MORGAN STANLEY
Form 10-K
February 26, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2018

Commission File Number 1-11758

(Exact name of Registrant as specified in its charter)

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

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

Title of each class	Name of exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, $0.01 par value	New York Stock Exchange
	New York Stock Exchange

Depositary Shares, each representing 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series G, $0.01 par value	
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K, $0.01 par value	New York Stock Exchange
Global Medium-Term Notes, Series A, Fixed Rate Step-Up Senior Notes Due 2026 of Morgan Stanley Finance LLC (and Registrant s guarantee with respect thereto)	New York Stock Exchange
Market Vectors ETNs due March 31, 2020 (two issuances); Market Vectors ETNs due April 30, 2020 (two issuances)	NYSE Arca, Inc.
Morgan Stanley Cushing® MLP High Income Index ETNs due March 21, 2031	NYSE Arca, Inc.

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit 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, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2018, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $79,320,949,858. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2019, there were 1,708,787,567 shares of Registrant s common stock, $0.01 par value, outstanding.

Documents Incorporated by Reference: Portions of Registrant s definitive proxy statement for its 2018 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

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ANNUAL REPORT ON FORM 10-K

for the year ended December 31, 2018

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Forward-Looking Statements

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

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

- the effect of market conditions, particularly in the global equity, fixed income, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets and energy markets;
- the level of individual investor participation in the global markets as well as the level of client assets;
- the flow of investment capital into or from assets under management or supervision;
- the level and volatility of equity, fixed income and commodity prices, interest rates, inflation and currency values and other market indices;
- the availability and cost of both credit and capital as well as the credit ratings assigned to our unsecured short-term and long-term debt;
- technological changes instituted by us, our competitors or counterparties and technological risks, business continuity and related operational risks, including breaches or other disruptions of our or a third party s (or third parties thereof) operations or systems;
- risk associated with cybersecurity threats, including data protection and cybersecurity risk management;
- our ability to manage effectively our capital and liquidity, including approval of our capital plans by our banking regulators;
- the impact of current, pending and future legislation (including with respect to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) or changes thereto, regulation (including capital, leverage, funding, liquidity and recovery and resolution requirements and our ability to address such requirements), policies including fiscal and monetary policies established by central banks and financial regulators;
- changes to global trade policies and tariffs, government debt ceilings and funding, reforms of LIBOR, EURIBOR and other indices, and other legal and regulatory actions in the U.S. and worldwide;
- changes in tax laws and regulations globally, including the interpretation and application of the U.S. Tax Cuts and Jobs Act (Tax Act);
- the effectiveness of our risk management processes;
- our ability to effectively respond to an economic downturn, or other market disruptions;

- the effect of economic and political conditions and geopolitical events, including, for example, the U.K. s anticipated withdrawal from the E.U. and a government shutdown in the United States;
- the actions and initiatives of current and potential competitors as well as governments, central banks, regulators and self-regulatory organizations;
- our ability to provide innovative products and services and execute our strategic objectives;
- sovereign risk;
- the performance and results of our acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements;
- investor, consumer and business sentiment and confidence in the financial markets;
- our reputation and the general perception of the financial services industry;
- natural disasters, pandemics and acts of war or terrorism; and
- other risks and uncertainties detailed under Business Competition and Business Supervision and Regulation , Ri Factors and elsewhere throughout this report.

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

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Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains an internet site, *www.sec.gov*, that contains annual, quarterly and current reports, proxy and information statements and other information that issuers file electronically with the SEC. Our electronic SEC filings are available to the public at the SEC s internet site.

Our internet site is *www.morganstanley.com*. You can access our Investor Relations webpage at *www.morganstanley.com/about-us-ir*. We make available free of charge, on or through our Investor Relations webpage, our 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 (Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also make available, through our Investor Relations webpage, via a link to the SEC s internet site, statements of beneficial ownership of our equity securities filed by our directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about our corporate governance at *www.morganstanley.com/about-us-governance.* Our Corporate Governance webpage includes:

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;
- Charters for our Audit Committee, Compensation, Management Development and Succession Committee, Nominating and Governance Committee, Operations and Technology Committee, and Risk Committee;
- Corporate Governance Policies;
- Policy Regarding Corporate Political Activities;
- Policy Regarding Shareholder Rights Plan;
- Equity Ownership Commitment;
- Code of Ethics and Business Conduct;
- Code of Conduct;
- Integrity Hotline Information; and
- Environmental and Social Policies.

Our Code of Ethics and Business Conduct applies to all directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Deputy Chief Financial Officer. We 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 our 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 our internet site is not incorporated by reference into this report.

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Business

Overview

We are a global financial services firm that, through our subsidiaries and affiliates, advises, and originates, trades, manages and distributes capital for, governments, institutions and individuals. We were originally incorporated under the laws of the State of Delaware in 1981, and our predecessor companies date back to 1924. We are an FHC regulated by the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956, as amended (BHC Act). We conduct our business from our headquarters in and around New York City, our regional offices and branches throughout the U.S. and our principal offices in London, Tokyo, Hong Kong and other world financial centers. As of December 31, 2018, we had 60,348 employees worldwide. Unless the context otherwise requires, the terms Morgan Stanley, the Firm, us, we, and our mean Morgan Stanley (the Company) together with its consolidated subsidiaries. We define the following as part of our consolidated financial statements (financial statements): consolidated income statements (income statements), consolidated balance sheets (balance sheets), and consolidated cash flow statements (cash flow statements). See the Glossary of Common Acronyms for the definition of certain acronyms used throughout the 2018 Form 10-K.

Financial information concerning us, our business segments and geographic regions for each of the 12 months ended December 31, 2018, December 31, 2017 and December 31, 2016 is included in the financial statements and the notes thereto and in Financial Statements and Supplementary Data.

Business Segments

We are a global financial services firm that maintains significant market positions in each of our business segments Institutional Securities, Wealth Management and Investment Management. Through our subsidiaries and affiliates, we provide a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Additional information related to our business segments, respective clients, and products and services provided is included under Management s Discussion and Analysis of Financial Condition and Results of Operations.

Competition

All aspects of our businesses are highly competitive, and we expect them to remain so. We compete in the U.S. and globally for clients, market share and human talent. Operating within the financial services industry on a global basis

presents, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for us to remain competitive. Our competitive position depends on our reputation and the quality and consistency of our long-term investment performance. Our ability to sustain or improve our competitive position also depends substantially on our ability to continue to attract and retain highly qualified employees while managing compensation and other costs. We compete with commercial banks, brokerage firms, insurance companies, exchanges, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds and private equity funds, energy companies, financial technology firms and other companies offering financial or ancillary services in the U.S., globally and digitally or through the internet. In addition, restrictive laws and regulations applicable to certain U.S. financial services institutions, such as Morgan Stanley, which may prohibit us from engaging in certain transactions and impose more stringent capital and liquidity requirements, can put us at a competitive disadvantage to competitors in certain businesses not subject to these same requirements. See also Supervision and Regulation herein and Risk Factors.

Institutional Securities and Wealth Management

Our competitive position for our Institutional Securities and Wealth Management business segments depends on innovation, execution capability and relative pricing. We compete directly in the U.S. and globally with other securities and financial services firms and broker-dealers and with others on a regional or product basis. Additionally, there is increased competition driven by established firms as well as the emergence of new firms and business models (including innovative uses of technology) competing for the same clients and assets or offering similar products and services.

Our ability to access capital at competitive rates (which is generally impacted by our credit ratings), to commit and to deploy capital efficiently, particularly in our capital-intensive underwriting and sales, trading, financing and market-making activities, also affects our competitive position. Corporate clients may request that we provide loans or lending commitments in connection with certain investment banking activities and such requests are expected to continue.

It is possible that competition may become even more intense as we continue to compete with financial or other institutions that may be larger, or better capitalized, or may have a stronger local presence and longer operating history in certain geographies or products. Many of these firms have the ability to offer a wide range of products and services, and on different platforms, that may enhance their competitive position and could result in pricing pressure on our businesses. In addition, our business is subject to extensive regulation in the

U.S. and abroad, while certain of our competitors may be subject to less stringent legal and regulatory regimes than us, thereby putting us at a competitive disadvantage.

We continue to experience intense price competition in some of our businesses. In particular, the ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions and comparable fees. The trend toward direct access to automated, electronic markets will likely increase as additional trading moves to more automated platforms. It is also possible that we will experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by reducing prices (in the form of commissions or pricing).

Investment Management

Our ability to compete successfully in the asset management industry is affected by several factors, including our reputation, investment objectives, quality of investment professionals, performance of investment strategies or product offerings relative to peers and appropriate benchmark indices, advertising and sales promotion efforts, fee levels, the effectiveness of and access to distribution channels and investment pipelines, and the types and quality of products offered. Our investment products, including alternative investment products, may compete with investments offered by other investment managers with passive investment products or who may be subject to less stringent legal and regulatory regimes than us.

Supervision and Regulation

As a major financial services firm, we are subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where we conduct our business. Legislative and regulatory responses to the 2007-2008 financial crisis, both in the U.S. and worldwide, have resulted in major changes to the way we are regulated and conduct our business. These laws and regulations include: the Dodd-Frank Act; risk-based capital, leverage and liquidity standards adopted or being developed by the Basel Committee on Banking Supervision (Basel Committee), including Basel III, and the national implementation of those standards; capital planning and stress testing requirements; and new recovery and resolution regimes in the U.S. and other jurisdictions. Some areas of post-financial crisis regulation are still subject to final rulemaking or transition periods.

We continue to monitor the changing political, tax and regulatory environment; it is likely that there will be further changes in the way major financial institutions are regulated in both the U.S. and other markets in which we operate,

although it remains difficult to predict the exact impact these changes will have on our business, financial condition, results of operations and cash flows for a particular future period and we expect to remain subject to extensive supervision and regulation.

Financial Holding Company

Consolidated Supervision. We have operated as a BHC and FHC under the BHC Act since September 2008. As a BHC, we are subject to comprehensive consolidated supervision, regulation and examination by the Federal Reserve. The Federal Reserve has heightened authority to examine, prescribe regulations and take action with respect to all of our subsidiaries. In particular, we are, or will become, subject to (among other things): significantly revised and expanded regulation and supervision; intensive scrutiny of our businesses and plans for expansion of those businesses; limitations on activities; a systemic risk regime that imposes heightened capital and liquidity requirements; restrictions on activities and investments imposed by a section of the BHC Act added by the Dodd-Frank Act referred to as the Volcker Rule ; and comprehensive derivatives regulation. In addition, the Consumer Financial Protection Bureau has primary rulemaking, enforcement and examination authority over us and our subsidiaries with respect to federal consumer protection laws, to the extent applicable.

Scope of Permitted Activities. The BHC Act limits the activities of BHCs and FHCs and grants the Federal Reserve authority to limit our ability to conduct activities. We must obtain the Federal Reserve s approval before engaging in certain banking and other financial activities both in the U.S. and internationally.

The BHC Act grandfathers activities related to the trading, sale or investment in commodities and underlying physical properties, provided that we were engaged in any of such activities as of September 30, 1997 in the U.S. and provided that certain other conditions that are within our reasonable control are satisfied. We currently engage in our commodities activities pursuant to the BHC Act grandfather exemption as well as other authorities under the BHC Act.

Activities Restrictions under the Volcker Rule. The Volcker Rule prohibits banking entities, including us and our affiliates, from engaging in certain proprietary trading activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market-making-related activities, risk-mitigating hedging and certain other activities. The Volcker Rule also prohibits certain investments and relationships by banking entities with covered funds, with a number of exemptions and exclusions. Banking entities were required to bring all of their activities and investments into conformance with the Volcker Rule by July 21, 2015, subject to certain extensions. In June 2017, the Federal Reserve approved our application for a five-year extension of the transition period to conform investments in certain legacy covered funds that are also illiquid funds. The approval covers essentially all of our non-conforming investments in, and relationships with, legacy covered funds subject to the Volcker Rule. The Volcker Rule also requires that deductions be made from a BHC s Tier 1 capital for permissible investments in covered funds. In addition, the Volcker Rule requires banking entities to have comprehensive compliance programs reasonably designed to ensure and monitor compliance with the Volcker Rule.

The federal financial regulatory agencies responsible for the Volcker Rule s implementing regulations have proposed, but have not yet finalized, revisions to certain elements of those regulations. The proposed changes focus on proprietary trading and certain requirements imposed in connection with permitted market making, underwriting and risk-mitigating hedging activities. The impact of this proposal on us will not be known with certainty until final rules are issued.

Capital Standards. The Federal Reserve establishes capital requirements, including well-capitalized standards, for large BHCs and evaluates our compliance with such requirements. The OCC establishes similar capital requirements and standards for Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA) (collectively, our U.S. Bank Subsidiaries).

Regulatory Capital Framework. The regulatory capital requirements for us and our U.S. Bank Subsidiaries are largely based on the Basel III capital standards established by the Basel Committee, as supplemented by certain provisions of the Dodd-Frank Act. We are subject to various risk-based capital requirements with various transition provisions, measured against our Common Equity Tier 1 capital, Tier 1 capital and Total capital bases, leverage-based capital requirements, including the SLR, and additional capital buffers above generally applicable minimum standards for BHCs.

The Basel Committee has published a comprehensive set of revisions to its Basel III Framework. The revised requirements are expected to take effect starting January 2022, subject to U.S. banking agencies issuing implementation proposals. The impact on us of any revisions to the Basel Committee s capital standards is uncertain and depends on future rulemakings by the U.S. banking agencies.

Regulated Subsidiaries. In addition, many of our regulated subsidiaries are, or are expected to be in the future, subject to regulatory capital requirements, including regulated subsidiaries registered as swap dealers with the CFTC or security-based swap dealers with the SEC (collectively,

Swaps Entities) or registered as broker-dealers or futures commission merchants. Specific regulatory capital requirements vary by regulated subsidiary, and in many cases these standards are not yet established or are subject to ongoing rulemakings that could substantially modify requirements.

For more information about the specific capital requirements applicable to us and our U.S. Bank Subsidiaries, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements.

Capital Planning, Stress Tests and Capital Distributions. Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large BHCs, including Morgan Stanley. For more information about the capital planning and stress test requirements, including proposed changes to those requirements that would integrate them with certain ongoing regulatory capital requirements, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements and Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Developments Proposed Stress Buffer Requirements.

In addition to capital planning requirements, the Federal Reserve, the OCC and the FDIC have the authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including us and our U.S. Bank Subsidiaries, if, in the banking regulator s opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. All of these policies and other requirements could affect our ability to pay dividends and/or repurchase stock, or require us to provide capital assistance to our U.S. Bank Subsidiaries under circumstances which we would not otherwise decide to do so.

Liquidity Standards. In addition to capital regulations, the U.S. banking agencies and the Basel Committee have adopted, or are in the process of adopting, liquidity standards. We and our U.S. Bank Subsidiaries are subject to the U.S. banking agencies LCR requirements, which generally follow Basel Committee standards. Similarly, if the proposed NSFR requirements are adopted by the U.S. banking agencies, we and our U.S. Bank Subsidiaries will become subject to NSFR requirements, which generally follow Basel Committee standards.

In addition to the LCR and NSFR, we and many of our regulated subsidiaries, including those registered as Swaps Entities with the CFTC or SEC, are, or are expected to be in the future, subject to other liquidity standards, including liquidity stress-testing and associated liquidity reserve requirements.

For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Liquidity Framework.

Systemic Risk Regime. The Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA), establishes a systemic risk regime to which certain large BHCs, including Morgan Stanley, are subject. Under rules issued by the Federal Reserve to implement certain requirements of the Dodd-Frank Act s enhanced prudential standards, such large BHCs must conduct internal liquidity stress tests, maintain unencumbered highly liquid assets to meet projected net cash outflows for 30 days over the range of liquidity stress scenarios used in internal stress tests, and comply with various liquidity risk management requirements. These large BHCs also must comply with a range of risk management and corporate governance requirements.

The Federal Reserve has adopted a framework to impose single-counterparty credit limits (SCCL) for large banking organizations. U.S. G-SIBs, including us, are subject to a limit of 15% of Tier 1 capital for aggregate net credit exposures to any major counterparty (defined to include other U.S. G-SIBs, foreign G-SIBs, and nonbank systemically important financial institutions supervised by the Federal Reserve). In addition, we are subject to a limit of 25% of Tier 1 capital for aggregate net credit exposures to any other unaffiliated counterparty. We must comply with the SCCL framework beginning on January 1, 2020.

The Federal Reserve has proposed rules that would create a new early remediation framework to address financial distress or material management weaknesses. The Federal Reserve also has the ability to establish additional prudential standards, including those regarding contingent capital, enhanced public disclosures and limits on short-term debt, including off-balance sheet exposures. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Total Loss-Absorbing Capacity and Long-Term Debt Requirement.

Under the systemic risk regime, if the Federal Reserve or the Financial Stability Oversight Council determines that a BHC with $250 billion or more in consolidated assets poses a grave threat to U.S. financial stability, the institution may be, among other things, restricted in its ability to merge or offer financial products and/or required to terminate activities and dispose of assets.

See also Capital Standards and Liquidity Standards herein and Resolution and Recovery Planning below.

Resolution and Recovery Planning. Pursuant to the Dodd-Frank Act, we are required to periodically submit to the Federal Reserve and the FDIC a resolution plan that describes our strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of our material financial distress or failure. Our preferred resolution strategy, which is set out in our 2017 resolution plan, is an SPOE strategy. An SPOE strategy generally contemplates the provision of additional capital and liquidity by the Parent Company to certain of its subsidiaries so that such subsidiaries have the resources necessary to implement the resolution strategy after the Parent Company has filed for bankruptcy.

Certain of our domestic and foreign subsidiaries are also subject to resolution and recovery planning requirements in the jurisdictions in which they operate. For example the FDIC requires certain insured depository institutions (IDIs), including our U.S. Bank Subsidiaries, to submit an annual resolution plan that describes the IDI s strategy for a rapid and orderly resolution in the event of material financial distress or failure of the IDI (an IDI plan).

Further, we are required to submit an annual recovery plan to the Federal Reserve that outlines the steps that management could take over time to generate or conserve financial resources in times of prolonged financial stress.

In December 2018, the OCC finalized revisions to its recovery planning guidelines for national banks and certain other institutions that increase the threshold at which the guidelines apply from $50 billion to $250 billion in total consolidated assets. As a result, our U.S. Bank Subsidiaries are no longer required to prepare recovery plans.

In addition, certain financial companies, including BHCs such as the Firm and certain of its covered subsidiaries, can be subjected to a resolution proceeding under the orderly liquidation authority in Title II of the Dodd-Frank Act with the FDIC being appointed as receiver, provided that certain procedures are met, including certain extraordinary financial distress and systemic risk determinations by the U.S. Treasury Secretary in consultation with the U.S. President. The orderly liquidation authority rulemaking is proceeding in stages, with some regulations now finalized and others not yet proposed. If we were subject to the orderly liquidation authority, the FDIC would have considerable powers, including: the power to remove directors and officers responsible for our failure and to appoint new directors and officers; the power to assign our assets and liabilities to a third party or bridge financial company without the need for creditor consent or prior court review; the ability to differentiate among our creditors, including by treating certain creditors within the same class better than others, subject to a minimum recovery right on the part of disfavored creditors to receive at least what they would have received in bankruptcy liquidation; and broad powers to administer the claims process to determine distributions from the assets of the receivership. The FDIC has been developing an SPOE strategy that could be used to implement the orderly liquidation authority.

Regulators have also taken and proposed various actions to facilitate an SPOE strategy under the U.S. Bankruptcy Code, the orderly liquidation authority or other resolution regimes.

For example, the Federal Reserve has established rules that impose contractual requirements on certain qualified financial contracts (covered QFCs) to which U.S. G-SIBs, including us, and their subsidiaries are parties. The OCC has also established rules that impose substantively identical requirements on national banks that are subsidiaries of U.S. G-SIBs, including our U.S. Bank Subsidiaries, as well as certain other institutions (together with the entities covered by the Federal Reserve s rules, the covered entities). Under these rules, covered QFCs must expressly provide that transfer restrictions and default rights against covered entities are limited to the same extent as they would be under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Act and their implementing regulations. In addition, covered QFCs may not, among other things, permit the exercise of any cross-default right against covered entities based on an affiliate s entry into insolvency, resolution or similar proceedings, subject to certain creditor protections. There is a phased-in compliance schedule based on counterparty type, and the first compliance date was January 1, 2019.

For more information about our resolution plan-related submissions and associated regulatory actions, see Risk Factors Legal, Regulatory and Compliance Risk , Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Requirements Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Resolution and Recovery Planning.

Cyber and Information Security Risk Management

As a general matter, the financial services industry faces increased global regulatory focus regarding cyber and information security risk management practices. Many aspects of our businesses are subject to cybersecurity legal and regulatory requirements enacted by U.S. federal and state governments and other non-U.S. jurisdictions in the Americas, Europe, the Middle East, Africa and Asia. These laws are aimed at codifying basic cybersecurity protections and mandating data breach notification requirements.

Our businesses are also subject to privacy and data protection information security legal requirements concerning the use and protection of certain personal information. For example, the General Data Protection Regulation (GDPR) became effective in the E.U. on May 25, 2018 as a replacement for the E.U. Data Protection Directive. The GDPR imposes mandatory breach notification obligations, including significant fines for noncompliance, enhanced governance and accountability requirements and has extraterritorial impact. In addition, other jurisdictions have adopted or are proposing GDPR or similar standards, such as California, Australia, Singapore, Japan, Colombia, Argentina, India, Turkey, Hong Kong, Brazil, Russia and Switzerland.

Protection of Client Information

Many aspects of our businesses are subject to legal requirements concerning the use and protection of certain customer information. These include those adopted pursuant to the Gramm-Leach-Bliley Act and the Fair and

Accurate Credit Transactions Act of 2003 in the U.S., the GDPR and various laws in Asia, including the Japanese Personal Information Protection Law, the Hong Kong Personal Data (Protection) Ordinance and the Australian Privacy Act. We have adopted measures designed to comply with these and related applicable requirements in all relevant jurisdictions.

U.S. Bank Subsidiaries

U.S. Bank Subsidiaries. MSBNA, primarily a wholesale commercial bank, offers commercial lending and certain retail securities-based lending services in addition to deposit products, and also conducts certain foreign exchange activities.

MSPBNA offers certain mortgage and other secured lending products, including retail securities-based lending products, primarily for customers of our affiliate retail broker-dealer, Morgan Stanley Smith Barney LLC (MSSB LLC). MSPBNA also offers certain deposit products and prime brokerage custody services.

Both MSBNA and MSPBNA are FDIC-insured national banks subject to supervision, regulation and examination by the OCC. They are both subject to the OCC s risk governance guidelines, which establish heightened standards for a large national bank s risk governance framework and the oversight of that framework by the bank s board of directors.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards. These regulations generally apply only to insured banks and thrifts such as MSBNA or MSPBNA and not to their parent holding companies. The Federal Reserve is, however, separately authorized to take appropriate action at the holding company level, subject to certain limitations. Under the systemic risk regime, as described above, we also would become subject to an early remediation protocol in the event of financial distress. In addition, BHCs, such as Morgan Stanley, are required to serve as a source of strength to their U.S. bank subsidiaries and commit resources to support these subsidiaries in the event such subsidiaries are in financial distress.

Transactions with Affiliates. Our U.S. Bank Subsidiaries are subject to Sections 23A and 23B of the Federal Reserve Act, which impose restrictions on covered transactions with any affiliates. Covered transactions include any extension of credit to, purchase of assets from, and certain other transactions by insured banks with an affiliate. These restrictions limit the total amount of credit exposure that our U.S. Bank Subsidiaries may have to any one affiliate and to all affiliates. Sections 23A and 23B also set collateral requirements and require all such transactions to be made on market terms. Derivatives, securities borrowing and securities lending transactions between our U.S. Bank Subsidiaries and their affiliates are subject to these restrictions. The Federal Reserve has indicated that it will propose a rulemaking to implement changes to these restrictions made by the Dodd-Frank Act.

In addition, the Volcker Rule generally prohibits covered transactions between (i) us or any of our affiliates and (ii) covered funds for which we or any of our affiliates serve as the investment manager, investment adviser, commodity trading advisor or sponsor, or other covered funds organized and offered by us or any of our affiliates pursuant to specific exemptions in the Volcker Rule. See also Financial Holding Company Activities Restriction under the Volcker Rule above.

FDIC Regulation. An FDIC-insured depository institution is generally liable for any loss incurred or expected to be incurred by the FDIC in connection with the failure of an insured depository institution under common control by the same BHC. As commonly controlled FDIC-insured depository institutions, each of MSBNA and MSPBNA could be responsible for any loss to the FDIC from the failure of the other. In addition, both institutions are exposed to changes in the cost of FDIC insurance.

Institutional Securities and Wealth Management

Broker-Dealer and Investment Adviser Regulation. Our primary U.S. broker-dealer subsidiaries, Morgan Stanley & Co. LLC (MS&Co.) and MSSB LLC, are registered broker-dealers with the SEC and in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and are members of various self-regulatory organizations, including FINRA, and various securities exchanges and clearing organizations. Broker-dealers are subject to laws and regulations covering all aspects of the securities business, including sales and trading practices, securities offerings, publication of research reports, use of customers funds and securities, capital structure, risk management controls in connection with market access, recordkeeping and retention, and the conduct of their directors, officers, representatives and other associated persons. Broker-dealers are also regulated by securities administrators in those states where they do business. Violations of the laws and regulations governing a broker-dealer s actions could result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of such broker-dealer or its officers or employees, or other similar consequences by both federal and state securities administrators. Our broker-dealer subsidiaries are also members of the Securities Investor Protection Corporation, which provides certain protections for customers of broker-dealers against losses in the event of the insolvency of a broker-dealer.

MSSB LLC is also a registered investment adviser with the SEC. MSSB LLC s relationship with its investment advisory clients is subject to the fiduciary and other obligations imposed on investment advisers under the Investment Advisers Act of 1940, and the rules and regulations promulgated thereunder as well as various state securities laws. These laws and regulations generally grant the SEC and other supervisory bodies broad administrative powers to address non-compliance, including the power to restrict or limit MSSB LLC from carrying on its investment advisory and other asset management activities. Other sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain activities for specified periods of time or for specified types of clients, the revocation of registrations, other censures and significant fines.

The Firm is subject to various regulations that affect broker-dealer sales practices and customer relationships. For example, under the Dodd-Frank Act, the SEC is authorized to impose a fiduciary duty rule applicable to broker-dealers when providing personalized investment advice about securities to retail customers. The SEC released for public comment a package of proposed rulemaking on the standards of conduct and required disclosures for broker-dealers and investment advisers. One of the proposals, entitled Regulation Best Interest, would require broker-dealers to act in the best interest of retail customers at the time a recommendation is made without placing the financial or other interests of the broker-dealer ahead of the interest of the retail customer. Additionally, the SEC proposed a new requirement for both broker-dealers and investment advisers to provide a brief

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relationship summary to retail investors with information intended to clarify the relationship between the parties. The SEC issued a proposed interpretation regarding the fiduciary duty that investment advisers owe their clients. None of these proposals have yet been finalized.

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

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

Research. Research-related regulations have been implemented in many jurisdictions, including in the U.S., where FINRA has adopted rules that cover research relating to both equity and debt securities. In addition, European regulators have introduced new requirements in the Markets in Financial Instruments Directive II (MiFID II) relating to the unbundling of research services and execution services. Both U.S. and non-U.S. regulators continue to focus on research conflicts of interest and may impose additional regulations.

Regulation of Futures Activities and Certain Commodities Activities. MS&Co., as a futures commission merchant, and MSSB LLC, as an introducing broker, are subject to net capital requirements of, and certain of their activities are regulated by, the CFTC, the NFA, CME Group, and various commodity futures exchanges. MS&Co. and MSSB LLC and certain of their affiliates are registered members of the NFA in various capacities. Rules and regulations of the CFTC, NFA and commodity futures exchanges address obligations related to, among other things, customer protections, the segregation of customer funds and the holding of secured amounts, the use by futures commission merchants of customer funds, recordkeeping and reporting obligations of futures commission merchants and introducing brokers, risk disclosure, risk management and discretionary trading.

Our commodities activities are subject to extensive and evolving energy, commodities, environmental, health and safety, and other governmental laws and regulations in the U.S. and abroad. Intensified scrutiny of certain energy markets by U.S. federal, state and local authorities in the U.S. and abroad and by the public has resulted in increased regulatory and legal enforcement and remedial proceedings involving companies conducting the activities in which we are engaged.

Derivatives Regulation. Under the U.S. regulatory regime for swaps and security-based swaps (collectively, Swaps implemented pursuant to the Dodd-Frank Act, we are subject to regulations including, among others, public and regulatory reporting, central clearing and mandatory trading on regulated exchanges or execution facilities for certain types of Swaps. The CFTC has completed the majority of its regulations in this area, most of which are in effect. The SEC has also finalized many of its Swaps regulations, although a significant number are not yet in effect. The Dodd-Frank Act also requires the registration of swap dealers with the CFTC and security-based swap dealers with the

SEC. Certain of our subsidiaries have registered with the CFTC as swap dealers and will in the future be required to register with the SEC as security-based swap dealers. Such Swaps Entities are or will be subject to a comprehensive regulatory regime with new obligations for the Swaps activities for which they are registered, including capital requirements, margin requirements for uncleared Swaps and comprehensive business conduct rules. Each of the CFTC and SEC have proposed rules to impose capital standards on Swaps Entities subject to its respective jurisdiction, which include our subsidiaries, but these rules have not yet been finalized.

The specific parameters of some of these requirements for Swaps have been and continue to be developed through the CFTC, SEC and bank regulator rulemakings. In 2015, the federal banking regulators and the CFTC separately issued final rules establishing uncleared swap margin requirements for Swaps Entities subject to their respective regulation, including MSBNA, Morgan Stanley Capital Services LLC and Morgan Stanley & Co. International plc (MSIP), respectively. The variation margin requirements under these rules were effective as of March 1, 2017. The rules phase-in initial margin requirements from September 1, 2016 through September 1, 2020, depending on the level of OTC derivatives activity of the swap dealer and the relevant counterparty. Margin rules with the same or similar compliance dates have been adopted or are in the process of being finalized by regulators outside the U.S., and certain of our subsidiaries may be subject to such rules.

Although important areas within the global derivatives regulatory framework have been finalized in recent years, additional changes are expected. For example, in November 2018, the CFTC proposed revisions to the rules governing swap execution facilities. As the derivatives regulatory framework evolves, we expect to continue to face increased costs and regulatory oversight. Complying with registration and other regulatory requirements has required, and is expected to require in the future, systems and other changes. Compliance with Swaps-related regulatory capital requirements may also require us to devote more capital to our Swaps business.

Our Institutional Securities and Wealth Management business segment activities are also regulated in jurisdictions outside the U.S. See Non-U.S. Regulation herein.

Investment Management

Many of the subsidiaries engaged in our asset management activities are registered as investment advisers with the SEC. Many aspects of our asset management activities are also subject to federal and state laws and regulations primarily intended to benefit the investor or client. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict us from carrying on our asset management activities in the event that we fail to comply with such laws and regulations. Sanctions that may be imposed for such failure include the suspension of individual employees, limitations on our engaging in various asset management activities for specified periods of time or specified types of clients, the revocation of registrations, other censures and significant fines. In order to facilitate our asset management business, a U.S. broker-dealer subsidiary of ours, Morgan Stanley Distribution, Inc., acts as distributor to the Morgan Stanley mutual funds and as placement agent to certain private investment funds managed by our Investment Management business segment.

Our asset management activities are subject to certain additional laws and regulations, including, but not limited to, additional reporting and recordkeeping requirements (including with respect to clients that are private funds) and restrictions on sponsoring or investing in, or maintaining certain other relationships with, covered funds, as defined in the Volcker Rule, subject to certain limited exemptions. Many of these requirements have increased the expenses associated with our asset management activities and/or reduced the investment returns we are able to generate for us and our asset management clients. See also Financial Holding Company Activities Restrictions under the Volcker Rule.

In addition, certain of our affiliates are registered as commodity trading advisors and/or commodity pool operators, or are operating under certain exemptions from such registration pursuant to CFTC rules and other guidance, and have certain responsibilities with respect to each pool they advise. Violations of the rules of the CFTC, the NFA or the commodity exchanges could result in remedial actions, including fines, registration restrictions or terminations, trading prohibitions or revocations of commodity exchange memberships. See also Institutional Securities and Wealth Management Broker-Dealer and Investment Adviser Regulation, Institutional Securities and Wealth Management Regulation of Futures Activities and Certain Commodities Activities, and Institutional Securities and Wealth Management Derivatives Regulation above and Non-U.S. Regulation, below for a discussion of other regulations that impact our Investment Management business activities, including MiFID II.

Our Investment Management business activities are also regulated outside the U.S. For example, the U.K. Financial Conduct Authority (FCA) is the primary regulator of our business in the U.K.; the Financial Services Agency regulates our business in Japan; the Securities and Futures Commission of Hong Kong regulates our business in Hong Kong; and the Monetary Authority of Singapore regulates our business in Singapore. See also Non-U.S. Regulation herein.

Non-U.S. Regulation

All of our businesses are regulated extensively by non-U.S. regulators, including governments, securities exchanges, commodity exchanges, self-regulatory organizations, central banks and regulatory bodies, especially in those jurisdictions in which we maintain an office. Certain regulators have prudential, conduct and other authority over us or our subsidiaries, as well as powers to limit or restrict us from engaging in certain businesses or to conduct administrative proceedings that can result in censures, fines, the issuance of cease-and-desist orders, or the suspension or expulsion of a regulated entity or its affiliates.

Some of our subsidiaries are regulated as broker-dealers and other regulated entity types under the laws of the jurisdictions in which they operate. Subsidiaries engaged in banking and trust activities outside the U.S. are regulated by various government agencies in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activity. For instance, the PRA, the FCA and several securities and futures exchanges in the U.K., including the London Stock Exchange and ICE Futures Europe, regulate our activities in the U.K.; the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) and the Deutsche Börse AG regulate our activities in the Federal Republic of Germany; the Financial Services Agency, the Bank of Japan, the Japan Securities Dealers Association and several Japanese securities and futures exchanges and ministries regulate our activities in Japan; the Securities and Futures Commission of Hong Kong, the Hong Kong Monetary Authority and the Hong Kong Exchanges and Clearing Limited regulate our operations in Hong Kong; and the

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Monetary Authority of Singapore and the Singapore Exchange Limited regulate our business in Singapore.

Our largest non-U.S. entity, MSIP, is subject to extensive regulation and supervision by the PRA, which has broad legal authority to establish prudential and other standards applicable to MSIP that seek to ensure its safety and soundness and to minimize adverse effects on the stability of the U.K. financial system. MSIP is also regulated and supervised by the FCA with respect to business conduct matters.

Non-U.S. policymakers and regulators, including the European Commission and European Supervisory Authorities (among others, the European Banking Authority and the European Securities and Markets Authority), continue to propose and adopt numerous reforms, including those that may further impact the structure of banks or subject us to new prudential requirements, and to formulate regulatory standards and measures that will be of relevance and importance to our European operations.

In November 2016, the European Commission published a package of proposals including various risk reduction measures. These include proposed amendments to the Capital Requirements Directive and Regulation providing updates to risk-based capital, liquidity, leverage and other prudential standards on a consolidated basis, consistent with final Basel standards. In addition, the proposals would require certain large, non-E.U. financial groups with two or more institutions established in the E.U. to establish an E.U. IHC. The proposals would require E.U. banks and broker-dealers to be held below the E.U. IHC; until more specific regulations are proposed, it remains unclear which other E.U. entities would need to be held beneath the E.U. IHC. The E.U. IHC would be subject to direct supervision and authorization by the European Central Bank or the relevant national E.U. regulator. Further amendments were also proposed to the E.U. bank recovery and resolution regime under the E.U. Bank Recovery and Resolution Directive (BRRD). It is expected that the proposals will be adopted in early 2019, however their final form, as well as the date of their adoption, is not yet certain.

The amendments to the BRRD build on previous proposals by regulators in the U.K., E.U. and other major jurisdictions to finalize recovery and resolution planning frameworks and related regulatory requirements that will apply to certain of our subsidiaries that operate in those jurisdictions. For instance, the BRRD established a recovery and resolution framework for E.U. credit institutions and investment firms, including MSIP. In addition, certain jurisdictions, including the U.K. and other E.U. jurisdictions, have implemented, or are in the process of implementing, changes to resolution regimes to provide resolution authorities with the ability to recapitalize a failing entity organized in such jurisdictions by

writing down certain unsecured liabilities or converting certain unsecured liabilities into equity.

Regulators in the U.K., E.U. and other major jurisdictions have also finalized other regulatory standards applicable to certain of our subsidiaries that operate in those jurisdictions. For instance, the European Market Infrastructure Regulation introduced new requirements regarding the central clearing and reporting of derivatives, as well as margin requirements for uncleared derivatives. MiFID II, which took effect on January 3, 2018, introduced comprehensive and new trading and market infrastructure reforms in the E.U., including new trading venues, enhancements to pre- and post-trading transparency, and additional investor protection requirements, among others. We have had to make extensive changes to our operations, including systems and controls in order to comply with MiFID II.

Financial Crimes Program

Our Financial Crimes program is coordinated on an enterprise-wide basis and supports our financial crime prevention efforts across all regions and business units with responsibility for governance, oversight and execution of our AML, economic sanctions (Sanctions) and anti-corruption programs.

In the U.S., the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, imposes significant obligations on financial institutions to detect and deter money laundering and terrorist financing activity, including requiring banks, BHCs and their subsidiaries, broker-dealers, futures commission merchants, introducing brokers and mutual funds to implement AML programs, verify the identity of customers that maintain accounts, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Outside the U.S., applicable laws, rules and regulations similarly require designated types of financial institutions to implement AML programs.

We have implemented policies, procedures and internal controls that are designed to comply with all applicable AML laws and regulations. Regarding Sanctions, we have implemented policies, procedures and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Treasury s Office of Foreign Assets Control (OFAC), which target foreign countries, entities and individuals based on external threats to U.S. foreign policy, national security or economic interests, and to comply, as applicable, with similar sanctions programs imposed by foreign governments or global or regional multilateral organizations such as the United Nations Security Council and the E.U. Council.

We are also subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, in the jurisdictions in which we operate. Anti-corruption laws generally prohibit offering, promising, giving or authorizing others to give anything of value, either directly or indirectly, to a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. We have implemented policies, procedures and internal controls that are designed to comply with such laws, rules and regulations.

Executive Officers of Morgan Stanley

The executive officers of Morgan Stanley and their age and titles as of February 26, 2019 are set forth below. Business experience is provided in accordance with SEC rules.

Jeffrey S. Brodsky (54). Executive Vice President and Chief Human Resources Officer of Morgan Stanley (since January 2016). Vice President and Global Head of Human Resources (January 2011 to December 2015). Co-Head of Human Resources (January 2010 to December 2011). Head of Morgan Stanley Smith Barney Human Resources (June 2009 to January 2010).

James P. Gorman (60). Chairman of the Board of Directors and Chief Executive Officer of Morgan Stanley (since January 2012). President and Chief Executive Officer (January 2010 to December 2011) and member of the Board of Directors (since January 2010). Co-President (December 2007 to December 2009) and Co-Head of Strategic Planning (October 2007 to December 2009). President and Chief Operating Officer of Wealth Management (February 2006 to April 2008).

Eric F. Grossman (52). Executive Vice President and Chief Legal Officer of Morgan Stanley (since January 2012). Global Head of Legal (September 2010 to January 2012). Global Head of Litigation (January 2006 to September 2010) and General Counsel of the Americas (May 2009 to September 2010). General Counsel of Wealth Management (November 2008 to September 2010). Partner at the law firm of Davis Polk & Wardwell LLP (June 2001 to December 2005).

Keishi Hotsuki (56). Executive Vice President (since May 2014) and Chief Risk Officer of Morgan Stanley (since May 2011). Interim Chief Risk Officer (January 2011 to May 2011) and Head of Market Risk Department (March 2008 to April 2014). Director of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (since May 2010). Global Head of Market Risk Management at Merrill Lynch (June 2005 to September 2007).

Colm Kelleher (61). President of Morgan Stanley (since January 2016). Executive Vice President (October 2007 to January 2016). President of Institutional Securities (January 2013 to January 2016). Head of International (January 2011 to January 2016). Co-President of Institutional Securities (January 2010 to December 2012). Chief Financial Officer and Co-Head of Strategic Planning (October 2007 to December 2009). Head of Global Capital Markets (February 2006 to October 2007). Co-Head of Fixed Income Europe (May 2004 to February 2006). Director of Norfolk Southern Corporation (since January 2019).

Jonathan M. Pruzan (50). Executive Vice President and Chief Financial Officer of Morgan Stanley (since May 2015) and Head of Corporate Strategy (since December 2016). Co-Head of Global Financial Institutions Group (January 2010 to April 2015). Co-Head of North American Financial Institutions Group M&A (September 2007 to December 2009). Head of the U.S. Bank Group (April 2005 to August 2007).

Daniel A. Simkowitz (53). Head of Investment Management of Morgan Stanley (since October 2015). Co-Head of Global Capital Markets (March 2013 to September 2015). Chairman of Global Capital Markets (November 2009 to March 2013). Managing Director in Global Capital Markets (December 2000 to November 2009).

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Risk Factors

For a discussion of the risks and uncertainties that may affect our future results and strategic objectives, see Forward-Looking Statements immediately preceding Business and Return on Equity and Tangible Common Equity Targets under Management s Discussion and Analysis of Financial Condition and Results of Operations.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio owned by us. For more information on how we monitor and manage market risk, see Quantitative and Qualitative Disclosures about Risk Risk Management Market Risk.

Our results of operations may be materially affected by market fluctuations and by global and economic conditions and other factors, including changes in asset values.

Our results of operations have been in the past and may, in the future, be materially affected by market fluctuations due to global financial markets, economic conditions, changes to the global trade policies and tariffs and other factors, including the level and volatility of equity, fixed income and commodity prices, the level and term structure of interest rates, inflation and currency values, and the level of other market indices.

The results of our Institutional Securities business segment, particularly results relating to our involvement in primary and secondary markets for all types of financial products, are subject to substantial market fluctuations due to a variety of factors that we cannot control or predict with great certainty. These fluctuations impact results by causing variations in business flows and activity and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from our principal investments.

During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets, as well as the level of client assets, may also decrease, which would negatively impact the results of our Wealth Management business segment.

In addition, fluctuations in global market activity could impact the flow of investment capital into or from AUM and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact our Investment Management business segment.

The value of our financial instruments may be materially affected by market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value and monetize certain of our financial instruments, particularly during periods of market displacement. Subsequent valuations in future periods, in light of factors then prevailing, may result in significant changes in the values of these instruments and may adversely impact historical or prospective fees and performance-based fees (also known as incentive fees, which include carried interest) in respect of certain businesses. In addition, at the time of any sales and settlements of these financial instruments, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of our financial instruments, which may have an adverse effect on our results of operations in future periods.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale. Our risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. However, severe market events have historically been difficult to predict and we could realize significant losses if extreme market events were to occur.

Holding large and concentrated positions may expose us to losses.

Concentration of risk may reduce revenues or result in losses in our market-making, investing, block trading, underwriting and lending businesses in the event of unfavorable market movements, or when market conditions are more favorable for our competitors. We commit substantial amounts of capital to these businesses, which often results in our taking large positions in the securities of, or making large loans to, a particular issuer or issuers in a particular industry, country or region. For further information regarding our country risk exposure, see also Quantitative and Qualitative Disclosures about Risk Risk Management Credit Risk Country Risk Exposure.

Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us. For more information on how we monitor and manage credit risk, see Quantitative and Qualitative Disclosures about Risk Risk Management Credit Risk.

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

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

We also incur credit risk in our Wealth Management business segment lending to mainly individual investors, including, but not limited to, margin- and securities-based loans collateralized by securities, residential mortgage loans and HELOCs.

While we believe current valuations and reserves adequately address our perceived levels of risk, adverse economic conditions may negatively impact our clients and our credit exposures. In addition, as a clearing member of several central counterparties, we finance our customer positions and could be held responsible for the defaults or misconduct of our customers. Although we regularly review our credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

A default by a large financial institution could adversely affect financial markets.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. Increased centralization of trading activities through particular clearing houses, central agents or exchanges as required by provisions of the Dodd-Frank Act may increase our concentration of risk with respect to these entities. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions.

This is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing houses, clearing agencies, exchanges, banks and securities firms, with which we interact on a daily basis and, therefore, could adversely affect us. See also Systemic Risk Regime under Business Supervision and Regulation Financial Holding Company.

Operational Risk

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e.g., fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue-generating activities (e.g., sales and trading) and support and control groups (e.g., information technology and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under Legal, Regulatory and Compliance Risk. For more information on how we monitor and manage operational risk, see Quantitative and Qualitative Disclosures about Risk Risk Management Operational Risk.

We are subject to operational risks, including a failure, breach or other disruption of our operations or security systems or those of our third parties (or third parties thereof), which could adversely affect our businesses or reputation.

Our businesses are highly dependent on our ability to process and report, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. We may introduce new products or services or change processes or reporting, including in connection with new regulatory requirements, resulting in new operational risk that we may not fully appreciate or identify.

The trend toward direct access to automated, electronic markets and the move to more automated trading platforms has resulted in the use of increasingly complex technology that relies on the continued effectiveness of the programming code and integrity of the data to process the trades. We rely on the ability of our employees, consultants, our internal systems and systems at technology centers maintained by unaffiliated third parties to operate our different businesses and process a high volume of transactions. Additionally, we are subject to complex and evolving laws and regulations governing cybersecurity, privacy and data protection, which may differ and potentially conflict, in various jurisdictions.

As a major participant in the global capital markets, we face the risk of incorrect valuation or risk management of our trading positions due to flaws in data, models, electronic trading systems or processes or due to fraud or cyber attack.

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We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our lending, securities and derivatives transactions. In the event of a breakdown or improper operation of our or a direct or indirect third party s systems (or third parties thereof) or processes or improper or unauthorized action by third parties, including consultants and subcontractors or our employees, we could suffer financial loss, an impairment to our liquidity position, a disruption of our businesses, regulatory sanctions or damage to our reputation. In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business. Furthermore, the concentration of company and personal information held by a handful of third parties increases the risk that a breach at a key third party may cause an industry-wide data breach that could significantly increase the cost and risk of conducting business.

Despite the business contingency and security response plans we have in place, there can be no assurance that such plans fully mitigate all potential risks to us. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business and the communities where we are located, which are concentrated in the New York metropolitan area, London, Hong Kong and Tokyo, as well as Mumbai, Budapest, Glasgow and Baltimore. This may include a disruption involving physical site access, cybersecurity incidents, terrorist activities, disease pandemics, catastrophic events, natural disasters, extreme weather events, electrical outage, environmental hazard, computer servers, communications or other services we use, our employees or third parties with whom we conduct business.

Although we employ backup systems for our data, those backup systems may be unavailable following a disruption, the affected data may not have been backed up or may not be recoverable from the backup, or the backup data may be costly to recover, which could adversely affect our business.

A cyber attack, information or security breach or a technology failure could adversely affect our ability to conduct our business, manage our exposure to risk or result in disclosure or misuse of confidential or proprietary information and otherwise adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

We maintain a significant amount of personal information on our customers, clients, employees and certain counterparties that we are required to protect under various state, federal and international data protection and privacy laws. These laws

may be in conflict with one another, or courts and regulators may interpret them in ways that we had not anticipated or that adversely affect our business.

Cybersecurity risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and mobile telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends. In addition to the growing sophistication of certain parties, the commoditization of cyber tools which are able to be weaponized by less sophisticated actors has led to an increase in the exploitation of technological vulnerabilities. Any of these parties may also attempt to fraudulently induce employees, customers, clients, vendors or other third parties or users of our systems to disclose sensitive information in order to gain access to our data or that of our employees or clients. Cybersecurity risks may also derive from human error, fraud or malice on the part of our employees or third parties, including third party providers, or may result from accidental technological failure. In addition, third parties with whom we do business, their service providers, as well as other third parties with whom our customers do business, may also be sources of cybersecurity risks, particularly where activities of customers are beyond our security and control systems. There is no guarantee that the measures we take will provide absolute security or recoverability given the techniques used in cyber attacks are complex and frequently change, and may not be able to be anticipated.

Like other financial services firms, the Firm and its third party providers continue to be the subject of unauthorized access attacks, mishandling or misuse of information, computer viruses or malware, cyber attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, denial of service attacks, data breaches and other events. There can be no assurance that such unauthorized access, mishandling or misuse of information, or cyber incidents will not occur in the future, and they could occur more frequently and on a more significant scale.

A cyber attack, information or security breach or a technology failure of ours or of a third party could jeopardize our or our clients , employees , partners , vendors or counterparties personal, confidential, proprietary or other information processed and stored in, and transmitted through, our and our third parties computer systems. Furthermore, such events could cause interruptions or malfunctions in our, our clients , employees , partners , vendors , counterparties or third parties operations, as well as the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees, our customers or of other third parties. Any of these events could result in reputational damage with our clients and the market, client dissatisfaction, additional costs to us to maintain and update our operational and security systems and infrastructure, regulatory investigations, litigation or enforcement, or regulatory fines or penalties, any of which could adversely affect our business, financial condition or results of operations.

Given our global footprint and the high volume of transactions we process, the large number of clients, partners, vendors and counterparties with which we do business, and the increasing sophistication of cyber attacks, a cyber attack, information or security breach could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber attack would be inherently unpredictable and that it would take time before the completion of any investigation and before there is availability of full and reliable information. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber attack.

While many of our agreements with partners and third party vendors include indemnification provisions, we may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses we may incur. In addition, although we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber and information security risks, such insurance coverage may be insufficient to cover all losses.

The cost of managing cyber and information security risks and attacks along with complying with new and increasingly expansive regulatory requirements could adversely affect our results of operations and business.

Liquidity Risk

Liquidity risk refers to the risk that we will be unable to finance our operations due to a loss of access to the capital markets or difficulty in liquidating our assets. Liquidity risk also encompasses our ability (or perceived ability) to meet our financial obligations without experiencing significant business disruption or reputational damage that may threaten our viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect our liquidity and may impact our ability to raise new funding. For more information on how we monitor and manage liquidity risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and

Capital Resources and Quantitative and Qualitative Disclosures about Risk Risk Management Liquidity Risk.

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

Liquidity is essential to our businesses. Our liquidity could be negatively affected by our inability to raise funding in the long-term or short-term debt capital markets or our inability to access the secured lending markets. Factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, including concerns regarding fiscal matters in the U.S. and other geographic areas, could impair our ability to raise funding.

In addition, our ability to raise funding could be impaired if investors or lenders develop a negative perception of our long-term or short-term financial prospects due to factors such as an incurrence of large trading losses, a downgrade by the rating agencies, a decline in the level of our business activity, if regulatory authorities take significant action against us or our industry, or we discover significant employee misconduct or illegal activity.

If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets, such as our investment portfolios or trading assets, to meet maturing liabilities. We may be unable to sell some of our assets or we may have to sell assets at a discount to market value, either of which could adversely affect our results of operations, cash flows and financial condition.

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

The cost and availability of unsecured financing generally are impacted by our long-term and short-term credit ratings. The rating agencies continue to monitor certain issuer specific factors that are important to the determination of our credit ratings, including governance, the level and quality of earnings, capital adequacy, liquidity and funding, risk appetite and management, asset quality, strategic direction, and business mix. Additionally, the rating agencies will look at other industry-wide factors such as regulatory or legislative changes, macro-economic environment, and perceived levels of third party support, and it is possible that they could downgrade our ratings and those of similar institutions.

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

Termination of our trading and other agreements could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements. The additional collateral or termination payments which may occur in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody s Investors Service, Inc. and S&P Global Ratings. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Ratings Incremental Collateral or Terminating Payments upon Potential Future Rating Downgrade.

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

The Parent Company has no operations and depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Regulatory, tax restrictions or elections and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In particular, many of our subsidiaries, including our bank and broker-dealer subsidiaries, are subject to laws, regulations and self-regulatory organization rules that limit, as well as authorize regulatory bodies to block or reduce, the flow of funds to the Parent Company, or that prohibit such transfers or dividends altogether in certain circumstances, including steps to ring fence entities by regulators outside of the U.S. to protect clients and creditors of such entities in the event of financial difficulties involving such entities.

These laws, regulations and rules may hinder our ability to access funds that we may need to make payments on our obligations. Furthermore, as a BHC, we may become subject to a prohibition or to limitations on our ability to pay dividends. The Federal Reserve, the OCC, and the FDIC have the authority, and under certain circumstances the duty, to prohibit or to limit the payment of dividends by the banking organizations they supervise, including us and our U.S. Bank Subsidiaries.

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

Our ability to raise funding in the long-term or short-term debt capital markets or the equity markets, or to access

secured lending markets, has in the past been, and could in the future be, adversely affected by conditions in the U.S. and international markets and economies.

In particular, our cost and availability of funding in the past have been, and may in the future be, adversely affected by illiquid credit markets and wider credit spreads. Significant turbulence in the U.S., the E.U. and other international markets and economies could adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation we may suffer as a result of our failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty s performance obligations will be unenforceable. It also includes compliance with AML, anti-corruption and terrorist financing rules and regulations. For more information on how we monitor and manage legal, regulatory and compliance risk, see Quantitative and Qualitative Disclosures about Risk Risk Management Legal and Compliance Risk.

The financial services industry is subject to extensive regulation, and changes in regulation will impact our business.

Like other major financial services firms, we are subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where we conduct our business. These laws and regulations significantly affect the way we do business and can restrict the scope of our existing businesses and limit our ability to expand our product offerings and pursue certain investments.

The regulation of major financial firms, including the Firm, as well as of the markets in which we operate, is extensive and subject to ongoing change. We are, or will become, subject to (among other things) wide-ranging regulation and supervision, intensive scrutiny of our businesses and any plans for expansion of those businesses, limitations on new activities, a systemic risk regime that imposes heightened capital and liquidity and funding requirements and other enhanced prudential standards, resolution regimes and resolution planning requirements, requirements for maintaining minimum amounts of TLAC and external long-term debt, restrictions on activities and investments imposed by the Volcker Rule, comprehensive derivatives regulation, market structure regulation, tax regulations, antitrust laws, trade and transaction reporting obligations, and broadened fiduciary obligations.

In some areas, regulatory standards are subject to final rulemaking or transition periods or may otherwise be revised in whole or in part. Ongoing implementation of, or changes in, laws and regulations could materially impact the profitability of our businesses and the value of assets we hold, expose us to additional costs, require changes to business practices or force us to discontinue businesses, adversely affect our ability to pay dividends and repurchase our stock or require us to raise capital, including in ways that may adversely impact our shareholders or creditors.

In addition, regulatory requirements that are being imposed by foreign policymakers and regulators may be inconsistent or conflict with regulations that we are subject to in the U.S. and may adversely affect us. We expect legal and regulatory requirements to be subject to ongoing change for the foreseeable future, which may result in significant new costs to comply with new or revised requirements as well as to monitor for compliance on an ongoing basis.

The application of regulatory requirements and strategies in the U.S. or other jurisdictions to facilitate the orderly resolution of large financial institutions may pose a greater risk of loss for our security holders, and subject us to other restrictions.

Pursuant to the Dodd-Frank Act, we are required to periodically submit to the Federal Reserve and the FDIC a resolution plan that describes our strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure. If the Federal Reserve and the FDIC were to jointly determine that our resolution plan submission was not credible or would not facilitate an orderly resolution, and if we were unable to address any deficiencies identified by the regulators, we or any of our subsidiaries may be subject to more stringent capital, leverage, or liquidity requirements or restrictions on our growth, activities, or operations, or after a two-year period, we may be required to divest assets or operations.

In addition, provided that certain procedures are met, we can be subject to a resolution proceeding under the orderly liquidation authority under Title II of the Dodd-Frank Act with the FDIC being appointed as receiver. The FDIC s power under the orderly liquidation authority to disregard the priority of creditor claims and treat similarly situated creditors differently in certain circumstances, subject to certain limitations, could adversely impact holders of our unsecured debt. See Business Supervision and Regulation and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements.

Further, because both our resolution plan contemplates an SPOE strategy under the U.S. Bankruptcy Code and the FDIC

has proposed an SPOE strategy through which it may apply its orderly liquidation authority powers, we believe that the application of an SPOE strategy is the reasonably likely outcome if either our resolution plan were implemented or a resolution proceeding were commenced under the orderly liquidation authority. An SPOE strategy generally contemplates the provision of additional capital and liquidity by the Parent Company to certain of its subsidiaries so that such subsidiaries have the resources necessary to implement the resolution strategy, and the Parent Company has entered into a secured amended and restated support agreement with its material entities, as defined in our 2017 resolution plan, pursuant to which it would provide such capital and liquidity.

Under the secured amended and restated support agreement, upon the occurrence of a resolution scenario, including one in which an SPOE strategy is used, the Parent Company will be obligated to contribute or loan on a subordinated basis all of its contributable material assets, other than shares in subsidiaries of the Parent Company and certain intercompany payables, to provide capital and liquidity, as applicable, to our material entities. The obligations of the

Parent Company under the secured amended and restated support agreement are in most cases secured on a senior basis by the assets of the Parent Company (other than shares in subsidiaries of the Parent Company). As a result, claims of our material entities against the assets of the Parent Company (other than shares in subsidiaries of the Parent Company) are effectively senior to unsecured obligations of the Parent Company. Such unsecured obligations are at risk of absorbing losses of the Parent Company and its subsidiaries.

In further development of our SPOE strategy, we have created a wholly owned, direct subsidiary of the Parent Company, MS Holdings LLC (Funding IHC), to serve as a resolution funding vehicle. We expect that, prior to the submission of our 2019 resolution plan by July 1, 2019, the Parent Company will contribute certain of its assets to the Funding IHC and enter into an updated secured amended and restated support agreement with the Funding IHC as well as certain other subsidiaries to facilitate the execution of our SPOE strategy. Similar to the existing secured amended and restated support agreement, the updated secured amended and restated support agreement will obligate the Parent Company to transfer capital and liquidity, as revised, to the Funding IHC, and that the Parent Company and/or the Funding IHC will recapitalize and provide liquidity to material entities in the event of our material financial distress or failure.

Although an SPOE strategy, whether applied pursuant to our resolution plan or in a resolution proceeding under the orderly liquidation authority, is intended to result in better outcomes for creditors overall, there is no guarantee that the application of an SPOE strategy, including the provision of support to the Parent Company s material entities pursuant to the secured amended and restated support agreement, will not result in greater losses for holders of our securities compared to a different resolution strategy for us.

Regulators have taken and proposed various actions to facilitate an SPOE strategy under the U.S. Bankruptcy Code, the orderly liquidation authority or other resolution regimes. For example, the Federal Reserve requires top-tier BHCs of U.S. G-SIBs, including Morgan Stanley, to maintain minimum amounts of equity and eligible long-term debt TLAC in order to ensure that such institutions have enough loss-absorbing resources at the point of failure to be recapitalized through the conversion of debt to equity or otherwise by imposing losses on eligible TLAC where the SPOE strategy is used. The combined implication of the SPOE resolution strategy and the TLAC requirement is that our losses will be imposed on the holders of eligible long-term debt and other forms of eligible TLAC issued by the Parent Company before any losses are imposed on the holders of the debt securities of our operating subsidiaries or before putting U.S. taxpayers at risk.

In addition, certain jurisdictions, including the U.K. and other E.U. jurisdictions, have implemented, or are in the process of implementing, changes to resolution regimes to provide resolution authorities with the ability to recapitalize a failing entity organized in such jurisdiction by writing down certain unsecured liabilities or converting certain unsecured liabilities into equity. Such bail-in powers are intended to enable the recapitalization of a failing institution by allocating losses to its shareholders and unsecured creditors. Non-U.S. regulators are also considering requirements that certain subsidiaries of large financial institutions maintain minimum amounts of TLAC that would pass losses up from the subsidiaries to the Parent Company and, ultimately, to security holders of the Parent Company in the event of failure.

We may be prevented from paying dividends or taking other capital actions because of regulatory constraints or revised regulatory capital standards.

We are subject to comprehensive consolidated supervision, regulation and examination by the Federal Reserve, which requires us to submit, on an annual basis, a capital plan describing proposed dividend payments to shareholders, proposed repurchases of our outstanding securities and other proposed capital actions that we intend to take. The Federal Reserve may object to, or otherwise require us to modify, such plan, or may object or require modifications to a resubmitted capital plan, any of which would adversely affect shareholders.

In addition, beyond review of the plan, the Federal Reserve may impose other restrictions or conditions on us that prevent us from paying or increasing dividends, repurchasing securities or taking other capital actions that would benefit shareholders.

Finally, the Federal Reserve may change regulatory capital standards to impose higher requirements that restrict our ability to take capital actions or may modify or impose other regulatory standards that increase our operating expenses and reduce our ability to take capital actions.

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

As a global financial services firm, we face the risk of investigations and proceedings by governmental and self-regulatory organizations in all countries in which we conduct our business. Investigations and proceedings initiated by these authorities may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

In addition to the monetary consequences, these measures could, for example, impact our ability to engage in, or impose limitations on, certain of our businesses.

These investigations and proceedings, as well as the amount of penalties and fines sought, continue to impact the financial services industry and certain U.S. and international governmental entities have brought criminal actions against, or have sought criminal convictions, pleas or deferred prosecution agreements from, financial institutions. Significant regulatory or law enforcement action against us could materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business.

The Dodd-Frank Act also provides compensation to whistleblowers who present the SEC or CFTC with information related to securities or commodities law violations that leads to a successful enforcement action. As a result of this compensation, it is possible we could face an increased number of investigations by the SEC or CFTC.

We have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, as well as investigations or proceedings brought by regulatory agencies, arising in connection with our activities as a global diversified financial services institution. Certain of the actual or threatened legal or regulatory actions include claims for substantial compensatory and/or punitive damages, claims for indeterminate amounts of damages, or may result in penalties, fines, or other results adverse to us.

In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress. In other cases, including antitrust litigation, we may be subject to claims for joint and several liability with other defendants for treble damages or other relief related to alleged conspiracies involving other institutions. Like any large corporation, we are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information, or improper sales practices or conduct.

We may be responsible for representations and warranties associated with residential and commercial real estate loans and may incur losses in excess of our reserves.

We originate loans secured by commercial and residential properties. Further, we securitize and trade in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and CMBS. In connection with these activities, we have provided, or otherwise agreed to be responsible for, certain representations and warranties. Under certain circumstances, we may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. We have also made representations and warranties in connection with our role as an originator of certain commercial mortgage loans that we securitized in CMBS. For additional information, see also Note 12 to the financial statements.

We currently have several legal proceedings related to claims for alleged breaches of representations and warranties. If there are decisions adverse to us in those legal proceedings, we may incur losses substantially in excess of our reserves. In addition, our reserves are based, in part, on certain factual and legal assumptions. If those assumptions are incorrect and need to be revised, we may need to adjust our reserves substantially.

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

In connection with the commodities activities in our Institutional Securities business segment, we execute transactions involving the storage, transportation and market-making of several commodities, including metals, natural gas, electric power, environmental attributes and other commodity products. In addition, we are an electricity power marketer in the U.S. and own a minority interest in Heidmar Holdings LLC, which owns a group of companies that provide international marine transportation and U.S. marine logistics services. These activities subject us to extensive energy, commodities, environmental, health and safety and other governmental laws and regulations.

Although we have attempted to mitigate our environmental risks by, among other measures, limiting the scope of activities

involving storage and transportation, adopting appropriate policies and procedures, and implementing emergency response programs, these actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, our financial condition, results of operations and cash flows may be adversely affected by these events.

During the past several years, intensified scrutiny of certain energy markets by federal, state and local authorities in the U.S. and abroad and by the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies conducting the activities in which we are engaged. In addition, enhanced regulation of OTC derivatives markets in the U.S. and the E.U., as well as similar legislation proposed or adopted elsewhere, will impose significant costs and requirements on our commodities derivatives activities.

We may incur substantial costs or loss of revenue in complying with current or future laws and regulations and our overall businesses and reputation may be adversely affected by the current legal environment. In addition, failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties.

A failure to address conflicts of interest appropriately could adversely affect our businesses and reputation.

As a global financial services firm that provides products and services to a large and diversified group of clients, including corporations, governments, financial institutions and individuals, we face potential conflicts of interest in the normal course of business. For example, potential conflicts can occur when there is a divergence of interests between us and a client, among clients, between an employee on the one hand and us or a client on the other, or situations in which we may be a creditor of a client.

We have policies, procedures and controls that are designed to identify and address potential conflicts of interest, and we utilize various measures, such as the use of disclosure, to manage these potential conflicts. However, identifying and mitigating potential conflicts of interest can be complex and challenging and can become the focus of media and regulatory scrutiny. Indeed, actions that merely appear to create a conflict can put our reputation at risk even if the likelihood of an actual conflict has been mitigated. It is possible that potential conflicts could give rise to litigation or enforcement actions, which may lead to our clients being less willing to enter into transactions in which a conflict may occur and could adversely affect our businesses and reputation.

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Our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions. For example, our status as a BHC supervised by the Federal Reserve subjects us to direct Federal Reserve scrutiny with respect to transactions between our U.S. Bank Subsidiaries and their affiliates. Further, the Volcker Rule subjects us to regulatory scrutiny regarding certain transactions between us and our clients.

Uncertainties and ambiguities as to the interpretation and application of the Tax Cuts and Jobs Act could adversely affect us.

The Tax Act, enacted on December 22, 2017, significantly revised U.S. corporate income tax law by reducing the corporate income tax rate to 21%, partially or wholly eliminating tax deductions for certain expenses and implementing a modified territorial tax system. The modified territorial tax system includes a one-time transition tax on deemed repatriated earnings of non-U.S. subsidiaries and also imposes a minimum tax on GILTI and an alternative BEAT on U.S. corporations with operations outside of the U.S. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Supplemental Financial Information and Disclosures Income Tax Matters.

The U.S. Treasury Department has issued proposed regulations on certain provisions in the Tax Act, some of which are not yet finalized and are therefore subject to change. In addition, there continue to be a number of uncertainties and ambiguities as to the interpretation and application of many of the provisions in the Tax Act, including the provisions relating to the modified territorial tax system, GILTI, and the BEAT. In the absence of further guidance on these issues, we use what we believe are reasonable interpretations and assumptions in applying the Tax Act for purposes of determining our tax balances and results of operations, which may change as we receive additional clarification and implementation guidance and as the interpretation of the Tax Act evolves over time. We expect that the U.S. Treasury Department will continue to issue additional guidance on the application of various provisions in the Tax Act. It is possible that such additional guidance or positions taken by the IRS in an audit could differ from the interpretations and assumptions that we previously made, which could have a material adverse effect on our results of operations and financial condition.

Risk Management

Our risk management strategies, models and processes may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk.

We have devoted significant resources to develop our risk management capabilities and expect to continue to do so in the future. Nonetheless, our risk management strategies, models and processes, including our use of various risk models for assessing market exposures and hedging strategies, stress testing and other analysis, may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated.

As our businesses change and grow, and the markets in which we operate evolve, our risk management strategies, models and processes may not always adapt with those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management s judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate.

In addition, many models we use are based on assumptions or inputs regarding correlations among prices of various asset classes or other market indicators and therefore cannot anticipate sudden, unanticipated or unidentified market or economic movements, which could cause us to incur losses.

Management of market, credit, liquidity, operational, model, legal, regulatory and compliance risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Our trading risk management strategies and techniques also seek to balance our ability to profit from trading positions with our exposure to potential losses.

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. For example, to the extent that our trading or investing activities involve less liquid trading markets or are otherwise subject to restrictions on sales or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. We may, therefore, incur losses in the course of our trading or investing activities. For more information on how we monitor and manage market and certain other risks and related strategies, models and processes, see Quantitative and Qualitative Disclosures about Risk Risk Management Market Risk.

Expected replacement of London Interbank Offered Rate and replacement or reform of other interest rates could adversely affect our business, financial condition and results of operations.

Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR and replacements or reforms of other interest rate benchmarks, such as EURIBOR and EONIA (collectively, the IBORs). It is expected that a transition away from the widespread use of such rates to alternative rates based on observable market transactions and other potential interest rate benchmark reforms will occur over the course of the next few years. For example, the FCA, which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of 2021, but that it will not use its powers to compel contributions beyond such date. Accordingly, there is considerable uncertainty regarding the publication of LIBOR beyond 2021.

On April 3, 2018, the Federal Reserve Bank of New York commenced publication of three reference rates based on overnight U.S. Treasury repurchase agreement transactions, including the Secured Overnight Financing Rate, which has been recommended as an alternative to U.S. dollar LIBOR by the Alternative Reference Rates Committee. Further, the Bank of England is publishing a reformed Sterling Overnight Index Average, comprised of a broader set of overnight Sterling money market transactions, which has been selected by the Working Group on Sterling Risk-Free Reference Rates as the alternative rate to Sterling LIBOR. Central bank-sponsored committees in other jurisdictions, including Europe, Japan and Switzerland, have, or are expected to, select alternative reference rates denominated in other currencies.

The market transition away from IBORs to alternative reference rates is complex and could have a range of adverse impacts on our business, financial condition and results of operations. In particular, any such transition or reform could:

- Adversely impact the pricing, liquidity, value of, return on and trading for a broad array of financial products, including any IBOR-linked securities, loans and derivatives that are included in our financial assets and liabilities;

- Require extensive changes to documentation that governs or references IBOR or IBOR-based products, including, for example, pursuant to time-consuming renegotiations of existing documentation to modify the terms of outstanding securities and related hedging transactions;

- Result in inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of IBOR with one or more alternative reference rates;
- Result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of provisions in IBOR-based products such as fallback language or other related provisions, including in the case of fallbacks to the alternative reference rates, any economic, legal, operational or other impact resulting from the fundamental differences between the IBORs and the various alternative reference rates;

Require the transition and/or development of appropriate systems and analytics to effectively transition our risk management processes from IBOR-based products to those based on one or more alternative reference rates in a timely manner, including by quantifying value and risk for various alternative reference rates, which may prove challenging given the limited history of the proposed alternative reference rates; and

Cause us to incur additional costs in relation to any of the above factors.

Depending on several factors including those set forth above, our business, financial condition and results of operations could be materially adversely impacted by the market transition or reform of certain benchmarks. Other factors include the pace of the transition to replacement or reformed rates, the specific terms and parameters for and market acceptance of any alternative reference rate, prices of and the liquidity of trading markets for products based on alternative reference rates, and our ability to transition and develop appropriate systems and analytics for one or more alternative reference rates.

Competitive Environment

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

The financial services industry and all aspects of our businesses are intensely competitive, and we expect them to remain so. We compete with commercial banks, brokerage firms, insurance companies, exchanges, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds, energy companies, financial technology firms and other companies offering financial or ancillary services in the U.S., globally and digitally or through the internet. We compete on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, technology, reputation, risk appetite and price.

Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have left businesses, been acquired by or merged into other firms, or have declared bankruptcy. Such changes could result in our remaining competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity, or new competitors may emerge.

We have experienced and may continue to experience pricing pressures as a result of these factors and as some of our competitors seek to obtain market share by reducing prices or providing more favorable terms of business. In addition, certain of our competitors may be subject to different, and, in some cases, less stringent, legal and regulatory regimes, than we are, thereby putting us at a competitive disadvantage. Some new competitors in the financial technology sector have sought to target existing segments of our businesses that could be susceptible to disruption by innovative or less regulated business models. For more information regarding the competitive environment in which we operate, see Business Competition and Business Supervision and Regulation.

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

We have experienced intense price competition in some of our businesses in recent years. In particular, the ability to execute securities, derivatives and other financial instrument trades electronically on exchanges, swap execution facilities, and other automated trading platforms has increased the pressure on bid-offer spreads, commissions, markups or comparable fees. The trend toward direct access to automated, electronic markets will likely continue and will likely increase as additional markets move to more automated trading platforms. We have experienced and it is likely that we will continue to experience competitive pressures in these and other areas in the future as some of our competitors may seek to obtain market share by reducing bid-offer spreads, commissions, markups or comparable fees.

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

Our people are our most important resource and competition for qualified employees is intense. If we are unable to continue to attract and retain highly qualified employees, or do so at levels or in forms necessary to maintain our competitive position, or if compensation costs required to attract and retain employees become more expensive, our performance, including our competitive position, could be materially adversely affected.

The financial industry has experienced and may continue to experience more stringent regulation of employee compensation, including limitations relating to incentive-based compensation, clawback requirements and special taxation, which could have an adverse effect on our ability to hire or retain the most qualified employees.

International Risk

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

We are subject to political, economic, legal, tax, operational, franchise and other risks that are inherent in operating in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls, increased taxes and levies, and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market.

Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally. We are also subject to the risk that transactions we structure might not be legally enforceable in all cases.

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

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

As a U.S. company, we are required to comply with the economic sanctions and embargo programs administered by OFAC and similar multi-national bodies and governmental agencies worldwide, as well as applicable anti-corruption laws in the jurisdictions in which we operate, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. A violation of a sanction, embargo program, or anti-corruption law could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties.

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The U.K. s anticipated withdrawal from the E.U. could adversely affect us.

It is difficult to predict the future of the U.K. s relationship with the E.U., the uncertainty of which may increase the volatility in the global financial markets in the short- and medium-term and may negatively disrupt regional and global financial markets. Additionally, depending on the outcome, such uncertainty may adversely affect the manner in which we operate certain of our businesses in Europe.

On June 23, 2016, the U.K. electorate voted to leave the E.U. On March 29, 2017, the U.K. invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension (which would need the unanimous approval of the E.U. Member States), during which the U.K. government negotiated a form of withdrawal agreement with the E.U. Absent any changes to this time schedule, the U.K. is expected to leave the E.U. by March 29, 2019. The proposed withdrawal agreement includes a transition period until December 2020 and provides that the U.K. will leave the E.U. single market and will seek a phased period of implementation for a new U.K.-E.U. relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as the Firm.

The withdrawal agreement was rejected by the U.K. Parliament on January 15, 2019, and the U.K. Government is in the process of negotiating changes to the withdrawal agreement that would be acceptable to the U.K. Parliament and the E.U. As a result, the terms and conditions of the anticipated withdrawal from the E.U. remain uncertain.

The ongoing political uncertainty in relation to the proposed withdrawal agreement in the U.K. means there is a risk that these arrangements may not be ready for implementation by March 29, 2019 or that there will be no transition period. Potential effects of the U.K. exit from the E.U. and potential mitigation actions may vary considerably depending on the timing of withdrawal, the nature of any transition, implementation or successor arrangements, and the future trading arrangements between the U.K. and the E.U.

If the withdrawal agreement (or any alternative agreement) is not agreed and as a result no transition period applies, our U.K. licensed entities may be unable to rely on E.U. passporting rights to provide services in a number of E.U. jurisdictions beginning March 29, 2019, absent further regulatory relief. Even if a transition period is agreed, our U.K. licensed entities may lose their rights to provide services in a number of E.U. jurisdictions after such transition period unless the new U.K.-E.U. relationship provides for such rights.

In order to prepare for this risk, we are taking steps to make changes to our European operations in an effort to ensure that we can continue to provide cross-border banking and investment and other services in E.U. Member States without the need for separate regulatory authorizations in each member state. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Regulatory Developments. However, as a result of the political uncertainty described above, it is currently unclear what the final post-Brexit structure of our European operations will be. Given the potential negative disruption to regional and global financial markets, and depending on the extent to which we may be required to make material changes to our European operations beyond those currently planned, our results of operations and business prospects could be negatively affected.

Acquisition, Divestiture and Joint Venture Risk

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

In connection with past or future acquisitions, divestitures, joint ventures, minority stakes or strategic alliances (including with MUFG), we face numerous risks and uncertainties combining, transferring, separating or integrating the relevant businesses and systems, including the need to combine or separate accounting and data processing systems and management controls and to integrate relationships with clients, trading counterparties and business partners. In the case of joint ventures and minority stakes, we are subject to additional risks and uncertainties because we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

In addition, conflicts or disagreements between us and any of our joint venture partners may negatively impact the benefits to be achieved by the relevant joint venture.

There is no assurance that any of our acquisitions or divestitures will be successfully integrated or disaggregated or yield all of the positive benefits anticipated. If we are not able to integrate or disaggregate successfully our past and future acquisitions or dispositions, there is a risk that our results of operations, financial condition and cash flows may be materially and adversely affected.

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

For more information regarding the regulatory environment in which we operate, see also Business Supervision and Regulation.

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Selected Financial Data

Income Statement Data

$ in millions	**2018**	2017	2016	2015	2014
Revenues					
Total non-interest revenues[1]	**$ 36,301**	$ 34,645	$ 30,933	$ 32,062	$ 32,540
Interest income	**13,892**	8,997	7,016	5,835	5,413
Interest expense	**10,086**	5,697	3,318	2,742	3,678
Net interest	**3,806**	3,300	3,698	3,093	1,735
Net revenues	**40,107**	37,945	34,631	35,155	34,275
Non-interest expenses					
Compensation and benefits	**17,632**	17,166	15,878	16,016	17,824
Non-compensation expenses[1]	**11,238**	10,376	9,905	10,644	12,860
Total non-interest expenses	**28,870**	27,542	25,783	26,660	30,684
Income from continuing operations before income taxes	**11,237**	10,403	8,848	8,495	3,591
Provision for (benefit from) income taxes	**2,350**	4,168	2,726	2,200	(90)
Income from continuing operations	**8,887**	6,235	6,122	6,295	3,681
Income (loss) from discontinued operations, net of income taxes	**(4)**	(19)	1	(16)	(14)
Net income	**$ 8,883**	$ 6,216	$ 6,123	$ 6,279	$ 3,667
Net income applicable to noncontrolling interests	**135**	105	144	152	200
Net income applicable to Morgan Stanley	**$ 8,748**	$ 6,111	$ 5,979	$ 6,127	$ 3,467

Preferred stock dividends and other	**526**	523	471	456	315
Earnings applicable to Morgan Stanley common shareholders	**$ 8,222**	$ 5,588	$ 5,508	$ 5,671	$ 3,152
Amounts applicable to Morgan Stanley					
Income from continuing operations	**$ 8,752**	$ 6,130	$ 5,978	$ 6,143	$ 3,481
Income (loss) from discontinued operations	**(4)**	(19)	1	(16)	(14)
Net income applicable to Morgan Stanley	**$ 8,748**	$ 6,111	$ 5,979	$ 6,127	$ 3,467
Effective income tax rate from continuing operations	**20.9%**	40.1%	30.8%	25.9%	(2.5)%

Operating Data

	2018	2017	2016	2015	2014
ROE[2, 3]	**11.8%**	8.0%	8.0%	8.5%	4.8%
ROTCE[2, 3]	**13.5%**	9.2%	9.3%	9.9%	5.7%

Common Share-Related Data

	2018	2017	2016	2015	2014
Per common share					
Earnings (basic)[4]	**$ 4.81**	$ 3.14	$ 2.98	$ 2.97	$ 1.64
Earnings (diluted)[4]	**4.73**	3.07	2.92	2.90	1.60
Book value[5]	**42.20**	38.52	36.99	35.24	33.25
Tangible book value[3, 5]	**36.99**	33.46	31.98	30.26	28.26
Dividends declared	**1.10**	0.90	0.70	0.55	0.35
Common shares outstanding					
in millions					
At December 31	**1,700**	1,788	1,852	1,920	1,951
Annual average:					

Basic	**1,708**	1,780	1,849	1,909	1,924
Diluted	**1,738**	1,821	1,887	1,953	1,971

Balance Sheet Data

$ in millions	**2018**	2017	2016	2015	2014
GLR[6]	**$ 249,735**	$ 192,660	$ 202,297	$ 203,264	$ 193,169
Loans[7]	**115,579**	104,126	94,248	85,759	66,577
Total assets	**853,531**	851,733	814,949	787,465	801,510
Deposits	**187,820**	159,436	155,863	156,034	133,544
Borrowings	**189,662**	192,582	165,716	155,941	155,033
Morgan Stanley shareholders equity	**80,246**	77,391	76,050	75,182	70,900
Common shareholders equity	**71,726**	68,871	68,530	67,662	64,880
Tangible common shareholders equity[3]	**62,879**	59,829	59,234	58,098	55,137

1. Effective January 1, 2018, the Firm adopted new accounting guidance related to *Revenue from Contracts with Customers*, which, among other things, requires a gross presentation of certain costs that were previously netted against net revenues. Prior periods have not been restated pursuant to this guidance. Refer to note 21 to the financial statements for further information on the full impact of adoption of this new accounting guidance.
2. The calculation of ROE and ROTCE equal net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, respectively.
3. Represents a non-GAAP measure. See Executive Summary Selected Non-GAAP Financial Information.
4. For the calculation of basic and diluted earnings (loss) per common share, see Note 16 to the financial statements.
5. Book value per common share and tangible book value per common share equal common shareholders equity and tangible common shareholders equity, respectively, divided by common shares outstanding.
6. For a discussion of the GLR, see Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve herein.
7. Amounts include loans held for investment (net of allowance) and loans held for sale but exclude loans at fair value, which are included in Trading assets in the balance sheets (see Note 7 to the financial statements).

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Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Morgan Stanley 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, Firm, us, we or our mean Morgan Stanley (the Parent Co together with its consolidated subsidiaries. We define the following as part of our consolidated financial statements (financial statements): consolidated income statements (income statements), consolidated balance sheets (balance sheets) and consolidated cash flow statements (cash flow statements). See the Glossary of Common Acronyms for the definition of certain acronyms used throughout the 2018 Form 10-K.

A description of the clients and principal products and services of each of our business segments is as follows:

Institutional Securities provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions, and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. Lending activities include originating corporate loans, commercial mortgage lending, asset-backed lending, and financing extended to sales and trading customers. Other activities include investments and research.

Wealth Management provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering brokerage and investment advisory services; financial and wealth planning services; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking and retirement plan services.

Investment Management provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products include equity, fixed income, liquidity and alternative/other products. Institutional clients include defined benefit/defined contribution plans, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are served through intermediaries, including affiliated and non-affiliated distributors.

The results of operations in the past have been, and in the future may continue to be, materially affected by competition; risk factors; and legislative, legal and regulatory developments; as well as other factors. These factors also may have an adverse impact on our ability to achieve our strategic objectives. Additionally, the discussion of our results of operations herein may contain forward-looking statements. These statements, which reflect management s beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, see Forward-Looking Statements,

Business Competition, Business Supervision and Regulation, Risk Factors and Liquidity and Ca
Resources Regulatory Requirements herein.

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Management s Discussion and Analysis

Executive Summary

Overview of Financial Results

Consolidated Results

Net Revenues[1]

($ in millions)

Net Income Applicable to Morgan Stanley

($ in millions)

Earnings per Common Share[2]

Net Income Applicable to Morgan Stanley and Diluted EPS on a U.S. GAAP and Adjusted Basis

$ in millions, except per share data	**2018**	2017	2016
Net income applicable to Morgan Stanley			
U.S. GAAP	**$ 8,748**	$ 6,111	$ 5,979
Adjusted Non-GAAP[3]	**8,545**	7,079	5,911
Earnings per diluted common share			
U.S. GAAP[2]	**$ 4.73**	$ 3.07	$ 2.92
Adjusted Non-GAAP[3]	**4.61**	3.60	2.88

1. Effective January 1, 2018, the Firm adopted new accounting guidance related to *Revenue from Contracts with Customers*, which among other things, requires a gross presentation of certain costs that were previously netted against net revenues. Prior periods have not been restated pursuant to this guidance. Refer to note 21 to the financial

statements for further information on the full impact of adoption of this new accounting guidance.

2. For the calculation of basic and diluted EPS, see Note 16 to the financial statements.
3. Represents a non-GAAP measure, see Selected non-GAAP Financial Information herein. Adjusted amounts exclude intermittent net discrete tax provisions (benefits). Beginning in 2017, income tax consequences associated with employee share-based awards are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each year. For further information on the net discrete tax provisions (benefits), see Supplemental Financial Information and Disclosures Income Tax Matters herein.

2018 Compared with 2017

We reported net revenues of $40,107 million in 2018 compared with $37,945 million in 2017. For 2018, net income applicable to Morgan Stanley was $8,748 million, or $4.73 per diluted common share, compared with $6,111 million, or $3.07 per diluted common share, in 2017.

Results for 2018 include intermittent net discrete tax benefits of $203 million, or $0.12 per diluted common share, primarily associated with the remeasurement of reserves and related interest due to the resolution of multi-jurisdiction tax examinations. In addition, the effective tax rate in 2018 is lower than in 2017, primarily as a result of the enactment of the Tax Cuts and Jobs Act (Tax Act).

Results for 2017 included an intermittent net discrete tax provision of $968 million, or $0.53 per diluted common share, primarily related to the impact of the Tax Act, partially offset by net discrete tax benefits related to the remeasurement of reserves and related interest due to new information regarding the status of multi-year IRS tax examinations. For a discussion of the Tax Act and the net discrete tax benefits, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

Excluding the intermittent net discrete tax items, net income applicable to Morgan Stanley was $8,545 million, or $4.61 per diluted common share, compared with $7,079 million, or $3.60 per diluted common share, in 2017 (see Selected Non-GAAP Financial Information herein).

2017 compared with 2016

We reported net revenues of $37,945 million in 2017 compared with $34,631 million in 2016. For 2017, net income applicable to Morgan Stanley was $6,111 million, or $3.07 per diluted common share, compared with $5,979 million, or $2.92 per diluted common share, in 2016.

Refer to the 2018 compared with 2017 commentary above for the 2017 intermittent net discrete tax impact. Results for 2016 included intermittent net discrete tax benefits of $68 million, or $0.04 per diluted common share, primarily related to the remeasurement of reserves and related interest due to new information regarding the status of multi-year IRS tax examinations, partially offset by adjustments for other tax matters.

Excluding the intermittent net discrete tax items, net income applicable to Morgan Stanley was $7,079 million, or $3.60 per diluted common share, in 2017 compared with $5,911 million, or $2.88 per diluted common share, in 2016 (see Selected Non-GAAP Financial Information herein).

Non-interest Expenses[1, 2]

($ in millions)

1. The percentages on the bars in the chart represent the contribution of compensation and benefits expenses and non-compensation expenses to the total.
2. Effective January 1, 2018, the Firm adopted new accounting guidance related to *Revenue from Contracts with Customers*, which among other things, requires a gross presentation of certain costs that were previously netted against net revenues. Prior periods have not been restated pursuant to this guidance. Refer to note 21 to the financial statements for further information on the full impact of adoption of this new accounting guidance.

2018 Compared with 2017

Compensation and benefits expenses of $17,632 million in 2018 increased 3% from $17,166 million in 2017. The 2018 results reflected increases in discretionary incentive compensation mainly driven by higher revenues and a reduction in the portion of discretionary incentive compensation subject to deferral (compensation deferral modification), as well as salaries across all business segments, the formulaic payout to Wealth Management representatives, and amortization of deferred cash and equity awards. These increases were partially offset by a decrease in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were $11,238 million in 2018 compared with $10,376 million in 2017, representing an 8% increase. This increase was primarily a result of higher volume-related expenses, the gross presentation of certain expenses due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 21 to the financial statements for further information) and increased investment in technology, partially offset by lower litigation expenses.

2017 Compared with 2016

Compensation and benefits expenses of $17,166 million in 2017 increased 8% from $15,878 million in 2016. The 2017 results reflected increases in the formulaic payout to Wealth Management representatives linked to higher revenues, the fair value of investments to which certain deferred compensation plans are referenced, discretionary incentive compensation mainly driven by higher revenues and deferred compensation associated with carried interest in the Investment Management business segment.

Non-compensation expenses were $10,376 million in 2017 compared with $9,905 million in 2016, representing a 5% increase. This increase was primarily a result of higher volume-related expenses and litigation costs.

Management s Discussion and Analysis

Business Segment Results

Net Revenues by Segment[1, 2, 3]

($ in millions)

Net Income Applicable to Morgan Stanley by Segment[1, 4]

($ in millions)

1. The percentages on the bars in the charts represent the contribution of each business segment to the total. Amounts do not necessarily total to 100% due to intersegment eliminations, where applicable.
2. The total amount of Net Revenues by Segment includes intersegment eliminations of $(463) million in 2018, $(290) million in 2017 and $(290) million in 2016.
3. Effective January 1, 2018, the Firm adopted new accounting guidance related to *Revenues from Contracts with Customers*, which had the effect of increasing the revenues reported in the Institutional Securities and Investment Management business segments. For further information, see Business Segments Institutional Securities and Business Segments Investment Management.
4. The total amount of Net Income Applicable to Morgan Stanley by Segment includes intersegment eliminations of $(6) million in 2018, $4 million in 2017 and $1 million in 2016.

2018 Compared with 2017

Institutional Securities net revenues of $20,582 million in 2018 increased 9% from 2017, primarily reflecting higher revenues from both sales and trading and Investment banking.

Wealth Management net revenues of $17,242 million in 2018 increased 2% from 2017, primarily reflecting growth in Asset management revenues, partially offset by reduced Trading revenues.

Investment Management net revenues of $2,746 million in 2018 increased 6% from 2017, primarily reflecting higher Asset management revenues, partially offset by lower investment gains.

2017 Compared with 2016

Institutional Securities net revenues of $18,813 million in 2017 increased 8% from 2016, primarily reflecting higher revenues from Investment banking.

Wealth Management net revenues of $16,836 million in 2017 increased 10% from 2016, primarily reflecting growth in Asset management revenues and Net interest income.

Investment Management net revenues of $2,586 million in 2017 increased 22% from 2016, primarily reflecting higher revenues from Investments and Asset management.

Net Revenues by Region[1, 2]

($ in millions)

1. For a discussion of how the geographic breakdown for net revenues is determined, see Note 21 to the financial statements.
2. The percentages on the bars in the charts represent the contribution of each region to the total.

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Management s Discussion and Analysis

Selected Financial Information and Other Statistical Data

$ in millions	**2018**	2017	2016
Expense efficiency ratio[1]	**72.0%**	72.6%	74.5%
ROE[2]	**11.8%**	8.0%	8.0%
Adjusted ROE[2, 3]	**11.5%**	9.4%	7.9%
ROTCE[2]	**13.5%**	9.2%	9.3%
Adjusted ROTCE[2, 3]	**13.2%**	10.8%	9.1%
Worldwide employees	**60,348**	57,633	55,311

	At December 31, 2018	At December 31, 2017
Capital ratios[4]		
Common Equity Tier 1 capital	**16.9%**	16.5%
Tier 1 capital	**19.2%**	18.9%
Total capital	**21.8%**	21.7%
Tier 1 leverage	**8.4%**	8.3%
SLR[5]	**6.5%**	6.5%

1. The expense efficiency ratio represents total non-interest expense as a percentage of net revenues.
2. Represents a non-GAAP measure. See Selected Non-GAAP Financial Information herein.
3. Adjusted amounts exclude intermittent net discrete tax provisions (benefits). Beginning in 2017, income tax consequences associated with employee share-based awards are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each year. For further information on the net discrete tax provisions (benefits), see Supplemental Financial Information and Disclosures Income Tax Matters herein.
4. Beginning in 2018, our risk-based capital ratios are based on the Standardized Approach fully phased-in rules. At December 31, 2017, our risk-based capital ratios were based on the Standardized Approach transitional rules. For a discussion of our regulatory capital ratios, see Liquidity and Capital Resources Regulatory Requirements herein.
5. The SLR became effective as a capital standard on January 1, 2018; the SLR for 2017 was a non-GAAP pro-forma estimate. For a discussion of the SLR, see Liquidity and Capital Resources Regulatory Requirements herein.

Selected Non-GAAP Financial Information

We prepare our financial statements using U.S. GAAP. From time to time, we may disclose certain non-GAAP financial measures in this document or in the course of our earnings releases, earnings and other conference calls, financial presentations, Definitive Proxy Statement and otherwise. A non-GAAP financial measure excludes, or includes, amounts from the most directly comparable measure calculated and presented in accordance with U.S. GAAP. We consider the non-GAAP financial measures we disclose to be useful to us, investors and analysts by providing further transparency about, or an alternate means of assessing, our financial condition, operating results, prospective regulatory capital requirements or capital adequacy.

These measures are not in accordance with, or a substitute for, U.S. GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever we refer to a non-GAAP financial measure, we will also generally define it or present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the U.S. GAAP financial measure and the non-GAAP financial measure.

The principal non-GAAP financial measures presented in this document are set forth below.

Reconciliations from U.S. GAAP to Non-GAAP Consolidated Financial Measures

$ in millions, except per share data	**2018**	2017	2016
Net income applicable to Morgan Stanley	**$ 8,748**	$ 6,111	$ 5,979
Impact of adjustments	**(203)**	968	(68)
Adjusted net income applicable to Morgan Stanley non-GAAP	**$ 8,545**	$ 7,079	$ 5,911
Earnings per diluted common share	**$ 4.73**	$ 3.07	$ 2.92
Impact of adjustments	**(0.12)**	0.53	(0.04)
Adjusted earnings per diluted common share non-GAAP	**$ 4.61**	$ 3.60	$ 2.88
Effective income tax rate	**20.9%**	40.1%	30.8%
Impact of adjustments	**1.8%**	(9.3)%	0.8%
Adjusted effective income tax rate non-GAAP	**22.7%**	30.8%	31.6%

$ in millions	**At December 31, 2018**	At December 31, 2017
Tangible equity		
U.S. GAAP		
Morgan Stanley shareholders equity	**$ 80,246**	$ 77,391
Less: Goodwill and net intangible assets	**(8,847)**	(9,042)
Tangible Morgan Stanley shareholders equity non-GAAP	**$ 71,399**	$ 68,349
U.S. GAAP		
Common equity	**$ 71,726**	$ 68,871
Less: Goodwill and net intangible assets	**(8,847)**	(9,042)
Tangible common equity non-GAAP	**$ 62,879**	$ 59,829

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Management s Discussion and Analysis

	Average Monthly Balance		
	Twelve Months Ended December 31,		
$ in millions	**2018**	2017	2016
Tangible equity			
U.S. GAAP			
Morgan Stanley shareholders equity	**$ 78,497**	$ 78,230	$ 76,390
Junior subordinated debentures issued to capital trusts			1,753
Less: Goodwill and net intangible assets	**(8,985)**	(9,158)	(9,410)
Tangible Morgan Stanley shareholders equity non-GAAP	**$ 69,512**	$ 69,072	$ 68,733
U.S. GAAP			
Common equity	**$ 69,977**	$ 69,787	$ 68,870
Less: Goodwill and net intangible assets	**(8,985)**	(9,158)	(9,410)
Tangible common equity non-GAAP	**$ 60,992**	$ 60,629	$ 59,460

Consolidated Non-GAAP Financial Measures

$ in billions	**2018**	2017	2016
Average common equity			
Unadjusted	**$ 70.0**	$ 69.8	$ 68.9
Adjusted[1]	**69.9**	69.9	68.9
ROE[2]			
Unadjusted	**11.8%**	8.0%	8.0%
Adjusted[1, 3]	**11.5%**	9.4%	7.9%
Average tangible common equity			
Unadjusted	**$ 61.0**	$ 60.6	$ 59.5
Adjusted[1]	**60.9**	60.7	59.5
ROTCE[2]			
Unadjusted	**13.5%**	9.2%	9.3%
Adjusted[1, 3]	**13.2%**	10.8%	9.1%

Non-GAAP Financial Measures by Business Segment

$ in billions	**2018**	2017	2016
Pre-tax margin[4]			
Institutional Securities	**30%**	30%	29%
Wealth Management	**26%**	26%	22%
Investment Management	**17%**	18%	14%
Consolidated	**28%**	27%	26%
Average common equity[5]			
Institutional Securities	**$ 40.8**	$ 40.2	$ 43.2

Wealth Management	**16.8**	17.2	15.3
Investment Management	**2.6**	2.4	2.8
Parent	**9.8**	10.0	7.6
Consolidated average common equity	**$ 70.0**	$ 69.8	$ 68.9
Average tangible common equity[5]			
Institutional Securities	**$ 40.1**	$ 39.6	$ 42.6
Wealth Management	**9.2**	9.3	7.1
Investment Management	**1.7**	1.6	2.0
Parent	**10.0**	10.1	7.8
Consolidated average tangible common equity	**$ 61.0**	$ 60.6	$ 59.5
ROE[2, 6]			
Institutional Securities	**11.0%**	7.8%	7.6%
Wealth Management	**20.0%**	12.9%	13.3%
Investment Management	**14.2%**	10.1%	7.7%
Consolidated	**11.8%**	8.0%	8.0%
ROTCE[2, 6]			
Institutional Securities	**11.2%**	7.9%	7.7%
Wealth Management	**36.6%**	23.8%	28.5%
Investment Management	**22.2%**	14.8%	10.7%
Consolidated	**13.5%**	9.2%	9.3%

1. Adjusted amounts exclude intermittent net discrete tax provisions (benefits). Beginning in 2017, income tax consequences associated with employee share-based awards are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each year. For further information on the net discrete tax provisions (benefits), see Supplemental Financial Information and Disclosures Income Tax Matters herein.
2. ROE and ROTCE equal net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, on a consolidated basis as indicated. When excluding intermittent net discrete tax provisions (benefits), both the numerator and average denominator are adjusted.
3. The calculations used in determining our ROE and ROTCE Targets referred to in the following section are the Adjusted ROE and Adjusted ROTCE amounts shown in this table.
4. Pre-tax margin represents income from continuing operations before income taxes as a percentage of net revenues.
5. Average common equity and average tangible common equity for each business segment are determined using our Required Capital framework (see Liquidity and Capital Resources Regulatory Requirements Attribution of Average Common Equity According to the Required Capital Framework herein).
6. The calculation of the ROE and ROTCE by segment uses the net income applicable to Morgan Stanley by segment less preferred dividends allocated to each segment as a percentage of average common equity and average tangible common equity, respectively, allocated to each segment.

Management s Discussion and Analysis

Return on Equity and Tangible Common Equity Targets

We have established an ROE Target of 10% to 13% and an ROTCE Target of 11.5% to 14.5%. Excluding the impact of intermittent net discrete tax items, we generated an 11.5% ROE and a 13.2% ROTCE for 2018.

Our ROE and ROTCE Targets are forward-looking statements that may be materially affected by many factors, including, among other things: macroeconomic and market conditions; legislative and regulatory developments; industry trading and investment banking volumes; equity market levels; interest rate environment; outsized legal expenses or penalties and the ability to maintain a reduced level of expenses; and capital levels. See Forward-Looking Statements and Risk Factors for additional information.

For non-GAAP measures (ROE and ROTCE), see Selected Non-GAAP Financial Information herein. For information on the impact of intermittent net discrete tax items, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

Business Segments

Substantially all of our operating revenues and operating expenses are directly attributable to our business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, we include an Intersegment Eliminations category to reconcile the business segment results to our consolidated results. See Note 21 to the financial statements for further information.

Net Revenues

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

Trading. Trading revenues include revenues from customers purchases and sales of financial instruments in which we act as a market maker, as well as gains and losses on our related positions and other positions carried at fair value. Trading revenues include the realized gains and losses from sales of cash instruments and derivative settlements, unrealized gains and losses from ongoing fair value changes of our positions related to market-making activities, and gains and losses related to investments associated with certain employee deferred compensation plans and other positions carried at fair value. In many markets, the realized and unrealized gains and losses

from the purchase and sale transactions will include any spreads between bids and offers. Certain fees received on loans carried at fair value and dividends from equity securities are also recorded in Trading revenues since they relate to positions carried at fair value.

As a market maker, we stand ready to buy, sell or otherwise transact with customers under a variety of market conditions and to provide firm or indicative prices in response to customer requests. Our liquidity obligations can be explicit in some cases, and in others, customers expect us to be willing to transact with them. In order to most effectively fulfill our market-making function, we engage in activities across all of our trading businesses that include, but are not limited to:

(i) taking positions in anticipation of, and in response to, customer demand to buy or sell and depending on the liquidity of the relevant market and the size of the position to hold those positions for a period of time;

(ii) building, maintaining and rebalancing inventory through trades with other market participants;

(iii) managing and assuming basis risk (risk associated with imperfect hedging) between customized customer risks and the standardized products available in the market to hedge those risks;

(iv) trading in the market to remain current on pricing and trends; and

(v) engaging in other activities to provide efficiency and liquidity for markets.

Interest income and expense are also impacted by market-making activities, as debt securities held by us earn interest and securities are loaned, borrowed, sold with agreements to repurchase and purchased with agreements to resell.

We invest in investments or other financial instruments to economically hedge our obligations under certain deferred compensation plans. Changes in the value of such investments are recorded in either Trading revenues or Investments revenues. Expenses associated with the related deferred compensation plans are recorded in Compensation and benefits. See Compensation Expense herein for more details.

Investments. Our investments are generally held for long-term appreciation, for hedging purposes, or as part of offering related products or services.

Typically, there are no fee revenues from these investments. The revenues recorded are the result of realized gains and losses from sales and unrealized gains and losses from ongoing fair value changes of our positions, as well as from investments associated with certain employee deferred compensation and co-investment plans. Estimates of the fair value of the investments may involve significant judgment

Management s Discussion and Analysis

and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions.

Certain investments are subject to sales restrictions or are required to be held in order to carry out related activities.

Commissions and Fees. Commission and fee revenues primarily arise from agency transactions in listed and OTC equity securities, services related to sales and trading activities, and sales of mutual funds, futures, insurance products and options. Commissions received for purchasing and selling listed equity securities and options are recorded in Commissions and fees. Other cash and derivative instruments typically do not have fees associated with them, and fees for any related services are recorded in Commissions and fees.

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

Net Interest. Interest income and Interest expense are functions of the level and mix of total assets and liabilities, including Trading assets and Trading liabilities, Investment securities (which include AFS and HTM securities), Securities borrowed or purchased under agreements to resell, Securities loaned or sold under agreements to repurchase, Loans, Deposits and Borrowings. In addition, Net interest is a function of trading strategies, customer activity in the prime brokerage business, and the prevailing level, term structure and volatility of interest rates.

Other. Other revenues include revenues from equity method investments, realized gains and losses on AFS securities, gains and losses on loan commitments and loans held for sale, provision for loan losses, and other miscellaneous revenues.

Net Revenues by Segment

Institutional Securities

Net revenues are composed of Investment banking revenues, sales and trading net revenues, Investments and Other revenues.

For information about the composition of Investment banking revenues, see Net Revenues herein.

Sales and trading net revenues are composed of Trading revenues, Commissions and fees, Asset management revenues and Net interest. In assessing the profitability of our sales and trading activities, we view these net revenues in the aggregate. Decisions relating to trading are based on an overall review of

aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions and fees, dividends, the interest income or expense associated with financing or hedging our positions and other related expenses.

Following is a description of the sales and trading activities within our equities and fixed income businesses, as well as how their results impact the income statement line items.

Equities Financing. We provide financing and prime brokerage services to our clients active in the equity markets through a variety of products, including margin lending, securities lending and swaps. Results from this business are largely driven by the difference between financing income earned and financing costs incurred, which are reflected in Net interest for securities and equity lending products and in Trading revenues for derivative products.

Equities Execution services. A significant portion of the results for this business is generated by commissions and fees from executing and clearing client transactions on major stock and derivative exchanges, as well as from OTC transactions. We make markets for our clients in equity-related securities and derivative products, including providing liquidity and hedging products. Market making also generates gains and losses on inventory positions, which are reflected in Trading revenues.

Fixed income Within fixed income, we make markets in order to facilitate client activity as part of the following products and services:

Global macro products. We make markets for our clients in interest rate, foreign exchange and emerging market products, including exchange-traded and OTC securities and derivative instruments. The results of this market-making activity are primarily driven by gains and losses from buying and selling positions to stand ready for and satisfy client demand and are recorded in Trading revenues.

Credit products. We make markets in credit-sensitive products, such as corporate bonds and mortgage securities and other securitized products, and related derivative instruments. The values of positions in this business are sensitive to changes in credit spreads and interest rates, which result in gains and losses reflected in Trading revenues. We undertake lending activities, which include commercial mortgage lending, asset-backed lending and financing extended to customers. Due to the amount and type of the interest-bearing securities and loans making up this business, a significant portion of the results is also reflected in Net interest revenues.

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Management s Discussion and Analysis

Commodities products and Other. We make markets in various commodity products related primarily to electricity, natural gas, oil and precious metals, with the results primarily reflected in Trading revenues. Other activities primarily include results from the centralized management of our fixed income derivative counterparty exposures, which are primarily recorded in Trading revenues.

Other sales and trading revenues include impacts from certain central treasury functions, such as liquidity costs and gains (losses) on economic hedges related to certain borrowings, as well as certain activities associated with corporate lending.

For information about revenues from Investments, see Net Revenues herein.

Other revenues include revenues from equity method investments, gains and losses on held for sale loans and lending commitments, fees earned in association with lending activities, provision for loan losses and other miscellaneous revenues.

Wealth Management

Net revenues are composed of Transactional, Asset management, Net interest and Other revenues.

Transactional revenues include Investment banking, Trading, and Commissions and fees. Investment banking revenues include revenues from the distribution of equity and fixed income securities, including initial public offerings, secondary offerings, closed-end funds and unit trusts. Trading revenues primarily include revenues from customers purchases and sales of fixed income financial instruments, in which we act as principal, and gains and losses associated with certain employee deferred compensation plans. Revenues from Commissions and fees primarily arise from agency transactions in listed and OTC equity securities and sales of mutual funds, futures, insurance products and options.

Asset management revenues primarily consist of revenues from individual and institutional investors electing a fee-based pricing arrangement. Wealth Management also receives mutual fund distribution fees, which are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of AUM.

Net interest income includes interest on lending activities, interest on AFS and HTM securities, interest related to Deposits and other net interest. Interest income and Interest expense are functions of the level and mix of total assets and liabilities. Net interest is driven by securities-based lending, mortgage lending, margin loans, brokerage sweep deposits, time deposits and other funding sources.

Other revenues include revenues from realized gains and losses on AFS securities, provision for loan losses, referral fees and other miscellaneous revenues.

Investment Management

Net revenues are composed of Investments and Asset management revenues.

Investments revenues are primarily derived from investments made as part of our product offerings. In certain cases these investments are subject to sales restrictions. In addition to the gains and losses discussed previously, Investments revenues for Investment Management also contain performance fees from fund management activities in the form of carried interest, a portion of which is subject to reversal. Additionally, there are certain sponsored Investment Management funds consolidated by us where revenues are primarily related to holders of noncontrolling interests.

Asset management revenues include revenues from investment management services we provide to investment vehicles pursuant to various contractual arrangements. We receive fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity for other vehicles. Performance-based fees, not in the form of carried interest, are earned on certain products as a percentage of appreciation earned by those products and, in certain cases, are based upon the achievement of performance criteria. These fees are generally recognized annually.

Compensation Expense

Compensation and benefits expense includes accruals for base salaries and fixed allowances, formulaic programs, discretionary incentive compensation, amortization of deferred cash and equity awards, changes in the fair value of investments to which certain deferred compensation plans are referenced, carried interest, severance costs, and other items such as health and welfare benefits.

The factors that drive compensation for our employees vary from quarter to quarter, from segment to segment and within a segment. For certain revenue-producing employees in the Wealth Management and Investment Management business segments, compensation is largely paid on the basis of formulaic payouts that link employee compensation to revenues. Compensation for most other employees, including revenue-producing employees in the Institutional Securities business segment, may also include incentive compensation that is determined following the assessment of the Firm s, business unit s and individual s performance. Compensation for our remaining employees is largely fixed in nature (*i.e.*, base salary and benefits).

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Compensation expense for deferred cash-based compensation plans is calculated based on the notional value of the award granted, adjusted for upward and downward changes in fair value of the referenced investment, and is recognized ratably over the prescribed vesting period for the award. However, there may be a timing difference between the immediate revenue recognition of gains and losses on our investments and the deferred recognition of the related compensation expense over the vesting period.

Income Taxes

The income tax provision for our business segments is generally determined based on the revenues, expenses and activities directly attributable to each business segment. Certain items have been allocated to each business segment, generally in proportion to its respective net revenues or other relevant measures.

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Institutional Securities

Income Statement Information

$ in millions	**2018**	2017	2016	% Change **2018**	% Change 2017
Revenues					
Investment banking	**$ 6,088**	$ 5,537	$ 4,476	**10%**	24%
Trading	**11,191**	10,295	9,387	**9%**	10%
Investments	**182**	368	147	**(51)%**	150%
Commissions and fees	**2,671**	2,433	2,456	**10%**	(1)%
Asset management	**421**	359	293	**17%**	23%
Other	**535**	630	535	**(15)%**	18%
Total non-interest revenues	**21,088**	19,622	17,294	**7%**	13%
Interest income	**9,271**	5,377	4,005	**72%**	34%
Interest expense	**9,777**	6,186	3,840	**58%**	61%
Net interest	**(506)**	(809)	165	**37%**	N/M
Net revenues	**20,582**	18,813	17,459	**9%**	8%
Compensation and benefits	**6,958**	6,625	6,275	**5%**	6%
Non-compensation expenses	**7,364**	6,544	6,061	**13%**	8%
Total non-interest expenses	**14,322**	13,169	12,336	**9%**	7%
Income from continuing operations before income taxes	**6,260**	5,644	5,123	**11%**	10%
Provision for income taxes	**1,230**	1,993	1,318	**(38)%**	51%
Income from continuing operations	**5,030**	3,651	3,805	**38%**	(4)%
Income (loss) from discontinued operations, net of income taxes	**(6)**	(19)	(1)	**68%**	N/M
Net income	**5,024**	3,632	3,804	**38%**	(5)%
Net income applicable to noncontrolling interests	**118**	96	155	**23%**	(38)%
Net income applicable to Morgan Stanley	**$ 4,906**	$ 3,536	$ 3,649	**39%**	(3)%

Investment Banking

Investment Banking Revenues

$ in millions	**2018**	2017	2016	% Change **2018**	% Change 2017
Advisory	**$ 2,436**	$ 2,077	$ 2,220	**17%**	(6)%
Underwriting:					
Equity	**1,726**	1,484	887	**16%**	67%
Fixed income	**1,926**	1,976	1,369	**(3)%**	44%
Total underwriting	**3,652**	3,460	2,256	**6%**	53%

Total Investment banking	**$ 6,088**	$ 5,537	$ 4,476	**10%**	24%

Investment Banking Volumes

$ in billions	**2018**	2017	2016
Completed mergers and acquisitions[1]	**$ 1,098**	$ 749	$ 1,023
Equity and equity-related offerings[2, 3]	**64**	65	45
Fixed income offerings[2, 4]	**223**	268	236

Source: Thomson Reuters, data as of January 2, 2019. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.

1. Includes transactions of $100 million or more. Based on full credit to each of the advisors in a transaction.
2. Based on full credit for single book managers and equal credit for joint book managers.
3. Includes Rule 144A issuances and registered public offerings of common stock and convertible securities and rights offerings.
4. Includes Rule 144A and publicly registered issuances, non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Excludes leveraged loans and self-led issuances.

2018 Compared with 2017

Investment banking revenues of $6,088 million in 2018 increased 10% from 2017. The adoption of the accounting update *Revenue from Contracts with Customers* had the effect of increasing the revenues reported in investment banking by approximately $283 million in 2018 compared with 2017 (see Notes 2 and 21 to the financial statements for further information). The drivers of the increase in our Investment banking revenues, other than the effect of the above accounting update, were:

Advisory revenues increased primarily as a result of higher volumes of completed M&A activity (see Investment Banking Volumes table), partially offset by lower fee realizations.

Equity underwriting revenues increased as a result of higher fee realizations. Revenues increased in IPOs and convertible offerings, partially offset by lower revenues from secondary block share trades.

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Fixed income underwriting revenues decreased primarily as a result of lower volumes, partially offset by the effect of higher fee realizations. Revenues decreased in bond underwriting fees, partially offset by higher loan fees.

2017 Compared with 2016

Investment banking revenues of $5,537 million in 2017 increased 24% from 2016 due to higher underwriting revenues, partially offset by lower advisory revenues.

Advisory revenues decreased reflecting the lower volumes of completed M&A (see Investment Banking Volumes table), partially offset by the positive impact of higher fee realizations.

Equity underwriting revenues increased as a result of higher global market volumes in both follow-on and initial public offerings (see Investment Banking Volumes table) combined with a higher share of fees.

Fixed income underwriting revenues increased due to higher bond fees and non-investment grade loan fees.

Sales and Trading Net Revenues

By Income Statement Line Item

				% Change	
$ in millions	**2018**	2017	2016	**2018**	2017
Trading	**$ 11,191**	$ 10,295	$ 9,387	**9%**	10%
Commissions and fees	**2,671**	2,433	2,456	**10%**	(1)%
Asset management	**421**	359	293	**17%**	23%
Net interest	**(506)**	(809)	165	**37%**	N/M
Total	**$ 13,777**	$ 12,278	$ 12,301	**12%**	N/M

By Business

				% Change	
$ in millions	**2018**	2017	2016	**2018**	2017
Equity	**$ 8,976**	$ 7,982	$ 8,037	**12%**	(1)%
Fixed income	**5,005**	4,928	5,117	**2%**	(4)%
Other	**(204)**	(632)	(853)	**68%**	26%
Total	**$ 13,777**	$ 12,278	$ 12,301	**12%**	N/M

Sales and Trading Revenues Equity and Fixed Income

2018

$ in millions	Trading	Fees[1]	Net Interest[2]	Total
Financing	**$ 4,841**	**$ 394**	**$ (661)**	**$ 4,574**
Execution services	**2,362**	**2,376**	**(336)**	**4,402**
Total Equity	**$ 7,203**	**$ 2,770**	**$ (997)**	**$ 8,976**
Total Fixed income	**$ 4,793**	**$ 322**	**$ (110)**	**$ 5,005**

2017

$ in millions	Trading	Fees[1]	Net Interest[2]	Total
Financing	$ 4,140	$ 363	$ (762)	$ 3,741
Execution services	2,294	2,191	(244)	4,241
Total Equity	$ 6,434	$ 2,554	$ (1,006)	$ 7,982
Total Fixed income	$ 4,453	$ 238	$ 237	$ 4,928

2016

$ in millions	Trading	Fees[1]	Net Interest[2]	Total
Financing	$ 3,668	$ 347	$ (283)	$ 3,732
Execution services	2,231	2,241	(167)	4,305
Total Equity	$ 5,899	$ 2,588	$ (450)	$ 8,037
Total Fixed income	$ 4,115	$ 162	$ 840	$ 5,117

1. Includes Commissions and fees and Asset management revenues.
2. Includes funding costs, which are allocated to the businesses based on funding usage.

As discussed in Net Revenues by Segment herein, we manage each of the sales and trading businesses based on its aggregate net revenues, which are composed of the income statement line items quantified in the previous table. Trading revenues are affected by a variety of market dynamics, including volumes, bid-offer spreads and inventory prices, as well as impacts from hedging activity, which are interrelated. We provide qualitative commentary in the discussion of results that follow on the key drivers of period-over-period variances, as the quantitative impact of the various market dynamics typically cannot be disaggregated.

For additional information on total Trading revenues, see the table Trading Revenues by Product Type in Note 21 to the financial statements.

2018 Compared with 2017

Equity

Equity sales and trading net revenues of $8,976 million in 2018 increased 12% from 2017, reflecting higher results in both our financing and execution services businesses.

Financing increased from 2017, primarily due to higher average client balances and changes in client balance mix, which resulted in increased Trading and Net interest revenues.

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Execution services increased from 2017, primarily reflecting higher Commissions and fees due to higher client activity in cash equities products. Trading revenues increased due to effective inventory management in derivatives products. Net interest revenues declined due to increased funding costs.

Fixed Income

Fixed income net revenues of $5,005 million in 2018 were 2% higher than in 2017, primarily driven by higher results in commodities products and other, partially offset by lower results in credit products.

Global macro products revenues remained relatively unchanged as revenues from higher client activity in foreign exchange products were offset by unfavorable inventory management results in both rates and foreign exchange products. These results were driven by significant movements in interest rates in the fourth quarter of 2018 with a breakdown of historical correlations, which increased basis risk in the portfolio. Net interest revenues declined due to increased funding costs.

Credit products Trading revenues decreased in both corporate credit and securitized products, driven by significant credit spread widening in the fourth quarter of 2018, partially offset by growth in lending products.

Commodities products and Other Trading revenues increased primarily due to increased Commodities client flow and structured transactions, as well as positive results from a reduction in derivative counterparty credit risk.

Other

Other sales and trading net losses of $204 million in 2018 decreased from 2017, primarily due to improved results from hedge accounting applied to our long-term borrowings, lower net funding costs reflecting changes in the balance sheet and lower losses associated with corporate loan hedging activity, partially offset by a decrease in the fair value of investments to which certain deferred compensation plans are referenced.

2017 Compared with 2016

Equity

Equity sales and trading net revenues of $7,982 million in 2017 decreased 1% from 2016, reflecting lower results in execution services.

Financing remained relatively unchanged from 2016. The results reflected higher client activity in equity swaps reflected in Trading revenues, offset by a decline in Net
interest revenues from higher net interest costs, reflecting the business increased portion of GLR requirements and a shift in the mix of financing transactions.

Execution services decreased from 2016, primarily reflecting lower results in derivative products mainly driven by lower corporate activity and volatility, partially offset by higher gains on cash equity products recorded in Trading revenues.

Fixed Income

Fixed income net revenues of $4,928 million in 2017 were 4% lower than in 2016, driven by lower results in global macro products, partially offset by higher results in credit products, and commodities products and other.

Global macro products decreased primarily due to the lack of a constructive market environment, inventory positioning, and lower client activity reflected in both Trading and Net interest.

Credit products increased primarily due to the absence of losses driven by a widening spread environment in 2016 and increased securitization activity reflected in Trading revenues, partially offset by reduced Net interest revenues. Net interest revenues decreased as a result of a lower level of interest realized in securitized products and lower net interest spreads, partially offset by increased lending activity.

Commodities products and Other increased primarily due to higher revenues in other lending and OTC client clearing.

Other

Other sales and trading net losses of $632 million in 2017 decreased from 2016, primarily reflecting lower losses associated with corporate loan hedging activity and increases in the fair value of investments to which certain deferred compensation plans are referenced, partially offset by higher funding costs.

Investments, Other Revenues, Non-interest Expenses, and Income Tax Items

2018 Compared with 2017

Investments

Net investment gains of $182 million in 2018 decreased from 2017 as a result of lower gains on business-related investments, losses due to the market deterioration of a publicly traded investment subject to sale restrictions and lower results from real estate limited partnership investments.

Management s Discussion and Analysis

Other Revenues

Other revenues of $535 million in 2018 decreased from 2017, primarily reflecting mark-to-market losses on held-for-sale corporate loans compared with gains in 2017, partially offset by higher loan fee revenues, the recovery in 2018 of an energy industry loan charged off in 2017 and improved results from other equity method investments.

Non-interest Expenses

Non-interest expenses of $14,322 million in 2018 increased from 2017, primarily reflecting a 5% increase in Compensation and benefits expenses and a 13% increase in Non-compensation expenses in 2018.

Compensation and benefits expenses increased in 2018, primarily due to increases in discretionary incentive compensation driven by higher revenues and the compensation deferral modification, as well as salaries and amortization of deferred cash and equity awards, partially offset by a decrease in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses increased in 2018, primarily due to higher volume-related expenses and the gross presentation of certain expenses due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 21 to the financial statements for further information), partially offset by lower litigation expenses and the reversal of a portion of previously recorded provisions related to U.K. VAT matters.

2017 Compared with 2016

Investments

Net investment gains of $368 million in 2017 increased from 2016 as a result of higher gains on business-related and real estate limited partnership investments. In addition, in 2017, we recorded gains on investments to which certain deferred compensation plans are referenced compared with losses in 2016.

Other Revenues

Other revenues of $630 million in 2017 increased from 2016, primarily reflecting a decrease in the provision on loans held for investment and higher results from other investments, partially offset by lower mark-to-market gains on loans held for sale.

Non-interest Expenses

Non-interest expenses of $13,169 million in 2017 increased from 2016, primarily reflecting a 6% increase in Compensation and benefits expenses and an 8% increase in Non-compensation expenses in 2017.

Compensation and benefits expenses increased in 2017, primarily due to increases in the fair value of investments to which certain deferred compensation plans are referenced, and discretionary incentive compensation driven mainly by higher revenues.

Non-compensation expenses increased in 2017, primarily due to higher volume-related expenses and litigation costs related to legacy RMBS matters.

Income Tax Items

The effective tax rate in 2018 is lower compared with 2017, primarily as a result of the enactment of the Tax Act. For a discussion of the Tax Act and other discrete items, see Supplemental Financial Information and Disclosures Income Tax Matters herein and Note 20 to the financial statements. In 2018, we recognized in Provision for income taxes an intermittent net discrete tax benefit of $182 million, primarily associated with the remeasurement of reserves and related interest due to the resolution of multi-jurisdiction tax examinations.

In 2017, we recognized in Provision for income taxes an intermittent net discrete tax provision of $471 million. This net discrete tax provision included an approximate $705 million impact from the Tax Act, partially offset by net discrete tax benefits primarily associated with the remeasurement of reserves and related interest due to new information regarding the status of multi-year IRS tax examinations.

In 2016, we recognized in Provision for income taxes intermittent net discrete tax benefits of $83 million. These net discrete tax benefits were primarily related to the remeasurement of reserves and related interest due to new information regarding the status of multi-year IRS tax examinations, partially offset by adjustments for other tax matters.

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Wealth Management

Income Statement Information

$ in millions	2018	2017	2016[1]	% Change 2018	% Change 2017
Revenues					
Investment banking	$ 475	$ 533	$ 484	(11)%	10%
Trading	279	848	861	(67)%	(2)%
Investments	1	3		(67)%	N/M
Commissions and fees	1,804	1,737	1,745	4%	%
Asset management	10,158	9,342	8,454	9%	11%
Other	248	268	277	(7)%	(3)%
Total non-interest revenues	12,965	12,731	11,821	2%	8%
Interest income	5,498	4,591	3,888	20%	18%
Interest expense	1,221	486	359	151%	35%
Net interest	4,277	4,105	3,529	4%	16%
Net revenues	17,242	16,836	15,350	2%	10%
Compensation and benefits	9,507	9,360	8,666	2%	8%
Non-compensation expenses	3,214	3,177	3,247	1%	(2)%
Total non-interest expenses	12,721	12,537	11,913	1%	5%
Income from continuing operations before income taxes	4,521	4,299	3,437	5%	25%
Provision for income taxes	1,049	1,974	1,333	(47)%	48%
Net income applicable to Morgan Stanley	$ 3,472	$ 2,325	$ 2,104	49%	11%

1. Effective July 1, 2016, the Institutional Securities and Wealth Management business segments entered into an agreement, whereby Institutional Securities assumed management of Wealth Management s fixed income client-driven trading activities and employees. Institutional Securities now pays fees to Wealth Management based on distribution activity (collectively, the Fixed Income Integration). Results prior to the Fixed Income Integration have not been recast for this new intersegment agreement due to immateriality.

Financial Information and Statistical Data

$ in billions, except employee data	At December 31, 2018	At December 31, 2017
Client assets	$ 2,303	$ 2,373
Fee-based client assets[1]	$ 1,046	$ 1,045
Fee-based client assets as a percentage of total client assets	45%	44%

Client liabilities[2]	**$**	**83**	$	80
Investment securities portfolio	**$**	**68.6**	$	59.2
Loans and lending commitments	**$**	**82.9**	$	77.3
Wealth Management representatives		**15,694**		15,712

	2018	2017	2016
Per representative:			