

MORGAN STANLEY
Form 10-Q
November 03, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

Delaware

1585 Broadway

36-3145972

(212) 761-4000

(State or other jurisdiction of
incorporation or organization) **New York, NY 10036** (Address of principal executive
offices, including zip code) (I.R.S. Employer Identification No.) (Registrant's telephone number,
including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

(Do not check if a 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 the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2017, there were 1,807,899,161 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

Table of Contents

QUARTERLY REPORT ON FORM 10-Q

For the quarter ended September 30, 2017

	Part	Item	Page
Table of Contents			
<u>Financial Information</u>	I		1
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>		2	1
<u>Introduction</u>			1
<u>Executive Summary</u>			2
<u>Business Segments</u>			7
<u>Supplemental Financial Information and Disclosures</u>			18
<u>Accounting Development Updates</u>			18
<u>Critical Accounting Policies</u>			19
<u>Liquidity and Capital Resources</u>			19
<u>Quantitative and Qualitative Disclosures about Market Risk</u>		3	32
<u>Controls and Procedures</u>		4	42
<u>Report of Independent Registered Public Accounting Firm</u>			43
<u>Financial Statements</u>		1	44
<u>Consolidated Financial Statements and Notes</u>			44
<u>Consolidated Income Statements (Unaudited)</u>			44
<u>Consolidated Comprehensive Income Statements (Unaudited)</u>			45
<u>Consolidated Balance Sheets (Unaudited at September 30, 2017)</u>			46
<u>Consolidated Statements of Changes in Total Equity (Unaudited)</u>			47
<u>Consolidated Cash Flow Statements (Unaudited)</u>			48
<u>Notes to Consolidated Financial Statements (Unaudited)</u>			49
<u>1. Introduction and Basis of Presentation</u>			49
<u>2. Significant Accounting Policies</u>			50
<u>3. Fair Values</u>			51
<u>4. Derivative Instruments and Hedging Activities</u>			63
<u>5. Investment Securities</u>			67
<u>6. Collateralized Transactions</u>			70
<u>7. Loans and Allowance for Credit Losses</u>			72
<u>8. Equity Method Investments</u>			75
<u>9. Deposits</u>			75
<u>10. Long-Term Borrowings and Other Secured Financings</u>			75
<u>11. Commitments, Guarantees and Contingencies</u>			76
<u>12. Variable Interest Entities and Securitization Activities</u>			80
<u>13. Regulatory Requirements</u>			83
<u>14. Total Equity</u>			86
<u>15. Earnings per Common Share</u>			88
<u>16. Interest Income and Interest Expense</u>			88
<u>17. Employee Benefit Plans</u>			89
<u>18. Income Taxes</u>			89
<u>19. Segment and Geographic Information</u>			89
<u>20. Subsequent Events</u>			91

<u>Financial Data Supplement (Unaudited)</u>		92
<u>Other Information</u>	II	95
<u>Legal Proceedings</u>	1	95
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	2	96
<u>Exhibits</u>	6	96
<u>Exhibit Index</u>		E-1
<u>Signatures</u>		S-1

Table of Contents

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the SEC). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site, *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 (the 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.

Table of Contents

Financial Information

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

Introduction

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

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 and market-making activities in equity and fixed income products, including prime brokerage services, global macro, credit and commodities products. Lending services include originating and/or purchasing corporate loans, commercial and residential mortgage lending, asset-backed lending, and financing extended to equities and commodities customers and municipalities. Other services include investment and research activities.

Wealth Management provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses/institutions covering brokerage and investment advisory services, financial and wealth planning services, annuity and insurance products, credit 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 serviced 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

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discussion of the risks and uncertainties that may affect our future results, see Forward-Looking Statements immediately preceding Part I, Item 1, Business Competition and Business Supervision and Regulation in Part I, Item 1 Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K) and Liquidity and Capital Resources Regulatory Requirements herein.

Table of Contents

Management's Discussion and Analysis

Executive Summary

Overview of Financial Results

Consolidated Results

Net Revenues

(\$ in millions)

Net Income Applicable to Morgan Stanley

(\$ in millions)

Earnings per Common Share¹

1. For the calculation of basic and diluted earnings per common share, see Note 15 to the financial statements.

We reported net revenues of \$9,197 million in the three months ended September 30, 2017 (current quarter, or 3Q 2017), compared with \$8,909 million in the three months ended September 30, 2016 (prior year quarter, or 3Q 2016). For the current quarter, net income applicable to Morgan Stanley was \$1,781 million, or \$0.93 per diluted common share, compared with \$1,597 million, or \$0.81 per diluted common share, in the prior year quarter.

We reported net revenues of \$28,445 million in the nine months ended September 30, 2017 (current year period, or YTD 2017), compared with \$25,610 million in the nine months ended September 30, 2016 (prior year period, or YTD 2016). For the current year period, net income applicable to Morgan Stanley was \$5,468 million, or \$2.79 per

diluted common share, compared with \$4,313 million, or \$2.11 per diluted common share in the prior year period.
Non-interest Expenses

(\$ in millions)

Compensation and benefits expenses of \$4,169 million in the current quarter and \$12,887 million in the current year period increased 2% and 9%, respectively, from \$4,097 million in the prior year quarter and \$11,795 million in the prior year period. The current quarter results primarily reflected increases in the formulaic payout to Wealth Management representatives linked to higher revenues and deferred compensation associated with carried interest in the Investment Management business segment, partially offset by a decrease in discretionary incentive compensation mainly driven by lower revenues in the Institutional Securities business segment. The current year period results primarily reflected increases in the fair value of investments to which certain deferred compensation plans are referenced, discretionary incentive compensation mainly driven by higher revenues, the formulaic payout to

Table of Contents

Management's Discussion and Analysis

Wealth Management representatives linked to higher revenues, and deferred compensation associated with carried interest.

Non-compensation expenses were \$2,546 million in the current quarter and \$7,626 million in the current year period compared with \$2,431 million in the prior year quarter and \$7,213 million in the prior year period, representing a 5% and a 6% increase, respectively. These increases were primarily as a result of higher volume-driven expenses. In addition, non-compensation expenses increased in the current year period due to a provision related to a United Kingdom (U.K.) indirect tax (i.e. value-added tax or VAT) matter and higher litigation costs. For further discussion of the U.K. VAT matter, see Institutional Securities Investments, Other Revenues, Non-interest Expenses and Other Items Other Items herein.

Expense Efficiency Ratio

The expense efficiency ratio was 73.0% in the current quarter and 72.1% in the current year period. The expense efficiency ratio was 73.3% in the prior year quarter and 74.2% in the prior year period (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Return on Average Common Equity

The annualized return on average common equity (ROE) was 9.6% in the current quarter and 9.8% in the current year period. The annualized ROE was 8.7% in the prior year quarter and 7.7% in the prior year period (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Business Segment Results

Net Revenues by Segment^{1, 2}

(\$ in millions)

Table of Contents

Management's Discussion and Analysis

Net Income Applicable to Morgan Stanley by Segment^{1, 3}

(\$ in millions)

1. The percentages 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 also includes intersegment eliminations of \$(74) million and \$(77) million in the current quarter and prior year quarter, respectively, and \$(223) million and \$(207) million in the current year period and prior year period, respectively.
3. The total amount of Net Income Applicable to Morgan Stanley by Segment also includes intersegment eliminations of \$(4) million in the current quarter and \$(2) million in the current year period.

Institutional Securities net revenues of \$4,376 million in the current quarter and \$14,290 million in the current year period decreased 4% from the prior year quarter and increased 11% from the prior year period. The current quarter results primarily reflected lower revenues from fixed income sales and trading, partially offset by higher underwriting and advisory revenues. The current year period results primarily reflected higher revenues from underwriting and fixed income sales and trading.

Wealth Management net revenues of \$4,220 million in the current quarter and \$12,429 million in the current year period increased 9% both from the prior year quarter and the prior year period. The current quarter and the current year period results reflected growth in asset management fee revenues and Net interest income.

Investment Management net revenues of \$675 million in the current quarter and \$1,949 million in the current year period increased 22% from the prior year quarter and increased 21% from the prior year period. The current quarter and the current year period results primarily reflected higher carried interest and investment gains and growth in asset management fee revenues.

Net Revenues by Region¹

(\$ in millions)

EMEA Europe, Middle East and Africa

1. For a discussion of how the geographic breakdown for net revenues is determined, see Note 21 to the consolidated financial statements in the 2016 Form 10-K.

September 2017 Form 10-Q

4

Table of Contents**Management's Discussion and Analysis****Selected Financial Information and Other Statistical Data**

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Income from continuing operations applicable to Morgan Stanley	\$ 1,775	\$ 1,589	\$ 5,489	\$ 4,312
Income (loss) from discontinued operations applicable to Morgan Stanley	6	8	(21)	1
Net income applicable to Morgan Stanley	1,781	1,597	5,468	4,313
Preferred stock dividends and other	93	79	353	314
Earnings applicable to Morgan Stanley common shareholders	\$ 1,688	\$ 1,518	\$ 5,115	\$ 3,999
Effective income tax rate from continuing operations	28.1%	31.5%	29.7%	32.7%

	At September 30, 2017	At December 31, 2016
Capital ratios		
Common Equity Tier 1 capital ratio ¹	16.9%	16.9%
Tier 1 capital ratio ¹	19.3%	19.0%
Total capital ratio ¹	22.2%	22.0%
Tier 1 leverage ratio	8.4%	8.4%

1. At September 30, 2017, our capital ratios are based on the Standardized Approach transitional rules. At December 31, 2016, our capital ratios were based on the Advanced Approach transitional rules. For a discussion of our regulatory capital ratios, see "Liquidity and Capital Resources - Regulatory Requirements" herein.

<i>in millions, except per share and employee data</i>	At September 30, 2017	At December 31, 2016
Loans ¹	\$ 104,431	\$ 94,248
Total assets	\$ 853,693	\$ 814,949
Global Liquidity Reserve ²	\$ 189,966	\$ 202,297
Deposits	\$ 154,639	\$ 155,863
Long-term borrowings	\$ 191,677	\$ 164,775
Common shareholders' equity	\$ 70,458	\$ 68,530
Common shares outstanding	1,812	1,852
Book value per common share ³	\$ 38.87	\$ 36.99
Worldwide employees	57,702	55,311

1. 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).
2. For a discussion of Global Liquidity Reserve, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve in Part II, Item 7 of the 2016 Form 10-K.
3. Book value per common share equals common shareholders' equity divided by common shares outstanding.

Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information

We prepare our financial statements using accounting principles generally accepted in the United States of America (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

<i>\$ in millions, except per share data</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income applicable to Morgan Stanley				
U.S. GAAP	\$ 1,781	\$ 1,597	\$ 5,468	\$ 4,313
Impact of discrete tax provision ¹	(83)		(65)	
Net income applicable to Morgan Stanley, excluding discrete tax provision non-GAAP	\$ 1,698	\$ 1,597	\$ 5,403	\$ 4,313
Earnings per diluted common share				
U.S. GAAP	\$ 0.93	\$ 0.81	\$ 2.79	\$ 2.11
Impact of discrete tax provision ¹	(0.05)		(0.03)	
Earnings per diluted common share, excluding discrete tax provision non-GAAP	\$ 0.88	\$ 0.81	\$ 2.76	\$ 2.11
Effective income tax rate				
U.S. GAAP	28.1%	31.5%	29.7%	32.7%
Impact of discrete tax provision ¹	3.3%		0.8%	
Effective income tax rate from continuing operations, excluding discrete tax provision non-GAAP	31.4%	31.5%	30.5%	32.7%

Table of Contents**Management's Discussion and Analysis****Tangible Equity**

	At	At	Monthly Average Balance			
			Three Months Ended		Nine Months Ended	
			September 30,	2016	September 30,	2016
	September 30,	December 31,	2017	2016	2017	2016
<i>\$ in millions</i>	2017	2016	2017	2016	2017	2016
U.S. GAAP						
Common equity	\$ 70,458	\$ 68,530	\$ 70,487	\$ 69,531	\$ 69,786	\$ 68,859
Preferred equity	8,520	7,520	8,520	7,520	8,420	7,520
Morgan Stanley shareholders equity	78,978	76,050	79,007	77,051	78,206	76,379
Junior subordinated debentures issued to capital trusts				1,427		2,278
Less: Goodwill and net intangible assets	(9,079)	(9,296)	(9,120)	(9,368)	(9,192)	(9,447)
Morgan Stanley tangible shareholders equity non-GAAP	\$ 69,899	\$ 66,754	\$ 69,887	\$ 69,110	\$ 69,014	\$ 69,210
U.S. GAAP						
Common equity	\$ 70,458	\$ 68,530	\$ 70,487	\$ 69,531	\$ 69,786	\$ 68,859
Less: Goodwill and net intangible assets	(9,079)	(9,296)	(9,120)	(9,368)	(9,192)	(9,447)
Tangible common equity non-GAAP	\$ 61,379	\$ 59,234	\$ 61,367	\$ 60,163	\$ 60,594	\$ 59,412

Consolidated Non-GAAP Financial Measures

	Three Months Ended		Nine Months Ended	
	September 30,	2016	September 30,	2016
	2017	2016	2017	2016
<i>\$ in billions</i>				
Average common equity^{1, 2}				
Unadjusted	\$ 70.5	\$ 69.5	\$ 69.8	\$ 68.9
Excluding DVA	71.3	69.6	70.4	69.0
Excluding DVA and discrete tax provision (benefit)	71.2	69.6	70.4	69.0
Return on average common equity^{1, 3, 4}				
Unadjusted	9.6%	8.7%	9.8%	7.7%
Excluding DVA	9.5%	8.7%	9.7%	7.7%
Excluding DVA and discrete tax provision (benefit)	9.0%	8.7%	9.6%	7.7%

Average tangible common equity^{1, 2, 5}				
Unadjusted	\$ 61.4	\$ 60.2	\$ 60.6	\$ 59.4
Excluding DVA	62.1	60.2	61.2	59.5
Excluding DVA and discrete tax provision (benefit)	62.1	60.2	61.3	59.5
Return on average tangible common equity^{1, 4}				
Unadjusted	11.0%	10.1%	11.3%	9.0%
Excluding DVA	10.9%	10.1%	11.1%	9.0%
Excluding DVA and discrete tax provision (benefit)	10.3%	10.1%	11.0%	9.0%
Expense efficiency ratio⁶	73.0%	73.3%	72.1%	74.2%

	At September 30, 2017	At December 31, 2016
Tangible book value per common share ⁵	\$ 33.86	\$ 31.98

Non-GAAP Financial Measures by Business Segment

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Pre-tax profit margin⁷				
Institutional Securities	28%	30%	31%	30%
Wealth Management	27%	23%	25%	22%
Investment Management	19%	18%	19%	16%
Consolidated	27%	27%	28%	26%
Average common equity⁸				
Institutional Securities	\$ 40.2	\$ 43.2	\$ 40.2	\$ 43.2
Wealth Management	17.2	15.3	17.2	15.3
Investment Management	2.4	2.8	2.4	2.8
Parent Company	10.7	8.2	10.0	7.6
Consolidated average common equity	\$ 70.5	\$ 69.5	\$ 69.8	\$ 68.9
Return on average common equity⁴				
Institutional Securities	8.9%	8.3%	9.6%	7.1%
Wealth Management	15.8%	14.5%	15.0%	13.3%
Investment Management	18.8%	9.3%	15.4%	9.0%
Consolidated	9.6%	8.7%	9.8%	7.7%

DVA Debt valuation adjustment represents the change in the fair value resulting from fluctuations in our credit spreads and other credit factors related to liabilities carried at fair value under the fair value option, primarily certain Long-term and Short-term borrowings.

1. Beginning in 2017, with the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*, the income tax consequences related to share-based payments are required to be recognized in Provision for income taxes in the income statements upon the conversion of employee share-based awards, which primarily occur in the first quarter of each year. The impact of the income tax consequences upon conversion of the awards may be either a benefit or a provision and is treated as a discrete item. When excluding discrete tax provision (benefit) above only discrete tax provisions (benefits) other than income tax consequences arising from conversion activity are excluded as we anticipate conversion activity each quarter. See Note 2 to the financial statements for information on the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*. For further information on the discrete tax provision, see Supplemental Financial Information

and Disclosures Income Tax Matters herein.

2. The impact of DVA on average common equity and average tangible common equity was approximately \$(775) million and \$(62) million in the current quarter and prior year quarter, respectively, and approximately \$(652) million and \$(118) million in the current year period and prior year period, respectively.
3. The calculation used in determining the Firm's ROE Target is return on average common equity excluding DVA and discrete tax items as set forth above.
4. Return on average common equity and return on average tangible common equity equal annualized net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, respectively, on a consolidated or business segment basis as indicated. When excluding DVA, it is only excluded from the denominator. When excluding the discrete tax provision (benefit), both the numerator and denominator are adjusted.
5. Tangible book value per common share equals tangible common equity divided by common shares outstanding.
6. The expense efficiency ratio represents total non-interest expenses as a percentage of net revenues.
7. Pre-tax profit margin represents income from continuing operations before income taxes as a percentage of net revenues.

Table of Contents

Management's Discussion and Analysis

8. Average common equity for each business segment is determined at the beginning of each year using our Required Capital framework, an internal capital adequacy measure (see Liquidity and Capital Resources Regulatory Requirements Attribution of Average Common Equity According to the Required Capital Framework herein) and remains fixed throughout the year until the next annual reset.

Return on Equity Target

We have an ROE Target of 9% to 11% to be achieved by 2017. Our ROE Target and the related strategies and goals 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; legal expenses and the ability to reduce expenses in general; capital levels; and discrete tax items. For further information on our ROE Target and related assumptions, see Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Return on Equity Target in Part II, Item 7 of the 2016 Form 10-K.

Business Segments

Substantially all of our operating revenues and operating expenses are directly attributable to the 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.

Net Revenues, Compensation Expense and Income Taxes

For discussions of our net revenues, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Net Revenues and Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Net Revenues by Segment in Part II, Item 7 of the 2016 Form 10-K. For a discussion of our compensation expense, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Compensation Expense in Part II, Item 7 of the 2016 Form 10-K. For a discussion of income taxes, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Income Taxes in Part II, Item 7 of the 2016 Form 10-K.

Table of Contents**Management's Discussion and Analysis****Institutional Securities****Income Statement Information**

<i>\$ in millions</i>	Three Months Ended		% Change
	2017	September 30, 2016	
Revenues			
Investment banking	\$ 1,270	\$ 1,104	15%
Trading	2,504	2,393	5%
Investments	52	36	44%
Commissions and fees	561	592	(5)%
Asset management, distribution and administration fees	88	68	29%
Other	143	243	(41)%
Total non-interest revenues	4,618	4,436	4%
Interest income	1,421	980	45%
Interest expense	1,663	863	93%
Net interest	(242)	117	N/M
Net revenues	4,376	4,553	(4)%
Compensation and benefits	1,532	1,657	(8)%
Non-compensation expenses	1,608	1,513	6%
Total non-interest expenses	3,140	3,170	(1)%
Income from continuing operations before income taxes	1,236	1,383	(11)%
Provision for income taxes	260	381	(32)%
Income from continuing operations	976	1,002	(3)%
Income (loss) from discontinued operations, net of income taxes	6	8	(25)%
Net income	982	1,010	(3)%
Net income applicable to noncontrolling interests	9	44	(80)%
Net income applicable to Morgan Stanley	\$ 973	\$ 966	1%

<i>\$ in millions</i>	September 30,		% Change
	2017	2016	
Revenues			
Investment banking	\$ 4,100	\$ 3,202	28%
Trading	8,241	6,782	22%
Investments	155	144	8%
Commissions and fees	1,811	1,854	(2)%
Asset management, distribution and administration fees	268	210	28%
Other	442	385	15%
Total non-interest revenues	15,017	12,577	19%
Interest income	3,788	2,999	26%

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Interest expense	4,515	2,731	65%
Net interest	(727)	268	N/M
Net revenues	14,290	12,845	11%
Compensation and benefits	5,069	4,664	9%
Non-compensation expenses	4,812	4,384	10%
Total non-interest expenses	9,881	9,048	9%
Income from continuing operations before income taxes	4,409	3,797	16%
Provision for income taxes	1,132	1,109	2%
Income from continuing operations	3,277	2,688	22%
Income (loss) from discontinued operations, net of income taxes	(21)	1	N/M
Net income	3,256	2,689	21%
Net income applicable to noncontrolling interests	77	144	(47)%
Net income applicable to Morgan Stanley	\$ 3,179	\$ 2,545	25%
N/M Not Meaningful			

September 2017 Form 10-Q

8

Table of Contents**Management's Discussion and Analysis****Investment Banking****Investment Banking Revenues**

<i>\$ in millions</i>	Three Months Ended September 30,		% Change
	2017	2016	
Advisory	\$ 555	\$ 504	10%
Underwriting:			
Equity	273	236	16%
Fixed income	442	364	21%
Total underwriting	715	600	19%
Total investment banking	\$ 1,270	\$ 1,104	15%

<i>\$ in millions</i>	Nine Months Ended September 30,		% Change
	2017	2016	
Advisory	\$ 1,555	\$ 1,592	(2)%
Underwriting:			
Equity	1,068	662	61%
Fixed income	1,477	948	56%
Total underwriting	2,545	1,610	58%
Total investment banking	\$ 4,100	\$ 3,202	28%

Investment Banking Volumes

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Completed mergers and acquisitions ¹	\$ 229	\$ 190	\$ 585	\$ 728
Equity and equity-				
related offerings ^{2, 3}	16	13	46	34
Fixed income offerings ^{2, 4}	60	72	201	185

Source: Thomson Reuters, data at October 2, 2017. 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. Amounts include transactions of \$100 million or more. Completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction.
2. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers.
3. Amounts include Rule 144A issuances and registered public offerings of common stock and convertible securities and rights offerings.
4. Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Amounts include publicly registered and Rule 144A issuances. Amounts exclude leveraged loans and self-led issuances.

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.

Investment banking revenues of \$1,270 million in the current quarter and \$4,100 million in the current year period increased 15% and 28% from the comparable prior year periods. The increase in the current quarter reflected both higher underwriting and advisory revenues. The increase in the current year period was due to higher underwriting revenues.

Advisory revenues increased in the current quarter reflecting the higher volumes of completed merger, acquisition and restructuring transactions (M&A) (see Investment Banking Volumes table). Advisory revenues decreased in the current year period reflecting the lower volumes of completed M&A, partially offset by the positive impact of higher fee realizations.

Equity underwriting revenues increased in the current quarter and current year period as a result of higher global market volumes in both follow-on and initial public offerings (see Investment Banking Volumes table). In the current year period, equity underwriting revenues also increased as a result of higher levels of deal activity. Fixed income underwriting revenues increased in the current quarter primarily due to higher non-investment grade bond fees and loan fees. Fixed income underwriting revenues increased in the current year period primarily due to higher bond fees and non-investment grade loan fees.

Sales and Trading Net Revenues

By Income Statement Line Item

<i>\$ in millions</i>	Three Months Ended September 30,		
	2017	2016	% Change
Trading	\$ 2,504	\$ 2,393	5%
Commissions and fees	561	592	(5)%
Asset management, distribution and administration fees	88	68	29%
Net interest	(242)	117	N/M
Total	\$ 2,911	\$ 3,170	(8)%

<i>\$ in millions</i>	Nine Months Ended September 30,		
	2017	2016	% Change

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Trading	\$ 8,241	\$ 6,782	22%
Commissions and fees	1,811	1,854	(2)%
Asset management, distribution and administration fees	268	210	28%
Net interest	(727)	268	N/M
Total	\$ 9,593	\$ 9,114	5%

N/M Not Meaningful

Table of Contents

Management's Discussion and Analysis

By Business

\$ in millions	Three Months Ended September 30,		% Change
	2017	2016	
Equity	\$ 1,891	\$ 1,883	%
Fixed income	1,167	1,479	(21)%
Other	(147)	(192)	23%
Total	\$ 2,911	\$ 3,170	(8)%

\$ in millions	Nine Months Ended September 30,		% Change
	2017	2016	
Equity	\$ 6,062	\$ 6,084	%
Fixed income	4,120	3,649	13%
Other	(589)	(619)	5%
Total	\$ 9,593	\$ 9,114	5%

Sales and Trading Activities Equity and Fixed Income

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, followed by a presentation and explanation of results.

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. We make markets for our clients in equity-related securities and derivative products, including providing liquidity and hedging products. 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 over-the-counter (OTC) transactions. Market-making also generates gains and losses on inventory, 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, loans 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. 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.

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 include the results from the centralized management of our fixed income derivative counterparty exposures, which are primarily recorded in Trading revenues.

Sales and Trading Net Revenues Equity and Fixed Income

	Three Months Ended			
	September 30, 2017			
			Net	
<i>\$ in millions</i>	Trading	Fees ¹	Interest ²	Total
Financing	\$ 1,029	\$ 92	\$ (206)	\$ 915
Execution services	540	495	(59)	976
Total Equity	\$ 1,569	\$ 587	\$ (265)	\$ 1,891
Total Fixed income	\$ 1,073	\$ 65	\$ 29	\$ 1,167

	Three Months Ended			
	September 30, 2016			
			Net	
<i>\$ in millions</i>	Trading	Fees ¹	Interest ²	Total
Financing	\$ 872	\$ 83	\$ (110)	\$ 845
Execution services	536	541	(39)	1,038
Total Equity	\$ 1,408	\$ 624	\$ (149)	\$ 1,883
Total Fixed income	\$ 1,209	\$ 38	\$ 232	\$ 1,479

	Nine Months Ended			
	September 30, 2017			
			Net	
<i>\$ in millions</i>	Trading	Fees ¹	Interest ²	Total
Financing	\$ 3,126	\$ 269	\$ (621)	\$ 2,774
Execution services	1,805	1,643	(160)	3,288
Total Equity	\$ 4,931	\$ 1,912	\$ (781)	\$ 6,062
Total Fixed income	\$ 3,785	\$ 167	\$ 168	\$ 4,120

Nine Months Ended

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	September 30, 2016			
<i>\$ in millions</i>	Trading	Fees ¹	Net Interest ²	Total
Financing	\$ 2,797	\$ 259	\$ (152)	\$ 2,904
Execution services	1,621	1,690	(131)	3,180
Total Equity	\$ 4,418	\$ 1,949	\$ (283)	\$ 6,084
Total Fixed income	\$ 2,782	\$ 115	\$ 752	\$ 3,649

1. Includes Commissions and fees and Asset management, distribution and administration fees.

2. Funding costs are allocated to the businesses based on funding usage and are included in Net interest.

September 2017 Form 10-Q

10

Table of Contents

Management's Discussion and Analysis

We manage each of the sales and trading businesses based on its aggregate net revenues, which are comprised 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 4 to the financial statements.

Sales and Trading Net Revenues during the Current Quarter

Equity

Equity sales and trading net revenues of \$1,891 million in the current quarter were relatively unchanged from the prior year quarter, reflecting higher results in our financing business, offset by lower results in execution services.

Financing revenues increased 8% from the prior year quarter due to higher client activity in equity swaps reflected in Trading revenues, partially offset by lower Net interest revenues due to a shift in the mix of financing transactions.

Execution services decreased 6% from the prior year quarter as reduced market volumes in the United States resulted in lower commissions and fees, while reduced Trading revenues from derivative products were offset by increased Trading revenues from cash equity products.

Fixed Income

Fixed income net revenues of \$1,167 million in the current quarter were 21% lower than the prior year quarter, primarily driven by lower results in credit and global macro products.

Credit products decreased due to tighter corporate credit spreads and lower volatility compared with the prior year quarter, which impacted Trading revenues. In addition, Net interest revenues decreased due to a lower level of interest realized in securitized products in the current quarter.

Global macro products decreased due to lower market and interest rate volatility, which reduced Trading revenues. In addition, Net interest revenues decreased due to the effect of interest rate products inventory management.

Commodities products and Other remained relatively unchanged from the prior year quarter.

Sales and Trading Net Revenues during the Current Year Period

Equity

Equity sales and trading net revenues of \$6,062 million in the current year period were relatively unchanged from the prior year period, reflecting lower results in our financing business, offset by higher results in execution services.

Financing revenues decreased 4% from the prior year period as Net interest revenues declined from higher net interest costs, reflecting increased liquidity requirements and a shift in the mix of financing transactions, partially offset by higher client activity in equity swaps reflected in Trading revenues.

Execution services increased 3% from the prior year period primarily due to improved results in cash equity inventory management reflected in Trading revenues, partially offset by lower commissions and fees driven by reduced market volumes in the United States.

Fixed Income

Fixed income net revenues of \$4,120 million in the current year period were 13% higher than the prior year period, driven by higher results across all three product areas.

Credit products increased due to the absence of inventory losses driven by a widening spread environment in the prior year period, which increased Trading revenues. This was partially offset by a lower level of interest realized in securitized products in the current year period, which reduced Net interest revenues.

Global macro products increased due to increased Trading revenues in foreign exchange driven by market volatility, and structured interest rate products driven by higher client activity. This was partially offset by higher interest costs impacting Net interest revenues in the current year period which resulted from interest rate products inventory management.

Commodities products and Other increased due to improved metals trading, commodities lending results and the absence of losses from counterparty risk management incurred in the prior year period.

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

Investments

Net investment gains of \$52 million in the current quarter increased from the prior year quarter primarily as a result of higher gains on real estate investments, partially offset by lower gains on equities business related investments.

Table of Contents**Management's Discussion and Analysis**

Net investment gains of \$155 million in the current year period increased from the prior year period primarily reflecting gains on investments associated with our compensation plans in the current year period compared with losses in the prior year period and higher gains on real estate investments, partially offset by lower gains on equities business related investments.

Other

Other revenues of \$143 million in the current quarter decreased from the prior year quarter primarily reflecting lower mark-to-market gains on loans held for sale. Other revenues of \$442 million in the current year period increased from the prior year period primarily reflecting a decrease in the provision on loans held for investment.

Non-interest Expenses

Non-interest expenses of \$3,140 million in the current quarter were relatively unchanged from the prior year quarter primarily reflecting an 8% decrease in Compensation and benefits expenses and a 6% increase in Non-compensation expenses. Non-interest expenses of \$9,881 million in the current year period increased from the prior year period reflecting a 9% increase in Compensation and benefits expenses and a 10% increase in Non-compensation expenses.

Compensation and benefits expenses decreased in the current quarter primarily due to decreases in discretionary incentive compensation driven mainly by lower revenues, and lower amortization of deferred cash and equity awards. Compensation and benefits expenses increased in the current year period primarily due to increases in discretionary incentive compensation driven mainly by higher revenues and the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses increased in the current quarter and current year period primarily due to higher volume-driven expenses and litigation costs. In addition to higher volume-driven expenses and litigation costs, non-compensation expenses increased in the current year period due to a provision related to the U.K. VAT matter (see Other Items below).

Other Items

During the second quarter, the Firm self-identified an issue regarding VAT on intercompany services provided by certain overseas affiliates to our U.K. group. The Firm is reviewing the reporting of U.K. VAT as the focus and nature of services shifted among geographic locations. In the current year period, we have recorded a provision of \$86 million that incorporates potential additional VAT, interest and penalties for this exposure. We are actively working with Her Majesty's Revenue and Customs to resolve this matter. The provision reflected is based on currently available information and analyses, and our review of this matter is continuing.

Table of Contents**Management's Discussion and Analysis****Wealth Management****Income Statement Information**

<i>\$ in millions</i>	Three Months Ended		
	September 30,		
	2017	2016	% Change
Revenues			
Investment banking	\$ 125	\$ 129	(3)%
Trading	212	229	(7)%
Investments	1		N/M
Commissions and fees	402	433	(7)%
Asset management, distribution and administration fees	2,393	2,133	12%
Other	62	72	(14)%
Total non-interest revenues	3,195	2,996	7%
Interest income	1,155	979	18%
Interest expense	130	94	38%
Net interest	1,025	885	16%
Net revenues	4,220	3,881	9%
Compensation and benefits	2,326	2,203	6%
Non-compensation expenses	775	777	%
Total non-interest expenses	3,101	2,980	4%
Income from continuing operations before income taxes	1,119	901	24%
Provision for income taxes	421	337	25%
Net income applicable to Morgan Stanley	\$ 698	\$ 564	24%

<i>\$ in millions</i>	Nine Months Ended		
	September 30,		
	2017	2016 ¹	% Change
Revenues			
Investment banking	\$ 405	\$ 373	9%
Trading	657	675	(3)%
Investments	3	(2)	N/M
Commissions and fees	1,266	1,268	%
Asset management, distribution and administration fees	6,879	6,269	10%
Other	191	232	(18)%
Total non-interest revenues	9,401	8,815	7%
Interest income	3,348	2,813	19%
Interest expense	320	268	19%

Net interest	3,028	2,545	19%
Net revenues	12,429	11,360	9%
Compensation and benefits	6,940	6,443	8%
Non-compensation expenses	2,340	2,371	(1)%
Total non-interest expenses	9,280	8,814	5%
Income from continuing operations before income taxes	3,149	2,546	24%
Provision for income taxes	1,139	973	17%
Net income applicable to Morgan Stanley	\$ 2,010	\$ 1,573	28%
N/M Not Meaningful			

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). Prior periods have not been recast for this new intersegment agreement due to immateriality.

Financial Information and Statistical Data

<i>\$ in billions</i>	At September 30, 2017	At December 31, 2016
Client assets	\$ 2,307	\$ 2,103
Fee-based client assets ¹	\$ 1,003	\$ 877
Fee-based client assets as a percentage of total client assets	43%	42%
Client liabilities ²	\$ 78	\$ 73
Investment securities portfolio	\$ 60.6	\$ 63.9
Loans and lending commitments	\$ 76.2	\$ 68.7
Wealth Management representatives	15,759	15,763
	Three Months Ended September 30, 2017	2016
Annualized revenues per representative (dollars in thousands) ³	\$ 1,071	\$ 977
Client assets per representative (dollars in millions) ⁴	\$ 146	\$ 132
Fee-based asset flows ⁵ (dollars in billions)	\$ 15.8	\$ 13.5
	Nine Months Ended September 30, 2017	2016
Annualized revenues per representative (dollars in thousands) ³	\$ 1,051	\$ 953
	\$ 146	\$ 132

Client assets per representative
(dollars in millions)⁴

Fee-based asset flows⁵
(dollars in billions)

\$ 54.5 \$ 31.4

1. Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets.
2. Client liabilities include securities-based and tailored lending, residential real estate loans and margin lending.
3. Annualized revenues per representative equal Wealth Management's annualized revenues divided by the average representative headcount.
4. Client assets per representative equal total period-end client assets divided by period-end representative headcount.
5. Fee-based asset flows include net new fee-based assets, net account transfers, dividends, interest and client fees and exclude institutional cash management-related activity.

Table of Contents**Management's Discussion and Analysis****Net Revenues*****Transactional Revenues***

<i>\$ in millions</i>	Three Months Ended September 30,		
	2017	2016	% Change
Investment banking	\$ 125	\$ 129	(3)%
Trading	212	229	(7)%
Commissions and fees	402	433	(7)%
Total	\$ 739	\$ 791	(7)%

<i>\$ in millions</i>	Nine Months Ended September 30,		
	2017	2016	% Change
Investment banking	\$ 405	\$ 373	9%
Trading	657	675	(3)%
Commissions and fees	1,266	1,268	%
Total	\$ 2,328	\$ 2,316	1%

Transactional revenues of \$739 million in the current quarter decreased 7% from the prior year quarter primarily reflecting lower Commissions and fees and Trading revenues.

Transactional revenues of \$2,328 million in the current year period increased 1% from the prior year period primarily reflecting higher revenues in Investment banking revenues, partially offset by decreased Trading revenues.

Investment banking revenues were relatively unchanged in the current quarter. The increase in the current year period was due to higher revenues from structured products and equity syndicate activities, partially offset by lower preferred stock syndicate activity.

Trading revenues decreased in the current quarter primarily due to lower client activity in fixed income products. In addition to lower client activity, Trading revenues decreased in the current year period due to lower revenues related to the Fixed Income Integration, partially offset by gains related to investments associated with certain employee deferred compensation plans.

Commissions and fees decreased in the current quarter primarily due to decreased activity in equities, mutual funds and annuities. Commissions and fees were relatively unchanged in the current year period, with decreased activity

in annuities and mutual funds essentially offset by the impact of the Fixed Income Integration.

Asset Management

Asset management, distribution and administration fees of \$2,393 million in the current quarter and \$6,879 million in the current year period increased 12% and 10%, respectively. The increase in both periods is primarily due to market appreciation and net positive flows. See *Fee-Based Client Assets* herein.

Net Interest

Net interest of \$1,025 million in the current quarter and \$3,028 million in the current year period increased 16% and 19%, respectively, primarily due to higher loan balances and higher interest rates, partially offset by higher interest paid on deposits.

Other

Other revenues of \$62 million in the current quarter and \$191 million in the current year period decreased 14% and 18%, respectively, due to lower realized gains from the available for sale (AFS) securities portfolio.

Non-interest Expenses

Non-interest expenses of \$3,101 million in the current quarter and \$9,280 million in the current year period increased 4% and 5%, respectively, as a result of the increase in Compensation and benefits expenses.

Compensation and benefits expenses increased in the current quarter primarily due to the formulaic payout to Wealth Management representatives linked to higher revenues. In addition to the higher formulaic payout, Compensation and benefits expenses increased in the current year period due to increases in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were relatively unchanged in the current quarter. Non-compensation expenses decreased in the current year period primarily due to lower litigation and information processing costs, partially offset by higher deposit insurance expense and higher consulting fees related to strategic initiatives.

Fee-Based Client Assets

For a description of fee-based client assets, including descriptions for the fee based client asset types and rollforward items in the following tables, see *Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Wealth Management Fee-Based Client Assets Activity and Average Fee Rate by Account Type* in Part II, Item 7 of the 2016 Form 10-K.

Table of Contents**Management's Discussion and Analysis****Fee-Based Client Assets Rollforward**

<i>\$ in billions</i>	At June 30, 2017	Inflows	Outflows	Market Impact	At September 30, 2017
Separately managed accounts ^{1, 2}	\$ 237	\$ 8	\$ (5)	\$ 3	\$ 243
Unified managed accounts ²	228	11	(7)	7	239
Mutual fund advisory	21	1	(1)		21
Representative as advisor	138	9	(7)	4	144
Representative as portfolio manager	321	18	(11)	10	338
Subtotal	\$ 945	\$ 47	\$ (31)	\$ 24	\$ 985
Cash management	17	3	(2)		18
Total fee-based client assets	\$ 962	\$ 50	\$ (33)	\$ 24	\$ 1,003

<i>\$ in billions</i>	At June 30, 2016	Inflows	Outflows	Market Impact	At September 30, 2016
Separately managed accounts ¹	\$ 279	\$ 8	\$ (15)	\$ 7	\$ 279
Unified managed accounts	120	17	(5)	4	136
Mutual fund advisory	23		(1)	1	23
Representative as advisor	117	10	(7)	3	123
Representative as portfolio manager	265	19	(12)	6	278
Subtotal	\$ 804	\$ 54	\$ (40)	\$ 21	\$ 839
Cash management	16	2	(2)		16
Total fee-based client assets	\$ 820	\$ 56	\$ (42)	\$ 21	\$ 855

\$ in billions At Inflows Outflows At

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	December 31, 2016			MarketSeptember 30, Impact 2017		
Separately managed accounts ^{1, 2}	\$ 222	\$ 24	\$ (16)	\$ 13	\$ 243	
Unified managed accounts ²	204	36	(22)	21	239	
Mutual fund advisory	21	1	(3)	2	21	
Representative as advisor	125	27	(20)	12	144	
Representative as portfolio manager	285	57	(29)	25	338	
Subtotal	\$ 857	\$ 145	\$ (90)	\$ 73	\$ 985	
Cash management	20	9	(11)		18	
Total fee-based client assets	\$ 877	\$ 154	\$ (101)	\$ 73	\$ 1,003	

	At December 31, 2015			At MarketSeptember 30, Impact 2016		
<i>\$ in billions</i>		Inflows	Outflows			
Separately managed accounts ¹	\$ 283	\$ 24	\$ (31)	\$ 3	\$ 279	
Unified managed accounts	105	37	(13)	7	136	
Mutual fund advisory	25	1	(5)	2	23	
Representative as advisor	115	22	(20)	6	123	
Representative as portfolio manager	252	48	(32)	10	278	
Subtotal	\$ 780	\$ 132	\$ (101)	\$ 28	\$ 839	
Cash management	15	8	(7)		16	
Total fee-based client assets	\$ 795	\$ 140	\$ (108)	\$ 28	\$ 855	
Average Fee Rates³						

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
<i>Fee Rate in bps</i>				
Separately managed accounts ²	17	35	16	36
Unified managed accounts ²	97	104	98	106
Mutual fund advisory	118	119	118	119
Representative as advisor	84	85	84	85
Representative as portfolio manager	94	98	96	99
Subtotal	76	76	76	77
Cash management	6	6	6	6
Total fee-based client assets	75	75	75	76
bps Basis points				

1. Includes non-custody account values reflecting prior quarter-end balances due to a lag in the reporting of asset values by third-party custodians.
2. A shift in client assets of approximately \$66 billion in the fourth quarter of 2016 from separately managed accounts to unified managed accounts resulted in a lower average fee rate for those platforms but did not impact the average fee rate for total fee-based client assets.

3. Certain data enhancements made in the first quarter of 2017 resulted in a modification to the Fee Rate calculations. Prior periods have been restated to reflect the revised calculations.

Table of Contents**Management's Discussion and Analysis****Investment Management****Income Statement Information**

<i>\$ in millions</i>	Three Months Ended		
	September 30, 2017	2016	% Change
Revenues			
Investment banking	\$	\$ (2)	N/M
Trading	(7)	(3)	(133)%
Investments	114	51	124%
Asset management, distribution and administration fees	568	508	12%
Other	1	(3)	133%
Total non-interest revenues	676	551	23%
Interest income	1	1	%
Interest expense	2		N/M
Net interest	(1)	1	(200)%
Net revenues	675	552	22%
Compensation and benefits	311	237	31%
Non-compensation expenses	233	218	7%
Total non-interest expenses	544	455	20%
Income from continuing operations before income taxes	131	97	35%
Provision for income taxes	16	31	(48)%
Net income	115	66	74%
Net income (loss) applicable to noncontrolling interests	1	(1)	200%
Net income applicable to Morgan Stanley	\$ 114	\$ 67	70%

Nine Months Ended

<i>\$ in millions</i>	September 30,		
	2017	2016	% Change
Revenues			
Investment banking	\$	\$ (1)	N/M
Trading	(21)	(8)	(163)%
Investments	337	37	N/M
Commissions and fees		3	N/M
Asset management, distribution and administration fees	1,624	1,551	5%

Other	9	28	(68)%
Total non-interest revenues	1,949	1,610	21%
Interest income	3	5	(40)%
Interest expense	3	3	%
Net interest		2	N/M
Net revenues	1,949	1,612	21%
Compensation and benefits	878	688	28%
Non-compensation expenses	695	665	5%
Total non-interest expenses	1,573	1,353	16%
Income from continuing operations before income taxes	376	259	45%
Provision for income taxes	87	78	12%
Net income	289	181	60%
Net income (loss) applicable to noncontrolling interests	8	(14)	157%
Net income applicable to Morgan Stanley	\$ 281	\$ 195	44%
N/M	Not Meaningful		

Net Revenues

Investments

Investments gains of \$114 million in the current quarter compared with \$51 million in the prior year quarter reflected higher carried interest principally in Infrastructure investments, partially offset by weaker investment performance which resulted in the reversal of previously accrued carried interest in Private Equity.

Investments gains of \$337 million in the current year period compared with \$37 million in the prior year period reflected higher carried interest and performance gains in all asset classes.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees of \$568 million increased 12% in the current quarter compared to the prior year quarter as a result of higher average assets under management or supervision (AUM) across all asset classes and higher performance fees.

Asset management, distribution and administration fees of \$1,624 million increased 5% in the current year period compared to the prior year period primarily as a result of higher average AUM.

See Assets Under Management or Supervision herein.

Non-interest Expenses

Non-interest expenses of \$544 million in the current quarter and \$1,573 million in the current year period increased 20% and 16% from the comparable prior periods primarily due to higher Compensation and benefits expenses.

Compensation and benefits expenses increased in the current quarter and current year period due to higher discretionary incentive compensation and an increase in deferred compensation associated with carried interest.

Non-compensation expenses increased in the current quarter and current year period primarily due to higher brokerage, clearing and exchange fees.

Assets Under Management or Supervision

For a description of the asset classes and rollforward items in the following tables, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Investment Management Assets Under Management or Supervision in Part II, Item 7 of the 2016 Form 10-K.

Table of Contents**Management's Discussion and Analysis****AUM Rollforwards**

	At					At	
<i>\$ in billions</i>	June 30, 2017	Inflows	Outflows	Market Impact	Other ¹	September 30, 2017	
Equity	\$ 94	\$ 5	\$ (6)	\$ 4	\$	\$ 97	
Fixed income	66	7	(5)	1		69	
Liquidity	154	279	(277)	1	(1)	156	
Alternative / Other products	121	5	(3)	1	1	125	
Total AUM	\$ 435	\$ 296	\$ (291)	\$ 7	\$	\$ 447	
Shares of minority stake assets	8					7	

	At					At	
<i>\$ in billions</i>	June 30, 2016	Inflows	Outflows	Market Impact	Other ¹	September 30, 2016	
Equity	\$ 81	\$ 4	\$ (6)	\$ 4	\$	\$ 83	
Fixed income	61	6	(5)	1		63	
Liquidity	149	358	(352)	(1)		154	
Alternative / Other products	115	4	(4)	2		117	
Total AUM	\$ 406	\$ 372	\$ (367)	\$ 6	\$	\$ 417	
Shares of minority stake assets	8					7	

	At					At	
<i>\$ in billions</i>	December 31, 2016	Inflows	Outflows	Market Impact	Other ¹	September 30, 2017	
Equity	\$ 79	\$ 16	\$ (16)	\$ 17	\$ 1	\$ 97	
Fixed income	60	20	(16)	3	2	69	
Liquidity	163	915	(923)	1		156	
Alternative / Other products	115	18	(13)	5		125	
Total AUM	\$ 417	\$ 969	\$ (968)	\$ 26	\$ 3	\$ 447	

Shares of minority stake assets	8	7
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	At			At		
<i>\$ in billions</i>	December 31, 2015	Inflows	Outflows	Market Impact	Other ¹	September 30, 2016
Equity	\$ 83	\$ 14	\$ (18)	\$ 4	\$	\$ 83
Fixed income	60	18	(19)	3	1	63
Liquidity	149	985	(979)	(1)		154
Alternative / Other products	114	18	(18)	3		117
Total AUM	\$ 406	\$ 1,035	\$ (1,034)	\$ 9	\$ 1	\$ 417
Shares of minority stake assets	8					7
Average AUM						

	Three Months Ended		Nine Months Ended	
<i>\$ in billions</i>	September 30,		September 30,	
	2017	2016	2017	2016
Equity	\$ 96	\$ 83	\$ 90	\$ 81
Fixed income	68	62	65	61
Liquidity	156	151	155	149
Alternative / Other products	123	116	120	115
Total AUM	\$ 443	\$ 412	\$ 430	\$ 406
Shares of minority stake assets	7	7	7	8
Average Fee Rate				

	Three Months Ended		Nine Months Ended	
<i>Fee Rate in bps</i>	September 30,		September 30,	
	2017	2016	2017	2016
Equity	75	74	74	72
Fixed income	34	32	33	32
Liquidity	18	18	18	18
Alternative / Other products	68	73	69	76
Total AUM	47	47	46	48

AUM Assets under management or supervision

bps Basis points

1. Includes distributions and foreign currency impact.

Table of Contents**Management's Discussion and Analysis****Supplemental Financial Information and Disclosures****U.S. Bank Subsidiaries**

We provide loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, primarily through our U.S. bank subsidiaries, Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA) (collectively, U.S. Bank Subsidiaries). The lending activities in the Institutional Securities business segment primarily include loans or lending commitments to corporate clients. The lending activities in the Wealth Management business segment primarily include securities-based lending that allows clients to borrow money against the value of qualifying securities and also include residential real estate loans. We expect our lending activities to continue to grow through further market penetration of the client base within the Institutional Securities and Wealth Management business segments. For a further discussion of our credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk. For further discussion about loans and lending commitments, see Notes 7 and 11 to the financial statements.

U.S. Bank Subsidiaries Supplemental Financial Information Excluding Transactions with the Parent Company

<i>\$ in billions</i>	At September 30, 2017	At December 31, 2016
U.S. Bank Subsidiaries assets ¹	\$ 182.2	\$ 176.8
U.S. Bank Subsidiaries investment securities portfolio:		
Investment securities AFS	42.7	50.3
Investment securities HTM	18.1	13.6
Total investment securities	\$ 60.8	\$ 63.9
Deposits ²	\$ 154.2	\$ 154.7
Wealth Management U.S. Bank Subsidiaries data		
Securities-based lending and other loans ³	\$ 40.1	\$ 36.0
Residential real estate loans	26.2	24.4
Total	\$ 66.3	\$ 60.4
Institutional Securities U.S. Bank Subsidiaries data		
Corporate loans	\$ 22.3	\$ 20.3
Wholesale real estate loans	10.1	9.9
Total	\$ 32.4	\$ 30.2
AFS Available for sale		
HTM Held to maturity		

1. Certain revisions have been made to prior periods to conform to the current presentation.
2. For further information on deposits, see Liquidity and Capital Resources Funding Management Unsecured Financing herein.
3. Other loans primarily include tailored lending.

Income Tax Matters

Effective Tax Rate

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
From continuing operations	28.1%	31.5%	29.7%	32.7%

The effective tax rate for the current quarter and current year period reflects a recurring-type discrete tax benefit of \$11 million and \$139 million, respectively, associated with the adoption of new accounting guidance related to employee share-based payments, and other net discrete tax benefits of \$83 million and \$65 million, respectively, primarily resulting from the remeasurement of certain deferred taxes. See Note 2 to the financial statements for information on the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*.

Accounting Development Updates

The Financial Accounting Standards Board has issued certain accounting updates that apply to us but are not yet effective for the Firm. Accounting updates not listed below were assessed and determined to be either not applicable or are not expected to have a significant impact on our financial statements.

The following accounting updates are currently being evaluated to determine the potential impact of adoption:

Revenue from Contracts with Customers. This accounting update aims to clarify the principles of revenue recognition, develop a common revenue recognition standard across all industries for U.S. GAAP and provide enhanced disclosures for users of the financial statements. The core principle of this guidance is that an entity should recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update is not applicable to financial instruments. We will adopt the guidance on January 1, 2018 and apply the modified retrospective method of adoption.

This accounting update will change the presentation of certain costs related to underwriting and advisory activities so that such costs will be recorded in the relevant non-interest expense line item versus the current practice of netting such costs against Investment banking revenues. This change is estimated to gross up Investment banking revenues and affected expenses for the Institutional Securities segment by approximately 5%-10%. Similarly, certain costs related to the selling and distribution of investment funds will no longer be netted against Asset management, distribution and administration fees, and therefore is expected to result in a gross up of such Investment

Table of Contents

Management's Discussion and Analysis

Management revenues and affected expenses by less than 5%. These changes will not have an impact on net income.

In addition, the timing of the recognition of certain performance fees from fund management activities, not in the form of carried interest, is generally expected to be deferred within a fiscal year until the fees are no longer probable of being reversed. Thus, the recognition of such revenues, which are recorded in Asset management, distribution and administration fees within the Investment Management segment, which approximated \$60 million in 2016 and were recognized throughout the year, are generally expected to be recognized in the fourth quarter of each fiscal year based on current fee arrangements.

The recognition of performance fees from fund management activities in the form of carried interest that are subject to reversal will remain essentially unchanged. We will apply the equity method of accounting to such carried interest, thus excluding them from the scope of this standard.

We will continue to assess the impact of the new standard as we progress through the implementation process and as industry interpretations are resolved; therefore, additional impacts may be identified prior to adoption.

Hedge Accounting. This accounting update aims to better align the hedge accounting requirements with an entity's risk management strategies and improve the financial reporting of hedging relationships. It will also result in simplification of the application of hedge accounting related to the assessment of hedge effectiveness. This update is effective as of January 1, 2019 with early adoption permitted.

Leases. This accounting update requires lessees to recognize on the balance sheet all leases with terms exceeding one year, which results in the recognition of a right of use asset and corresponding lease liability, including for those leases that we currently classify as operating leases. The right of use asset and lease liability will initially be measured using the present value of the remaining rental payments. The accounting for leases where we are the lessor is largely unchanged. This update is effective as of January 1, 2019 with early adoption permitted.

Financial Instruments - Credit Losses. This accounting update impacts the impairment model for certain financial assets measured at amortized cost by requiring a current expected credit loss (CECL) methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. CECL will replace the loss model currently applicable to loans held for investment, HTM securities and other receivables carried at amortized cost.

The update also eliminates the concept of other-than-temporary impairment for AFS securities. Impairments on AFS securities will be required to be recognized in earnings through an allowance, when the fair value is less than amortized cost and a credit loss exists or the securities are expected to be sold before recovery of amortized cost.

Under the update, there may be an ability to determine there are no expected credit losses in certain circumstances, e.g., based on collateral arrangements for lending and financing transactions or based on the credit quality of the borrower or issuer.

Overall, the amendments in this update are expected to accelerate the recognition of credit losses for portfolios where CECL models will be applied. This update is effective as of January 1, 2020 with early adoption permitted as of January 1, 2019.

Critical Accounting Policies

Our financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions (see Note 1 to the financial statements). We believe that of our significant accounting policies (see Note 2 to the consolidated financial statements in the 2016 Form 10-K and Note 2 to the financial statements), the fair value, goodwill and intangible assets, legal and regulatory contingencies and income taxes policies involve a higher degree of judgment and complexity. For a further discussion about our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in Part II, Item 7 of the 2016 Form 10-K.

Liquidity and Capital Resources

Senior management establishes liquidity and capital policies. Through various risk and control committees, senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity, interest rate and currency sensitivity of our asset and liability position. The Treasury Department, Firm Risk Committee, Asset and Liability Management Committee, and other committees and control groups assist in evaluating, monitoring and controlling the impact that our business activities have on our balance sheets, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board of Directors (the Board) and the Board's Risk Committee.

Table of Contents**Management's Discussion and Analysis****The Balance Sheet**

We monitor and evaluate the composition and size of our balance sheet on a regular basis. Our balance sheet management process includes quarterly planning, business-specific thresholds, monitoring of business-specific usage versus key performance metrics and new business impact assessments.

We establish balance sheet thresholds at the consolidated and business segment levels. We monitor balance sheet utilization and review variances resulting from business activity or market fluctuations. On a regular basis, we review current performance versus established thresholds and assess the need to re-allocate our balance sheet based on business unit needs. We also monitor key metrics, including asset and liability size and capital usage.

Total Assets by Business Segment

<i>\$ in millions</i>	At September 30, 2017			
	Institutional Securities	Wealth Management	Investment Management	Total
Assets				
Cash and cash equivalents ¹	\$ 31,100	\$ 17,026	\$ 65	\$ 48,191
Trading assets at fair value	282,555	68	2,465	285,088
Investment securities	18,532	60,554		79,086
Securities purchased under agreements to resell	84,223	5,883		90,106
Securities borrowed	132,597	295		132,892
Customer and other receivables	35,725	18,061	602	54,388
Loans, net of allowance	38,171	66,255	5	104,431
Other assets ²	45,378	12,486	1,647	59,511
Total assets	\$ 668,281	\$ 180,628	\$ 4,784	\$ 853,693

<i>\$ in millions</i>	At December 31, 2016			
	Institutional Securities	Wealth Management	Investment Management	Total
Assets				
Cash and cash equivalents ¹	\$ 25,291	\$ 18,022	\$ 68	\$ 43,381
Trading assets at fair value	259,680	64	2,410	262,154
Investment securities	16,222	63,870		80,092
Securities purchased under agreements to resell	96,735	5,220		101,955
Securities borrowed	124,840	396		125,236
Customer and other receivables	26,624	19,268	568	46,460
Loans, net of allowance	33,816	60,427	5	94,248

Other assets ²	45,941	13,868	1,614	61,423
Total assets	\$ 629,149	\$ 181,135	\$ 4,665	\$ 814,949

1. Cash and cash equivalents include cash and due from banks and interest bearing deposits with banks.
2. Other assets primarily includes Cash deposited with clearing organizations or segregated under federal and other regulations or requirements; Other investments; Premises, equipment and software costs; Goodwill; Intangible assets and deferred tax assets.

A substantial portion of total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. Total assets increased to \$853.7 billion at September 30, 2017 from \$814.9 billion at December 31, 2016, primarily driven by an increase in trading inventory within Institutional Securities, along with loan growth across both Institutional Securities and Wealth Management. The change in trading inventory reflects increased trading activity in U.S. government and agency securities and Other sovereign government obligations, along with higher market values for corporate equities compared with December 31, 2016.

Securities Repurchase Agreements and Securities Lending

Securities borrowed or securities purchased under agreements to resell and securities loaned or securities sold under agreements to repurchase are treated as collateralized financings (see Note 2 to the consolidated financial statements in the 2016 Form 10-K and Note 6 to the financial statements).

Collateralized Financing Transactions

<i>\$ in millions</i>	At September 30, 2017	At December 31, 2016
Securities purchased under agreements to resell and Securities borrowed	\$ 222,998	\$ 227,191
Securities sold under agreements to repurchase and Securities loaned	\$ 69,613	\$ 70,472
Securities received as collateral ¹	\$ 12,995	\$ 13,737

<i>\$ in millions</i>	Daily Average Balance	
	Three Months Ended September 30, 2017	December 31, 2016
Securities purchased under agreements to resell and Securities borrowed	\$ 227,146	\$ 224,355
Securities sold under agreements to repurchase and Securities loaned	\$ 68,563	\$ 68,908

1. Included in Trading assets in the balance sheets.

Customer Securities Financing

The customer receivable portion of the securities financing transactions primarily includes customer margin loans, collateralized by customer-owned securities, which are segregated in accordance with regulatory requirements. The

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customer payable portion of the securities financing transactions primarily includes payables to our prime brokerage customers. Our risk exposure on these transactions is mitigated by collateral maintenance policies that limit our credit exposure to customers and liquidity reserves held against this risk exposure.

September 2017 Form 10-Q

20

Table of Contents**Management's Discussion and Analysis****Liquidity Risk Management Framework**

The primary goal of our Liquidity Risk Management Framework is to ensure that we have access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable us to fulfill our financial obligations and support the execution of our business strategies.

The core components of our Liquidity Risk Management Framework are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve (GLR), which support our target liquidity profile. For further discussion about the Firm's Required Liquidity Framework and Liquidity Stress Tests, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework in Part II, Item 7 of the 2016 Form 10-K.

At September 30, 2017 and December 31, 2016, we maintained sufficient liquidity to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

Global Liquidity Reserve

We maintain sufficient global liquidity reserves pursuant to our Required Liquidity Framework. For further discussion of our GLR, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve in Part II, Item 7 of the 2016 Form 10-K.

GLR by Type of Investment

<i>\$ in millions</i>	At	
	September 30, 2017	December 31, 2016
Cash deposits with banks	\$ 9,684	\$ 8,679
Cash deposits with central banks	33,566	30,568
Unencumbered highly liquid securities:		
U.S. government obligations	67,677	78,615
U.S. agency and agency mortgage-backed securities	51,676	46,360
Non-U.S. sovereign obligations ¹	24,110	30,884
Investments in money market funds	2	
Other investment grade securities	3,251	7,191
Total	\$ 189,966	\$ 202,297

1. Non-U.S. sovereign obligations are primarily composed of unencumbered German, French, Dutch, U.K. and Japanese government obligations.

GLR Managed by Bank and Non-Bank Legal Entities

	At		Daily Average Balance
	At	At	Three Months Ended
<i>\$ in millions</i>	September 30, 2017	December 31, 2016	September 30, 2017
Bank legal entities			
Domestic	\$ 72,567	\$ 74,411	\$ 68,746
Foreign	4,248	4,238	4,297
Total Bank legal entities	76,815	78,649	73,043
Non-Bank legal entities			
Domestic:			
Parent Company	39,747	66,514	50,893
Non-Parent Company	31,754	18,801	33,934
Total Domestic	71,501	85,315	84,827
Foreign	41,650	38,333	44,244
Total Non-Bank legal entities	113,151	123,648	129,071
Total	\$ 189,966	\$ 202,297	\$ 202,114

Regulatory Liquidity Framework

Liquidity Coverage Ratio

The Basel Committee on Banking Supervision's (Basel Committee) Liquidity Coverage Ratio (LCR) standard is designed to ensure that banking organizations have sufficient high-quality liquid assets (HQLA) to cover net cash outflows arising from significant stress over 30 calendar days. The standard's objective is to promote the short-term resilience of the liquidity risk profile of banking organizations. We and our U.S. Bank Subsidiaries are subject to the LCR requirements issued by U.S. banking regulators (U.S. LCR), which are based on the Basel Committee's LCR, including a requirement to calculate each entity's U.S. LCR on each business day. We and our U.S. Bank Subsidiaries are compliant with the minimum required U.S. LCR of 100%.

HQLA by Type of Asset and LCR

	At		Daily Average Balance
	At	At	Three Months Ended
<i>\$ in millions</i>	September 30, 2017	December 31, 2016	September 30, 2017
HQLA			
Cash deposits with central banks	\$ 33,614	\$ 30,569	\$ 40,841

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Securities ¹	125,426	129,524	134,363
Total	\$ 159,040	\$ 160,093	\$ 175,204
LCR			130%

1. Primarily includes U.S. Treasuries; U.S. agency mortgage-backed securities; sovereign bonds; investment-grade corporate bonds; and publicly traded common equities.

Table of Contents

Management's Discussion and Analysis

The regulatory definition of HQLA is substantially the same as our GLR. GLR includes cash placed at institutions other than central banks that is considered an inflow for LCR purposes. HQLA includes a portion of cash placed at central banks, certain unencumbered investment grade corporate bonds and publicly traded common equities, which do not meet the definition of our GLR.

Net Stable Funding Ratio

The objective of the Net Stable Funding Ratio (NSFR) is to reduce funding risk over a one-year horizon by requiring banking organizations to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

The Basel Committee finalized the NSFR framework in 2014. In May 2016, the U.S. banking regulators issued a proposal to implement the NSFR in the U.S., which would apply to us and our U.S. Bank Subsidiaries. Our preliminary estimates, based on the current proposal, indicate that actions will be necessary to meet the requirement, which we expect to accomplish by the effective date of any final rule. For an additional discussion of NSFR, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Liquidity Framework Net Stable Funding Ratio in Part II, Item 7 of the 2016 Form 10-K.

Funding Management

We manage our funding in a manner that reduces the risk of disruption to our operations. We pursue a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempt to ensure that the tenor of our liabilities equals or exceeds the expected holding period of the assets being financed.

We fund our balance sheet on a global basis through diverse sources. These sources may include our equity capital, long-term borrowings, securities sold under agreements to repurchase (repurchase agreements), securities lending, deposits, letters of credit and lines of credit. We have active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing

For a discussion of our secured financing activities, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Funding Management Secured Financing in Part II, Item 7 of the 2016 Form 10-K.

At September 30, 2017 and December 31, 2016, the weighted average maturity of our secured financing of less liquid assets was greater than 120 days.

Unsecured Financing

For a discussion of our unsecured financing activities, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Funding Management Unsecured Financing in Part II, Item 7 of the 2016 Form 10-K and see Note 4 to the financial statements.

Deposits

	At September 30,	At December 31,
<i>\$ in millions</i>	2017	2016
Savings and demand deposits: Brokerage sweep deposits ¹	\$ 135,152	\$ 153,042
Savings and other	5,555	1,517
Total Savings and demand deposits	140,707	154,559
Time deposits ²	13,932	1,304
Total	\$ 154,639	\$ 155,863

1. Represents balances swept from client brokerage accounts. Also referred to as the Bank Deposit program.

2. Certain time deposit accounts are carried at fair value under the fair value option (see Note 3 to the financial statements).

Deposits are primarily sourced from our Wealth Management clients, and are considered to have stable, low-cost funding characteristics. Total deposits as of September 30, 2017 were relatively unchanged compared with December 31, 2016, with the decrease in brokerage sweep deposits, primarily due to client deployment of cash into the markets, largely offset by an increase in time deposits and savings and other deposits, primarily due to growth in certificates of deposits and savings products.

Short-Term Borrowings

	At September 30,	At December 31,
<i>\$ in millions</i>	2017	2016
Short-term borrowings	\$ 1,087	\$ 941

Our unsecured short-term borrowings primarily consist of structured notes, bank loans and bank notes with original maturities of 12 months or less.

Long-Term Borrowings

We believe that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term borrowings allows us to reduce reliance on short-term credit sensitive instruments. Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to us can vary depending on market conditions, the volume of certain trading and lending activities, our credit ratings and the overall availability of credit.

Table of Contents**Management's Discussion and Analysis**

We may engage in various transactions in the credit markets (including, for example, debt retirements) that we believe are in our investors' best interests.

Long-term Borrowings by Maturity at September 30, 2017

<i>\$ in millions</i>	Parent		Total
	Company	Subsidiaries	
2017	\$ 4,605	\$ 3,685	\$ 8,290
2018	18,816	2,244	21,060
2019	21,841	2,033	23,874
2020	19,362	2,075	21,437
2021	15,862	1,449	17,311
Thereafter	88,786	10,919	99,705
Total	\$ 169,272	\$ 22,405	\$ 191,677
Maturities over next 12 months			\$ 25,792

Long-term Borrowings increased to \$191,677 million as of September 30, 2017, compared with \$164,775 million at December 31, 2016. This increase is a result of issuances, partially offset by maturities and retirements, presented in the table below.

<i>\$ in millions</i>	Nine Months Ended September 30, 2017
Issued	\$ 45,334
Matured or retired	24,480

For further information on long-term borrowings, see Note 10 to the financial statements.

Credit Ratings

We rely on external sources to finance a significant portion of our daily operations. The cost and availability of financing generally are impacted by our credit ratings, among other things. In addition, our credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies consider company-specific factors; other industry factors such as regulatory or legislative changes and the macroeconomic environment, among other things.

Our credit ratings do not include any uplift from perceived government support from any rating agency given the significant progress of the U.S. financial reform legislation and regulations. Some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from non-governmental third-party sources of potential support.

Parent Company and MSBNA's Senior Unsecured Ratings at October 31, 2017

	Parent Company		Rating Outlook
	Short-term Debt	Long-term Debt	
DBRS, Inc.	R-1 (middle)	A (high)	Stable
Fitch Ratings, Inc.	F1	A	Stable
Moody's Investors Service, Inc.	P-2	A3	Stable
Rating and Investment Information, Inc.	a-1	A-	Stable
Standard & Poor's Global Ratings	A-2	BBB+	Stable

	Morgan Stanley Bank, N.A.		Rating Outlook
	Short-term Debt	Long-term Debt	
Fitch Ratings, Inc.	F1	A+	Stable
Moody's Investors Service, Inc.	P-1	A1	Stable
Standard & Poor's Global Ratings	A-1	A+	Stable

In connection with certain OTC trading agreements and certain other agreements where we are a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, we may be required to provide additional collateral, immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether we are in a net asset or net liability position.

The additional collateral or termination payments that may be called 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. (Moody's) and Standard & Poor's Global Ratings (S&P). The following table shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody's or S&P ratings, based on the relevant contractual downgrade triggers.

Incremental Collateral or Terminating Payments upon Potential Future Rating Downgrade

<i>\$ in millions</i>	At September 30, 2017		At December 31, 2016
	\$	856	\$ 1,292
One-notch downgrade			
Two-notch downgrade		635	875

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it would have on our business and results of operations in future periods is inherently uncertain and would depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions we might take. The liquidity impact of additional collateral requirements is included in our Liquidity Stress Tests.

Table of Contents**Management's Discussion and Analysis****Capital Management**

We view capital as an important source of financial strength and actively manage our consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract our capital base to address the changing needs of our businesses. We attempt to maintain total capital, on a consolidated basis, at least equal to the sum of our operating subsidiaries' required equity.

Common Stock

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Repurchases of common stock	\$ 1,250	\$ 1,250	\$ 2,500	\$ 2,500

From time to time we repurchase our outstanding common stock which includes our share repurchase program. For a description of our share repurchase program, see [Unregistered Sales of Equity Securities and Use of Proceeds](#).

The Board determines the declaration and payment of dividends on a quarterly basis. On October 17, 2017, we announced that the Board declared a quarterly dividend per common share of \$0.25. The dividend is payable on November 15, 2017 to common shareholders of record on October 31, 2017.

For a description of our 2017 capital plan, see [Liquidity and Capital Resources](#), [Regulatory Requirements](#), [Capital Plans and Stress Tests](#).

Preferred Stock

On September 15, 2017, we announced that the Board declared quarterly dividends for preferred stock shareholders of record on September 29, 2017 that were paid on October 16, 2017.

For additional information on preferred stock, see Note 14 to the financial statements.

Regulatory Requirements***Regulatory Capital Framework***

We are a financial holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and are subject to the regulation and oversight of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Federal Reserve establishes capital requirements for us,

including well-capitalized standards, and evaluates our compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for our U.S. Bank Subsidiaries. The regulatory capital requirements are largely based on the Basel III capital standards established by the

Basel Committee and also implement certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The Basel Committee has published revisions to certain standards in its capital framework, and is actively considering potential revisions to other capital standards, that, if adopted by the U.S. banking agencies, could substantially change the U.S. regulatory capital framework. For additional discussion of regulatory capital framework, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Regulatory Capital Framework in Part II, Item 7 of the 2016 Form 10-K.

Regulatory Capital Requirements

We are required to maintain minimum risk-based and leverage capital ratios under the regulatory capital requirements. A summary of the calculations of regulatory capital, risk-weighted assets (RWAs) and transition provisions follows.

Regulatory Capital. Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital). Certain adjustments to and deductions from capital are required for purposes of determining these ratios, such as goodwill, intangible assets, certain deferred tax assets, other amounts in Accumulated other comprehensive income (loss) (AOCI) and investments in the capital instruments of unconsolidated financial institutions. Certain of these adjustments and deductions are also subject to transitional provisions.

In addition to the minimum risk-based capital ratio requirements, on a fully phased-in basis by 2019, we will be subject to:

A greater than 2.5% Common Equity Tier 1 capital conservation buffer;

The Common Equity Tier 1 global systemically important bank (G-SIB) capital surcharge, currently at 3%; and

Up to a 2.5% Common Equity Tier 1 countercyclical capital buffer (CCyB), currently set by U.S. banking regulators at zero (collectively, the buffers).

In 2017, the phase-in amount for each of the buffers is 50% of the fully phased-in buffer requirement. Failure to main-

Table of Contents

Management's Discussion and Analysis

tain the buffers would result in restrictions on our ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. For a further discussion of the G-SIB capital surcharge, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements G-SIB Capital Surcharge in Part II, Item 7 of the 2016 Form 10-K.

See Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements herein for additional capital requirements effective January 1, 2019.

Risk-Weighted Assets. RWAs reflect both our on- and off-balance sheet risk as well as capital charges attributable to the risk of loss arising from the following:

Credit risk: The failure of a borrower, counterparty or issuer to meet its financial obligations to us;

Market risk: Adverse changes in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as market liquidity; and

Operational risk: Inadequate or failed processes or systems, human factors or from external events (*e.g.*, fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

For a further discussion of our market, credit and operational risks, see Quantitative and Qualitative Disclosures about Market Risk.

Our risk-based capital ratios for purposes of determining regulatory compliance are the lower of the capital ratios computed under (i) the standardized approaches for calculating credit risk and market risk RWAs (the Standardized Approach) and (ii) the applicable advanced approaches for calculating credit risk, market risk and operational risk RWAs (the Advanced Approach). The credit risk RWA calculations between the two approaches differ in that the Standardized Approach requires calculation of RWAs using prescribed risk weights, whereas the Advanced Approach utilizes models to calculate exposure amounts and risk weights. At September 30, 2017, our ratios are based on the Standardized Approach transitional rules. For prior periods, the ratios were based on the Advanced Approach transitional rules.

The methods for calculating each of our risk-based capital ratios will change through January 1, 2022 as aspects of the capital rules are phased in. These changes may result in differences in our reported capital ratios from one reporting period to the next that are independent of changes to our capital base, asset composition, off-balance sheet exposures or risk profile.

Minimum Risk-Based Capital Ratios: Transitional Provisions

1. These ratios assume the requirements for the G-SIB capital surcharge (3.0%) and CCyB (zero) remain at current levels. See Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements herein for additional capital requirements effective January 1, 2019.

Transitional and Fully Phased-In Regulatory Capital Ratios

<i>\$ in millions</i>	At September 30, 2017			
	Transitional Standardized	Advanced	Pro Forma Standardized	Fully Phased-In Advanced
Risk-based capital				
Common Equity Tier 1 capital	\$ 62,214	\$ 62,214	\$ 61,603	\$ 61,603
Tier 1 capital	71,006	71,006	70,276	70,276
Total capital	81,861	81,652	81,148	80,939
Total RWAs	368,629	358,219	378,334	368,507
Common Equity Tier 1 capital ratio	16.9%	17.4%	16.3%	16.7%
Tier 1 capital ratio	19.3%	19.8%	18.6%	19.1%
Total capital ratio	22.2%	22.8%	21.4%	22.0%
Leverage-based capital				
Adjusted average assets ¹	\$ 841,360	N/A	\$ 840,845	N/A
Tier 1 leverage ratio ²	8.4%	N/A	8.4%	N/A

<i>\$ in millions</i>	At December 31, 2016			
	Transitional Standardized	Advanced	Pro Forma Standardized	Fully Phased-In Advanced
Risk-based capital				
Common Equity Tier 1 capital	\$ 60,398	\$ 60,398	\$ 58,616	\$ 58,616
Tier 1 capital	68,097	68,097	66,315	66,315
Total capital	78,917	78,642	77,155	76,881
Total RWAs	340,191	358,141	351,101	369,709
Common Equity Tier 1 capital ratio	17.8%	16.9%	16.7%	15.9%
Tier 1 capital ratio	20.0%	19.0%	18.9%	17.9%
Total capital ratio	23.2%	22.0%	22.0%	20.8%
Leverage-based capital				
Adjusted average assets ¹	\$ 811,402	N/A	\$ 810,288	N/A
Tier 1 leverage ratio ²	8.4%	N/A	8.2%	N/A
N/A Not Applicable				

1. Adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the current quarter and the quarter ended December 31, 2016 adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

2. The minimum Tier 1 leverage ratio requirement is 4.0%.

Table of Contents**Management's Discussion and Analysis**

The fully phased-in pro forma estimates in the previous tables are based on our current understanding of the capital rules and other factors, which may be subject to change as we receive additional clarification and implementation guidance from the Federal Reserve and as the interpretation of the regulations evolves over time. These fully phased-in pro forma estimates are non-GAAP financial measures because they were not yet effective at September 30, 2017. These preliminary estimates are subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what our capital, capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect our future results, see Risk Factors in Part I, Item 1A of the 2016 Form 10-K.

Well-Capitalized Minimum Regulatory Capital Ratios for U.S. Bank Subsidiaries

	At September 30, 2017
Common Equity Tier 1 risk-based capital ratio	6.5%
Tier 1 risk-based capital ratio	8.0%
Total risk-based capital ratio	10.0%
Tier 1 leverage ratio	5.0%

For us to remain a financial holding company, our U.S. Bank Subsidiaries must qualify as well-capitalized by maintaining the minimum ratio requirements set forth in the previous table. The Federal Reserve has not yet revised the well-capitalized standard for financial holding companies to reflect the higher capital standards required for us under the capital rules. Assuming that the Federal Reserve would apply the same or very similar well-capitalized standards to financial holding companies, each of our risk-based capital ratios and Tier 1 leverage ratio at September 30, 2017 would have exceeded the revised well-capitalized standard. The Federal Reserve may require us to maintain risk- and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company's particular condition, risk profile and growth plans.

Regulatory Capital Calculated under Transitional Rules

	At September 30,	At December 31,
<i>\$ in millions</i>	2017	2016
Common Equity Tier 1 capital		
Common stock and surplus	\$ 15,448	\$ 17,494
Retained earnings	57,554	53,679
AOCI	(2,544)	(2,643)
Regulatory adjustments and deductions:		
Net goodwill	(6,519)	(6,526)
Net intangible assets (other than goodwill and mortgage servicing assets)	(1,991)	(1,631)

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Other adjustments and deductions ¹	266	25
Total Common Equity Tier 1 capital	\$ 62,214	\$ 60,398
Additional Tier 1 capital		
Preferred stock	\$ 8,520	\$ 7,520
Noncontrolling interests	544	613
Other adjustments and deductions ²	33	(246)
Additional Tier 1 capital	\$ 9,097	\$ 7,887
Deduction for investments in covered funds	(305)	(188)
Total Tier 1 capital	\$ 71,006	\$ 68,097
Standardized Tier 2 capital		
Subordinated debt	\$ 10,341	\$ 10,303
Noncontrolling interests	95	62
Eligible allowance for credit losses	426	464
Other adjustments and deductions	(7)	