Auction rate security guarantees . . . . .	1,747	—	—	—	1,747	40	—

(1) Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 10 to the consolidated financial statements.

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

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

### Commitments and Contractual Obligations.

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, mortgage lending and margin lending as of December 31, 2009 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

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

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

For further description of these commitments, see Note 11 to the consolidated financial statements and "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part II, Item 7A.

In the normal course of business, the Company enters into various contractual obligations that may require future cash payments. Contractual obligations include long-term borrowings, contractual interest payments, operating leases and purchase obligations. The Company's future cash payments associated with its obligations as of December 31, 2009 are summarized below:

At December 31, 2009	Payments Due in:				Total
	2010	2011-2012	2013-2014	Thereafter	
	(dollars in millions)				
Long-term borrowings(1)	\$26,088	\$64,849	\$41,886	\$60,551	\$193,374
Contractual interest payments(2)	6,344	10,071	7,279	18,015	41,709
Operating leases—office facilities(3)	683	1,242	906	2,701	5,532
Operating leases—equipment(3)	514	279	109	136	1,038
Purchase obligations(4)	408	271	119	98	896
Pension and postretirement plans—expected contribution(5)	275	—	—	—	275
<b>Total(6)</b>	<b>\$34,312</b>	<b>\$76,712</b>	<b>\$50,299</b>	<b>\$81,501</b>	<b>\$242,824</b>

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

- (2) Amounts represent estimated future contractual interest payments related to unsecured long-term borrowings and secured long-term financings based on applicable interest rates as of December 31, 2009. Includes stated coupon rates, if any, on structured or index-linked notes.
- (3) See Note 11 to the consolidated financial statements.
- (4) Purchase obligations for goods and services include payments for, among other things, consulting, outsourcing, advertising, sponsorship, computer and telecommunications maintenance agreements, and certain license agreements related to MSSB. Purchase obligations as of December 31, 2009 reflect the minimum contractual obligation under legally enforceable contracts with contract terms that are both fixed and determinable. These amounts exclude obligations for goods and services that already have been incurred and are reflected on the Company's consolidated statement of financial condition.
- (5) See Note 19 to the consolidated financial statements.
- (6) Amounts exclude unrecognized tax benefits, as the timing and amount of future cash payments are not determinable at this time (see Note 20 to the consolidated financial statements for further information).

### Regulatory Requirements.

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

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

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

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

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

Total allowable capital is composed of Tier 1 and Tier 2 capital. Tier 1 capital consists predominately of common shareholders' equity as well as qualifying preferred stock, trust preferred securities mandatorily convertible to common equity and qualifying restricted core capital elements (including other junior subordinated debt issued to trusts and non-controlling interests) less goodwill, non-servicing intangible assets (excluding allowable mortgage servicing rights), net deferred tax assets (recoverable in excess of one year) and DVA. DVA represents the cumulative change in fair value of certain of the Company's borrowings (for which the fair value option was elected) that was attributable to changes in the Company's own instrument-specific credit spreads and is included in retained earnings. For a further discussion of fair value, see Note 4 to the consolidated financial statements. Tier 2 capital consists principally of qualifying subordinated debt.

As of December 31, 2009, the Company calculated its RWAs in accordance with the regulatory capital requirements of the Fed, which is consistent with guidelines described under Basel I. RWAs reflect both on and off-balance sheet risk of the Company. The risk capital calculations will evolve over time as the Company enhances its risk management methodology and incorporates improvements in modeling techniques while maintaining compliance with the regulatory requirements and interpretations.

Market RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company's market risks and Value-at-Risk ("VaR") model, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management" in Part II, Item 7A herein. Market RWAs incorporate three components: systematic risk, specific risk, and incremental default risk

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

Credit RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part II, Item 7A, herein. Credit RWAs are determined using Basel I regulatory capital guidelines for U.S. banking organizations issued by the Fed.

#### **Effects of Inflation and Changes in Foreign Exchange Rates.**

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

A significant portion of the Company's business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on the Company's financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows.

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

### **Risk Management.**

#### **Risk Management Policy and Control Structure.**

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

The cornerstone of the Company's risk management philosophy is the execution of risk-adjusted returns through prudent risk-taking that protects the Company's capital base and franchise. The Company's risk management philosophy is based on the following principles: comprehensiveness, independence, accountability, defined risk tolerance and transparency. Given the importance of effective risk management to the Company's reputation, senior management requires thorough and frequent communication and appropriate escalation of risk matters.

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

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

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

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

The Board has also authorized the FRC, a management committee appointed and chaired by the Chief Executive Officer that includes the most senior officers of the Company, including the Chief Risk Officer, Chief Legal Officer and Chief Financial Officer, to oversee the Company's global risk management structure. The FRC's responsibilities include oversight of the Company's risk management principles, procedures and limits, and the monitoring of capital levels and material market, credit, liquidity and funding, legal, operational, franchise and regulatory risk matters and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. The FRC reports to the full Board, the Audit Committee and the Risk Committee through the Company's Chief Risk Officer.

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

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

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

Each business segment has a risk committee that is responsible for helping to ensure that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies and procedures that are consistent with the risk framework established by the FRC; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management policies and procedures, and related controls.

Each of the Company's business segments also has designated operations officers, committees and groups to manage and monitor specific risks and report to the business segment risk committee. The Company control groups work with business segment control groups (including the Operations Division and Information Technology Division) to review the risk monitoring and risk management policies and procedures relating to, among other things, the business segment's market, credit and operational risk profile, sales practices, reputation, legal enforceability, and operational and technological risks. Participation by the senior officers of the Company and business segment control groups helps ensure that risk policies and procedures, exceptions to risk limits, new products and business ventures, and transactions with risk elements undergo a thorough review.

The following is a discussion of the Company's risk management policies and procedures for its principal risks (other than capital and liquidity risk). The discussion focuses on the Company's securities activities (primarily its institutional trading activities) and corporate lending and related activities. The Company believes that these activities generate a substantial portion of its principal risks. This discussion and the estimated amounts of the Company's market risk exposure generated by the Company's statistical analyses are forward-looking statements. However, the analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in which the Company operates and certain other factors described below.



### **Market Risk.**

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading and client facilitation activities, principally within the Institutional Securities business where the substantial majority of the Company's VaR for market risk exposures is generated. In addition, the Company incurs trading-related market risk within the Global Wealth Management Group. Asset Management incurs non-trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles.

Sound market risk management is an integral part of the Company's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The control groups help ensure that these risks are measured and closely monitored and are made transparent to senior management. The Market Risk Department is responsible for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management. To execute these responsibilities, the Market Risk Department monitors the Company's risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains the Company's VaR system. Limits are designed to control price and market liquidity risk. Market risk is monitored through various measures: statistically (using VaR and related analytical measures); by measures of position sensitivity; and through routine stress testing and scenario analyses conducted by the Market Risk Department in collaboration with the business units. The material risks identified by these processes are summarized in reports produced by the Market Risk Department that are circulated to and discussed with senior management, the Risk Committee and the Board.

### ***Risk and Capital Management Initiatives.***

During 2009, the Company continued to enhance its market risk management framework to address the severe stresses observed in global markets during the recent economic downturn (see "Executive Summary—Global Market and Economic Conditions in Fiscal 2009" Part II, Item 7, herein). The Company expanded and improved its risk measurement processes, including stress tests and scenario analysis, and refined its market risk limit framework. In conjunction with these risk measurement enhancements, a proprietary methodology called Stress VaR ("S-VaR") was developed to comprehensively measure the Company's market and credit risks. S-VaR simulates many stress scenarios based on more than 25 years of historical data and attempts to capture the different liquidities of various types of general and specific risks, as well as event and default risks particularly relevant for credit portfolios. S-VaR, while still evolving, is becoming an important metric for the Company's risk appetite assessment and its capital allocation framework.

### ***Sales and Trading and Related Activities.***

***Primary Market Risk Exposures and Market Risk Management.*** During 2009, the Company had exposures to a wide range of interest rates, equity prices, foreign exchange rates and commodity prices—and the associated implied volatilities and spreads—related to the global markets in which it conducts its trading activities.

The Company is exposed to interest rate and credit spread risk as a result of its market-making activities and other trading in interest rate sensitive financial instruments (e.g., risk arising from changes in the level or implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads). The activities from which those exposures arise and the markets in which the Company is active include, but are not limited to, the following: emerging market corporate and government debt, non-investment grade and distressed corporate debt, investment grade corporate debt and asset-backed debt (including mortgage-related securities).

The Company is exposed to equity price and implied volatility risk as a result of making markets in equity securities and derivatives and maintaining other positions (including positions in non-public entities). Positions in

non-public entities may include, but are not limited to, exposures to private equity, venture capital, private partnerships, real estate funds and other funds. Such positions are less liquid, have longer investment horizons and are more difficult to hedge than listed equities.

The Company is exposed to foreign exchange rate and implied volatility risk as a result of making markets in foreign currencies and foreign currency derivatives, from maintaining foreign exchange positions and from holding non-U.S. dollar-denominated financial instruments. The Company is exposed to commodity price and implied volatility risk as a result of market-making activities and maintaining positions in physical commodities (such as crude and refined oil products, natural gas, electricity, and precious and base metals) and related derivatives. Commodity exposures are subject to periods of high price volatility as a result of changes in supply and demand. These changes can be caused by weather conditions; physical production, transportation and storage issues; or geopolitical and other events that affect the available supply and level of demand for these commodities.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures, forwards, swaps and options). Hedging activities may not always provide effective mitigation against trading losses due to differences in the terms, specific characteristics or other basis risks that may exist between the hedge instrument and the risk exposure that is being hedged. The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis. The Company manages and monitors its market risk exposures in such a way as to maintain a portfolio that the Company believes is well-diversified in the aggregate with respect to market risk factors and that reflects the Company's aggregate risk tolerance as established by the Company's senior management.

Aggregate market risk limits have been approved for the Company and for its major trading divisions worldwide (equity and fixed income, which includes interest rate products, credit products, foreign exchange and commodities). Additional market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers, traders and the Market Risk Department monitor market risk measures against limits in accordance with policies set by senior management.

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

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

**VaR.** The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

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

changes in key market indices or other market factors ("market risk factors"); and information on the sensitivity of the portfolio values to these market risk factor changes. The Company's VaR model uses four years of historical data to characterize potential changes in market risk factors. The Company's 95%/one-day VaR corresponds to the unrealized loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held constant for one day.

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

The Company's VaR models evolve over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name-specific risk factors may be added to improve the VaR model's ability to more accurately estimate risks to specific asset classes or industry sectors.

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

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

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

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

Since the VaR statistics reported below are estimates based on historical position and market data, VaR should not be viewed as predictive of the Company's future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

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

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

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

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

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

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

***VaR Statistics under Varying Assumptions.***

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

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

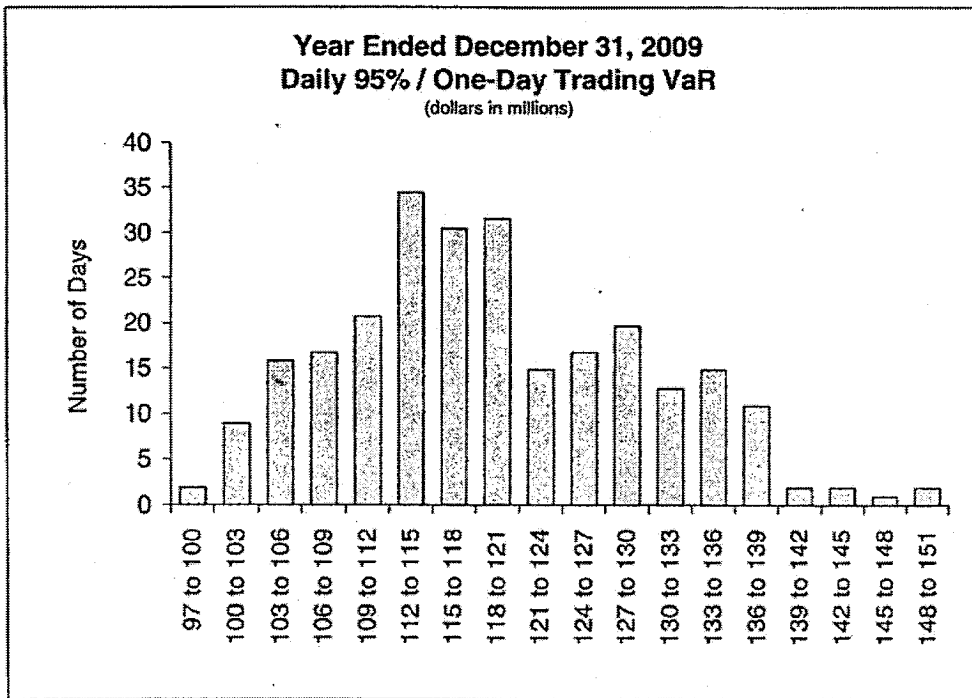
**Table 2: Average 95% and 99% Trading VaR with Four-Year/One-Year Historical Time Series**

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

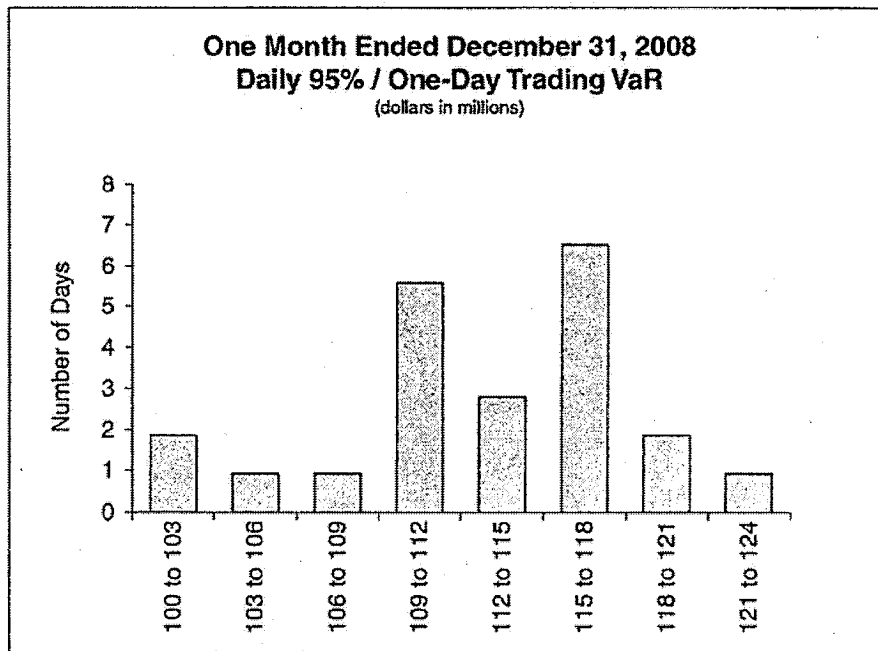
(1) Diversification benefit equals the difference between Total VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken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

***Distribution of VaR Statistics and Net Revenues for 2009.***

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



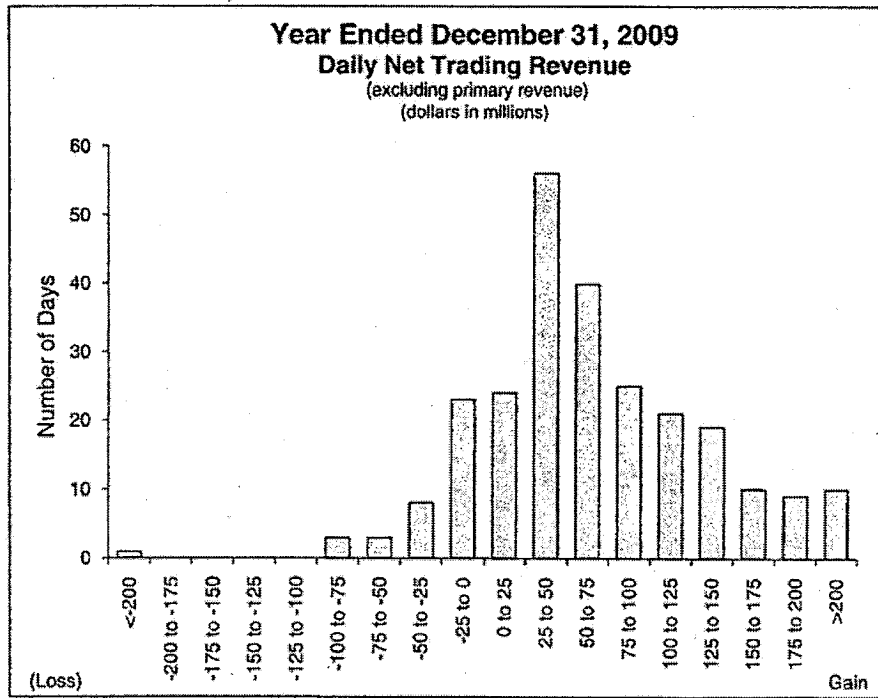
As shown in Table 1, the Company's average 95%/one-day Trading VaR for the one month ended December 31, 2008 was \$113 million. The histogram below presents the distribution of the Company's daily 95%/one-day Trading VaR for the one month ended December 31, 2008. The most frequently occurring value was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



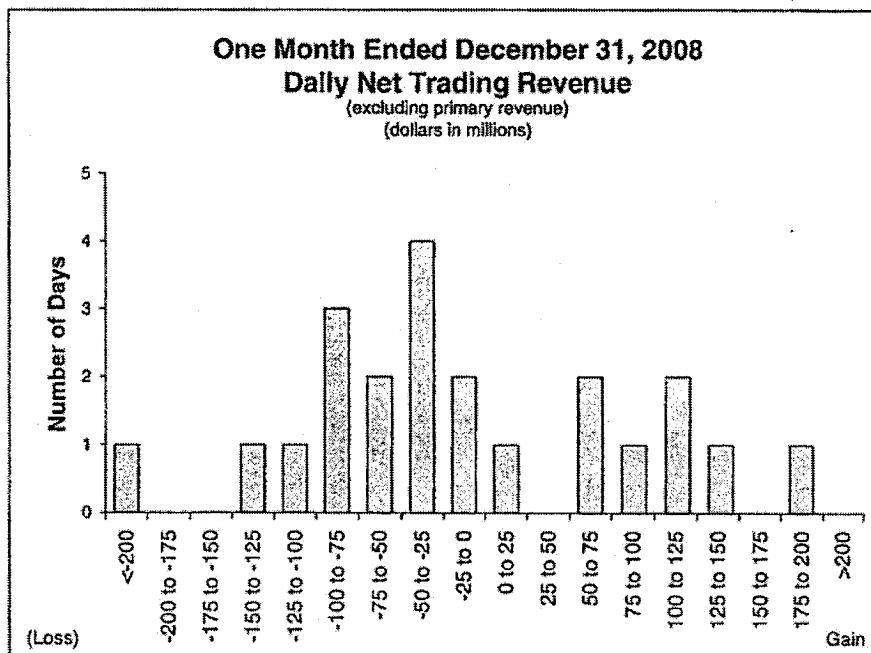
One method of evaluating the reasonableness of the Company's VaR model as a measure of the Company's potential volatility of net revenue is to compare the VaR with actual trading revenue. Assuming no intra-day trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the accuracy of the VaR model could be questioned. Accordingly, the Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results. For days where losses exceed the 95% or 99% VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results.

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

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







**Credit Risk.**

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. The Company is exposed to two distinct types of credit risk in its businesses. The Company incurs "single name" credit risk exposure through the Institutional Securities business and to a lesser extent through its lending activities in its Global Wealth Management Group. This type of risk requires credit analysis of specific counterparties, both initially and on an ongoing basis. The Company also incurs "individual consumer" credit risk in the Global Wealth Management Group business segment lending to individual investors, including margin and non-purpose loans collateralized by securities and through single-family residential prime mortgage loans in jumbo or home equity lines of credit ("HELOC") form.

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

***Institutional Securities Activities.***

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

"Relationship-driven" loans and lending commitments are generally made to expand business relationships with select clients. The commitments associated with "relationship-driven" activities may not be indicative of the Company's actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment. The borrowers of "relationship-driven" lending transactions may be investment grade or non-investment grade. The Company may hedge its exposures in connection with "relationship-driven" transactions.

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

***Securitized Products.*** While new activity has been reduced from historical levels, the Company may extend short or long-term funding to clients through loans and lending commitments that are secured by assets of the borrower and generally provide for over-collateralization, including commercial real estate, loans secured by loan pools, corporate and operating company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in actual or underlying collateral value.

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

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets. The fair value of derivatives represents the amount at which the derivative could be exchanged in an orderly transaction between market participants and is further described in Note 2 to the consolidated financial statements. Future changes in interest rates, foreign currency exchange rates, or the fair values of the financial instruments, commodities or indices underlying these contracts ultimately may result in cash settlements exceeding fair value amounts recognized in the consolidated statements of financial condition.

***Other.*** In addition to the activities noted above, there are other credit risks managed by Credit Risk Management and various business areas within Institutional Securities. The Company incurs credit risk through margin and collateral transactions with clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties. Certain risk management activities as they pertain to establishing appropriate collateral amounts for the Company's prime brokerage and securitized product businesses are primarily monitored within those respective areas in that they determine the appropriate collateral level for each strategy or position. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. In addition, certain businesses with heightened settlement risk monitor compliance with established settlement risk limits.

**Analyzing Credit Risk.** Credit risk management takes place at the transaction, counterparty and portfolio levels. In order to protect the Company from losses resulting from these activities, Credit Risk Management analyzes all material lending and derivative transactions and ensures that the creditworthiness of the Company's counterparties and borrowers is reviewed regularly and that credit exposure is actively monitored and managed. Credit Risk Management assigns obligor credit ratings to the Company's counterparties and borrowers. These credit ratings are intended to assess a counterparty's probability of default and are derived using methodologies generally consistent with those employed by external rating agencies. Credit ratings of "BB+" or below are considered non-investment grade. Additionally, Credit Risk Management evaluates the relative position of the Company's particular obligation in the borrower's capital structure and relative recovery prospects, as well as collateral (if applicable) and other structural elements of the particular transaction.

**Risk Mitigation.** The Company may seek to mitigate credit risk from its lending and derivatives transactions in multiple ways. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, seniority and collateral. The Company actively hedges its lending and derivatives exposure through various financial instruments that may include single name, portfolio and structured credit derivatives. Additionally, the Company may sell, assign or sub-participate funded loans and lending commitments to other financial institutions in the primary and secondary loan market. In connection with its derivatives trading activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company with the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default.

**Credit Exposure—Corporate Lending.** The following tables present information about the Company's corporate funded loans and lending commitments as of December 31, 2009 and December 31, 2008. The "total corporate lending exposure" column includes both lending commitments and funded loans. Fair value of corporate lending exposure represents the fair value of loans that have been drawn by the borrower and lending commitments that were outstanding as of December 31, 2009 and December 31, 2008. Lending commitments represent legally binding obligations to provide funding to clients as of December 31, 2009 and December 31, 2008 for both "relationship-driven" and "event-driven" lending transactions. As discussed above, these loans and lending commitments have varying terms, may be senior or subordinated, may be secured or unsecured, are generally contingent upon representations, warranties and contractual conditions applicable to the borrower, and may be syndicated, traded or hedged by the Company.

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

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

#### Corporate Lending Commitments and Funded Loans at December 31, 2009

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

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

#### Corporate Lending Commitments and Funded Loans at December 31, 2008

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

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

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

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

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

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

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

*Credit Exposure—Derivatives.* The tables below present a summary by counterparty credit rating and remaining contract maturity of the fair value of OTC derivatives in a gain position as of December 31, 2009 and December 31, 2008. Fair value is presented in the final column net of collateral received (principally cash and U.S. government and agency securities):

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

Credit Rating(2)	Years to Maturity				Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-Cash Collateral	Net Exposure Post- Collateral
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA .....	\$ 852	\$ 2,026	\$ 3,876	\$ 9,331	\$ (6,616)	\$ 9,469	\$ 9,082
AA .....	6,469	7,855	6,600	15,071	(25,576)	10,419	8,614
A .....	8,018	10,712	7,990	22,739	(38,971)	10,488	9,252
BBB .....	3,032	4,193	2,947	7,524	(8,971)	8,725	5,902
Non-investment grade .....	<u>2,773</u>	<u>3,331</u>	<u>2,113</u>	<u>4,431</u>	<u>(4,534)</u>	<u>8,114</u>	<u>6,525</u>
Total .....	<u>\$21,144</u>	<u>\$28,117</u>	<u>\$23,526</u>	<u>\$59,096</u>	<u>\$(84,668)</u>	<u>\$47,215</u>	<u>\$39,375</u>

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. The table does not include listed derivatives and the effect of any related hedges utilized by the Company. The table also excludes fair values corresponding to other credit exposures, such as those arising from the Company's lending activities.

(2) Obligor credit ratings are determined by Credit Risk Management using methodologies generally consistent with those employed by external rating agencies.

(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

**OTC Derivative Products—Financial Instruments Owned at December 31, 2008(1)**

Credit Rating(2)	Years to Maturity				Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-Cash Collateral	Net Exposure Post- Collateral
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA .....	\$ 1,928	\$ 3,588	\$ 6,235	\$16,623	\$ (11,060)	\$17,314	\$15,849
AA .....	10,447	13,133	16,589	40,423	(63,498)	17,094	15,018
A .....	7,150	7,514	7,805	21,752	(31,025)	13,196	12,034
BBB .....	4,666	7,414	4,980	8,614	(6,571)	19,103	14,101
Non-investment grade .....	8,219	8,163	5,416	7,341	(12,597)	16,542	12,131
<b>Total .....</b>	<b>\$32,410</b>	<b>\$39,812</b>	<b>\$41,025</b>	<b>\$94,753</b>	<b>\$(124,751)</b>	<b>\$83,249</b>	<b>\$69,133</b>

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. The table does not include listed derivatives and the effect of any related hedges utilized by the Company. The table also excludes fair values corresponding to other credit exposures, such as those arising from the Company's lending activities.

(2) Obligor credit ratings are determined by Credit Risk Management using methodologies generally consistent with those employed by external rating agencies.

(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

The following tables summarize the fair values of the Company's OTC derivative products recorded in Financial instruments owned and Financial instruments sold, not yet purchased by product category and maturity as of December 31, 2009, including on a net basis, where applicable, reflecting the fair value of related non-cash collateral for financial instruments owned:

**OTC Derivative Products—Financial Instruments Owned at December 31, 2009**

Product Type	Years to Maturity				Cross-Maturity and Cash Collateral Netting(1)	Net Exposure Post-Cash Collateral	Net Exposure Post- Collateral
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts .....	\$11,958	\$19,556	\$20,564	\$57,240	\$(76,255)	\$33,063	\$29,444
Foreign exchange forward contracts and options .....	3,859	916	201	40	(1,994)	3,022	2,699
Equity securities contracts (including equity swaps, warrants and options) .....	1,987	1,023	441	697	(2,065)	2,083	1,109
Commodity forwards, options and swaps .....	3,340	6,622	2,320	1,119	(4,354)	9,047	6,123
<b>Total .....</b>	<b>\$21,144</b>	<b>\$28,117</b>	<b>\$23,526</b>	<b>\$59,096</b>	<b>\$(84,668)</b>	<b>\$47,215</b>	<b>\$39,375</b>

(1) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

OTC Derivative Products—Financial Instruments Sold, Not Yet Purchased at December 31, 2009(1)

Product Type	Years to Maturity				Cross-Maturity and Cash Collateral Netting(2)	Total
	Less than 1	1-3	3-5	Over 5		
(dollars in millions)						
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$ 6,054	\$11,442	\$11,795	\$32,133	\$(40,743)	\$20,681
Foreign exchange forward contracts and options	3,665	647	201	72	(1,705)	2,880
Equity securities contracts (including equity swaps, warrants and options)	4,528	2,547	1,253	1,150	(5,860)	3,618
Commodity forwards, options and swaps	3,727	4,668	1,347	975	(5,336)	5,381
Total	<u>\$17,974</u>	<u>\$19,304</u>	<u>\$14,596</u>	<u>\$34,330</u>	<u>\$(53,644)</u>	<u>\$32,560</u>

(1) Since these amounts are liabilities of the Company, they do not result in credit exposures.

(2) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral paid is netted on a counterparty basis, provided legal right of offset exists.

The following tables summarize the fair values of the Company's OTC derivative products recorded in Financial instruments owned and Financial instruments sold, not yet purchased by product category and maturity as of December 31, 2008, including on a net basis, where applicable, reflecting the fair value of related non-cash collateral for financial instruments owned:

OTC Derivative Products—Financial Instruments Owned at December 31, 2008

Product Type	Years to Maturity				Cross-Maturity and Cash Collateral Netting(1)	Net Exposure Post-Cash Collateral	Net Exposure Post- Collateral
	Less than 1	1-3	3-5	Over 5			
(dollars in millions)							
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$ 8,914	\$22,965	\$36,497	\$91,468	\$(107,667)	\$52,177	\$45,841
Foreign exchange forward contracts and options	8,465	2,363	320	68	(3,882)	7,334	6,409
Equity securities contracts (including equity swaps, warrants and options)	4,333	2,059	606	1,088	(4,991)	3,095	1,365
Commodity forwards, options and swaps	10,698	12,425	3,602	2,129	(8,211)	20,643	15,518
Total	<u>\$32,410</u>	<u>\$39,812</u>	<u>\$41,025</u>	<u>\$94,753</u>	<u>\$(124,751)</u>	<u>\$83,249</u>	<u>\$69,133</u>

(1) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

OTC Derivative Products—Financial Instruments Sold, Not Yet Purchased at December 31, 2008(1)

Product Type	Years to Maturity				Cross-Maturity and Cash Collateral Netting(2)	Total
	Less than 1	1-3	3-5	Over 5		
	(dollars in millions)					
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$ 8,547	\$17,356	\$24,777	\$55,237	\$(69,985)	\$35,932
Foreign exchange forward contracts and options	7,355	1,660	377	159	(3,110)	6,441
Equity securities contracts (including equity swaps, warrants and options)	2,661	3,446	1,685	1,858	(6,149)	3,501
Commodity forwards, options and swaps	7,764	10,283	2,321	1,082	(8,302)	13,148
Total	\$26,327	\$32,745	\$29,160	\$58,336	\$(87,546)	\$59,022

(1) Since these amounts are liabilities of the Company, they do not result in credit exposures.

(2) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral paid is netted on a counterparty basis, provided legal right of offset exists.

The Company's derivatives (both listed and OTC), on a net of counterparty and cash collateral basis, as of December 31, 2009 and December 31, 2008 are summarized in the table below, showing the fair value of the related assets and liabilities by product category:

Product Type	At December 31, 2009		At December 31, 2008	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$33,307	\$20,911	\$52,391	\$36,146
Foreign exchange forward contracts and options	3,022	2,824	7,334	6,425
Equity securities contracts (including equity swaps, warrants and options)	3,619	7,371	8,738	8,920
Commodity forwards, options and swaps	9,133	7,103	20,955	17,063
Total	\$49,081	\$38,209	\$89,418	\$68,554

Each category of derivative products in the above tables includes a variety of instruments, which can differ substantially in their characteristics. Instruments in each category can be denominated in U.S. dollars or in one or more non-U.S. currencies.

The Company determines the fair values recorded in the above tables using various pricing models. For a discussion of fair value as it affects the consolidated financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in Part II, Item 7, herein and Notes 1 and 4 to the consolidated financial statements.

**Credit Derivatives.** A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on a set of debt obligations issued by a specified reference entity. The beneficiary pays a periodic premium (typically quarterly) over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation and payment moratorium. Debt restructurings are also considered a credit event in some cases. In certain transactions referenced to a portfolio of referenced entities or asset-backed securities, deductibles and caps may limit the guarantor's obligations.



The Company trades in a variety of derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. The Company is an active market-maker in the credit derivatives markets. As a market-maker, the Company works to earn a bid-offer spread on client flow business and manage any residual credit or correlation risk on a portfolio basis. The Company also trades and takes credit risk in credit default swap form on a proprietary basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company's counterparties are banks, broker-dealers, insurance, and other financial institutions and Monolines. Contracts with these counterparties do not include ratings-based termination events but do include counterparty rating downgrades, which may result in additional collateral being required by the Company. For further information on the Company's exposure to Monolines, see "Certain Factors Affecting Results of Operations—Monoline Insurers" herein. The master agreements with these Monoline counterparties are generally unsecured, and the few ratings-based triggers (if any) generally provide the Company the ability to terminate only upon significant downgrade. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate.

The following table summarizes the key characteristics of the Company's credit derivative portfolio by counterparty as of December 31, 2009. The fair values shown are before the application of any counterparty or cash collateral netting:

	At December 31, 2009			
	Fair Values(1)		Notionals(2)	
	Receivable	Payable	Beneficiary	Guarantor
	(dollars in millions)			
Banks and securities firms .....	\$125,352	\$115,855	\$2,294,658	\$2,213,761
Insurance and other financial institutions .....	15,422	9,310	194,353	229,630
Monolines .....	4,903	—	22,886	—
Non-financial entities .....	387	69	3,990	3,634
Total .....	<u>\$146,064</u>	<u>\$125,234</u>	<u>\$2,515,887</u>	<u>\$2,447,025</u>

(1) Amounts shown are presented before the application of any counterparty or cash collateral netting. The Company's credit default swaps are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 16% of receivable fair values and 11% of payable fair values represent Level 3 amounts.

(2) As part of an industry-wide effort to reduce the total notional amount of outstanding offsetting credit derivative trades, the Company participated in novating credit default swap contracts with external counterparties to a central clearinghouse during 2009.

**Country Exposure.** As of December 31, 2009 and December 31, 2008, primarily based on the domicile of the counterparty, approximately 5% and 8%, respectively, of the Company's credit exposure (for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company's OTC derivative contracts) was to emerging markets, and no one emerging market country accounted for more than 1% and 2%, respectively, of the Company's credit exposure.

The Company defines emerging markets to include generally all countries where the economic, legal and political systems are transitional and in the process of developing into more transparent and accountable systems that are consistent with advanced countries.

The following tables show the Company's percentage of credit exposure from its primary corporate loans and lending commitments and OTC derivative products by country as of December 31, 2009 and December 31, 2008:

Country	Corporate Lending Exposure	
	At December 31, 2009	At December 31, 2008
United States .....	65%	68%
United Kingdom .....	7	7
Germany .....	6	5
Other .....	22	20
Total .....	<u>100%</u>	<u>100%</u>

Country	OTC Derivative Products	
	At December 31, 2009	At December 31, 2008
United States .....	31%	35%
Cayman Islands .....	14	10
United Kingdom .....	8	9
Italy .....	7	6
Germany .....	4	3
France .....	3	3
Jersey .....	3	3
Ireland .....	3	2
Japan .....	2	3
Other .....	25	26
Total .....	<u>100%</u>	<u>100%</u>

**Industry Exposure.** The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company's OTC derivative contracts.

The following tables show the Company's percentage of credit exposure from its primary corporate loans and lending commitments and OTC derivative products by industry as of December 31, 2009 and December 31, 2008:

Industry	Corporate Lending Exposure	
	At December 31, 2009	At December 31, 2008
Utilities-related .....	15%	13%
Consumer-related entities .....	10	10
Financial institutions .....	9	10
Telecommunications .....	8	11
Media-related entities .....	8	7
General industrials .....	7	7
Technology-related industries .....	6	8
Healthcare-related entities .....	6	5
Energy-related entities .....	6	5
Other .....	25	24
Total .....	<u>100%</u>	<u>100%</u>

Industry	OTC Derivative Products	
	At December 31, 2009	At December 31, 2008
Financial institutions .....	41%	38%
Sovereign entities .....	19	15
Insurance .....	9	13
Utilities-related entities .....	7	6
Energy-related entities .....	3	3
Transportation-related entities .....	3	11
Other .....	18	14
Total .....	<u>100%</u>	<u>100%</u>

**Global Wealth Management Group Activities.**

**Margin Lending.** Customer margin accounts, the primary source of retail credit exposure, are collateralized in accordance with internal and regulatory guidelines. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. At December 31, 2009 and December 31, 2008, there were approximately \$5.3 billion and \$4.3 billion, respectively, of customer margin loans outstanding.

The Company, through agreements with Citi relating to the formation of MSSB, retains certain credit risk for margin and non-purpose loans that are held at Citigroup Global Markets Inc. in its capacity as clearing broker for certain MSSB clients. The related loans are generally subject to the same oversight as similar margin and non-purpose loans held by the Company and its subsidiaries.

**Non-purpose Securities-Based Lending.** Non-purpose securities-based lending allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying marketable securities or refinancing margin debt. The Company establishes approved lines and advance rates against qualifying securities and monitors limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce debt positions, when necessary. Factors considered in the review of non-purpose securities-based lending are amount of the loan, the degree of concentrated or restricted positions, and the overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies. Underlying collateral for non-purpose securities-based loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations.

**Commercial Lending.** The Global Wealth Management Group provides structured credit facilities to high net worth individuals and their small and medium-size domestic businesses, with a suite of products that includes working capital lines of credit, revolving lines of credit, standby letters of credit, term loans and commercial real estate mortgages. Clients are required to submit a credit application and financial statements to a centralized credit processing platform, and underwriting professionals recommend a lending structure following an analysis of the borrower, the guarantor, the collateral, cash flow, liquidity, leverage and credit history. For standard transactions, credit requests are approved via signature of independent credit professionals, and where transactions are of size and higher complexity, approval is secured through a formal loan committee chaired by independent credit professionals. The facility is risk rated and upon credit approval and loan closing is closely monitored through active account management and covenant compliance certificates.

### *Consumer Lending Activities.*

With respect to first mortgages and second mortgages, including HELOC ("mortgage lending"), a loan evaluation process is adopted within a framework of credit underwriting policies and collateral valuation. The Company's underwriting policy is designed to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysis of applicable industry standard credit scoring models (e.g., FICO scores), debt ratios and reserves of the borrower. Loan-to-collateral value ratios are determined based on independent third-party property appraisal/valuations, and security lien position is established through title/ownership reports. Historically all mortgages were originated to be sold or securitized. Eligible conforming loans are currently sold to the government-sponsored enterprises while most jumbo and HELOC loans will be held for investment in the Company's portfolio.

### **Operational Risk.**

Operational risk refers to the risk of financial or other loss, or potential damage to a firm's reputation, resulting from inadequate or failed internal processes, people, systems or from external events (e.g., external or internal fraud, legal and compliance risks, damage to physical assets). The Company may incur operational risk across the full scope of its business activities, including revenue generating activities (e.g., sales and trading) and support functions (e.g., information technology and facilities management). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal Risk."

The goal of the Company's operational risk management framework is to establish company-wide operational risk standards related to risk measurement, monitoring and management. Operational risk policies establish a framework to reduce the likelihood and/or impact of operational incidents as well as to mitigate legal, regulatory and reputational risks. The framework continually responds to changing regulatory and business environment landscape. As a foundation for the Basel II Advanced Measurement Approach, an enhanced risk-based capital model has been developed for the calculation of capital related to operational risk. This model encompasses both quantitative and qualitative elements, including internal and external operational incidents, metrics, risk and control self-assessments, and scenario analysis.

The Operational Risk Oversight Committee, a company-wide committee, is chaired by the Company's Chief Risk Officer and assists the FRC in executing its responsibilities for oversight of operational risk, including evaluating assessments of risk exposure, reviewing the Company's significant operational risk exposures, recommending and overseeing company-wide remediation efforts, review and evaluation of current event risk issues, and establishing company-wide operational risk program standards related to risk measurement, monitoring and management.

The Company's Operational Risk Manager oversees, monitors, measures, analyzes and reports on operational risk across the Company. The Operational Risk Manager is independent of the business segments and is supported by the company-wide Operational Risk Department. The Operational Risk Manager is also responsible for facilitating, designing, implementing and monitoring the company-wide operational risk program. The Operational Risk Department works with the business segments and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company globally.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers, generally, maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. As new products and business activities are developed and processes are designed and modified, operational risks are considered. Each business segment has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports with senior management within each business. Each control group also has a designated operational risk coordinator, or equivalent, and a forum for discussing operational risk matters and/or reports with senior management. Oversight of operational risk is provided by business segment and regional risk committees and the Operational Risk Oversight Committee.

Business Continuity Management is an ongoing program of analysis and planning that helps ensure a recovery strategy and required resources for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a company-wide basis, and redundancies are built into the systems as deemed appropriate. The key components of the Company's disaster recovery plans include: crisis management; business recovery plans; applications/data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Company maintains an information security program that coordinates the management of information security risks and satisfies regulatory requirements. Information security procedures are designed to protect the Company's information assets against unauthorized disclosure, modification or misuse. These procedures cover a broad range of areas, including: application entitlements, data protection, incident response, Internet and electronic communications, remote access and portable devices. The Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorized access.

The Company utilizes the services of external vendors in connection with the Company's ongoing operations. These may include, for example, outsourced processing and support functions and consulting and other professional services. The Company manages its exposures to the quality of these services through a variety of means, including service level and other contractual agreements, service and quality reviews, and ongoing monitoring of the vendors' performance. It is anticipated that the use of these services will continue and possibly increase in the future.

#### **Legal Risk.**

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and standards. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business (see "Business—Supervision and Regulation" in Part I, Item 1). The Company has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Company, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Company's policies relating to conduct, ethics and business practices are followed globally. In connection with its businesses, the Company has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, credit granting, money laundering, privacy and recordkeeping. In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

**Exhibit C**

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

FORM 10-Q

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

*For the quarterly period ended September 30, 2010*

OR

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

Commission File Number 1-11758

**Morgan Stanley**

(Exact Name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

1585 Broadway  
New York, NY 10036  
(Address of principal executive  
offices, including zip code)

36-3145972  
(I.R.S. Employer Identification No.)

(212) 761-4000  
(Registrant's telephone number,  
including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 31, 2010, there were 1,512,877,397 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

#### Market Risk.

The Company uses Value-at-Risk ("VaR") as one of a range of risk management tools. VaR methodology has various strengths and limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. For a further discussion of the Company's VaR methodology and its limitations, and the Company's risk management policies and control structure, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management" in Part II, Item 7A of the Form 10-K.

The tables below present the VaR for the Company's Aggregate, Trading, and Non-Trading portfolios, on a quarter end, quarterly average, and quarterly high, and low basis (see Table 1 below). The VaR statistics that would result if the Company were to adopt alternative parameters for its calculations, such as a higher reported confidence level (99% rather than 95%) or a shorter historical time series of market data (one year rather than four years) are also disclosed (see Table 2 below).

Aggregate VaR incorporates certain non-trading risks, including the interest rate risk generated by funding liabilities related to institutional trading positions, public company equity positions recorded as investments by the Company and corporate loan exposures that are awaiting distribution to the market. Investments made by the Company that are not publicly traded are not reflected in the VaR results presented below. Aggregate VaR also excludes the credit spread risk generated by the Company's funding liabilities and the interest rate risk associated with approximately \$7.3 billion of certain funding liabilities primarily related to fixed and other non-trading assets at both September 30, 2010 and June 30, 2010. The credit spread risk sensitivity of the Company's mark-to-market funding liabilities corresponded to an increase in value of approximately \$14 million and \$11 million for each +1 basis point widening in the Company's credit spread level at September 30, 2010 and June 30, 2010, respectively.

The credit spread risk relating to the Company's mark-to-market derivative counterparty exposure is also managed separately from VaR. The credit spread risk sensitivity of this exposure corresponds to an increase in value of approximately \$8 million and \$6 million for each +1 basis point widening in the Company's credit spread level at September 30, 2010 and June 30, 2010, respectively.

The counterparty portfolio, which reflects adjustments, net of hedges, relating to counterparty credit risk and other market risks, was reclassified from Non-Trading VaR into Trading VaR as of January 1, 2010. This reclassification reflects regulatory considerations surrounding the Company's conversion to a financial holding company, and the trading book nature of the Company's counterparty risk-hedging activities. Aggregate VaR was not affected by this change; however, this reclassification increased Trading VaR and decreased Non-Trading VaR.

Since the VaR statistics reported below are estimates based on historical position and market data, VaR should not be viewed as predictive of the Company's future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.



Table I below presents 95%/one-day VaR for each of the Company's primary market risk exposures and on an aggregate basis at September 30, 2010 and June 30, 2010. The average, high and low figures for the quarters ended September 30, 2010 and June 30, 2010 are also included.

Primary Market Risk Category	95% One-Day VaR for the Quarter Ended September 30, 2010				95% One-Day VaR for the Quarter Ended June 30, 2010			
	Period End	Average	High	Low	Period End	Average	High	Low
	(dollars in millions)							
Interest rate and credit spread .....	\$130	\$137	\$ 147	\$128	\$145	\$145	\$145	\$119
Equity price .....	39	28	52	19	26	29	34	24
Foreign exchange rate .....	24	18	36	9	19	26	45	10
Commodity price .....	28	32	36	27	29	29	33	26
Less Diversification benefit(1) .....	(73)	(73)	(119)	(50)	(73)	(77)	(111)	(48)
Total Trading VaR .....	<u>\$148</u>	<u>\$142</u>	<u>\$ 152</u>	<u>\$133</u>	<u>\$146</u>	<u>\$139</u>	<u>\$146</u>	<u>\$131</u>
Total Non-Trading VaR .....	<u>\$113</u>	<u>\$103</u>	<u>\$ 116</u>	<u>\$ 83</u>	<u>\$ 82</u>	<u>\$ 67</u>	<u>\$ 88</u>	<u>\$ 57</u>
Aggregate VaR .....	<u>\$208</u>	<u>\$189</u>	<u>\$ 217</u>	<u>\$169</u>	<u>\$176</u>	<u>\$164</u>	<u>\$183</u>	<u>\$146</u>

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

The Company's average Trading VaR for the quarter ended September 30, 2010 was \$142 million compared with \$139 million for the quarter ended June 30, 2010. Increases in interest rate and credit risk were offset by reduced G10 and emerging market foreign currency risk.

The Company's average Non-Trading VaR for the quarter ended September 30, 2010 was \$103 million compared with \$67 million for the quarter ended June 30, 2010. The increase in Non-Trading VaR was due primarily to increased exposure to Invesco, driven by a price rally in the stock, as well as increased interest rate sensitivity of deposits in the declining rate environment.

The Company's average Aggregate VaR for the quarter ended September 30, 2010 was \$189 million compared with \$164 million for the quarter ended June 30, 2010. The increase in Aggregate VaR was driven by the same factors that contributed to the increase in Non-Trading VaR.

#### *VaR Statistics under Varying Assumptions.*

VaR statistics are not readily comparable across firms because of differences in the breadth of products included in each firm's VaR model, in the statistical assumptions made when simulating changes in market factors, and in the methods used to approximate portfolio revaluations under the simulated market conditions. These differences can result in materially different VaR estimates for similar portfolios. The impact varies depending on the factor history assumptions, the frequency with which the factor history is updated, and the confidence level. As a result, VaR statistics are more reliable and relevant when used as indicators of trends in risk taking rather than as a basis for inferring differences in risk taking across firms.

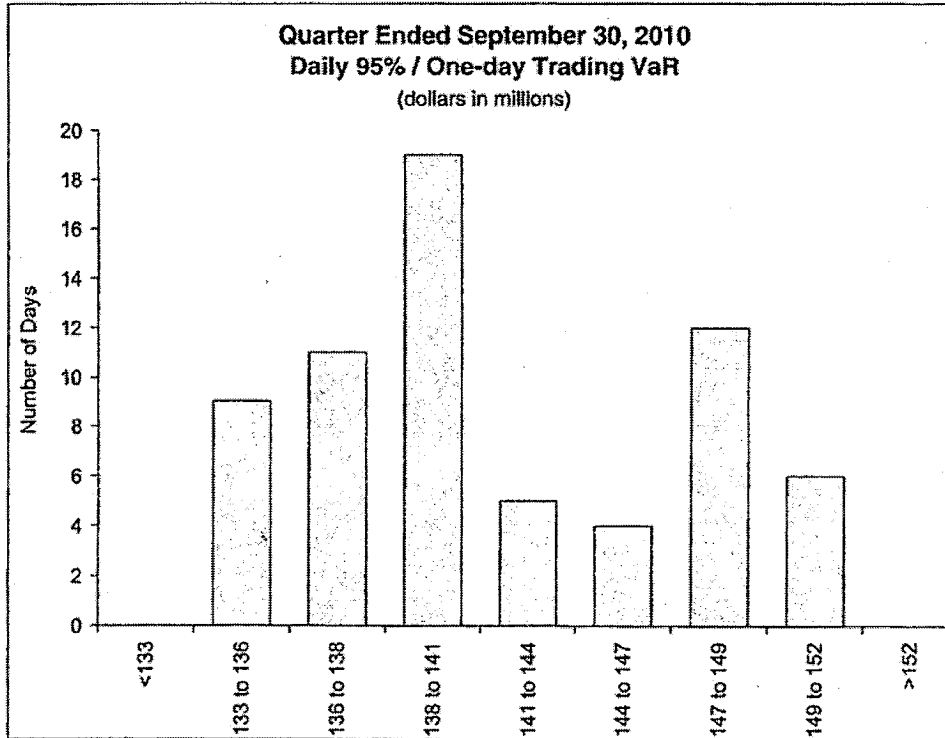
Table 2 below presents the VaR statistics that would result if the Company were to adopt alternative parameters for its calculations, such as the reported confidence level (95% versus 99%) for the VaR statistic or a shorter historical time series (four years versus one year) for market data upon which it bases its simulations:

Primary Market Risk Category	95% Average One-Day VaR for the Quarter Ended September 30, 2010		99% Average One-Day VaR for the Quarter Ended September 30, 2010	
	Four-Year Factor History	One-Year Factor History	Four-Year Factor History	One-Year Factor History
	(dollars in millions)			
Interest rate and credit spread .....	\$137	\$ 85	\$ 278	\$146
Equity price .....	28	23	40	35
Foreign exchange rate .....	18	18	30	27
Commodity price .....	32	22	53	34
Less Diversification benefit(1) .....	(73)	(50)	(129)	(87)
Total Trading VaR .....	<u>\$142</u>	<u>\$ 98</u>	<u>\$ 272</u>	<u>\$155</u>

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

***Distribution of VaR Statistics and Net Revenues for the quarter ended September 30, 2010.***

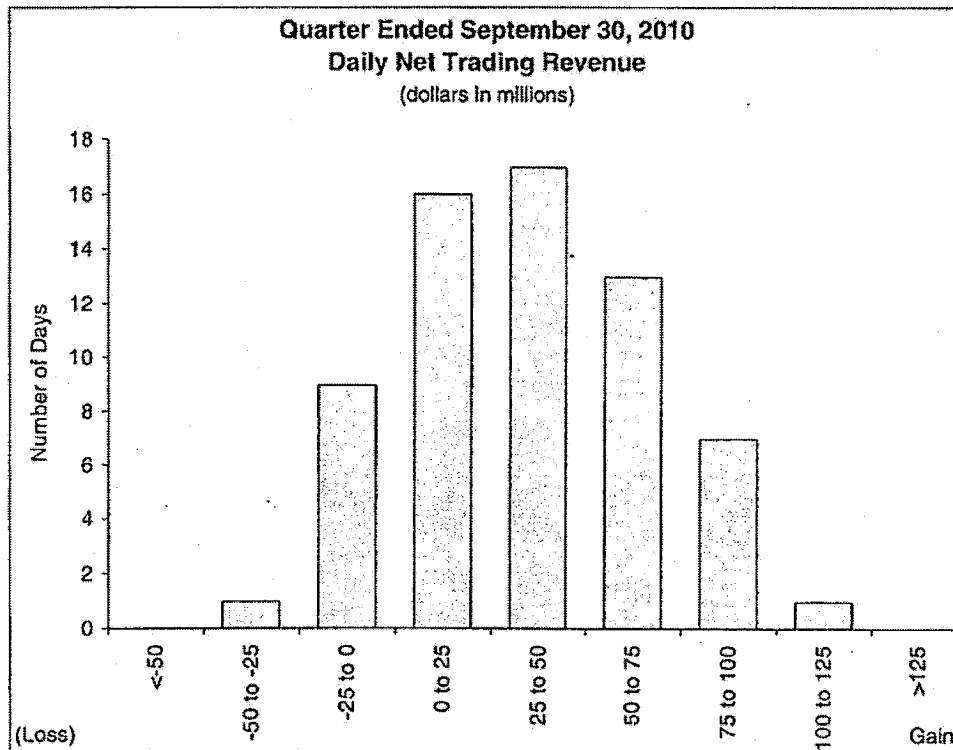
As shown in Table I above, the Company's average 95%/one-day Trading VaR for the quarter ended September 30, 2010 was \$142 million. The histogram below presents the distribution of the Company's daily 95%/one-day Trading VaR for the quarter ended September 30, 2010. The most frequently occurring value was between \$138 million and \$141 million, while for approximately 59% of trading days during the quarter, VaR ranged between \$132 million and \$141 million.



One method of evaluating the reasonableness of the Company's VaR model as a measure of the Company's potential volatility of net revenue is to compare the VaR with actual trading revenue. Assuming no intra-day trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the accuracy of the VaR model could be questioned. Accordingly, the Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results. For days where losses exceed the 95% or 99% VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results.

The Company did not incur daily trading losses in excess of the 95%/one-day Trading VaR for the quarter ended September 30, 2010. Over the longer term, trading losses are expected to exceed VaR an average of three times per quarter at the 95% confidence level. The Company bases its VaR calculations on the long term (or unconditional) distribution with four years of observations, and therefore evaluates its risk from a longer-term perspective. The Company is evaluating enhancements to its VaR model to make it more responsive to more recent market conditions, while maintaining a longer-term perspective.

The histogram below shows the distribution of daily net trading revenue for the quarter ended September 30, 2010 for the Company's trading businesses (these figures include revenue from the counterparty portfolio and also include net interest and non-agency commissions but exclude certain non-trading revenues such as primary, fee-based and prime brokerage revenue credited to the trading businesses). During the quarter ended September 30, 2010, the Company experienced net trading losses on 10 days.



### Credit Risk.

For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part II, Item 7A of the Form 10-K.

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

"Relationship-driven" loans and lending commitments are generally made to expand business relationships with select clients. The commitments associated with "relationship-driven" activities may not be indicative of the Company's actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment. The borrowers of "relationship-driven" lending transactions may be investment grade or non-investment grade. The Company may hedge its exposures in connection with "relationship-driven" transactions.

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

The following table presents information about the Company's corporate funded loans and lending commitments at September 30, 2010. The "total corporate lending exposure" column includes both lending commitments and funded loans. Fair value of corporate lending exposure represents the fair value of loans that have been drawn by the borrower and lending commitments that were outstanding at September 30, 2010. Lending commitments represent legally binding obligations to provide funding to clients at September 30, 2010 for both "relationship-driven" and "event-driven" lending transactions. As discussed above, these loans and lending commitments have varying terms, may be senior or subordinated, may be secured or unsecured, are generally contingent upon representations, warranties and contractual conditions applicable to the borrower, and may be syndicated, traded or hedged by the Company.

At September 30, 2010, the aggregate amount of investment grade loans was \$4.6 billion and the aggregate amount of non-investment grade loans was \$6.8 billion. At September 30, 2010, the aggregate amount of lending commitments outstanding was \$60.4 billion. In connection with these corporate lending activities (which include corporate funded loans and lending commitments), the Company had hedges (which include "single name," "sector" and "index" hedges) with a notional amount of \$21.3 billion related to the total corporate lending exposure of \$71.7 billion at September 30, 2010.

The table below shows the Company's credit exposure from its corporate lending positions and lending commitments at September 30, 2010. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements:

**Corporate Lending Commitments and Funded Loans at September 30, 2010**

Credit Rating(1)	Years to Maturity				Total Corporate Lending Exposure(2)	Corporate Lending Exposure at Fair Value(3)	Corporate Lending Commitments(4)
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA .....	\$ 404	\$ 344	\$ 50	\$ —	\$ 798	\$ —	\$ 798
AA .....	4,639	6,055	293	70	11,057	112	10,945
A .....	3,552	11,291	777	—	15,620	1,618	14,002
BBB .....	3,710	17,251	3,668	190	24,819	2,827	21,992
Investment grade .....	12,305	34,941	4,788	260	52,294	4,557	47,737
Non-investment grade .....	2,078	5,897	7,622	3,823	19,420	6,807	12,613
<b>Total .....</b>	<b>\$14,383</b>	<b>\$40,838</b>	<b>\$12,410</b>	<b>\$4,083</b>	<b>\$71,714</b>	<b>\$11,364</b>	<b>\$60,350</b>

- (1) Obligor credit ratings are determined by the Company's Credit Risk Management Department.
- (2) Total corporate lending exposure represents the Company's potential loss assuming the fair value of funded loans and lending commitments was zero.
- (3) The Company's corporate lending exposure carried at fair value includes \$11.4 billion of funded loans and \$0.8 billion of lending commitments recorded in Financial instruments owned and Financial instruments sold, not yet purchased, respectively, in the condensed consolidated statements of financial condition at September 30, 2010. The Company's corporate lending exposure carried at amortized cost includes \$750 million of funded loans recorded in Loans in the condensed consolidated statements of financial condition.
- (4) Amounts represent the notional amount of unfunded lending commitments less the amount of commitments reflected in the Company's condensed consolidated statements of financial condition. For syndications led by the Company, lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that the Company participates in and does not lead, lending commitments accepted by the borrower but not yet closed include only the amount that the Company expects it will be allocated from the lead syndicate bank.

*"Event-driven" Loans and Lending Commitments at September 30, 2010.*

Included in the total corporate lending exposure amounts in the table above at September 30, 2010 is "event-driven" exposure of \$5.3 billion composed of funded loans of \$1.2 billion and lending commitments of \$4.1 billion. Included in the \$5.3 billion of "event-driven" exposure at September 30, 2010 were \$4.0 billion of loans and lending commitments to non-investment grade borrowers that were closed.

Activity associated with the corporate "event-driven" lending exposure during the nine months ended September 30, 2010 was as follows (dollars in millions):

"Event-driven" lending exposures at December 31, 2009 .....	\$ 5,621
Closed commitments .....	3,294
Net reductions, primarily through distributions .....	(3,554)
Mark-to-market adjustments .....	(66)
"Event-driven" lending exposures at September 30, 2010 .....	<u>\$ 5,295</u>

**Credit Exposure—Derivatives.** The table below presents a summary by counterparty credit rating and remaining contract maturity of the fair value of OTC derivatives in a gain position at September 30, 2010. Fair value is presented in the final column net of collateral received (principally cash and U.S. government and agency securities):

**OTC Derivative Products—Financial Instruments Owned at September 30, 2010(1)**

Credit Rating(2)	Years to Maturity				Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-Cash Collateral	Net Exposure Post-Collateral
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA	\$ 796	\$ 1,716	\$ 2,251	\$ 12,021	\$ (7,661)	\$ 9,123	\$ 8,772
AA	5,452	6,773	5,845	19,799	(29,723)	8,146	7,107
A	9,497	10,081	6,270	33,563	(42,345)	17,066	14,908
BBB	2,838	4,334	2,417	10,525	(12,111)	8,003	6,510
Non-investment grade	2,854	3,643	1,947	4,751	(4,451)	8,744	6,113
Total	<u>\$21,437</u>	<u>\$26,547</u>	<u>\$18,730</u>	<u>\$80,659</u>	<u>\$(96,291)</u>	<u>\$51,082</u>	<u>\$43,410</u>

(1) Fair values shown represent the Company's net exposure to counterparties related to the Company's OTC derivative products. The table does not include listed derivatives and the effect of any related hedges utilized by the Company. The table also excludes fair values corresponding to other credit exposures, such as those arising from the Company's lending activities.

(2) Obligor credit ratings are determined by the Company's Credit Risk Management Department.

(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

The following table summarizes the fair values of the Company's OTC derivative products recorded in Financial instruments owned and Financial instruments sold, not yet purchased by product category and maturity at September 30, 2010, including on a net basis, where applicable, reflecting the fair value of related non-cash collateral for financial instruments owned:

**OTC Derivative Products—Financial Instruments Owned at September 30, 2010**

Product Type	Years to Maturity				Cross-Maturity and Cash Collateral Netting(1)	Net Exposure Post-Cash Collateral	Net Exposure Post-Collateral
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$ 9,892	\$ 19,332	\$ 16,809	\$ 78,131	\$(87,087)	\$ 37,077	\$ 32,750
Foreign exchange forward contracts and options	6,470	695	183	55	(2,775)	4,628	3,797
Equity securities contracts (including equity swaps, warrants and options)	1,880	1,401	201	1,110	(2,199)	2,393	1,237
Commodity forwards, options and swaps	3,195	5,119	1,537	1,363	(4,230)	6,984	5,626
Total	<u>\$21,437</u>	<u>\$26,547</u>	<u>\$18,730</u>	<u>\$80,659</u>	<u>\$(96,291)</u>	<u>\$51,082</u>	<u>\$43,410</u>

(1) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

OTC Derivative Products—Financial Instruments Sold, Not Yet Purchased at September 30, 2010(1)

Product Type	Years to Maturity				Cross-Maturity and Cash Collateral Netting(2)	Total
	Less than 1	1-3	3-5	Over 5		
	(dollars in millions)					
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$ 6,535	\$14,749	\$15,229	\$48,142	\$(55,430)	\$29,225
Foreign exchange forward contracts and options	6,966	639	281	68	(2,870)	5,084
Equity securities contracts (including equity swaps, warrants and options)	4,088	3,080	1,413	1,298	(4,701)	5,178
Commodity forwards, options and swaps	3,613	4,807	1,425	1,039	(4,702)	6,182
Total	<u>\$21,202</u>	<u>\$23,275</u>	<u>\$18,348</u>	<u>\$50,547</u>	<u>\$(67,703)</u>	<u>\$45,669</u>

(1) Since these amounts are liabilities of the Company, they do not result in credit exposures.

(2) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral paid is netted on a counterparty basis, provided legal right of offset exists.

The Company's derivatives (both listed and OTC), on a net of counterparty and cash collateral basis, at September 30, 2010 and December 31, 2009 are summarized in the table below, showing the fair value of the related assets and liabilities by product category:

Product Type	At September 30, 2010		At December 31, 2009	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	\$37,344	\$29,611	\$33,307	\$20,911
Foreign exchange forward contracts and options	4,628	5,084	3,022	2,824
Equity securities contracts (including equity swaps, warrants and options)	7,631	12,578	3,619	7,371
Commodity forwards, options and swaps	7,451	7,715	9,133	7,103
Total	<u>\$57,054</u>	<u>\$54,988</u>	<u>\$49,081</u>	<u>\$38,209</u>

Each category of derivative products in the above tables includes a variety of instruments, which can differ substantially in their characteristics. Instruments in each category can be denominated in U.S. dollars or in one or more non-U.S. currencies.

The Company determines the fair values recorded in the above tables using various pricing models. For a discussion of fair value as it affects the condensed consolidated financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in Part I, Item 2, herein and Notes 2 and 4 to the condensed consolidated financial statements.

**Credit Derivatives.** A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on a set of debt obligations issued by a specified reference entity. The beneficiary pays a periodic premium (typically quarterly) over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation and payment moratorium. Debt restructurings are also considered a credit event in some cases. In certain transactions referenced to a portfolio of referenced entities or asset-backed securities, deductibles and caps may limit the guarantor's obligations.



The Company trades in a variety of derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. The Company is an active market-maker in the credit derivatives markets. As a market-maker, the Company works to earn a bid-offer spread on client flow business and manage any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company's counterparties are banks, broker-dealers, insurance, and other financial institutions and Monolines. Contracts with these counterparties do not include ratings-based termination events but do include counterparty rating downgrades, which may result in additional collateral being required by the Company. For further information on the Company's exposure to Monolines, see "Overview of the Quarter and Nine Months ended September 30, 2010 Financial Results—Monoline Insurers" herein. The master agreements with these Monoline counterparties are generally unsecured, and the few ratings-based triggers (if any) generally provide the Company the ability to terminate only upon significant downgrade. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate.

The following table summarizes the key characteristics of the Company's credit derivative portfolio by counterparty at September 30, 2010. The fair values shown are before the application of any counterparty or cash collateral netting:

	At September 30, 2010			
	Fair Values(1)		Notionals	
	Receivable	Payable	Beneficiary	Guarantor
	(dollars in millions)			
Banks and securities firms	\$108,191	\$ 97,046	\$2,171,405	\$2,135,739
Insurance and other financial institutions	11,313	8,781	249,357	253,066
Monolines	2,280	—	25,794	—
Non-financial entities	197	108	6,543	6,170
<b>Total</b>	<b>\$121,981</b>	<b>\$105,935</b>	<b>\$2,453,099</b>	<b>\$2,394,975</b>

(1) Amounts shown are presented before the application of any counterparty or cash collateral netting. The Company's credit default swaps are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 15% of receivable fair values and 11% of payable fair values represent Level 3 amounts.

**Country Exposure.** At September 30, 2010, primarily based on the domicile of the counterparty, approximately 6% of the Company's credit exposure (for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company's OTC derivative contracts) was to emerging markets, and no one emerging market country accounted for more than approximately 1% of the Company's credit exposure.

The Company defines emerging markets to include generally all countries where the economic, legal and political systems are transitional and in the process of developing into more transparent and accountable systems that are consistent with advanced countries.

The following tables show the Company's percentage of credit exposure from its primary corporate loans and lending commitments and OTC derivative products by country at September 30, 2010:

<u>Country</u>	<u>Corporate Lending Exposure(1)</u>
United States .....	62%
United Kingdom .....	10
Germany .....	6
Netherlands .....	2
Canada .....	2
France .....	2
Luxembourg .....	2
Switzerland .....	2
Cayman Islands .....	2
United Arab Emirates .....	2
Other .....	8
Total .....	<u>100%</u>

(1) Credit exposure amounts are based on the domicile of the counterparty.

<u>Country</u>	<u>OTC Derivative Products(1)(2)</u>
United States .....	34%
Cayman Islands .....	10
Italy .....	10
United Kingdom .....	8
Germany .....	4
France .....	4
Japan .....	2
Spain .....	2
Jersey .....	2
Luxembourg .....	2
Chile .....	2
Canada .....	2
Other .....	18
Total .....	<u>100%</u>

(1) Credit exposure amounts are based on the domicile of the counterparty.

(2) Credit exposure amounts do not reflect the offsetting benefit of financial instruments that the Company utilizes to hedge credit exposure arising from OTC derivative products.

**Industry Exposure.** The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company's OTC derivative contracts.

The following table shows the Company's percentage of credit exposure from its primary corporate loans and lending commitments and OTC derivative products by industry at September 30, 2010:

<u>Industry</u>	<u>Corporate Lending Exposure</u>
Utilities .....	12%
Financial institutions(1) .....	11
Energy .....	10
Pharmaceutical and healthcare .....	7
Media .....	6
Technology .....	6
Chemicals, metals, mining and other materials .....	6
Telecommunications services .....	6
Food, beverage and tobacco .....	5
Insurance .....	4
Capital goods .....	4
Banks and securities firms .....	4
Real estate .....	3
Other .....	16
<b>Total .....</b>	<b><u>100%</u></b>

(1) Percentage reflects credit exposures from special purpose entity vehicles, other diversified financial service entities, mutual and pension funds, exchanges and clearing houses, and private equity and real estate funds.

<u>Industry</u>	<u>OTC Derivative Products</u>
Financial institutions(1) .....	28%
Banks and securities firms .....	14
Sovereign governments .....	13
Utilities .....	8
Insurance .....	8
Regional governments .....	6
Energy .....	3
Pharmaceutical and healthcare .....	3
Chemicals, metals, mining and other materials .....	3
Other .....	14
<b>Total .....</b>	<b><u>100%</u></b>

(1) Percentage reflects credit exposures from special purpose entity vehicles, other diversified financial service entities, mutual and pension funds, exchanges and clearing houses, and private equity and real estate funds.

**Exhibit D**

# Morgan Stanley

Notice of 2010 Annual Meeting of Shareholders  
2000 Westchester Avenue  
Purchase, New York  
May 18, 2010, 9:00 a.m., local time

April 12, 2010

Fellow shareholder:

I cordially invite you to attend Morgan Stanley's 2010 annual meeting of shareholders to:

- elect members of the Board of Directors;
- ratify the appointment of Deloitte & Touche LLP as independent auditor;
- consider a non-binding advisory vote to approve executive compensation;
- approve the amendment of the 2007 Equity Incentive Compensation Plan;
- consider five shareholder proposals; and
- transact such other business as may properly come before the meeting.

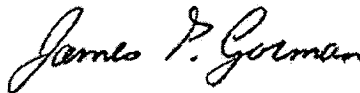
Our Board of Directors recommends that you vote "FOR" the election of directors, the ratification of the appointment of the auditor, the approval of the compensation of executives as disclosed in this proxy statement and the amendment of the 2007 Equity Incentive Compensation Plan, and "AGAINST" the shareholder proposals.

We enclose our letter to shareholders, our proxy statement, our annual report on Form 10-K and a proxy card. Please submit your proxy. Thank you for your support of Morgan Stanley.

Very truly yours,



John J. Mack  
Chairman



James P. Gorman  
President and Chief Executive Officer

## Corporate Governance

**Corporate Governance Documents.** Morgan Stanley has a corporate governance webpage at the "Company Information" link under the "About Morgan Stanley" link at [www.morganstanley.com](http://www.morganstanley.com) ([www.morganstanley.com/about/company/governance/index.html](http://www.morganstanley.com/about/company/governance/index.html)).

Our Corporate Governance Policies (including our Director Independence Standards), Code of Ethics and Business Conduct, Board Committee charters, Policy Regarding Communication by Shareholders and Other Interested Parties with the Board of Directors, Policy Regarding Director Candidates Recommended by Shareholders, Policy Regarding Corporate Political Contributions, Policy Regarding Shareholder Rights Plan, information regarding the Integrity Hotline and the Equity Ownership Commitment are available at our corporate governance webpage at [www.morganstanley.com/about/company/governance/index.html](http://www.morganstanley.com/about/company/governance/index.html) and are available to any shareholder who requests them by writing to Morgan Stanley, Suite D, 1585 Broadway, New York, New York 10036.

Shareholders and other interested parties may contact any of our Company's directors, the Lead Director, a committee of the Board, the Board's non-employee directors as a group or the Board generally, by writing to them at Morgan Stanley, Suite D, 1585 Broadway, New York, New York 10036. Shareholder and interested party communications received in this manner will be handled in accordance with the procedures approved by the Company's independent directors. The Board's Policy Regarding Communication by Shareholders and Other Interested Parties with the Board of Directors is available at our corporate governance webpage at [www.morganstanley.com/about/company/governance/index.html](http://www.morganstanley.com/about/company/governance/index.html).

**Director Independence.** The Board has determined that Messrs. Bostock, Bowles, Davies, Hance, Kidder, Nicolaisen, Noski, Ms. Olayan, Messrs. Phillips and Sexton and Dr. Tyson are independent in accordance with the Director Independence Standards established under our Corporate Governance Policies. To assist the Board with its determination, the standards follow NYSE rules and establish guidelines as to employment and commercial relationships that affect independence and categories of relationships that are not deemed material for purposes of director independence. Eleven (11) of fourteen (14) of our current directors are independent. All members of the Audit Committee, the Compensation, Management Development and Succession Committee and the Nominating and Governance Committee satisfy the standards of independence applicable to members of such committees. All members of the Risk Committee are non-employee directors and a majority of the Risk Committee members satisfy the independence requirements of the Company and the NYSE. In addition, the Board has determined that all members of the Audit Committee, Messrs. Davies, Hance, Nicolaisen, Noski and Sexton, are "audit committee financial experts" within the meaning of current SEC rules.

In making its determination as to the independent directors, the Board reviewed relationships between Morgan Stanley and the directors, including commercial relationships in the last three years between Morgan Stanley and entities where the directors are employees or executive officers, or their immediate family members are executive officers, that did not exceed a certain amount of such other entity's gross revenues in any year (Messrs. Bowles and Davies, Ms. Olayan, Mr. Phillips and Dr. Tyson); ordinary course relationships arising from transactions on terms and conditions substantially similar to those with unaffiliated third parties between Morgan Stanley and entities where the directors or their immediate family members own equity of 5% or more of that entity (Mr. Bostock and Ms. Olayan); Morgan Stanley's contributions to charitable organizations where the directors or their immediate family members serve as officers, directors or trustees that did not exceed a certain amount of the organization's annual charitable receipts in the preceding year (Messrs. Bostock, Bowles, Davies and Kidder, Ms. Olayan, Mr. Phillips and Dr. Tyson); and the directors' utilization of Morgan Stanley products and services in the ordinary course of business on terms and conditions substantially similar to those provided to unaffiliated third parties (Messrs. Bostock, Hance, Kidder, Noski, Phillips and Sexton and Dr. Tyson).

In determining Mr. Bostock's independence, the Board also considered the employment of Mr. Bostock's son-in-law by the Company's Asset Management segment (see also "Other Matters—Certain Transactions" herein). This year the Board considered, among other things, that Mr. Bostock's son-in-law has never been a

member of the Company's senior management and was awarded compensation in line with his position at Morgan Stanley and in comparison with market standards and that Mr. Bostock has no influence over the Asset Management business other than that possessed by any other Morgan Stanley non-employee director. The Board (other than Mr. Bostock) determined consistent with NYSE rules and based upon the facts and circumstances, that the relationship is immaterial to Mr. Bostock's independence.

In determining Mr. Sexton's independence, the Board also considered the Company's provision of medical insurance to Mr. Sexton (for which Mr. Sexton pays the full cost). The Board (other than Mr. Sexton) determined, consistent with NYSE rules and based upon the facts and circumstances, that the relationship is immaterial to Mr. Sexton's independence.

#### **Board Leadership Structure and Role in Risk Oversight.**

**Board Leadership Structure.** The Board is responsible for reviewing the Board's leadership structure. The Board believes that the Company and its shareholders are best served by maintaining the flexibility to have any individual serve as Chairman of the Board based on what is in the best interests of the Company at a given point in time, rather than mandating a particular leadership structure. In making this decision, the Board considers, among other things, the composition of the Board, the role of the Company's Lead Director, the Company's strong corporate governance practices, the Chief Executive Officer's working relationship with the Board, and the challenges specific to the Company. Historically, the positions of Chief Executive Officer and Chairman were held by the same individual. As a result of Mr. Mack's discussion with the Board about stepping down as Chief Executive Officer and as part of its ongoing review of the Board's leadership structure and succession planning process, the Board in September 2009 determined that the positions of the Chief Executive Officer and Chairman should be held by two separate individuals. The Board elected John J. Mack, the Company's former Chief Executive Officer, as Chairman of the Board, and James P. Gorman as the Company's Chief Executive Officer, effective January 1, 2010.

In addition, the Company's Corporate Governance Policies provide for an independent and active Lead Director with clearly defined leadership authority and responsibilities. Our Lead Director, C. Robert Kidder, was appointed by our other independent directors in 2006 and has responsibilities including: (i) presiding at all meetings of the Board at which the Chairman is not present; (ii) having the authority to call, and lead, sessions composed only of non-management directors or independent directors; (iii) advising the Chairman of the Board's informational needs; (iv) approving Board meeting agendas and the schedule of Board meetings and requesting, if necessary, the inclusion of additional agenda items; and (v) making himself available, if requested by major shareholders, for consultation and direct communication.

The Company's Corporate Governance practices and policies ensure substantial independent oversight of management. For instance:

- **The Board has a substantial majority of independent and non-management directors.** Ten out of the thirteen director nominees are independent as defined by the NYSE listing standards and the Company's more stringent Corporate Governance Policies and eleven out of the thirteen director nominees are non-management directors. All of the Company's directors are elected annually.
- **The Board's key standing committees are composed solely of non-management directors.** The Audit Committee, the Compensation, Management Development and Succession Committee, and the Nominating and Governance Committee are each composed solely of independent directors. The Risk Committee is comprised of a substantial majority of independent directors and includes only non-management directors. The committees provide independent oversight of management.
- **The Board's non-management directors meet regularly in executive session.** At each regularly scheduled Board meeting, the non-management directors meet in an executive session without Messrs. Gorman or Mack present and, consistent with the NYSE listing standards, at least annually, the independent directors meet in executive session. These sessions are chaired by the Lead Director.

**Board Role in Risk Oversight.** The Board has oversight for the Company's enterprise risk management framework and is responsible for helping to ensure that the Company's risks are managed in a sound manner. Historically, the Board had authorized the Audit Committee, which is comprised solely of independent directors, to oversee risk management. Effective January 1, 2010, the Board established another standing committee, the Risk Committee, which is comprised solely of non-management directors, to assist the Board in the oversight of (i) the Company's risk governance structure, (ii) the Company's risk management and risk assessment guidelines and policies regarding market, credit and liquidity and funding risk, (iii) the Company's risk tolerance, including risk tolerance levels and capital targets and limits, and (iv) the performance of the Chief Risk Officer. The Audit Committee retains responsibility for oversight of certain aspects of risk management, including review of the major operational, franchise, reputational, legal and compliance risk exposures of the Company and the steps management has taken to monitor and control such exposure, as well as guidelines and policies that govern the process for risk assessment and risk management. The Risk Committee, Audit Committee and Chief Risk Officer report to the entire Board on a regular basis.

As discussed herein under "Consideration of Risk Matters in Determining Compensation," the Compensation, Management Development and Succession (CMDS) Committee works with the Chief Risk Officer to evaluate whether the Company's compensation arrangements encourage unnecessary or excessive risk-taking and whether risks arising from the Company's compensation arrangements are reasonably likely to have a material adverse effect on the Company.

The Board has also authorized the Firm Risk Committee (FRC), a management committee appointed and chaired by the Chief Executive Officer that includes the most senior officers of the Company, including the Chief Risk Officer, Chief Legal Officer and Chief Financial Officer, to oversee the Company's global risk management structure. The FRC's responsibilities include oversight of the Company's risk management principles, procedures and limits, and the monitoring of capital levels and material market, credit, liquidity and funding, legal, operational, franchise and regulatory risk matters and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. The Company's risk management is further discussed in Part I, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K).

\* \* \* \* \*

The Board has determined that its leadership structure is appropriate for the Company. Mr. Mack's prior role as Chief Executive Officer, his existing relationship with the Board, his understanding of Morgan Stanley's businesses, and his professional experience and leadership skills uniquely position him to serve as Chairman while the Company's Lead Director, Mr. Kidder, has proven effective at enhancing the overall independent functioning of the Board. The Board believes that the combination of the Chairman, the Lead Director and the Chairmen of the Audit and Risk Committees provide the appropriate leadership to help ensure effective risk oversight by the Board.



**Board Meetings and Committees.** Our Board met 26 times during the December 2008 transition period and 2009. Each director attended at least 75% of the total number of meetings of the Board and committees on which the director served that were held during the December 2008 transition period and 2009 while the director was a member. The Board's standing committees include the following:

Committee	Current Members	Primary Responsibilities	# of Meetings in Dec. 2008 and 2009*
Audit	Charles H. Noski (Chair) Howard J. Davies James H. Hance, Jr. <sup>(1)</sup> Donald T. Nicolaisen O. Griffith Sexton	<ul style="list-style-type: none"> <li>Oversees the integrity of the Company's consolidated financial statements, compliance with legal and regulatory requirements, system of internal controls, and certain aspects of risk management, including review of major operational, franchise, reputational, legal and compliance risk exposures of the Company.</li> <li>Selects, determines the compensation of, evaluates and, when appropriate, replaces the independent auditor, and pre-approves audit and permitted non-audit services.</li> <li>Oversees the qualifications and independence of the independent auditor and performance of the Company's internal auditor and independent auditor.</li> <li>After review, recommends to the Board the acceptance and inclusion of the annual audited consolidated financial statements in the Company's Annual Report on Form 10-K.</li> </ul>	16
Compensation, Management Development and Succession (CMDS)	Erskine B. Bowles (Chair) <sup>(2)</sup> C. Robert Kidder Donald T. Nicolaisen Hutham S. Olayan <sup>(3)</sup>	<ul style="list-style-type: none"> <li>Annually reviews and approves the corporate goals and objectives relevant to the compensation of the Chief Executive Officer (CEO) and evaluates his performance in light of these goals and objectives.</li> <li>Determines the compensation of our executive officers and other officers as appropriate.</li> <li>Administers our equity-based compensation plans.</li> <li>Oversees plans for management development and succession.</li> <li>Reviews and discusses the Compensation Discussion and Analysis with management and recommends to the Board its inclusion in the proxy statement.</li> </ul>	12
Nominating and Governance	Laura D. Tyson (Chair) Roy J. Bostock Charles E. Phillips, Jr. <sup>(4)</sup>	<ul style="list-style-type: none"> <li>Identifies and recommends candidates for election to the Board.</li> <li>Recommends committee structure and membership.</li> <li>Establishes procedures for its oversight of the evaluation of the Board.</li> <li>Recommends director compensation and benefits.</li> <li>Reviews annually the Company's corporate governance policies.</li> <li>Reviews and approves related person transactions in accordance with the Company's Related Person Transaction Policy.</li> </ul>	5
Risk Committee <sup>(5)</sup>	Howard J. Davies (Chair) Roy J. Bostock James H. Hance, Jr. Nobuyuki Hirano	<ul style="list-style-type: none"> <li>Oversees the Company's risk governance structure.</li> <li>Oversees risk management and risk assessment guidelines and policies regarding market, credit, liquidity and funding risk.</li> <li>Oversees risk tolerance, including risk tolerance levels and capital targets and limits.</li> <li>Oversees the performance of the Chief Risk Officer.</li> </ul>	N/A

\* In addition to Board and committee meetings, our directors also discharge their duties through, among other things, informal group communications and discussions with the Chairman, CEO, members of senior management and others as appropriate regarding matters of interest.

<sup>(1)</sup> Mr. Hance joined the Audit Committee, effective January 1, 2010.

<sup>(2)</sup> Mr. Bowles was appointed as chair of the CMDS Committee to replace Mr. Kidder, effective January 1, 2010. Mr. Kidder remains on the CMDS Committee.

<sup>(3)</sup> Ms. Olayan concluded her service on the Nominating and Governance Committee and joined the CMDS Committee, effective January 1, 2010.

<sup>(4)</sup> Mr. Kidder will join the Nominating and Governance Committee to replace Mr. Phillips, effective May 18, 2010.

<sup>(5)</sup> The Board established the Risk Committee effective January 1, 2010.

Our Board has adopted a written charter for each of the Audit Committee, CMDS Committee, Nominating and Governance Committee and Risk Committee setting forth the roles and responsibilities of each committee. The Audit Committee has adopted a written charter for its subcommittee, the Internal Audit Subcommittee, which assists the Audit Committee in the oversight of the Company's internal audit department. The charters are available at our corporate governance website at [www.morganstanley.com/about/company/governance/index.html](http://www.morganstanley.com/about/company/governance/index.html). The reports of the Audit Committee and the CMDS Committee appear herein.

**Non-Management Director Meetings.** The Company's Corporate Governance Policies provide that non-management directors meet in executive sessions and that the Lead Director will preside over these executive sessions. If any non-management directors are not independent, then the independent directors will meet in executive session at least once annually and the Lead Director will preside over these executive sessions.

**Director Attendance at Annual Meetings.** The Company's Corporate Governance Policies state that directors are expected to attend annual meetings of shareholders. All of the current directors who were on the Board of Directors at the time attended the 2009 annual meeting of shareholders other than Mr. Phillips.

**Shareholder Nominations for Director Candidates.** The Nominating and Governance Committee will consider director candidates recommended by shareholders and evaluates such candidates in the same manner as other candidates. The procedures to submit recommendations are described in the Policy Regarding Director Candidates Recommended by Shareholders, available at our corporate governance webpage at [www.morganstanley.com/about/company/governance/index.html](http://www.morganstanley.com/about/company/governance/index.html).

Shareholders of record complying with the notice procedures set forth below may make director recommendations for consideration by the Nominating and Governance Committee. Shareholders may make recommendations at any time, but recommendations for consideration as nominees at the annual meeting of shareholders must be received not less than 120 days before the first anniversary of the date that the proxy statement was released to shareholders in connection with the previous year's annual meeting. Therefore, to submit a candidate for consideration for nomination by the Nominating and Governance Committee at the 2011 annual meeting of shareholders, shareholders must have submitted the recommendation, in writing, by December 14, 2010. The written notice must demonstrate that it is being submitted by a shareholder of record of the Company and include information about each proposed director candidate, including name, age, business address, principal occupation, principal qualifications and other relevant biographical information. In addition, the shareholder must confirm his or her candidate's consent to serve as a director. Shareholders must send recommendations to the Nominating and Governance Committee, Morgan Stanley, Suite D, 1585 Broadway, New York, New York 10036. See "Director Selection and Nomination Process" above for more information regarding Board membership criteria.

**Compensation Governance.** The CMDS Committee currently consists of four directors, including our Lead Director, all of whom are independent members of the Board under the NYSE listing standards and the independence requirements of the Company. The CMDS Committee operates under a written charter adopted by

the Board. As noted in the table above, the CMDS Committee is responsible for reviewing and approving annually all compensation awarded to the Company's executive officers, including the Chairman of the Board, the CEO and other executive officers named in the "Summary Compensation Table" (named executive officers or NEOs). In addition, the CMDS Committee administers the Company's equity incentive plans, including reviewing and approving equity grants to executive officers. Information on the CMDS Committee's processes, procedures and analysis of NEO compensation for 2009 is addressed in the "Compensation Discussion and Analysis" (CD&A).

The CMDS Committee actively engages in its duties and follows procedures intended to ensure excellence in compensation governance, including those described below:

- Retains its own independent compensation consultant to provide advice to the CMDS Committee on executive compensation matters. The independent consultant generally attends all CMDS Committee meetings, reports directly to the CMDS Committee Chair and regularly meets with the CMDS Committee without management present. In addition, the Chair of the CMDS Committee regularly speaks with the CMDS Committee's compensation consultant, without management, outside of the CMDS Committee meetings.
- Regularly reviews the competitive environment and the design and structure of the Company's compensation programs to ensure that they are consistent with and support our compensation objectives.
- Regularly reviews the Company's achievements with respect to predetermined performance priorities and strategic goals and evaluates executive performance in light of such achievements.
- Grants senior executive annual incentive compensation after a comprehensive review and evaluation of Company, business unit and individual performance for the fiscal year both on a year-over-year basis and as compared to our key competitors.
- Oversees plans for management development and succession.
- Regularly meets throughout the year and regularly meets in executive session without the presence of management or its compensation consultant.
- Receives materials for meetings in advance and the Chair of the CMDS Committee participates in premeetings with management to review the agendas and materials.
- Regularly reports on its meetings to the Board.

To perform its duties, the CMDS Committee retains the services of a qualified and independent compensation consultant that possesses the necessary skill, experience and resources to meet the CMDS Committee's needs and that has no relationship with the Company that would interfere with its ability to provide independent advice. The CMDS Committee has selected Hay Group as its compensation consultant. Hay Group has also been retained by the Nominating and Governance Committee to provide consulting services on Board compensation. Other than the consulting services that it provides to the CMDS and Nominating and Governance Committees, Hay Group currently provides no services to the Company or its executive officers. Hay Group assists the CMDS Committee in collecting and evaluating external market data regarding executive compensation and performance and advises the CMDS Committee on developing trends and best practices in executive compensation and equity and incentive plan design.

The Company's Human Resources Department acts as a liaison between the CMDS Committee and Hay Group and also prepares materials for the CMDS Committee's use in making compensation decisions. Separately, Human Resources may itself engage third-party compensation consultants to assist in the development of compensation data to inform and facilitate the CMDS Committee's deliberations.

The principal compensation plans and arrangements applicable to our NEOs are described in the CD&A and the tables in the "Executive Compensation" section. The CMDS Committee may delegate the administration of these plans as appropriate, including to executive officers of the Company and members of the Company's Human

Resources department. The CMDS Committee may also create subcommittees with authority to act on its behalf. Significant delegations made by the CMDS Committee include the following:

- The CMDS Committee has delegated to the Equity Awards Committee (which consists of the CEO) the CMDS Committee's authority to make special new hire and retention equity awards; however, this delegation of authority does not extend to awards to our executive officers and certain other senior executives of the Company. Awards granted by the Equity Awards Committee are subject to a share limit imposed by the CMDS Committee and individual awards are reported to the CMDS Committee on a regular basis.
- The CMDS Committee has delegated to the Chief Operating Officer the CMDS Committee's authority to administer the Company's cash-based nonqualified deferred compensation plans, including the Morgan Stanley Compensation Incentive Plan (discussed in the CD&A); however, the CMDS Committee has sole authority relating to grants of cash-based nonqualified deferred compensation plan awards to, or amendments to such awards held by, executive officers and certain other senior executives, material amendments to any such plans or awards, and the decision to implement certain of these plans in the future.

Our executive officers do not engage directly with the CMDS Committee in setting the amount or form of executive officer compensation. However, as discussed in the CD&A, as part of the annual performance review for our executive officers other than the CEO, the CMDS Committee considers our CEO's assessment of each executive officer's individual performance, as well as the performance of the Company and our CEO's compensation recommendations for each executive officer, other than himself.

Annual year-end equity awards are typically granted by the CMDS Committee after the end of our fiscal year. This schedule coincides with the time when year-end financial results are available and the CMDS Committee can evaluate individual and Company performance as described in the CD&A. Special equity awards are generally approved on a monthly basis; however, they may be granted at any time, as deemed necessary for new hires, promotions, recognition or retention purposes. We do not coordinate or time the release of material information around our grant dates in order to affect the value of compensation.

On September 10, 2009, the Company announced that Mr. Gorman would become Chief Executive Officer effective January 1, 2010 and Mr. Mack would continue to serve as Chairman of the Board. This announcement followed a detailed succession planning process, which occurred during the prior 18 months and was conducted by the CMDS Committee, with oversight by the entire Board. The CMDS Committee, in conjunction with the entire Board, established criteria for the next Chief Executive Officer and retained a consultant to review potential outside candidates and evaluated accomplished internal candidates. The Board oversaw a thorough, deliberate and successful succession process that led to the election of, and seamless transition to, our new CEO, Mr. Gorman, a proven leader with an established record as a strategic thinker backed by strong operating, business development and execution skills who brings an extensive understanding of Morgan Stanley's businesses and decades of financial services experience.

**Consideration of Risk Matters in Determining Compensation.** The CMDS Committee worked with the Company's Chief Risk Officer and the CMDS Committee's independent consultant to evaluate whether the Company's compensation arrangements encourage unnecessary or excessive risk-taking and whether risks arising from the Company's compensation arrangements are reasonably likely to have a material adverse effect on the Company. Morgan Stanley is a financial institution that engages in significant trading and capital market activities that are subject to market and other risks. The Company employs risk management practices, including trading limits, marking-to-market positions, stress testing and employment of models. The Company believes in pay for performance and as a result also evaluates its compensation programs to recognize these risks.

Prior to meeting with the CMDS Committee, the Chief Risk Officer had a series of interactive and detailed working sessions with representatives from the Firm's Human Resources and Legal departments to evaluate each

compensation program across each of the Company's major areas – Institutional Securities, Investment Management, Global Wealth Management and Company/Infrastructure. These working sessions were intended to identify whether there were any material risks to the Company arising from such compensation programs, including those programs in which our NEOs participate. The review covered numerous programs including equity- and cash-based deferred compensation programs, discretionary bonus programs and performance-based formulaic bonus programs. The working group reviewed a number of factors, including the eligibility; form of payment; applicable performance measures; vesting; clawback, holdback and cancellation provisions; and governance and oversight aspects of each program.

Following this thorough review, the Chief Risk Officer concluded that Morgan Stanley's current compensation programs do not incent employees to take unnecessary or excessive risk and that such programs do not create risks that are reasonably likely to have a material adverse effect on the Company. The following are among the factors considered in making his determination:

- balance of fixed compensation and discretionary compensation;
- balance between short-term and long-term incentives;
- mandatory deferrals into both equity-based and cash-based long-term incentive programs;
- the procedures followed in making compensation decisions;
- our equity retention policy; and
- risk-mitigating features of awards, such as cancellation, holdback and clawback provisions.

The Chief Risk Officer and the Global Head of Human Resources then reviewed these arrangements, along with the analyses and findings of the Chief Risk Officer, with the CMDS Committee and its independent compensation consultant. The Chief Risk Officer again met with the Global Head of Human Resources and the CMDS Committee before compensation decisions for 2009 were approved, to review the final compensation programs pursuant to which 2009 compensation would be paid. It is the intention that, going forward, the Chief Risk Officer will continue to evaluate any new incentive arrangements for the NEOs and material arrangements for other employees and report periodically to the CMDS Committee.

**Executive Equity Ownership Commitment.** Executive officers, including the Chairman of the Board, and the other members of senior management who are members of the Company's Operating Committee are subject to an Equity Ownership Commitment that requires them to retain at least 75% of common stock and equity awards (less allowances for the payment of any option exercise price and taxes) made to them while they are on the Operating Committee (or for the Chairman, while he was on the Operating Committee and while Chairman). This commitment ties a portion of their net worth to the Company's stock price and provides a continuing incentive for them to work towards superior long-term stock price performance. None of our executive officers have prearranged trading plans under SEC Rule 10b5-1.

**Exhibit E**

RICHARDS  
LAYTON &  
FINGER

January 7, 2011

Morgan Stanley  
1585 Broadway  
New York, NY 10036

Re: Stockholder Proposal Submitted by the Marianist Province of the United States,  
the Missionary Oblates of Mary Immaculate and Libra Fund, L.P.

Ladies and Gentlemen:

We have acted as special Delaware counsel to Morgan Stanley, a Delaware corporation (the "Company"), in connection with a proposal (the "Proposal") submitted by each of the Marianist Province of the United States, the Missionary Oblates of Mary Immaculate and Libra Fund, L.P. (collectively, the "Proponents") that each of the Proponents intends to present at the Company's 2011 annual meeting of stockholders (the "Annual Meeting"). In this connection, you have requested our opinion as to a certain matter under the General Corporation Law of the State of Delaware (the "General Corporation Law").

For the purpose of rendering our opinion as expressed herein, we have been furnished and have reviewed the following documents:

(i) the Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware (the "Secretary of State") on April 9, 2008, the Certificate of Designations of Preferences and Rights of the 10% Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (\$1,000 Liquidation Preference Per Share) of the Company, as filed with the Secretary of State on October 10, 2008, the Amended Certificate of Designations of Preferences and Rights of the 10% Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (\$1,000 Liquidation Preference Per Share) of the Company, as filed with the Secretary of State on October 13, 2008, the Certificate of Designations of Preferences and Rights of the 10% Series C Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (\$1,000 Liquidation Preference Per Share) of the Company, as filed with the Secretary of State on October 13, 2008, the Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series D of the Company, as filed with the Secretary of State on October 28, 2008, and the Certificate of Elimination of Fixed Rate Cumulative Perpetual Preferred Stock, Series D of the Company, as filed with the Secretary of State on June 23, 2009 (collectively, the "Certificate of Incorporation");

(ii) the Bylaws of the Company, as amended and restated on March 9, 2010 (the "Bylaws"); and

■ ■ ■

One Rodney Square ■ 920 North King Street ■ Wilmington, DE 19801 ■ Phone: 302-651-7700 ■ Fax: 302-651-7701

RLF1 3758559v.3

www.rlf.com

(iii) the Proposal and the supporting statement thereto.

With respect to the foregoing documents, we have assumed: (a) the genuineness of all signatures, and the incumbency, authority, legal right and power and legal capacity under all applicable laws and regulations, of each of the officers and other persons and entities signing or whose signatures appear upon each of said documents as or on behalf of the parties thereto; (b) the conformity to authentic originals of all documents submitted to us as certified, conformed, photostatic, electronic or other copies; and (c) that the foregoing documents, in the forms submitted to us for our review, have not been and will not be altered or amended in any respect material to our opinion as expressed herein. For the purpose of rendering our opinion as expressed herein, we have not reviewed any document other than the documents set forth above, and, except as set forth in this opinion, we assume there exists no provision of any such other document that bears upon or is inconsistent with our opinion as expressed herein. We have conducted no independent factual investigation of our own, but rather have relied solely upon the foregoing documents, the statements and information set forth therein, and the additional matters recited or assumed herein, all of which we assume to be true, complete and accurate in all material respects.

#### The Proposal

The Proposal reads as follows:

BE IT RESOLVED that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2011, the risk management structure, staffing and reporting lines of the institution and how it is integrated into their business model and across all the operations of the company's business lines.

#### Discussion

You have asked our opinion as to whether the Proposal would be a proper subject for action by the stockholders under Delaware law. For the reasons set forth below, in our opinion, the Proposal is not a proper subject for action by the stockholders of the Company under the General Corporation Law because it is not stated in precatory language such that it suggests or recommends that the Board of Directors of the Company take action. Rather the Proposal purports to direct that the Board take certain action: that the Board "report to shareholders...the risk management structure, staffing and reporting lines..." Such a mandate from the stockholders to the directors impermissibly infringes on the management authority of the Board of Directors of the Company under Delaware law, and thus is not a proper subject for stockholder action under Delaware law.



As a general matter, the directors of a Delaware corporation are vested with substantial discretion and authority to manage the business and affairs of the corporation. Section 141(a) of the General Corporation Law, 8 Del. C. §141(a), provides in pertinent part as follows:

The business and affairs of every corporation organized under this chapter shall be managed by or under the direction of a board of directors, except as may be otherwise provided in this chapter or in its certificate of incorporation.

Significantly, if there is to be any variation from the mandate of 8 Del. C. §141(a), it can only be as "otherwise provided in this chapter or in its certificate of incorporation." See, e.g., Lehrman v. Cohen, 222 A.2d 800, 808 (Del. 1966). The Certificate of Incorporation does not grant the stockholders of the Company power to manage the Company with respect to any specific matter or any general class of matters. Thus, under the General Corporation Law, the Board of Directors of the Company holds the full and exclusive authority to manage the Company.

The distinction set forth in the General Corporation Law between the role of stockholders and the role of the board of directors is well established. As the Delaware Supreme Court has stated, "[a] cardinal precept of the General Corporation Law of the State of Delaware is that directors, rather than shareholders, manage the business and affairs of the corporation." Aronson v. Lewis, 473 A.2d 805, 811 (Del. 1984). See also CA, Inc. v. AFSCME Employees Pension Plan, 953 A.2d 227, 232 (Del. 2008) ("it is well-established that stockholders of a corporation subject to the DGCL may not directly manage the business and affairs of the corporation"); Quickturn Design Sys., Inc. v. Shapiro, 721 A.2d 1281, 1291 (Del. 1998) ("One of the most basic tenets of Delaware corporate law is that the board of directors has the ultimate responsibility for managing the business and affairs of a corporation.") (footnote omitted). This principle has long been recognized in Delaware. Thus, in Abercrombie v. Davies, 123 A.2d 893, 898 (Del. Ch. 1956), rev'd on other grounds, 130 A.2d 338 (Del. 1957), the Court of Chancery stated that "there can be no doubt that in certain areas the directors rather than the stockholders or others are granted the power by the state to deal with questions of management policy." Similarly, in Maldonado v. Flynn, 413 A.2d 1251, 1255 (Del. Ch. 1980), rev'd on other grounds sub nom. Zapata Corp. v. Maldonado, 430 A.2d 779 (Del. 1981), the Court of Chancery stated:

[T]he board of directors of a corporation, as the repository of the power of corporate governance, is empowered to make the business decisions of the corporation. The directors, not the stockholders, are the managers of the business affairs of the corporation.

Id.; 8 Del. C. § 141(a). See also Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc., 506 A.2d 173 (Del. 1986); Adams v. Clearance Corp., 121 A.2d 302 (Del. 1956); Mayer v. Adams, 141 A.2d 458 (Del. 1958); Lehrman, 222 A.2d 800.

The rationale for these statements is as follows:

Stockholders are the equitable owners of the corporation's assets. However, the corporation is the legal owner of its property and the stockholders do not have any specific interest in the assets of the corporation. Instead, they have the right to share in the profits of the company and in the distribution of its assets on liquidation. Consistent with this division of interests, the directors rather than the stockholders manage the business and affairs of the corporation and the directors, in carrying out their duties, act as fiduciaries for the company and its stockholders.

Norte & Co. v. Manor Healthcare Corp., 1985 WL 44684, at \*3 (Del. Ch. Nov. 21, 1985) (citations omitted). As a result, directors may not delegate to others their decision making authority on matters as to which they are required to exercise their business judgment. See Rosenblatt v. Getty Oil Co., 1983 WL 8936, at \*18-19 (Del. Ch. Sept. 19, 1983), aff'd, 493 A.2d 929 (Del. 1985); Field v. Carlisle Corp., 68 A.2d 817, 820-21 (Del. Ch. 1949); Clarke Mem'l College v. Monaghan Land Co., 257 A.2d 234, 241 (Del. Ch. 1969). Nor can the board of directors delegate or abdicate this responsibility in favor of the stockholders themselves. Paramount Commc'ns Inc. v. Time Inc., 571 A.2d 1140, 1154 (Del. 1989); Smith v. Van Gorkom, 488 A.2d 858, 873 (Del. 1985).

In exercising their discretion concerning the management of the corporation's affairs, directors are not obligated to act in accordance with the desires of the holders of a majority of the corporation's shares. See Paramount Commc'ns Inc. v. Time Inc., 1989 WL 79880, at \*30 (Del. Ch. July 14, 1989) ("The corporation law does not operate on the theory that directors, in exercising their powers to manage the firm, are obligated to follow the wishes of a majority of shares."), aff'd, 571 A.2d 1140 (Del. 1989). For example, in Abercrombie, 123 A.2d 893, the plaintiffs challenged an agreement among certain stockholders and directors which, among other things, purported to irrevocably bind directors to vote in a predetermined manner even though the vote might be contrary to their own best judgment. The Court of Chancery concluded that the agreement was an unlawful attempt by stockholders to encroach upon directorial authority:

So long as the corporate form is used as presently provided by our statutes this Court cannot give legal sanction to agreements which have the effect of removing from directors in a very substantial

way their duty to use their own best judgment on management matters.

Nor is this, as defendants urge, merely an attempt to do what the parties could do in the absence of such an [a]greement. Certainly the stockholders could agree to a course of persuasion but they cannot under the present law commit the directors to a procedure which might force them to vote contrary to their own best judgment.

I am therefore forced to conclude that [the agreement] is invalid as an unlawful attempt by certain stockholders to encroach upon the statutory powers and duties imposed on directors by the Delaware corporation law.

Abercrombie, 123 A.2d at 899-900 (citations omitted). Moreover, the Delaware Supreme Court's decision in Quickturn supports the conclusion that the Proposal would contravene Section 141(a) and therefore not be valid under the General Corporation Law. At issue in Quickturn was the validity of a "Delayed Redemption Provision" of a stockholder rights plan, which, under certain circumstances, would prevent a newly elected Quickturn board of directors from redeeming, for a period of six months, the rights issued under Quickturn's rights plan. The Delaware Supreme Court held that the Delayed Redemption Provision was invalid as a matter of law because it impermissibly would deprive a newly elected board of its full statutory authority under Section 141(a) to manage the business and affairs of the corporation:

One of the most basic tenets of Delaware corporate law is that the board of directors has the ultimate responsibility for managing the business and affairs of a corporation. Section 141(a) requires that any limitation on the board's authority be set out in the certificate of incorporation. The Quickturn certificate of incorporation contains no provision purporting to limit the authority of the board in any way. The Delayed Redemption Provision, however, would prevent a newly elected board of directors from completely discharging its fundamental management duties to the corporation and its stockholders for six months.... Therefore, we hold that the Delayed Redemption Provision is invalid under Section 141(a), which confers upon any newly elected board of directors full power to manage and direct the business and affairs of a Delaware corporation.

Quickturn, 721 A.2d at 1291-92 (emphasis in original; footnotes omitted). See also id., at 1292 ("The Delayed Redemption Provision 'tends to limit in a substantial way the freedom of [newly

elected] directors' decisions on matters of management policy.' Therefore, 'it violates the duty of each [newly elected] director to exercise his own best judgment on matters coming before the board.'" (footnotes omitted).

In our opinion, the General Corporation Law does not permit stockholders to compel directors to take action on matters as to which the directors are required to exercise judgment in a manner which may in fact be contrary to the directors' own best judgment. See CA, Inc., 953 A.2d at 239. Yet that is exactly what the Proposal attempts to do, in that it would compel the Board of Directors to report the Company's "risk management structure, staffing and reporting lines of the institution and how it is integrated" into the Company's business model regardless of whether the Board of Directors agrees that the time and expense of such report would be in the best interests of the Company and its stockholders. Thus, because the Proposal would "have the effect of removing from directors in a very substantial way their duty to use their own best judgment" concerning the commitment of the Company's resources, Abercrombie, 123 A.2d at 899, in our view, the Proposal, is not a proper subject for action by the stockholders under Delaware law.

#### Conclusion

Based upon and subject to the foregoing, and subject to the limitations stated herein, it is our opinion that the Proposal is not a proper subject for action by the stockholders under Delaware law.

The foregoing opinion is limited to the General Corporation Law. We have not considered and express no opinion on any other laws or the laws of any other state or jurisdiction, including federal laws regulating securities or any other federal laws, or the rules and regulations of stock exchanges or of any other regulatory body.

The foregoing opinion is rendered solely for your benefit in connection with the matters addressed herein. We understand that you may furnish a copy of this opinion letter to the Securities and Exchange Commission in connection with the matters addressed herein and that you may refer to it in your proxy statement for the Annual Meeting, and we consent to your doing so. Except as stated in this paragraph, this opinion letter may not be furnished or quoted to, nor may the foregoing opinion be relied upon by, any other person or entity for any purpose without our prior written consent.

Very truly yours,

*Rich, Gith + Figen, P.A.*

WJH/RBC