MORGAN STANLEY
Form 10-K
February 27, 2012

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, 2011

Commission File Number 1-11758

(Exact name of Registrant as specified in its charter)

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

Title of each class	Name of exchange on which registered
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, $0.01 par value	New York Stock Exchange
Depositary Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value	New York Stock Exchange
6 1/4% Capital Securities of Morgan Stanley Capital Trust III (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6 1/4% Capital Securities of Morgan Stanley Capital Trust IV (and Registrant s guaranty with respect thereto)	New York Stock Exchange
5 3/4% Capital Securities of Morgan Stanley Capital Trust V (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6.60% Capital Securities of Morgan Stanley Capital Trust VI (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6.60% Capital Securities of Morgan Stanley Capital Trust VII (and Registrant s guaranty with respect thereto)	New York Stock Exchange
6.45% Capital Securities of Morgan Stanley Capital Trust VIII (and Registrant s guaranty with respect thereto)	New York Stock Exchange
Capital Protected Notes due September 30, 2012	NYSE Arca, Inc.
MPS℠ due March 30, 2012	NYSE Arca, Inc.
Market Vectors ETNs due March 31, 2020 (2 issuances); Market Vectors ETNs due April 30, 2020 (2 issuances)	NYSE Arca, Inc.
Morgan Stanley Cushing® MLP High Income Index ETNs due March 21, 2031	NYSE Arca, Inc.
Morgan Stanley S&P 500 Crude Oil Linked ETNs due July 1, 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 x NO ¨

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

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

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

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

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

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

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

As of June 30, 2011, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately $44,205,856,161. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 31, 2012, there were 1,978,634,958 shares of Registrant s common stock, $0.01 par value, outstanding.

Documents Incorporated by Reference: Portions of Registrant s definitive proxy statement for its 2012 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, 2011

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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 in Part I, Item 3, Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, that may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only 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 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 economic and political conditions and geopolitical events;
- the effect of market conditions, particularly in the global equity, fixed income, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets;
- the impact of current, pending and future legislation (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act)), regulation (including capital, leverage and liquidity requirements), and legal actions in the U.S. and worldwide;
- the level and volatility of equity, fixed income and commodity prices, interest rates, currency values and other market indices;
- the availability and cost of both credit and capital as well as the credit ratings assigned to our unsecured short-term and long-term debt;
- investor sentiment and confidence in the financial markets;
- the performance of our acquisitions, joint ventures, strategic alliances or other strategic arrangements;
- our reputation;
- inflation, natural disasters and acts of war or terrorism;
- the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations;
- technological changes; and

other risks and uncertainties detailed under Business Competition and Business Supervision and Regulation in Part I, Item 1, Risk Factors in Part I, Item 1A and elsewhere throughout this report.

Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. 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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Part I

Item 1. Business.

Overview.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. The Company is a financial holding company regulated by the Board of Governors of the Federal Reserve System (the Federal Reserve) under the Bank Holding Company Act of 1956, as amended (the BHC Act). The Company conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers. At December 31, 2011, the Company had 61,899 employees worldwide. Unless the context otherwise requires, the terms the Company, we, us and our mean Morgan Stanley and its consolidated subsidiaries.

Financial information concerning the Company, its business segments and geographic regions for each of the 12 months ended December 31, 2011 (2011), December 31, 2010 (2010) and December 31, 2009 (2009) is included in the consolidated financial statements and the notes thereto in Financial Statements and Supplementary Data in Part II, Item 8.

Available Information.

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

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

You can access information about the Company s corporate governance at *www.morganstanley.com/about/company/governance.* The Company s Corporate Governance webpage includes the Company s Amended and Restated Certificate of Incorporation; Amended and Restated Bylaws; charters for its Audit Committee, Compensation, Management Development and Succession Committee, Nominating and Governance Committee, Operations and Technology Committee, and Risk Committee; Corporate Governance Policies; Policy Regarding Communication with the Board of Directors; Policy Regarding Director Candidates Recommended by Shareholders; Policy Regarding Corporate Political Contributions; Policy Regarding Shareholder Rights Plan; Code of Ethics and Business Conduct; Code of Conduct; and Integrity Hotline information.

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

Business Segments.

The Company is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management.

Institutional Securities.

The Company provides financial advisory and capital-raising services to a diverse group of corporate and other institutional clients globally, primarily through wholly owned subsidiaries that include Morgan Stanley & Co. LLC (MS&Co.), Morgan Stanley & Co. International plc and Morgan Stanley Asia Limited, and certain joint venture entities that include Morgan Stanley MUFG Securities Co., Ltd. (MSMS) and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS). The Company, primarily through these entities, also conducts sales and trading activities worldwide, as principal and agent, and provides related financing services on behalf of institutional investors.

Investment Banking and Corporate Lending Activities.

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

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

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

Sales and Trading Activities.

The Company conducts sales, trading, financing and market-making activities on securities and futures exchanges and in over-the-counter (OTC) markets around the world. The Company s Institutional Securities sales and trading activities comprise Equity Trading; Fixed Income and Commodities; Clients and Services; Research; and Investments.

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

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

Fixed Income and Commodities. The Company trades, invests and makes markets in fixed income securities and related products globally, including, among other products, investment and non-investment grade corporate debt, distressed debt, bank loans, U.S. and other sovereign securities, emerging market bonds and loans, convertible bonds, collateralized debt obligations, credit, currency, interest rate and other fixed income-linked notes, securities issued by structured investment vehicles, mortgage-related and other asset-backed securities and real estate-loan products, municipal securities, preferred stock and commercial paper, money-market and other short-term securities. The Company is a primary dealer of U.S. federal government securities and a member of the selling groups that distribute various U.S. agency and other debt securities. The Company is also a primary dealer or market-maker of government securities in numerous European, Asian and emerging market countries.

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

The Company trades, invests and makes markets in major foreign currencies, such as the British pound, Canadian dollar, euro, Japanese yen and Swiss franc, as well as in emerging markets currencies. The Company trades these currencies on a principal basis in the spot, forward, option and futures markets.

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

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

The Company invests and makes markets in the spot, forward, physical derivatives and futures markets in several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, liquefied natural gas and related products and indices. The Company is a market-maker in exchange-traded options and futures and OTC options and swaps on commodities, and offers counterparties hedging programs relating to production, consumption, reserve/inventory management and structured transactions, including energy-contract securitizations and monetization. The Company is an electricity power marketer in the U.S. and owns electricity-generating facilities in the U.S. and Europe.

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

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

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

Investments. The Company from time to time makes investments that represent business facilitation or other investing activities. Such investments are typically strategic investments undertaken by the Company to facilitate core business activities. From time to time, the Company may also make investments and capital commitments to public and private companies, funds and other entities.

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

Operations and Information Technology.

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

Global Wealth Management Group.

The Company s Global Wealth Management Group, which includes the Company s 51% interest in Morgan Stanley Smith Barney Holdings LLC (MSSB), provides comprehensive financial services to clients through a network of more than 17,500 global representatives in approximately 765 locations at year-end. As of December 31, 2011, the Company s Global Wealth Management Group had $1,649 billion in client assets.

Clients.

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

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Products and Services.

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

In addition, Global Wealth Management Group offers its clients access to several cash management services through various banks and other third parties, including deposits, debit cards, electronic bill payments and check writing, as well as lending products through affiliates such as Morgan Stanley Private Bank, National Association (MS Private Bank) and MSBNA, including securities based lending, mortgage loans and home equity lines of credit. Global Wealth Management Group also provides trust and fiduciary services, offers access to cash management and commercial credit solutions to qualified small- and medium-sized businesses in the U.S., and provides individual and corporate retirement solutions, including individual retirement accounts and 401(k) plans and U.S. and global stock plan services to corporate executives and businesses.

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

Operations and Information Technology.

As a result of the MSSB joint venture, the operations and technology supporting the Global Wealth Management Group is provided by a combination of the Company and MSSB s Operations and Information Technology departments and by Citi. Pursuant to contractual agreements, the Company, MSSB and Citi perform various broker-dealer related functions, such as execution and clearing of brokerage transactions, margin lending and custody of client assets. For the Company and MSSB, these activities are undertaken through their own facilities, through memberships in various clearing and settlement organizations, and through agreements with unaffiliated third parties. Citi also provides certain other services and systems to support the Global Wealth Management Group through transition services agreements with MSSB.

Asset Management.

The Company s Asset Management business segment is one of the largest global investment management organizations of any full-service financial services firm and offers clients a diverse array of equity, fixed income and alternative investments and merchant banking strategies. Portfolio managers located in the U.S., Europe and Asia manage investment products ranging from money market funds to equity and fixed income strategies, alternative investment and merchant banking products in developed and emerging markets across geographies and market cap ranges.

The Company offers a range of alternative investment, real estate investing and merchant banking products for institutional investors and high net worth individuals. The Company s alternative investments platform includes funds of hedge funds, funds of private equity funds and portable alpha strategies. The Company s alternative investments platform also includes minority stakes in Lansdowne Partners, Avenue Capital Group and Traxis Partners LP. The Company s real estate and merchant banking businesses include its real estate investing business, private equity funds, corporate mezzanine debt investing group and infrastructure investing group. The

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Company typically acts as general partner of, and investment adviser to, its alternative investment, real estate and merchant banking funds and typically commits to invest a minority of the capital of such funds with subscribing investors contributing the majority.

Institutional Investors.

The Company provides investment management strategies and products to institutional investors worldwide, including corporations, pension plans, endowments, foundations, sovereign wealth funds, insurance companies and banks through a broad range of pooled vehicles and separate accounts. Additionally, the Company provides sub-advisory services to various unaffiliated financial institutions and intermediaries. A Global Sales and Client Service team is engaged in business development and relationship management for consultants to help serve institutional clients.

Intermediary Clients and Individual Investors.

The Company offers open-end and alternative investment funds and separately managed accounts to individual investors through affiliated and unaffiliated broker-dealers, banks, insurance companies, financial planners and other intermediaries. Closed-end funds managed by the Company are available to individual investors through affiliated and unaffiliated broker-dealers. The Company also distributes mutual funds through numerous retirement plan platforms. Internationally, the Company distributes traditional investment products to individuals outside the U.S. through non-proprietary distributors and distributes alternative investment products through affiliated broker-dealers and banks.

Operations and Information Technology.

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

Competition.

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

Institutional Securities and Global Wealth Management Group.

The Company s competitive position for its Institutional Securities and Global Wealth Management Group business segments depends on innovation, execution capability and relative pricing. The Company competes directly in the U.S. and globally with other securities and financial services firms and broker-dealers and with others on a regional or product basis.

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The Company s ability to access capital at competitive rates (which is generally dependent on the Company s credit ratings) and to commit capital efficiently, particularly in its capital-intensive underwriting and sales, trading, financing and market-making activities, also affects its competitive position. Corporate clients may request that the Company provide loans or lending commitments in connection with certain investment banking activities, and such requests are expected to increase in the future.

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

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

Asset Management.

Competition in the asset management industry is affected by several factors, including the Company s reputation, investment objectives, quality of investment professionals, performance of investment strategies or product offerings relative to peers and an appropriate benchmark index, 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. The Company s alternative investment products, such as private equity funds, real estate and hedge funds, compete with similar products offered by both alternative and traditional asset managers.

Supervision and Regulation

As a major financial services firm, the Company is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where it operates. Moreover, in response to the financial crisis, legislators and regulators, both in the U.S. and around the world, are in the process of adopting and implementing a wide range of reforms that will result in major changes to the way the Company is regulated and conducts its business. It will take time for the comprehensive effects of these reforms to emerge and be understood.

Regulatory Outlook.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. While certain portions of the Dodd-Frank Act were effective immediately, other portions will be effective only following extended transition periods. Moreover, implementation of the Dodd-Frank Act will be accomplished through numerous rulemakings by multiple governmental agencies, only a portion of which have been completed. It remains difficult to assess fully the impact that the Dodd-Frank Act will have on the Company and on the financial services industry generally. In addition, various international developments, such as the adoption of risk-based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision (the Basel Committee), known as Basel III, will impact the Company in the coming years.

It is likely that 2012 and subsequent years will see further material changes in the way major financial institutions are regulated in both the U.S. and other markets in which the Company operates, although it remains difficult to predict which further reform initiatives will become law, how such reforms will be implemented or the exact impact they will have on the Company s business, financial condition, results of operations and cash flows for a particular future period.

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Financial Holding Company.

The Company has operated as a bank holding company and financial holding company under the BHC Act since September 2008.

Consolidated Supervision.

As a bank holding company, the Company is subject to comprehensive consolidated supervision, regulation and examination by the Federal Reserve. As a result of the Dodd-Frank Act, the Federal Reserve also gained heightened authority to examine, prescribe regulations and take action with respect to all of the Company s subsidiaries. In particular, as a result of the Dodd-Frank Act, the Company is subject to (among other things) significantly revised and expanded regulation and supervision, to more intensive scrutiny of its businesses and plans for expansion of those businesses, to new activities limitations, to the Volcker Rule, to a systemic risk regime which will impose especially high capital and liquidity requirements, and to comprehensive new derivatives regulation. In addition, the Bureau of Consumer Financial Protection has exclusive rulemaking and primary enforcement and examination authority over the Company and its subsidiaries with respect to federal consumer financial laws, to the extent applicable.

Scope of Permitted Activities. The BHC Act provides a two-year period from September 21, 2008, the date that the Company became a bank holding company, for the Company to conform or dispose of certain nonconforming activities as defined by the BHC Act. Three one-year extensions may be granted by the Federal Reserve upon approval of the Company s application for each extension. The Company has received the second of these extensions with respect to certain activities relating to its real estate and other funds businesses. It has also disposed of certain nonconforming assets and conformed certain activities to the requirements of the BHC Act. Although conformance activities continue with respect to these businesses, it is possible that the Company will be required, in 2012, to seek Federal Reserve approval for the third additional year permitted by the BHC Act. The Federal Reserve may grant an extension if it finds that the extension will not be detrimental to the public interest. Based on the nonconforming real estate and other investments and businesses which are required to be sold, the Company believes there would be no material adverse impact on the Company s financial condition or operations.

In addition, the Company is engaged in discussions with the Federal Reserve regarding its commodities activities, as the BHC Act also grandfathers activities related to the trading, sale or investment in commodities and underlying physical properties, provided that the Company was engaged in any of such activities as of September 30, 1997 in the United States and provided that certain other conditions that are within the Company s reasonable control are satisfied. If the Federal Reserve were to determine that any of the Company s commodities activities did not qualify for the BHC Act grandfather exemption, then the Company would likely be required to divest any such activities that did not otherwise conform to the BHC Act by the end of any extensions of the grace period. At this time the Company does not believe, based on its interpretation of applicable law, that any such required divestment would have a material adverse impact on its financial condition or operations.

Activities Restrictions under the Volcker Rule. A section of the BHC Act added by the Dodd-Frank Act (the Volcker Rule) will, over time, prohibit banking entities, including the Company and its affiliates, from engaging in proprietary trading, as defined by the regulators. The Volcker Rule will also require banking entities to either restructure or unwind certain investments and relationships with hedge funds and private equity funds, as such terms are defined in the Volcker Rule and by the regulators. Comments on proposed regulations to implement the substantive Volcker Rule provisions were due by February 13, 2012. It is unclear whether final rules will be in place by July 21, 2012 when the Volcker Rule is scheduled to become effective.

Banking entities will have a two-year transition period to come into full compliance with the Volcker Rule, subject to the possibility of extensions. While full compliance with the Volcker Rule will likely only be required

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by July 2014, subject to extensions, the Company s business and operations are expected to be impacted earlier, as operating models, investments and legal structures must be reviewed and gradually adjusted to the new legal environment. The Company continues to review its private equity fund, hedge fund and proprietary trading operations. With respect to the proprietary trading prohibition of the Volcker Rule, the Company has previously announced plans to dispose of its in-house proprietary quantitative trading unit, Process-Driven Trading (PDT), by the end of 2012. For the year ended December 31, 2011, PDT did not have a material impact on the Company s financial condition, results of operations and liquidity. The Company has also previously exited other standalone proprietary trading businesses (defined as those businesses dedicated solely to investing the Company s capital), and the Company is continuing to liquidate legacy positions related to those businesses.

There remains considerable uncertainty about the interpretation of the proposed rules, and we are unable to predict what the final version of the rules will be or the impact they may have on our businesses. We are closely monitoring regulatory developments related to the Volcker Rule, and when the regulations are final, we will be in a position to complete a review of our relevant activities and make plans to implement compliance with the Volcker Rule.

Capital and Liquidity Standards. The Federal Reserve establishes capital requirements for the Company and evaluates its compliance with such capital requirements. The Office of the Comptroller of the Currency (the OCC) establishes similar capital requirements and standards for the Company s national bank subsidiaries. Under current capital requirements, for the Company to remain a financial holding company, its bank subsidiaries must qualify as well capitalized by maintaining a total capital ratio (total capital to risk-weighted assets) of at least 10% and a Tier 1 capital ratio of at least 6%. The capital standards applicable to the Company s bank subsidiaries also apply directly to the Company, as a holding company, and require it to remain well capitalized to maintain its status as a financial holding company. The Federal Reserve may require the Company and its peer financial holding companies to maintain risk-based and leverage capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and their particular condition, risk profile and growth plans. In addition, under the Federal Reserve s leverage rules, bank holding companies that have implemented the Federal Reserve s risk-based capital measure for market risk, such as the Company, are subject to a Tier 1 minimum leverage ratio of 3%.

The Company calculates its capital ratios and risk-weighted assets in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. In December 2007, the U.S. banking regulators published final regulations incorporating the Basel II Accord, which requires internationally active banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In June 2011, the U.S. banking regulators published final regulations implementing a provision of the Dodd-Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to capital requirements that are not less than the generally applicable risk-based capital requirements. As a result, the generally applicable capital standards, which are based on Basel I standards, but may themselves change over time, will serve as a permanent floor to minimum capital requirements calculated under the Basel II standard the Company is currently required to implement, as well as future capital standards.

In addition, when implemented, Basel III will impose a new minimum Tier 1 common equity ratio of 4.5%, a minimum Tier 1 equity ratio of 6%, and the minimum total capital ratio will remain at 8.0% (plus a 2.5% capital conservation buffer consisting of common equity in addition to these ratios). The new capital conservation buffer will impose a common equity requirement above the new minimum that can be depleted under stress. Basel III also introduces new liquidity measures designed to monitor banking institutions for their ability to meet short-term cash flow needs and to address longer-term structural liquidity mismatches. The Federal Reserve is expected to propose rules implementing Basel III in the U.S. in 2012. However, many provisions, once adopted, will be subject to extended phase-in periods.

The Federal Reserve has indicated that it intends to implement a provision under Basel III that would require global systemically important banks (G-SIBs), such as the Company, to hold an additional capital buffer. Although the Federal Reserve has not yet issued a proposed rule to implement this G-SIB surcharge, in November 2011 the Financial Stability Board endorsed a Basel Committee proposal providing that the capital surcharge would range from 1% to 2.5% of risk-weighted assets, and that the largest systemically important financial institutions could potentially be subject to a 3.5% capital surcharge.

See also Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Regulatory Requirements in Part II, Item 7 herein.

Capital Planning, Stress Tests and Dividends. U.S. banking regulators have recently imposed new capital planning and stress test requirements on large bank holding companies, including the Company. As of December 2011, bank holding companies with $50 billion or more of consolidated assets, such as the Company, must submit annual capital plans to the Federal Reserve, taking into account the results of separate stress tests designed by the bank holding company and the Federal Reserve. The scenario provided by the Federal Reserve in 2011 includes a sizable shortfall in U.S. economic activity and employment, accompanied by a sizeable decline in global economic activity, sharp market price movements in European sovereign and financial sectors, among other adverse circumstances. The capital plans must include a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any capital distribution (i.e., payments of dividends or stock repurchases), and any similar action that the Federal Reserve determines could impact the bank holding company s consolidated capital. The capital plans must include a discussion of how the bank holding company will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common ratio of 5%, and serve as a source of strength to its subsidiary depository institutions.

Beginning in 2012, bank holding companies subject to the capital planning requirements, including the Company, must submit their capital plans in January each year, and the Federal Reserve must object to them, in whole or in part, or provide written notice of non-objection by March 31 each year. If the Federal Reserve objects to the capital plan, or if certain material events occur after approval of a plan, the bank holding company must submit a revised capital plan within 30 days. In addition, even with an approved capital plan, the bank holding company must seek the approval of the Federal Reserve before taking a capital action if, among other reasons, the bank holding company would not meet its regulatory capital requirements after taking the proposed capital action. In addition to capital planning requirements, the OCC, the Federal Reserve and the FDIC have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including the Company, MSBNA and other depository institution subsidiaries of the Company, 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 influence the Company s ability to pay dividends, or require it to provide capital assistance to MSBNA or MS Private Bank under circumstances under which the Company would not otherwise decide to do so.

See also Capital and Liquidity Standards above.

Systemic Risk Regime. The Dodd-Frank Act established a new regulatory framework applicable to financial institutions deemed to pose systemic risks. Bank holding companies with $50 billion or more in consolidated assets, such as the Company, became automatically subject to the systemic risk regime in July 2010. A new oversight body, the Financial Stability Oversight Council (the Council), can recommend prudential standards, reporting and disclosure requirements to the Federal Reserve for systemically important financial institutions, and must approve any finding by the Federal Reserve that a financial institution poses a grave threat to financial stability and must undertake mitigating actions. The Council is also empowered to designate systemically

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important payment, clearing and settlement activities of financial institutions, subjecting them to prudential supervision and regulation, and, assisted by the new Office of Financial Research within the U.S. Department of the Treasury (U.S. Treasury) (established by the Dodd-Frank Act), can gather data and reports from financial institutions, including the Company.