

MORGAN STANLEY
Form 10-Q
November 03, 2015
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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, 2015

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

Delaware

1585 Broadway

36-3145972

(212) 761-4000

(State or other jurisdiction of
incorporation or organization)

New York, NY 10036

(Address of principal executive
offices, including zip code)

(I.R.S. Employer Identification No.)

(Registrant's telephone number,
including area code)

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

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

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

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Large Accelerated Filer
Non-Accelerated Filer

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 30, 2015, there were 1,936,223,959 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended September 30, 2015

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AVAILABLE INFORMATION

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

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

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

Amended and Restated Certificate of Incorporation;

Amended and Restated Bylaws;

Charters for its Audit Committee; Operations and Technology Committee; Compensation, Management Development and Succession Committee; Nominating and Governance Committee; and Risk Committee;

Corporate Governance Policies;

Policy Regarding Communication with the Board of Directors;

Policy Regarding Director Candidates Recommended by Shareholders;

Policy Regarding Corporate Political Activities;

Policy Regarding Shareholder Rights Plan;

Code of Ethics and Business Conduct;

Code of Conduct; and

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Integrity Hotline information.

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

Table of Contents**Part I Financial Information.****Item 1. Financial Statements.****MORGAN STANLEY****Condensed Consolidated Statements of Income****(dollars in millions, except share and per share data)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Investment banking	\$ 1,313	\$ 1,551	\$ 4,284	\$ 4,492
Trading	2,026	2,448	8,649	7,926
Investments	(119)	138	408	724
Commissions and fees	1,115	1,124	3,459	3,478
Asset management, distribution and administration fees	2,732	2,716	8,155	7,886
Other	(62)	373	406	873
Total non-interest revenues	7,005	8,350	25,361	25,379
Interest income	1,451	1,384	4,321	3,977
Interest expense	689	827	2,265	2,845
Net interest	762	557	2,056	1,132
Net revenues	7,767	8,907	27,417	26,511
Non-interest expenses:				
Compensation and benefits	3,437	4,214	12,366	12,720
Occupancy and equipment	341	350	1,034	1,069
Brokerage, clearing and exchange fees	485	437	1,435	1,338
Information processing and communications	447	396	1,300	1,231
Marketing and business development	158	160	487	472
Professional services	576	522	1,660	1,506
Other	849	608	2,079	1,653
Total non-interest expenses	6,293	6,687	20,361	19,989
Income from continuing operations before income taxes	1,474	2,220	7,056	6,522
Provision for income taxes	423	463	1,704	1,263
Income from continuing operations	1,051	1,757	5,352	5,259
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	(4)	(8)	(13)	(11)
Provision for (benefit from) income taxes	(2)	(3)	(4)	(5)
Income (loss) from discontinued operations	(2)	(5)	(9)	(6)

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Net income	\$ 1,049	\$ 1,752	\$ 5,343	\$ 5,253
Net income applicable to nonredeemable noncontrolling interests	31	59	124	156
Net income applicable to Morgan Stanley	\$ 1,018	\$ 1,693	\$ 5,219	\$ 5,097
Preferred stock dividends and other	79	64	301	199
Earnings applicable to Morgan Stanley common shareholders	\$ 939	\$ 1,629	\$ 4,918	\$ 4,898
Earnings per basic common share:				
Income from continuing operations	\$ 0.49	\$ 0.85	\$ 2.57	\$ 2.55
Income (loss) from discontinued operations				(0.01)
Earnings per basic common share	\$ 0.49	\$ 0.85	\$ 2.57	\$ 2.54
Earnings per diluted common share:				
Income from continuing operations	\$ 0.48	\$ 0.83	\$ 2.52	\$ 2.49
Income (loss) from discontinued operations			(0.01)	
Earnings per diluted common share	\$ 0.48	\$ 0.83	\$ 2.51	\$ 2.49
Dividends declared per common share	\$ 0.15	\$ 0.10	\$ 0.40	\$ 0.25
Average common shares outstanding:				
Basic	1,904,213,493	1,922,995,835	1,915,807,606	1,925,172,108
Diluted	1,949,281,601	1,970,922,473	1,957,544,581	1,970,091,170

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Comprehensive Income****(dollars in millions)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 1,049	\$ 1,752	\$ 5,343	\$ 5,253
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments(1)	\$ (61)	\$ (327)	\$ (249)	\$ (175)
Change in net unrealized gains (losses) on available for sale securities(2)	100	(102)	72	134
Pension, postretirement and other(3)	4	(15)	3	(7)
Total other comprehensive income (loss)	\$ 43	\$ (444)	\$ (174)	\$ (48)
Comprehensive income	\$ 1,092	\$ 1,308	\$ 5,169	\$ 5,205
Net income applicable to nonredeemable noncontrolling interests	31	59	124	156
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	15	(62)	(3)	(26)
Comprehensive income applicable to Morgan Stanley	\$ 1,046	\$ 1,311	\$ 5,048	\$ 5,075

- (1) Amounts include provision for (benefit from) income taxes of \$30 million and \$249 million for the quarters ended September 30, 2015 and 2014, respectively, and \$150 million and \$137 million for the nine months ended September 30, 2015 and 2014, respectively.
- (2) Amounts include provision for (benefit from) income taxes of \$57 million and \$(70) million for the quarters ended September 30, 2015 and 2014, respectively, and \$41 million and \$92 million for the nine months ended September 30, 2015 and 2014, respectively.
- (3) Amounts include provision for (benefit from) income taxes of \$(2) million and \$(7) million for the quarters ended September 30, 2015 and 2014, respectively, and \$(2) million and \$(4) million for the nine months ended September 30, 2015 and 2014, respectively.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Financial Condition****(dollars in millions, except share data)****(unaudited)**

	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks (\$13 and \$45 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	\$ 19,244	\$ 21,381
Interest bearing deposits with banks	34,274	25,603
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements (\$165 and \$149 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	35,552	40,607
Trading assets, at fair value (\$129,632 and \$127,342 were pledged to various parties at September 30, 2015 and December 31, 2014, respectively) (\$834 and \$966 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	237,811	256,801
Investment securities (includes \$61,159 and \$69,216 at fair value at September 30, 2015 and December 31, 2014, respectively)	64,689	69,316
Securities received as collateral, at fair value	9,456	21,316
Securities purchased under agreements to resell (includes \$809 and \$1,113 at fair value at September 30, 2015 and December 31, 2014, respectively)	127,206	83,288
Securities borrowed	148,245	136,708
Customer and other receivables	50,070	48,961
Loans:		
Held for investment (net of allowances of \$173 and \$149 at September 30, 2015 and December 31, 2014, respectively)	69,010	57,119
Held for sale	9,199	9,458
Other investments (\$364 and \$467 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	4,282	4,355
Premises, equipment and software costs (net of accumulated depreciation of \$6,906 and \$6,219 at September 30, 2015 and December 31, 2014, respectively) (\$187 and \$191 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,259	6,108
Goodwill	6,587	6,588
Intangible assets (net of accumulated amortization of \$2,050 and \$1,824 at September 30, 2015 and December 31, 2014, respectively) (includes \$5 and \$6 at fair value at September 30, 2015 and December 31, 2014, respectively)	3,069	3,159
Other assets (\$57 and \$59 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally not available to the Company)	9,160	10,742
Total assets	\$ 834,113	\$ 801,510
Liabilities		
Deposits	\$ 147,226	\$ 133,544
Short-term borrowings (includes \$1,768 and \$1,765 at fair value at September 30, 2015 and December 31, 2014, respectively)	1,982	2,261
Trading liabilities, at fair value	125,525	107,381
Obligation to return securities received as collateral, at fair value	20,328	25,685
Securities sold under agreements to repurchase (includes \$597 and \$612 at fair value at September 30, 2015 and December 31, 2014, respectively)	58,570	69,949
Securities loaned	20,644	25,219
Other secured financings (includes \$3,450 and \$4,504 at fair value at September 30, 2015 and December 31, 2014, respectively) (\$456 and \$348 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	10,171	12,085
Customer and other payables	193,775	181,069
Other liabilities and accrued expenses (\$3 and \$72 at September 30, 2015 and December 31, 2014, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	19,129	19,441
	160,343	152,772

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Long-term borrowings (includes \$31,387 and \$31,774 at fair value at September 30, 2015 and December 31, 2014, respectively)

Total liabilities	757,693	729,406
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock (see Note 14)	7,520	6,020
Common stock, \$0.01 par value:		
Shares authorized: 3,500,000,000 at September 30, 2015 and December 31, 2014;		
Shares issued: 2,038,893,979 at September 30, 2015 and December 31, 2014;		
Shares outstanding: 1,938,069,312 and 1,950,980,142 at September 30, 2015 and December 31, 2014, respectively	20	20
Additional paid-in capital	23,876	24,249
Retained earnings	48,746	44,625
Employee stock trusts	2,399	2,127
Accumulated other comprehensive loss	(1,419)	(1,248)
Common stock held in treasury, at cost, \$0.01 par value:		
Shares outstanding: 100,824,667 and 87,913,837 at September 30, 2015 and December 31, 2014, respectively	(3,456)	(2,766)
Common stock issued to employee stock trusts	(2,399)	(2,127)
Total Morgan Stanley shareholders' equity	75,287	70,900
Nonredeemable noncontrolling interests	1,133	1,204
Total equity	76,420	72,104
Total liabilities and equity	\$ 834,113	\$ 801,510

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Changes in Total Equity****Nine Months Ended September 30, 2015 and 2014****(dollars in millions)****(unaudited)**

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non- redeemable Non- controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2014	\$ 6,020	\$ 20	\$ 24,249	\$ 44,625	\$ 2,127	\$ (1,248)	\$ (2,766)	\$ (2,127)	\$ 1,204	\$ 72,104
Net income applicable to Morgan Stanley				5,219						5,219
Net income applicable to nonredeemable noncontrolling interests									124	124
Dividends				(1,098)						(1,098)
Shares issued under employee plans and related tax effects			(356)		272		1,445	(272)		1,089
Repurchases of common stock and employee tax withholdings							(2,135)			(2,135)
Net change in Accumulated other comprehensive income						(171)			(3)	(174)
Issuance of preferred stock	1,500		(7)							1,493
Deconsolidation of certain legal entities associated with a real estate fund									(191)	(191)
Other net decreases			(10)						(1)	(11)
BALANCE AT SEPTEMBER 30, 2015	\$ 7,520	\$ 20	\$ 23,876	\$ 48,746	\$ 2,399	\$ (1,419)	\$ (3,456)	\$ (2,399)	\$ 1,133	\$ 76,420
BALANCE AT DECEMBER 31, 2013	\$ 3,220	\$ 20	\$ 24,570	\$ 42,172	\$ 1,718	\$ (1,093)	\$ (2,968)	\$ (1,718)	\$ 3,109	\$ 69,030
Net income applicable to Morgan Stanley				5,097						5,097
Net income applicable to nonredeemable noncontrolling interests									156	156
Dividends				(696)						(696)
Shares issued under employee plans and related tax effects			(627)		409		1,638	(409)		1,011
Repurchases of common stock and employee tax withholdings							(1,172)			(1,172)
Net change in Accumulated other comprehensive income						(22)			(26)	(48)
Issuance of preferred stock	2,800		(18)							2,782
Deconsolidation of certain legal entities associated with a real estate fund									(1,606)	(1,606)
Other net decreases			(3)						(540)	(543)

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**BALANCE AT SEPTEMBER
30, 2014**

\$ 6,020 \$ 20 \$ 23,922 \$ 46,573 \$ 2,127 \$ (1,115) \$ (2,502) \$ (2,127) \$ 1,093 \$ 74,011

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Cash Flows****(dollars in millions)****(unaudited)**

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,343	\$ 5,253
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Income from equity method investments	(118)	(108)
Compensation payable in common stock and options	836	933
Depreciation and amortization	1,023	748
Net gain on sale of available for sale securities	(74)	(36)
Impairment charges	91	85
Provision for credit losses on lending activities	47	1
Other operating activities	264	(167)
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	5,055	(5,903)
Trading assets, net of Trading liabilities	39,775	39,156
Securities borrowed	(11,537)	(10,596)
Securities loaned	(4,575)	(5,142)
Customer and other receivables and other assets	787	2,931
Customer and other payables and other liabilities	10,351	23,335
Securities purchased under agreements to resell	(43,918)	19,136
Securities sold under agreements to repurchase	(11,313)	(61,935)
Net cash provided by (used for) operating activities	(7,963)	7,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (payments for):		
Premises, equipment and software, net	(964)	(533)
Business dispositions, net of cash disposed		962
Loans:		
Purchases, net of proceeds from sales	(1,053)	(797)
Originations, net of repayments	(10,260)	(13,177)
Investment securities:		
Purchases	(32,133)	(24,581)
Proceeds from sales	32,788	11,212
Proceeds from paydowns and maturities	4,285	3,415
Other investing activities	(61)	(264)
Net cash used for investing activities	(7,398)	(23,763)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Short-term borrowings	(279)	(382)
Nonredeemable noncontrolling interests	(70)	(189)
Other secured financings	(1,677)	(1,725)
Deposits	13,682	12,003
Proceeds from:		
Excess tax benefits associated with stock-based awards	180	91
Derivatives financing activities	392	784
Issuance of preferred stock, net of issuance costs	1,493	2,782
Issuance of long-term borrowings	30,159	26,529

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Payments for:		
Long-term borrowings	(17,615)	(24,731)
Derivatives financing activities	(372)	(384)
Repurchases of common stock and employee tax withholdings	(2,135)	(1,172)
Cash dividends	(1,096)	(652)
Net cash provided by financing activities	22,662	12,954
Effect of exchange rate changes on cash and cash equivalents	(767)	(939)
Net decrease in cash and cash equivalents	6,534	(4,057)
Cash and cash equivalents, at beginning of period	46,984	59,883
Cash and cash equivalents, at end of period	\$ 53,518	\$ 55,826
Cash and cash equivalents include:		
Cash and due from banks	\$ 19,244	\$ 20,242
Interest bearing deposits with banks	34,274	35,584
Cash and cash equivalents, at end of period	\$ 53,518	\$ 55,826

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were \$1,456 million and \$2,116 million for the nine months ended September 30, 2015 and 2014, respectively.

Cash payments for income taxes were \$541 million and \$620 million for the nine months ended September 30, 2015 and 2014, respectively.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Introduction and Basis of Presentation.

The Company.

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

For a summary of the activities of each of the Company s business segments, see Note 1 to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K).

Basis of Financial Information.

The Company s condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of legal and tax matters, allowance for credit losses and other matters that affect its condensed consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of its condensed consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates. Intercompany balances and transactions have been eliminated.

The accompanying condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in the 2014 Form 10-K. Certain footnote disclosures included in the 2014 Form 10-K have been condensed or omitted from the condensed consolidated financial statements as they are not required for interim reporting under U.S. GAAP. The condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Consolidation.

The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest, including certain variable interest entities (VIE) (see Note 12). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The net income attributable to noncontrolling interests for such subsidiaries is presented as Net income (loss) applicable to nonredeemable noncontrolling interests in the Company s condensed consolidated statements of income. The portion of shareholders equity of such subsidiaries that is attributable to noncontrolling interests for such subsidiaries is presented as Nonredeemable noncontrolling interests, a component of total equity, in the Company s condensed consolidated statements of financial condition.

For a discussion of the Company s VIEs and its significant regulated U.S. and international subsidiaries, see Note 1 to the consolidated financial statements in the 2014 Form 10-K.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Income Statement Presentation.

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

Statements of Cash Flows Presentation.

During 2015, the Company deconsolidated approximately \$191 million in net assets previously attributable to nonredeemable noncontrolling interests that were related to a real estate fund sponsored by the Company. The deconsolidation resulted in a non-cash reduction of assets of \$169 million. During 2014, the Company deconsolidated approximately \$1.6 billion in net assets previously attributable to nonredeemable noncontrolling interests related to certain legal entities associated with another real estate fund sponsored by the Company. The deconsolidation resulted in a non-cash reduction of assets of \$1.3 billion.

Global Oil Merchandising Business.

As a result of entering into a definitive agreement to sell the global oil merchandising unit of the commodities division to Castleton Commodities International LLC, on May 11, 2015, the Company recognized an impairment charge of \$10 million and \$69 million in Other revenues in the Company's condensed consolidated statements of income in the quarter and nine months ended September 30, 2015, respectively, to reduce the carrying amount of the unit to its estimated fair value less costs to sell. The Company closed the transaction on November 1, 2015. The transaction does not meet the criteria for discontinued operations and is not expected to have a material impact on the Company's financial results (see Note 3).

TransMontaigne.

On July 1, 2014, the Company completed the sale of its ownership stake in TransMontaigne Inc. (TransMontaigne), a U.S.-based oil storage, marketing and transportation company, as well as related physical inventory and the assumption of the Company's obligations under certain terminal storage contracts, to NGL Energy Partners LP. The gain on sale, which was included in continuing operations, was approximately \$101 million for the quarter and nine months ended September 30, 2014.

CanTerm.

On March 27, 2014, the Company completed the sale of Canterm Canadian Terminals Inc. (CanTerm), a public storage terminal operator for refined products with two distribution terminals in Canada. As a result of the Company's level of continuing involvement with CanTerm, the results of CanTerm are reported as a component of continuing operations within the Company's Institutional Securities business segment for the nine months ended September 30, 2014. The gain on sale was approximately \$45 million and is included in the condensed consolidated statement of income for the nine months ended September 30, 2014.

2. Significant Accounting Policies.

For a detailed discussion about the Company's significant accounting policies, see Note 2 to the consolidated financial statements in the 2014 Form 10-K.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

During the quarter and nine months ended September 30, 2015, other than the following, there were no significant updates made to the Company's significant accounting policies.

Accounting Standards Adopted.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.

In June 2014, the Financial Accounting Standards Board (the FASB) issued an accounting update requiring repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. This accounting update also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. This guidance became effective for the Company beginning January 1, 2015. In addition, new disclosures are required for sales of financial assets where the Company retains substantially all the exposure throughout the term and for the collateral pledged and remaining maturity of repurchase and securities lending agreements, which were effective January 1, 2015, and April 1, 2015, respectively. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements. For further information on the adoption of this guidance, see Notes 6 and 12.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).

In May 2015, the FASB issued an accounting update that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured at net asset value (NAV) per share, or its equivalent using the practical expedient. The Company adopted this guidance retrospectively during the second quarter of 2015, as early adoption is permitted. For further information on the adoption of this guidance, see Note 3.

Goodwill.

The Company completed its annual goodwill impairment testing at July 1, 2015. The Company's impairment testing did not indicate any goodwill impairment, as each of the Company's reporting units with goodwill had a fair value that was substantially in excess of its carrying value. However, adverse market or economic events could result in impairment charges in future periods.

3. Fair Values.

Fair Value Measurements.

For a description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis, see Note 4 to the consolidated financial statements in the 2014 Form 10-K.

Table of Contents**MORGAN STANLEY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following fair value hierarchy tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014.

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

At September 30, 2015.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (dollars in millions)	Counterparty and Cash Collateral Netting	Balance at September 30, 2015
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	\$ 18,359	\$	\$	\$	\$ 18,359
U.S. agency securities	1,328	18,690			20,018
Total U.S. government and agency securities	19,687	18,690			38,377
Other sovereign government obligations	19,597	7,493	11		27,101
Corporate and other debt:					
State and municipal securities		1,954	33		1,987
Residential mortgage-backed securities		1,746	404		2,150
Commercial mortgage-backed securities		1,868	79		1,947
Asset-backed securities		771	31		802
Corporate bonds		13,207	226		13,433
Collateralized debt and loan obligations		187	545		732
Loans and lending commitments		6,170	5,164		11,334
Other debt		1,714	530		2,244
Total corporate and other debt		27,617	7,012		34,629
Corporate equities(1)	96,023	491	575		97,089
Derivative and other contracts:					
Interest rate contracts	860	368,503	2,160		371,523
Credit contracts		23,844	937		24,781
Foreign exchange contracts	102	70,801	347		71,250
Equity contracts	876	49,833	951		51,660
Commodity contracts	3,392	14,646	3,203		21,241
Other		364			364
Netting(2)	(4,652)	(437,820)	(3,981)	(61,072)	(507,525)
Total derivative and other contracts	578	90,171	3,617	(61,072)	33,294
Investments:					
Investments measured at NAV(3)					
Principal investments	23	97	541		661
Other	149	204	312		665

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Total investments	172	301	853		5,604
Physical commodities		1,717			1,717
Total trading assets	136,057	146,480	12,068	(61,072)	237,811
AFS securities	27,765	33,394			61,159
Securities received as collateral	9,455		1		9,456
Securities purchased under agreements to resell		809			809
Intangible assets(4)			5		5
Total assets measured at fair value	\$ 173,277	\$ 180,683	\$ 12,074	\$ (61,072)	\$ 309,240

Table of Contents**MORGAN STANLEY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (dollars in millions)	Counterparty and Cash Collateral Netting	Balance at September 30, 2015
Liabilities at Fair Value					
Short-term borrowings	\$	\$ 1,699	\$ 69	\$	\$ 1,768
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	14,524				14,524
U.S. agency securities	1,026	135			1,161
Total U.S. government and agency securities	15,550	135			15,685
Other sovereign government obligations	13,611	2,379			15,990
Corporate and other debt:					
State and municipal securities		3			3
Corporate bonds		6,783	19		6,802
Lending commitments		2			2
Other debt		7	4		11
Total corporate and other debt		6,795	23		6,818
Corporate equities(1)	50,017	1,145	97		51,259
Derivative and other contracts:					
Interest rate contracts	780	346,806	2,071		349,657
Credit contracts		22,900	1,742		24,642
Foreign exchange contracts	60	72,593	281		72,934
Equity contracts	691	53,728	2,992		57,411
Commodity contracts	3,845	13,551	1,771		19,167
Other		51			51
Netting(2)	(4,652)	(437,820)	(3,981)	(41,636)	(488,089)
Total derivative and other contracts	724	71,809	4,876	(41,636)	35,773
Total trading liabilities	79,902	82,263	4,996	(41,636)	125,525
Obligation to return securities received as collateral	20,327		1		20,328
Securities sold under agreements to repurchase		443	154		597
Other secured financings		3,109	341		3,450
Long-term borrowings		28,925	2,462		31,387
Total liabilities measured at fair value	\$ 100,229	\$ 116,439	\$ 8,023	\$ (41,636)	\$ 183,055

AFS - available for sale

- (1) For trading purposes, the Company holds or sells short equity securities issued by entities in diverse industries and of varying size.
- (2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that shared level. For further information on derivative instruments and hedging activities, see Note 4.
- (3)

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Certain investments that are measured at fair value using the NAV per share, or its equivalent, are not classified in the fair value hierarchy. For additional disclosure about such investments, see Fair Value of Investments that are Measured at Net Asset Value herein.

(4) Amount represents mortgage servicing rights (MSRs) accounted for at fair value.

Table of Contents**MORGAN STANLEY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

At December 31, 2014.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (dollars in millions)	Counterparty and Cash Collateral Netting	Balance at December 31, 2014
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	\$ 16,961	\$	\$	\$	\$ 16,961
U.S. agency securities	850	18,193			19,043
Total U.S. government and agency securities	17,811	18,193			36,004
Other sovereign government obligations	15,149	7,888	41		23,078
Corporate and other debt:					
State and municipal securities		2,049			2,049
Residential mortgage-backed securities		1,991	175		2,166
Commercial mortgage-backed securities		1,484	96		1,580
Asset-backed securities		583	76		659
Corporate bonds		15,800	386		16,186
Collateralized debt and loan obligations		741	1,152		1,893
Loans and lending commitments		6,088	5,874		11,962
Other debt		2,167	285		2,452
Total corporate and other debt		30,903	8,044		38,947
Corporate equities(1)	112,490	1,357	272		114,119
Derivative and other contracts:					
Interest rate contracts	663	495,026	2,484		498,173
Credit contracts		30,813	1,369		32,182
Foreign exchange contracts	83	72,769	249		73,101
Equity contracts(2)	571	45,967	1,586		48,124
Commodity contracts	4,105	18,042	2,268		24,415
Other		376			376
Netting(3)	(4,910)	(564,127)	(4,220)	(66,720)	(639,977)
Total derivative and other contracts	512	98,866	3,736	(66,720)	36,394
Investments:					
Investments measured at NAV(4)					5,009
Principal investments	58	3	835		896
Other	225	198	323		746
Total investments	283	201	1,158		6,651
Physical commodities		1,608			1,608
Total trading assets	146,245	159,016	13,251	(66,720)	256,801
AFS securities	37,200	32,016			69,216
Securities received as collateral	21,265	51			21,316
Securities purchased under agreements to resell		1,113			1,113

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Intangible assets(5)

6

6

Total assets measured at fair value	\$ 204,710	\$ 192,196	\$ 13,257	\$ (66,720)	\$ 348,452
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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2014
	(dollars in millions)				
Liabilities at Fair Value					
Short-term borrowings	\$	\$ 1,765	\$	\$	\$ 1,765
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	14,199				14,199
U.S. agency securities	1,274	85			1,359
Total U.S. government and agency securities	15,473	85			15,558
Other sovereign government obligations	11,653	2,109			13,762
Corporate and other debt:					
State and municipal securities		1			1
Corporate bonds		5,943	78		6,021
Lending commitments		10	5		15
Other debt		63	38		101
Total corporate and other debt		6,017	121		6,138
Corporate equities(1)	31,340	326	45		31,711
Derivative and other contracts:					
Interest rate contracts	602	469,319	2,657		472,578
Credit contracts		29,997	2,112		32,109
Foreign exchange contracts	21	72,233	98		72,352
Equity contracts(2)	416	51,405	3,751		55,572
Commodity contracts	4,817	15,584	1,122		21,523
Other		172			172
Netting(3)	(4,910)	(564,127)	(4,220)	(40,837)	(614,094)
Total derivative and other contracts	946	74,583	5,520	(40,837)	40,212
Total trading liabilities	59,412	83,120	5,686	(40,837)	107,381
Obligation to return securities received as collateral	25,629	56			25,685
Securities sold under agreements to repurchase		459	153		612
Other secured financings		4,355	149		4,504
Long-term borrowings		29,840	1,934		31,774
Total liabilities measured at fair value	\$ 85,041	\$ 119,595	\$ 7,922	\$ (40,837)	\$ 171,721

- (1) For trading purposes, the Company holds or sells short equity securities issued by entities in diverse industries and of varying size.
- (2) The balance of Level 3 asset derivative equity contracts increased by \$57 million with a corresponding decrease in the balance of Level 2 asset derivative equity contracts, and the balance of Level 3 liability derivative equity contracts increased by \$842 million with a corresponding decrease in the balance of Level 2 liability derivative equity contracts to correct the fair value level assigned to these contracts at December 31, 2014. The total amount of asset and liability derivative equity contracts remained unchanged.
- (3) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions

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classified within the same level is included within that shared level. For further information on derivative instruments and hedging activities, see Note 4.

- (4) Certain investments that are measured at fair value using the NAV per share, or its equivalent, are not classified in the fair value hierarchy. For additional disclosure about such investments, see Fair Value of Investments that are Measured at Net Asset Value herein.
- (5) Amount represents MSRs accounted for at fair value.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and nine months ended September 30, 2015 and 2014, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

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

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

Table of Contents**MORGAN STANLEY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Three Months Ended September 30, 2015.

	Total							Unrealized	
	Beginning							Gains	
	Balance at Unrealized							(Losses)	
	June 30,							for Level	
	2015							3	
	(Losses)(1)							Assets/	
	Purchases(2)							Liabilities	
	Sales							Outstanding at	
	Issuances							September 30,	
	Settlements							September 30,	
	Transfers							2015	
	Net							September 30,	
	September 30,							September 30,	
	2015							2015(3)	
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	\$	3	\$		\$		\$	(3)	\$
Other sovereign government obligations		12		5	(4)		(2)		11
Corporate and other debt:									
State and municipal securities		7		5	12	(5)		14	33
Residential mortgage-backed securities		378		3	59	(55)		19	404
Commercial mortgage-backed securities		84		(12)	17	(6)		(4)	79
Asset-backed securities		19			13	(7)		6	31
Corporate bonds		479		(25)	78	(228)		(50)	226
Collateralized debt and loan obligations		660		(7)	80	(188)			545
Loans and lending commitments		5,512		(78)	939	(156)		(1,229)	5,164
Other debt		564		(22)	9	(4)		(1)	530
Total corporate and other debt		7,703		(136)	1,207	(649)		(1,280)	7,012
Corporate equities		486		10	150	(80)		9	575
Net derivative and other contracts(4):									
Interest rate contracts		(236)		(137)	12		(7)	74	383
Credit contracts		(989)		210			(74)	86	(38)
Foreign exchange contracts		446		42	3			(327)	(98)
Equity contracts		(2,102)		309	16		(50)	(187)	(27)
Commodity contracts		1,205		238				(11)	
Total net derivative and other contracts		(1,676)		662	31		(131)	(365)	220
Investments:									
Principal investments		581		26	8	(50)		(24)	541
Other		300		11	1				312
Securities received as collateral		3				(2)			1
Intangible assets		6		(1)					5
Liabilities at Fair Value									
Short-term borrowings	\$		\$	(2)	\$		\$	4	\$
Trading liabilities:									
Corporate and other debt:									
Corporate bonds		15		9	(10)	23			19
Other debt		4							4
Total corporate and other debt		19		9	(10)	23			23
Corporate equities		112		72	(50)	99		8	97
Obligation to return securities received as collateral		3			(2)				1

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Securities sold under agreements to repurchase	154					154	
Other secured financings	168	2	187	(12)		341	2
Long-term borrowings	2,221	61	237	(81)	146	2,462	64

- (1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for \$37 million related to Trading assets Investments, which is included in Investments revenues.
- (2) Loan originations are included in purchases.
- (3) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2015 related to assets and liabilities still outstanding at September 30, 2015.
- (4) Net derivative and other contracts represent Trading assets Derivative and other contracts net of Trading liabilities Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 4.

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Nine Months Ended September 30, 2015.

	Beginning Balance December 31, 2014	Total Realized and Unrealized Gains (Losses)(1)	Purchases(2)	Sales	Issuances	Settlements	Net Transfers	Ending Balance September 30, 2015	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2015(3)
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	\$ 41	\$ (1)	\$ 7	\$ (31)	\$	\$	\$ (5)	\$ 11	\$
Corporate and other debt:									
State and municipal securities		5	14	(1)			15	33	5
Residential mortgage-backed securities	175	28	172	(57)			86	404	19
Commercial mortgage-backed securities	96	(17)	23	(23)				79	(19)
Asset-backed securities	76	(1)	22	(31)			(35)	31	4
Corporate bonds	386	(19)	155	(218)		(53)	(25)	226	(16)
Collateralized debt and loan obligations	1,152	141	320	(709)		(331)	(28)	545	(7)
Loans and lending commitments	5,874	(34)	1,860	(95)		(2,461)	20	5,164	(62)
Other debt	285	(13)	30	(14)		(25)	267	530	
Total corporate and other debt	8,044	90	2,596	(1,148)		(2,870)	300	7,012	(76)
Corporate equities	272	57	437	(199)			8	575	67
Net derivative and other contracts(4):									
Interest rate contracts	(173)	(37)	16		(22)	277	28	89	20
Credit contracts	(743)	(69)	6		(94)	86	9	(805)	(89)
Foreign exchange contracts	151	133	4		(1)	(197)	(24)	66	133
Equity contracts(5)	(2,165)	(76)	115		(279)	252	112	(2,041)	(237)
Commodity contracts	1,146	345	2		(112)	111	(60)	1,432	420
Total net derivative and other contracts	(1,784)	296	143		(508)	529	65	(1,259)	247
Investments:									
Principal investments	835	22	20	(109)		(187)	(40)	541	
Other	323	(5)	2	(6)			(2)	312	
Securities received as collateral			1					1	
Intangible assets	6					(1)		5	
Liabilities at Fair Value									
Short-term borrowings	\$	(2)	\$	\$	60	\$	7	69	(2)
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	78	6	(25)	37			(65)	19	6
Lending commitments	5	5							5
Other debt	38		(1)	7		(39)	(1)	4	
Total corporate and other debt	121	11	(26)	44		(39)	(66)	23	11
Corporate equities	45	90	(88)	128			102	97	90
Obligation to return securities received as collateral				1				1	

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Securities sold under agreements to repurchase	153	(1)				154	
Other secured financings	149	(5)	223	(36)		341	4
Long-term borrowings	1,934	159	853	(213)	47	2,462	157

- (1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the Company's condensed consolidated statements of income except for \$17 million related to Trading assets Investments, which is included in Investments revenues.
- (2) Loan originations are included in purchases.
- (3) Amounts represent unrealized gains (losses) for the nine months ended September 30, 2015 related to assets and liabilities still outstanding at September 30, 2015.
- (4) Net derivative and other contracts represent Trading assets Derivative and other contracts net of Trading liabilities Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 4.
- (5) Net liability Level 3 derivative equity contracts increased by \$785 million to correct the fair value level assigned to these contracts at December 31, 2014. The total amount of derivative equity contracts remained unchanged at December 31, 2014.

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Three Months Ended September 30, 2014.

	Total		Realized and		Net		Unrealized		
	Beginning	Realized and	Unrealized		Net	Ending	Assets/ Liabilities		
	Balance at	Gains	Balance at	Sales	Transfers	Balance at	Outstanding at		
	June 30,	(Losses)(1)	Unrealized	Purchases(2)	Settlements	September 30,	September 30,		
	2014	(1)	Gains	(2)		2014	2014(3)		
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	\$ 14	\$ (1)	\$	\$ (1)	\$	\$ 1	\$ 13	\$ (1)	
Corporate and other debt:									
State and municipal securities	4					(4)			
Residential mortgage-backed securities	55	11	33	(7)		(11)	81	11	
Commercial mortgage-backed securities	47	(1)	1	(3)		13	57	(2)	
Asset-backed securities	65	5	27	(8)		22	111	5	
Corporate bonds	510	36	99	(148)		9	506	38	
Collateralized debt obligations	1,332	8	299	(362)		(6)	1,271	6	
Loans and lending commitments	5,829	(20)	2,138	(676)		(721)	7,507	(24)	
Other debt	22		135	(3)		1	155		
Total corporate and other debt	7,864	39	2,732	(1,207)		(738)	9,688	34	
Corporate equities	243	(2)	30	(41)		11	241	7	
Net derivative and other contracts(4):									
Interest rate contracts	(109)	(15)	7		(3)	(17)	13	(22)	
Credit contracts	(710)	209	7		(64)	(108)	(682)	140	
Foreign exchange contracts	109	(27)	6	(3)		70	154	(25)	
Equity contracts	(1,097)	(6)	56		(59)	(105)	(1,188)	(9)	
Commodity contracts	1,132	73	36			(62)	1,167	12	
Other	(3)	(1)				4			
Total net derivative and other contracts	(678)	233	112	(3)	(126)	(218)	(536)	96	
Investments:									
Principal investments	883	(1)	22	(23)		32	913	(1)	
Other	380	(3)	14			2	393	(3)	
Intangible assets	6						6		
Liabilities at Fair Value									
Trading liabilities:									
Other sovereign government obligations	\$	\$	\$	\$	\$	\$	\$ 2	\$ 2	\$
Corporate and other debt:									
Corporate bonds	14	1	(8)	46		(3)	48	1	
Lending commitments	12	12							
Other debt	42	5				(2)			