Morgan Stanley

August 5, 2016

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218, Mail Stop 9W-11
Washington, D.C. 20219

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429
Attention: Comments/Legal ESS

Re: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure.[1]

Ladies and Gentlemen:

We appreciate the opportunity to comment on the joint notice of proposed rulemaking published by the Office of the Comptroller of the Currency (the "**OCC**"), the Board of Governors of the Federal Reserve System (the "**Board**") and the Federal Deposit Insurance Corporation (the "**FDIC**") (collectively, the "**Agencies**") with respect to implementation of the Basel Committee on Banking Supervision's ("**Basel Committee**") Net Stable Funding Ratio ("**NSFR**") in the United States (the "**Proposal**").[2]

Morgan Stanley, a financial holding company supervised by the Board, controls two FDIC-insured national banks supervised by the OCC. Morgan Stanley provides its products and services to a large and diversified group of clients around the world, including corporations, governments, financial institutions and individuals.

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[1] Docket ID OCC–2014–0029, RIN 1557–AD97 (OCC); Docket No. R–1537, RIN 7100–AE 51 (Board); RIN 3064–AE 44 (FDIC).

[2] 81 Fed. Reg. 35,124 (Jun. 1, 2016); *see also* Basel Committee, *Basel III: the net stable funding ratio* (October 2014).

We strongly support the need for robust, through-the-cycle funding strategies for large U.S. banking organizations. Funding durability is a key regulatory priority, and no banking organization should be critically dependent on unstable forms of short-term wholesale funding. As discussed in Part I and further described in the materials included in the Annex to this letter, Morgan Stanley has developed and implemented a conservative post-crisis funding program that relies on a combination of robust equity funding, a sticky and growing deposit base, long-term debt with a weighted average maturity ("**WAM**") of greater than six years, and term-dated secured funding. We believe that this funding program appropriately matches and supports our funding requirements, particularly given our focus on capital markets activities, which require diversified funding sources of varying maturities.

While we strongly support the policy objectives of the NSFR, we believe that, in some areas, the Proposal should be recalibrated to recognize prudent asset-liability management ("**ALM**") practices that are unique to capital markets franchises and appropriately match funding sources with funding requirements in client-driven transactions. We believe that this recommendation is particularly compelling in the case of U.S. implementation, given the size of our capital markets.

We encourage the Agencies to consider, when developing the final rulemaking:

- Applying a zero percent Required Stable Funding ("**RSF**") factor to segregated client assets, as they are funded by clients and require no long-term funding support by the banking organization that facilitates client market access and investing;
- Recognizing re-hypothecatable initial margin as a funding source for associated derivative hedge securities, since the liability and asset are linked together; and
- Recognizing client short sale proceeds as a funding source for associated cash collateralized securities borrowing transactions, since again the liability and the asset are linked together.

We support the comment letter on the Proposal submitted by The Clearing House Association L.L.C., the Securities Industry and Financial Markets Association, the Financial Services Roundtable, the CRE Finance Council, the Institute of International Bankers, and the American Bankers Association (collectively, the "**Associations**"), which contains many technical recommendations that would improve the reliability of the NSFR as a regulatory standard. We have submitted this letter to highlight issues of particular concern to Morgan Stanley and our clients.

I. Morgan Stanley funding model

Morgan Stanley has built a durable funding model that supports the flexibility required by a client-focused capital markets franchise while ensuring stable sources of funding across all of our major business segments. Between end-2007 and June 30, 2016, the firm increased its shareholders' equity by more than 140 percent, from $31 billion to $77 billion, while reducing the firm's balance sheet assets by more than 20 percent, from $1,045 billion to $829 billion.[3] While measures of regulatory capital have

[3] Morgan Stanley, Form 10-Q for the quarterly period ended June 30, 2016, p. 3 (filed Aug. 3, 2016), available at: https://www.sec.gov/Archives/edgar/data/895421/000119312516670066/d212576d10q.htm ("**MS 6/30/16 10-Q**

changed in the intervening years, our robust common equity Tier 1 capital base, as measured under U.S. Basel III, is the foundation of the firm's stability and the core of our funding model.

We have also significantly increased deposit funding. Morgan Stanley had more than $152 billion of customer deposits as of June 30, 2016, an increase of more than 250 percent over the start of 2011.[4] We receive virtually all of our deposits in connection with our Wealth Management franchise's sweep deposit program, making these deposits "sticky" sources of funding.

Long-term unsecured debt is another source of stable funding; the firm had an outstanding long-term unsecured debt stack of $163 billion as of June 30, 2016.[5] Consistent with our obligations under the Board's proposed rule to impose new loss-absorbing requirements on large U.S. bank holding companies,[6] the firm issued an aggregate of $72 billion of long-term debt across 2014 and 2015, and the WAM of our long-term debt exceeds six years.[7] Morgan Stanley does not rely on short-term borrowings to fund itself. While the firm had more than $34 billion of commercial paper and other short-term borrowings outstanding at end-2007, this amount was less than $1 billion as of June 30, 2016.[8]

Morgan Stanley has also been a leader in developing prudent secured funding practices. Our secured funding liabilities are managed in accordance with four principles: (i) a WAM of greater than 120 days for less liquid assets; (ii) a maturity limit structure; (iii) an investor limit structure; and (iv) spare capacity, which ensures that the firm has additional available secured funding structures to support less liquid asset inventory, if required.[9] By comparison, the firm's secured funding WAM in 2008 for less liquid assets was well under 30 days.[10]

This rigorous funding model reflects lessons learned from the financial crisis and a commitment by Morgan Stanley to fund our balance sheet conservatively throughout all market cycles. Additional materials summarizing the firm's funding profile are included in the Annex to this letter.

In addition to long-term debt, sticky deposits and durable secured funding, the firm's liabilities also include shorter-dated obligations that arise in connection with shorter-dated client-driven capital

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Filing"); Morgan Stanley, Form 10-K for the fiscal year ended November 30, 2007, pp. 101-102 (filed Jan. 29, 2008), available at: https://www.sec.gov/Archives/edgar/data/895421/000119312508013719/d10k.htm ("**MS 2007 10-K Filing**"). End-2007 figures are calculated as of November 30, 2007, reflecting the fiscal year used by Morgan Stanley in that filing period. All figures quoted in Part I of this letter have been rounded to the nearest one billion dollars.

[4] MS 6/30/16 10-Q Filing, p. 3; Morgan Stanley, "Morgan Stanley 1Q16 Fixed Income Investor Call," May 5, 2016, p. 11, available at: http://www.morganstanley.com/about-us-ir/pdf/1Q16_Fixed_Income_Investor_Call.pdf ("**MS Q1 2016 Presentation**").

[5] MS 6/30/16 10-Q Filing, p. 3.

[6] *See* Board, Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations; Regulatory Capital Deduction for Investments in Certain Unsecured Debt of Systemically Important U.S. Bank Holding Companies, 80 Fed. Reg. 74,926 (Nov. 30, 2016).

[7] MS Q1 2016 Presentation, pp. 10, 20.

[8] MS 2007 10-K Filing, p. 102; MS 6/30/16 10-Q Filing, p. 3.

[9] MS Q1 2016 Presentation, p. 14.

[10] Morgan Stanley, "Morgan Stanley 1Q14 Fixed Income Investor Call," May 4, 2014, p. 16, available at: http://www.morganstanley.com/about-us-ir/pdf/1Q14_Fixed_Income_Investor_Update.pdf

markets transactions. The placement of funds by clients at our broker-dealer ("**B-D**") and futures commission merchant ("**FCM**") subsidiaries, for example, results in payables owed back to the clients, which are reflected as liabilities on the consolidated firm's balance sheet. While these liabilities are not long-term stable sources of funding, they oftentimes fund the very assets resulting from the client-facing liability. We believe that the Proposal could be improved by recognizing that, in some cases, matching shorter-dated assets and liabilities appropriately supports a responsible funding program.

II. Capital markets impacts

The capital markets play a more central role in the U.S. economy than in other major economies. For example, U.S. companies rely on debt securities to provide 79 percent of their financing, with the remaining 21 percent provided by bank lending. By contrast, European Union and Japanese companies rely instead on bank lending for 76 percent and 75 percent of their funding needs, respectively.[11] Similarly, U.S. equity markets equal 152 percent of U.S. Gross Domestic Product, a much higher percentage than the Euro Area (62 percent) or Japan (107 percent).[12] The depth and vitality of U.S. capital markets contribute to the efficiency and productivity of the entire economy and serve as a model for other countries.

The Basel Committee's NSFR framework, however, primarily focuses on traditional sources of funding associated with commercial banking activities, like deposits, as opposed to many common capital markets liabilities that support market access for both institutional and retail investors. For example, the Proposal treats as identical a banking organization's liabilities arising from (i) 150-day maturity repurchase agreements, (ii) overnight maturity repurchase agreements, (iii) deferred tax liabilities, (iv) B-D subsidiary payables owed to retail clients arising from such clients' investment activities, and (v) FCM payables owed to institutional clients clearing derivatives through the FCM.[13] In many cases, these liabilities arise directly in response to client behavior and are necessary elements of client transaction facilitation.

Similarly, the Proposal applies uniform RSF factors to entire asset classes of securities without taking into account the reasons why the banking organization holds the security on its balance sheet or its intended holding period. As a result, the same RSF factor applies to securities that (i) serve as market risk hedges on short-dated client-facing derivatives and are fully or partially funded by client-facing liabilities, (ii) are part of the banking organization's general market-making inventory, (iii) are temporarily held by the banking organization to facilitate a purchase or sale between two clients, (iv) are held as long-term investments by the banking organization, and (v) are held by the banking organization as eligible high-quality liquid assets in its liquidity reserve. This uniform treatment is inconsistent with principles

[11] Securities Industry and Financial Markets Association, "U.S. Capital Markets Deck" (October 2015), Slide 8 ("**SIFMA Capital Markets Deck**"), available at: http://www.sifma.org/WorkArea/DownloadAsset.aspx?id=8589956847. The percentages quoted from the SIFMA Capital Markets Deck are based on 2014 data.

[12] SIFMA Capital Markets Deck, Slide 9. Again, the percentages quoted above are based on 2014 data.

[13] Each of these liability categories receives zero percent ASF in the Proposal. *See* Proposal § 104(e)(3), (e)(5), (e)(6). For these purposes, we have assumed that the counterparties to repurchase agreements are financial sector entity counterparties, which is typically the case.

governing the NSFR's treatment of commercial banking loans, where RSF factors are scaled based on the remaining period during which the loans will remain on the banking organization's balance sheet.[14]

We respectfully recommend that the Agencies consider modest recalibrations to the Proposal to better reflect the funding sources and requirements of capital markets transactions. We believe that these recommendations are consistent with the policy objectives of the Agencies and the Basel Committee and appropriately balance conservativism with economic growth while addressing many of the underlying limitations in the NSFR. Although we provide specific technical recommendations in the sections below, in many cases appropriate recalibrations could be achieved through adjustments to either Available Stable Funding ("**ASF**") or RSF factors or by recognizing specific categories of transactions that should receive unique treatment.

A. Segregated client assets

The Proposal would require a U.S. banking organization to apply RSF factors to segregated clients assets, even though clients themselves fund the assets and the Proposal applies a zero percent ASF factor to most short-dated client payables. In effect, this mismatch requires the banking organization to issue long-term debt to provide clients with market access.

In addition, the specific RSF factors applicable to categories of segregated client assets do not appear to correspond to their relative liquidity profiles. Cash placed at unaffiliated custodian banks receives at 15 percent RSF factor, whereas reverse repurchase transactions secured by U.S. Treasury securities receive a 10 percent RSF factor and U.S. Treasury securities themselves receive a 5 percent RSF factor.[15]

We believe that a zero percent RSF factor should apply to segregated client assets.[16] Segregated client assets do not require long-term stable funding from the banking organization, and the Proposal would unnecessarily increase market access costs for investors.

B. Initial margin funding for hedge securities

Responsible ALM practices require a banking organization to carefully match its funding requirements with appropriate funding sources. The Proposal recognizes this principle, in part, by applying high RSF factors to long-dated assets with low liquidity values, while recognizing no ASF for many categories of short-dated liabilities, particularly those owed to financial sector entities. Taken together, these calibrations recognize that short-dated funding from financial companies is generally not an appropriate funding source for long-dated assets that cannot easily be liquidated.

[14] *See* Proposal § 106(a)(3), (a)(4)(ii), (a)(5)(ii), (a)(8) (varying RSF factors for certain loans by 10 percent, 15 percent, 50 percent and 100 percent based, in part, on the remaining maturity of the loan).
[15] Proposal § 106(a)(4)(ii), (a)(3), (a)(2).
[16] In practice, segregation standards could be defined with reference to customer asset protection regimes of the Securities and Exchange Commission, the Commodity Futures Trading Commission and comparable foreign standards.

In some cases, however, a short-dated liability may directly correspond to an equally short-dated funding requirement. For example, clients often provide initial margin with rights of re-hypothecation to banking organizations in connection with derivatives contracts, in particular equity swaps. The receipt of initial margin by a banking organization creates a liability owed to the client that arises directly in connection with, and one that will terminate at the conclusion of, the associated derivative contract.

In turn, the client's derivative contract may provide exposure to the performance of an underlying asset, such as an equity security. To balance the market risk on the client-facing derivative, the banking organization may purchase the underlying equity security, holding it on its balance sheet. If the security increases in value, the banking organization has a payment obligation to the client on the derivative contract, reflecting the performance of the security, but any amount owed to the client is offset by the increase in the value of the security. (The same balanced outcome occurs if the security loses value.)

This transaction involves three underlying elements: the derivative, the initial margin and the hedge security. The banking organization manages all three positions concurrently and is able to utilize the re-hypothecatable initial margin received (liability) to offset the funding requirements arising from the hedge security (asset). When the derivative contract terminates, the banking organization concurrently unwinds both the liability and the asset, returning initial margin to the client while selling the hedge security to generate cash. To the extent that a market disruption event prevents the banking organization from selling the hedge security, the contractual terms of the derivative contract permit the banking organization to delay termination of the derivative, extending the liability and the asset together.

We believe that, in the circumstances described above, the liability and the asset create a linked transaction, and that the NSFR should recognize the initial margin as a valid funding source for the hedge securities. This transaction structure incorporates prudent funding risk management and is consistent with the Basel Committee's underlying policy goal of promoting funding stability.[17] A combination of market disruption event clauses in derivative contracts, auditable internal policies and procedures that require a banking organization to sell hedge securities when returning initial margin to clients, and demonstrable business practices disclosed through quantitative reporting would demonstrate compliance with the Basel NSFR framework's criteria for recognition of interdependent transactions.[18]

C. Client short transactions

Institutional and retail investors take both 'long' and 'short' positions in securities, which are necessary to support clients' investment strategies as well as overall market liquidity and depth. We believe that the Proposal unnecessarily penalizes banking organizations from facilitating the execution of client short transactions, even when firms can prudently match client-related liabilities and assets.

[17] *See* Basel Committee, *Basel III: the net stable funding ratio* (October 2014), ¶ 2.

[18] After publication of the Proposal, the Basel Committee released an FAQ answer stating that interdependent transaction status "is not intended to be applied to derivative transactions." NSFR FAQs, p. 3 (answer to FAQ 9). In this case, the interdependent transactions are the initial margin received (liability) and hedge security (asset), not the derivative liability or derivative asset.

In a client short transaction a banking organization receives short sale proceeds arising from the client's short sale, thereby creating a liability, and delivers cash collateral to a securities lender, thereby creating an asset. When the client terminates the short position, the client returns the shorted security to the banking organization in order to receive the short sale proceeds, thereby closing the liability. The banking organization returns the security to the securities lender, receiving back the cash collateral, thereby closing the asset.[19]

Since publication of the NSFR, the Basel Committee has specifically considered the liquidity risks of securities lending transactions and developed new criteria to ensure that securities lenders will be able to return the cash collateral to a banking organization without friction.[20] While these standards impose a general obligation on banking organizations to receive more collateral in a transaction than they provide in cash, there is an exception for securities lending transactions "if the lender of the securities reinvests the cash collateral into a reinvestment fund or account subject to regulations or regulatory guidance meeting the minimum standards for reinvestment of cash collateral by securities lenders" developed by the Basel Committee.[21] As a result, where securities lenders comply with these standards, a banking organization has additional assurances that it will be able to unwind a securities borrowing transaction that supports a client short position without material liquidity risk.

In addition, securities borrowing transactions in U.S. financial markets are subject to the Board's Regulation T. Under Regulation T, a banking organization is not permitted to borrow securities from a securities lender without a "permitted purpose," which includes obtaining securities to cover a client's short sale.[22] Regulation T effectively creates, by regulation, a connection between the client-facing liability and the securities lender-facing asset. In the absence of a Regulation T-recognized permitted purpose, the banking organization would not provide cash collateral to the securities lender.

The Proposal evaluates a banking organization's assets and liabilities in isolation, applying RSF and ASF factors, respectively, without any consideration for how specific liabilities support specific assets. In this case, the Proposal would apply zero percent ASF recognition to short sale proceed liabilities while imposing a 15 percent RSF requirement on cash collateral provided to securities lenders.[23] This mismatch in ASF and RSF calibrations will act as a drag on market efficiency, without a clear benefit to safety and soundness.

We respectfully recommend that the Agencies consider recognizing cash collateral provided to securities lenders and client short sale proceeds as interdependent assets and liabilities. In addition to the regulatory foundation of the Basel SFT Proposal and the Board's Regulation T, the Agencies could also

[19] In practice, a B-D subsidiary of a banking organization would execute these transactions.
[20] Basel Committee, *Haircut floors for non centrally cleared securities financing transactions* (Nov. 2015) ("**Basel SFT Proposal**").
[21] Basel SFT Proposal, ¶ 143(iv).
[22] In the absence of a permitted purpose, the B-D may be required to apply Regulation T margining requirements. *See* 12 C.F.R. § 220.10.
[23] Proposal §§ 104(c)(5) (zero percent ASF applied to short-dated liabilities owed to financial sector entity counterparties); 104(c)(3) (zero percent ASF applied to all liabilities owed to retail customers or counterparties that are not deposits or securities); 106(a)(4)(ii) (15 percent RSF applied to short-dated secured lending transactions with financial sector entity counterparties).

require that banking organizations adopt auditable policies and procedures requiring the concurrent management of offsetting assets and liabilities, and impose data reporting requirements to validate compliance with applicable standards. To the extent that any assets are not effectively funded by client-facing liabilities, higher RSF factors would apply. In combination, we believe these requirements and standards would meet the Basel NSFR framework's criteria for recognition of interdependent transactions.[24]

[24] We note that the Agencies expressed reservations in the Proposal about whether these transactions meet the Basel NSFR criteria. 81 Fed. Reg. at 35,156. However, the Proposal did not discuss the Basel SFT Proposal, Regulation T, the role of auditable policies and procedures, or the use of reporting metrics to demonstrate compliance.

Morgan Stanley strongly supports the Agencies' efforts to ensure prudent funding practices for banking organizations in the United States, and we appreciate the opportunity to provide comments on the Proposal. Please contact us if discussion of any of the points from our letter would be helpful.

Respectfully submitted,

Jonathan Pruzan
Executive Vice President and Chief Financial Officer

Annex

Morgan Stanley

Morgan Stanley
1Q16 Fixed Income Investor Call

May 5, 2016

Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Report on Form 10-K, Definitive Proxy Statement, Quarterly Reports on Form 10-Q and the Company's Current Reports on Form 8-K, as applicable, including any amendments thereto, which are available on www.morganstanley.com.

This presentation may contain forward-looking statements including the attainment of certain financial and other targets and goals. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. The Company does not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of forward-looking statements. For a discussion of risks and uncertainties that may affect the future results of the Company, please see the Company's most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as applicable, which are available on www.morganstanley.com. This presentation is not an offer to buy or sell any security.

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Agenda

Morgan Stanley

1 Business Summary Update

Last Twelve Month Net Revenues (ex-DVA[1])

~$32.5Bn [2]

Accomplishments

- Maintained leading franchise in Equity Sales & Trading and Investment Banking
- Continued execution on Bank strategy resulting in Net Interest Income growth; Wealth Management margin improvement
- Progress on Fixed Income strategy
- Progress underway on Project Streamline expense reduction work

Headwinds

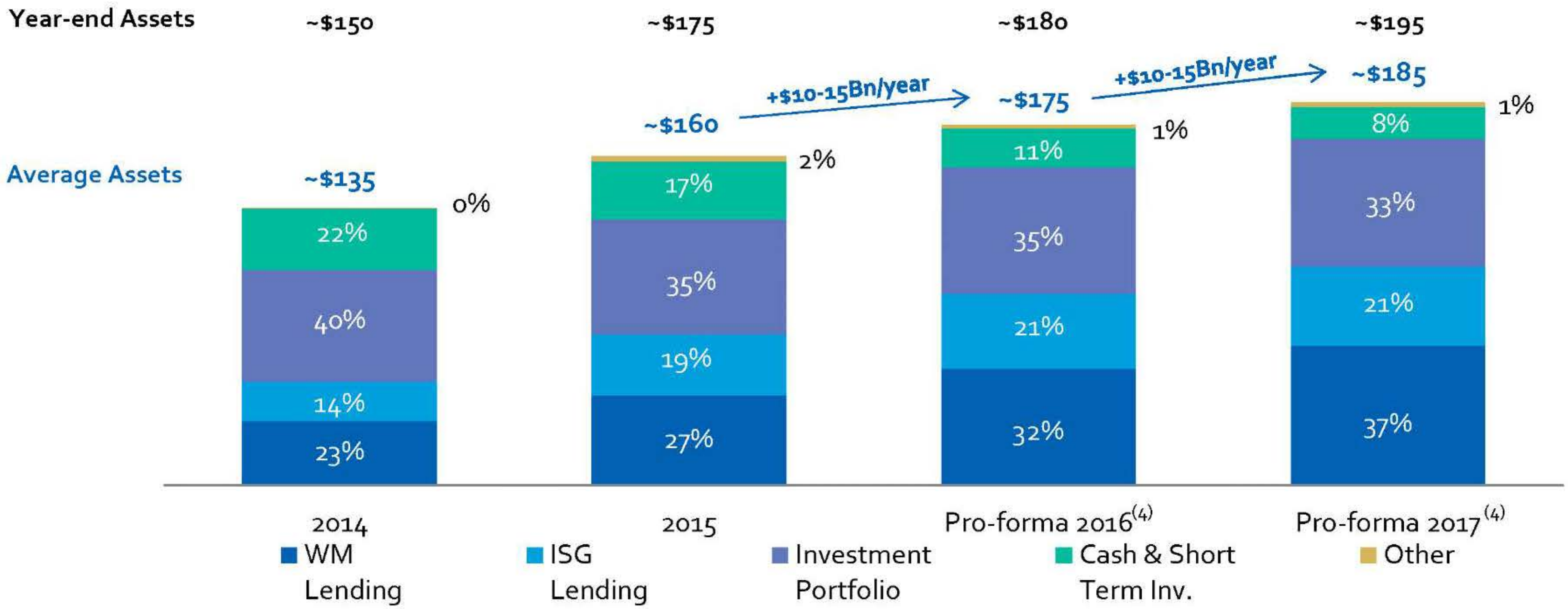
- Concerns about global growth, China, commodities and interest rates
- Divergent performance of global indices and mixed results across international markets
- Negative impact of continued low oil prices on energy complex
- Muted client activity

1. Effective January 1, 2016, the Firm early adopted the provision of new accounting guidance that required unrealized gains and losses from Morgan Stanley's DVA to be presented in Other Comprehensive Income as opposed to Net Revenues. Results for periods prior to 2016 were not restated pursuant to this guidance.
2. Last Twelve Month Net Revenues represent results for 2Q15-1Q16 and exclude the positive impact of $493 million from DVA for the periods 2Q15-4Q15. "Other" includes Other Sales & Trading, Investments, ISG Other Revenue, and Intersegment eliminations. Net Revenues ex-DVA are a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance.

Morgan Stanley

NII Upside Driven by Ongoing Execution of U.S. Bank Strategy In Wealth Management & Institutional Securities

Combined U.S. Bank Assets ($Bn) (1)(2)



Average Yields(3)	2014	2015
Cash & ST Investments	~0.3%	~0.4%
Investment Portfolio	~1.0%	~1.3%
Lending	~2.8%	~2.8%

+25bps increase in rates over 2 years(3)

Future Yield Opportunity(3)	
Cash & ST Investments	~0.5%
Investment Portfolio	~1.5%
Lending	~3.0%

1. Combined bank assets represent assets in U.S. Bank Subsidiaries: Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA).
2. Figures may not sum due to rounding.
3. "Average yields" for 2014 and 2015 are based on respective full year. Pro forma Future Yield Opportunity is based off forward interest rate curves.
4. The attainment of these pro forma asset targets and future yield opportunity in 2016 and 2017 may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

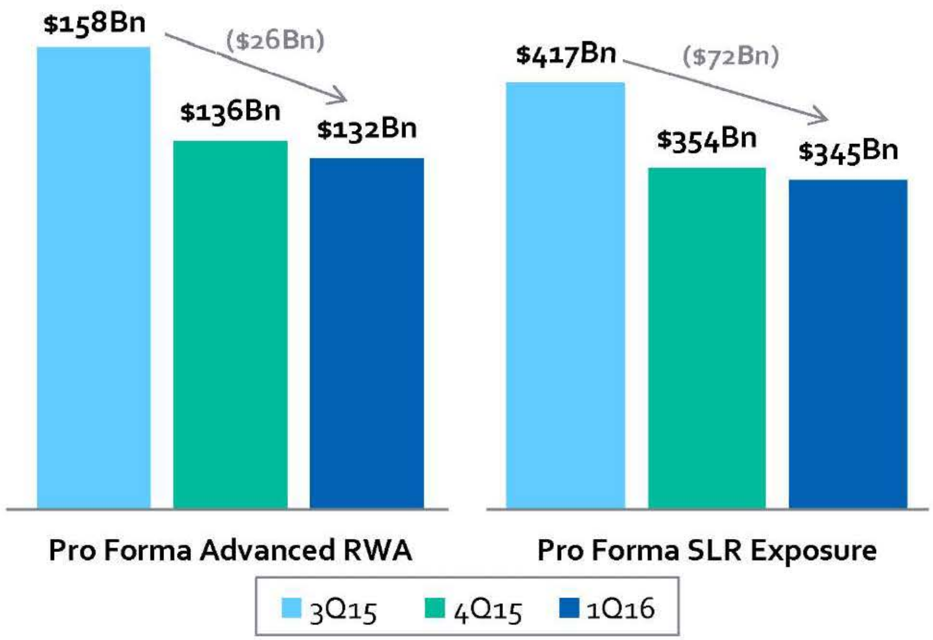
Next Phase of Expense Reduction: Project Streamline 2016 – 2017

ONGOING FOCUS ON STRUCTURALLY SIMPLIFYING THE ORGANIZATION	• Ongoing area of focus and execution with benefit over the medium term
LOCATION STRATEGY	• Acceleration of ongoing efforts to further optimize location strategy in first half of 2016; achievable given existing centers of excellence
LEVERAGE TECHNOLOGY TO RATIONALIZE INFRASTRUCTURE	• High level of near term focus • Opportunity for meaningful cost savings while investing over medium term through cross asset-class and cross-business technology conversion • Outsource to vendors and industry consortia
CONSOLIDATE PROCESSES	• Multiple initiatives underway in business and support levels
FURTHER OUTSOURCING	• Currently re-examining additional processes suitable for outsourcing • Execution to occur over medium term

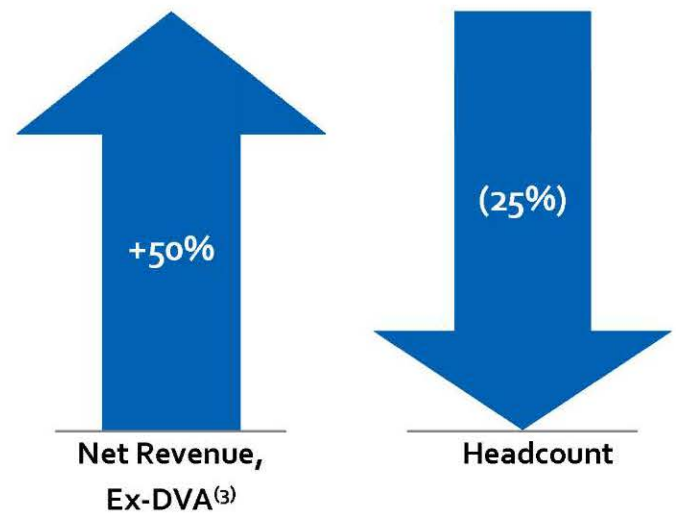
Fixed Income and Commodities Progress

- In January we set new targets of <$110Bn RWA and <$250Bn SLR exposure
- Over time, FIC will require $5Bn to $8Bn less capital

Fixed Income and Commodities (excluding Lending)[1][2]



Fixed Income and Commodities: 1Q16 vs. 3Q15



1. All figures presented exclude risk-weighted assets ("RWAs") and leverage exposure associated with lending.
2. The Company estimates its pro forma fully phased-in Advanced RWAs and pro forma fully phased-in Supplementary Leverage ("SLR") exposure based on the Company's current assessment of the Basel III final rules and other factors, including the Company's expectations and interpretations of the proposed requirements, which may be subject to change as the Company receives additional clarification and guidance from the Federal Reserve. These pro forma calculations are non-GAAP financial measures that the Company consider to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements.
3. Net revenues ex-DVA are a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance. Effective January 1, 2016, the Firm early adopted the provision of new accounting guidance that required unrealized gains and losses from Morgan Stanley's DVA to be presented in Other comprehensive income as opposed to net revenues. Results for periods prior to 2016 were not restated pursuant to this guidance.

Changes to Firm's Required Capital Framework

Required Capital Framework

- Firm's internal capital adequacy framework used to assess capital at a point-in-time
- New method calculated under fully phased-in regulatory capital vs. transitional basis
- Risk-based and leverage use-of-capital under both business as usual as well as stressed scenarios
- Segment allocated common equity calculated annually
  - Parent common equity will fluctuate based on the Firm's financial performance and return of capital

Average Common Equity(1)(2)

Division	1Q16 New Method	4Q15 Prior Method
Institutional Securities	43.2	32.3
Wealth Management	15.3	12.0
Investment Management	2.8	2.0
Parent	6.9	21.4
Total	**68.2**	**67.7**

1. Effective January 1, 2016, the common equity allocated to the business segments will be set at the beginning of the each year, and will remain fixed throughout the year, until the next annual reset. Differences between available and Required Capital will be reflected in Parent equity during the year.
2. Average common equity is a non-GAAP financial measure that the Company and investors consider to be useful to assess capital adequacy.

2 Liability Management: Centralized Structure and Strong Governance

- Liability management framework supported by strong, centralized governance, ensuring funding durability and providing stability in all environments

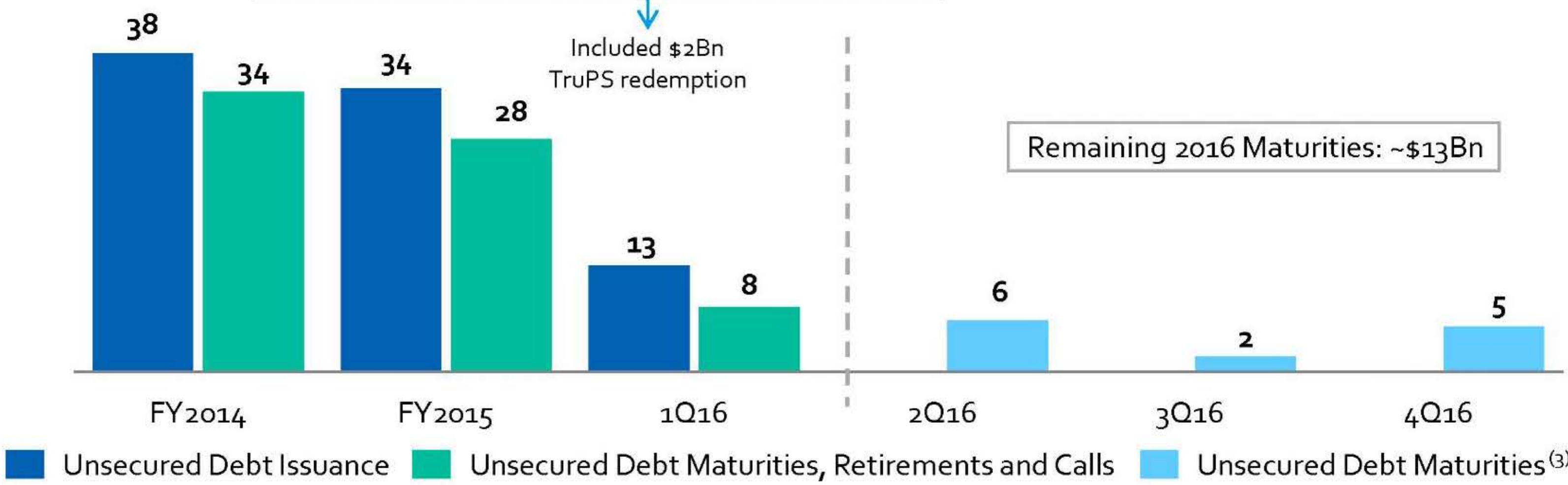
PRIMARY SOURCES OF FUNDING		% OF FUNDING SINCE 3Q13
Long-Term Debt	Weighted average maturity of ~6 years; Morgan Stanley issues predominantly from the holding company	↑
Deposits	Primarily sweep deposits sourced from Wealth Management clients	↑
Secured Funding	Duration of liabilities greater than duration of assets; weighted average maturity in excess of 120 days	↓

Unsecured Borrowings: Key Source of Funding

- In 2015, we issued ~$34Bn of unsecured debt, which includes:
  - ~$32Bn of senior unsecured debt
  - $2Bn of subordinated debt
- Exceeded 1Q16 maturities with ~$13Bn of unsecured debt issuance across tenors, currencies, and channels
  - Continue to issue majority of unsecured debt from the Parent while optimizing issuance on other entities
- Long-term unsecured debt outstanding at March 31, 2016 was $163Bn, up $9Bn vs. December 31, 2015 (1)

Unsecured Debt Issuance ($Bn)

($Bn)	FY2014 (2)	FY2015	1Q16 (2)	2Q-4Q16
Maturities	23	19	6	13
Retirements / Calls	10	9	1	-

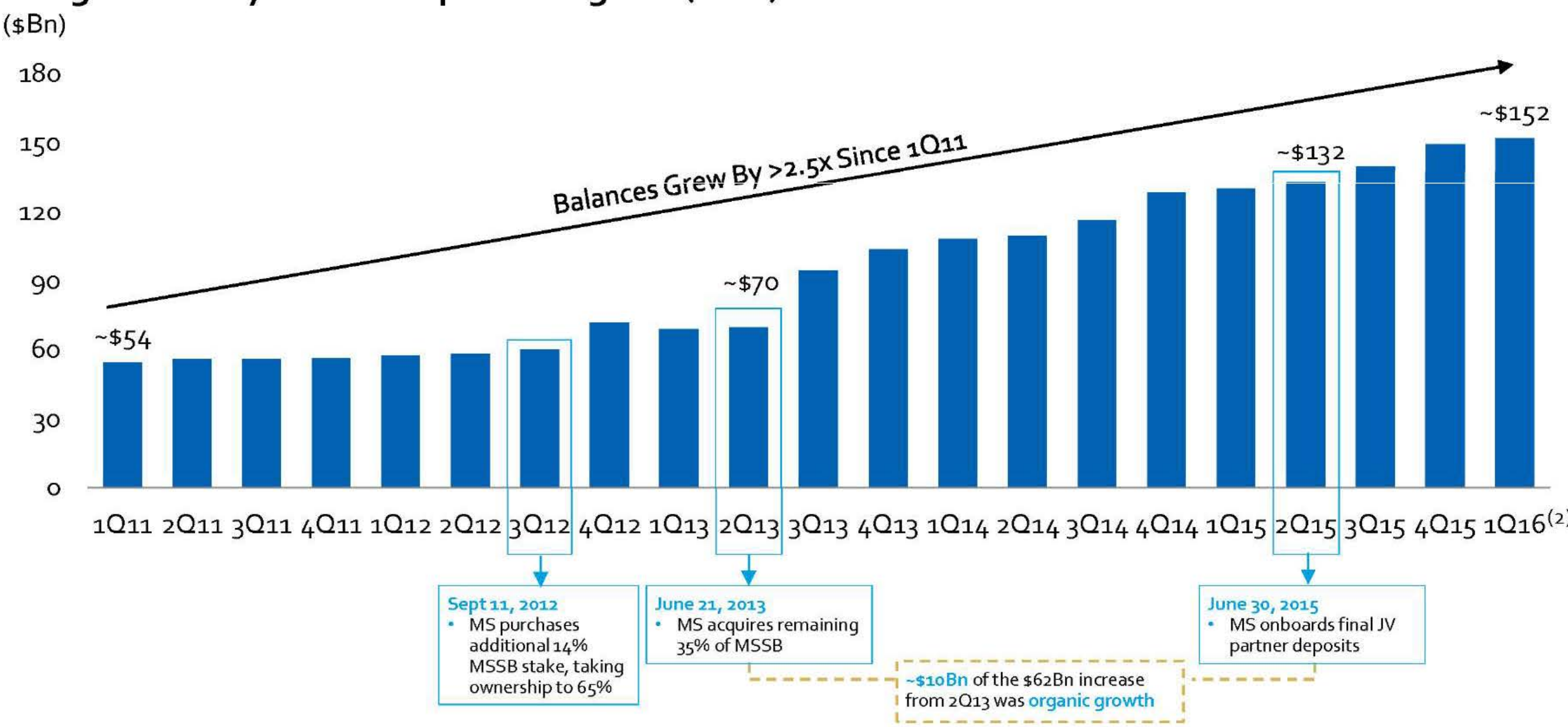


1. Includes positive net issuance, and changes related to FX, interest rates, or movements in the reference price or index for structured notes
2. Figures may not sum due to rounding
3. Based on contractual maturity date

Deposits Have Grown Steadily Due to Transfers from Former JV Partner and Organic Growth

Clients Remain Risk-Off Due to Volatile Market Environment, Higher Deposit Balances

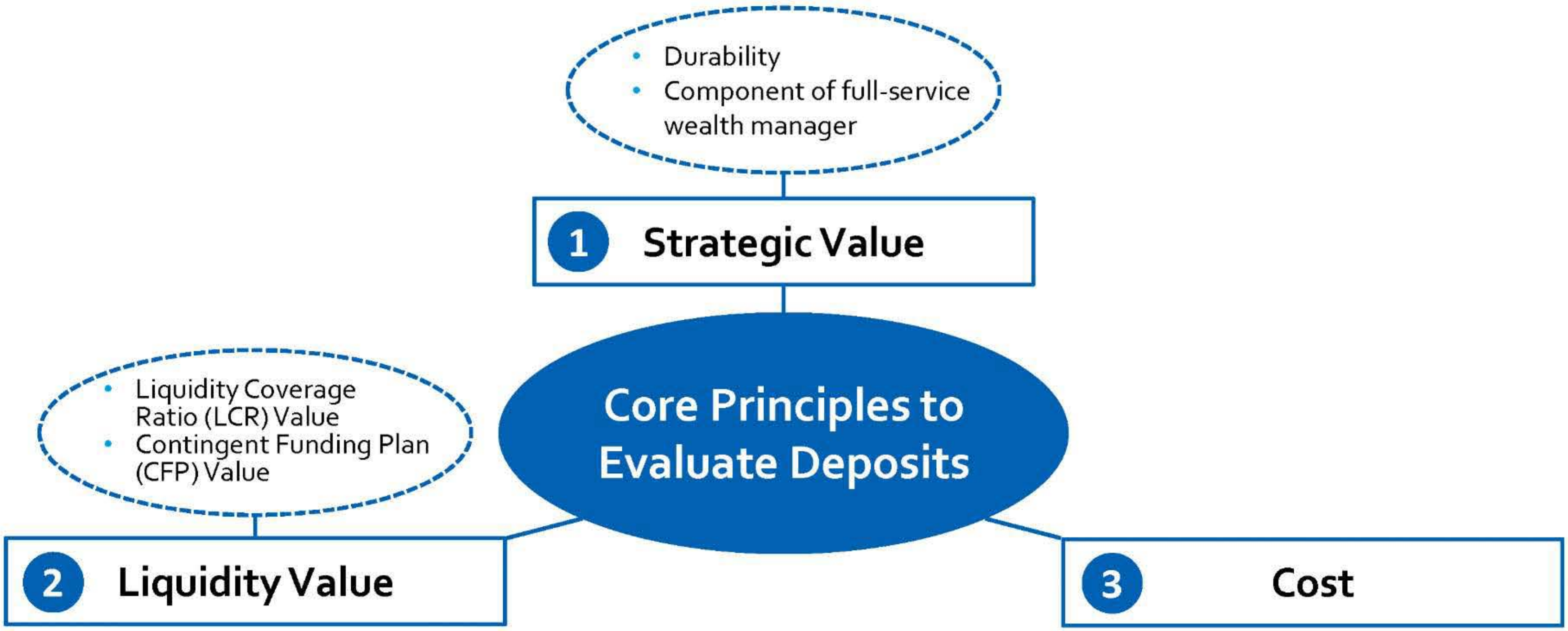
Morgan Stanley's Bank Deposit Program (BDP) Balances [1]



1. Balances in the bank deposit program held by the Firm's U.S. Bank Subsidiaries
2. The Firm's total deposits are ~$158Bn as of 1Q16, including BDP as well as deposits from non-U.S. banks and other deposits

Deposit Strategy Supported By Three Core Principles

- **Key near-term focus is to optimize existing deposit levels to support loan growth**



Four Pillars of Secured Funding Ensure Durability and Stability

1 Significant Weighted Average Maturity
- Enhances durability

2 Maturity Limit Structure
- Reduces roll-over risk

3 Investor Limit Structure
- Minimizes concentration with any single investor, in aggregate and in any given month

4 Spare Capacity
- Valuable additional funding for managing through both favorable and stressed markets

Underlying Principles of the Four Pillars of Secured Funding

Four Pillars of Secured Funding

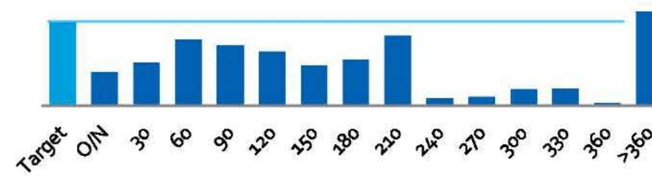
1 SIGNIFICANT WEIGHTED AVERAGE MATURITY (WAM)

- Criteria-based model sources appropriate term funding consistent with liquidity profile of underlying assets
- Durability and transparency are at the core of Morgan Stanley's secured funding model
  - In 2009, began WAM extension
  - Became a leader in 2011 in disclosing WAM for less-liquid assets, with **a target of >120 days** (1)

2 MATURITY LIMIT STRUCTURE

- Target less than 15% of non-Super Green(2) liabilities maturing in any given month

Illustrative Non-Super Green Maturity Profile (3)(4)

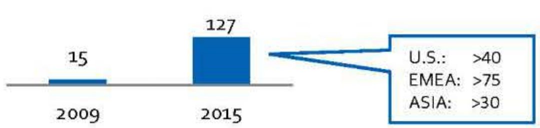


3 INVESTOR LIMIT STRUCTURE

- Maximum total exposure per investor across all maturities of 15% of non-Super Green(2) book
- Maximum monthly investor concentration of 25% of the maturities allowed in any given month

Diversified Global Investor Base

Number of Term Investors (3)(5)



4 SPARE CAPACITY

- Sourcing non-Super Green(2) liabilities in excess of non-Super Green inventory
- In favorable markets, Spare Capacity supports business growth
- In stressed markets, Spare Capacity serves as a first line of defense against reduced roll rates
  - Eliminates liquidity outflows for first 30 days of a stress event that impairs secured markets, and reduces the need thereafter

1. As of March 31, 2016 the weighted average maturity of secured financing, excluding Super Green assets, was greater than 120 days.
2. See slide 15 for a definition of super green and non-super green.
3. As of March 31, 2016.
4. Represents secured funding balance maturing in 30-day increments. Illustrative; not to scale.
5. Represents unique investors providing term financing >30 days for non-Super Green assets; geographic breakdown includes some overlap across regions.

Strict Governance Framework Ensures Appropriate Term Consistent with Asset Fundability

Rules-based criteria determine asset fundability

- **Highly Liquid (Governments, Agencies, Open Market Operations and Central Clearing Counterparty eligible collateral)**
- **Liquid (Investment Grade Debt and Primary/Secondary Index Equities)**
- **Less Liquid (Convertible Bonds, Emerging Market Sovereigns)**
- **Illiquid (Sub-Investment Grade ABS, Non Index Equities, Non-Rated Debt)**

FUNDABILITY CRITERIA

- Eligible for financing through Open Market Operations (OMO) and/or 23A Exempt and Fed Discount Window eligible
- Central counterparty (CCP) clearing eligible
- Government securities or other securities with full faith and credit of the Government
- Market haircuts
- Investor depth (number of investors that accept the asset class)
- Capacity in secured financing market, consistent with term limits

Fundability Definition

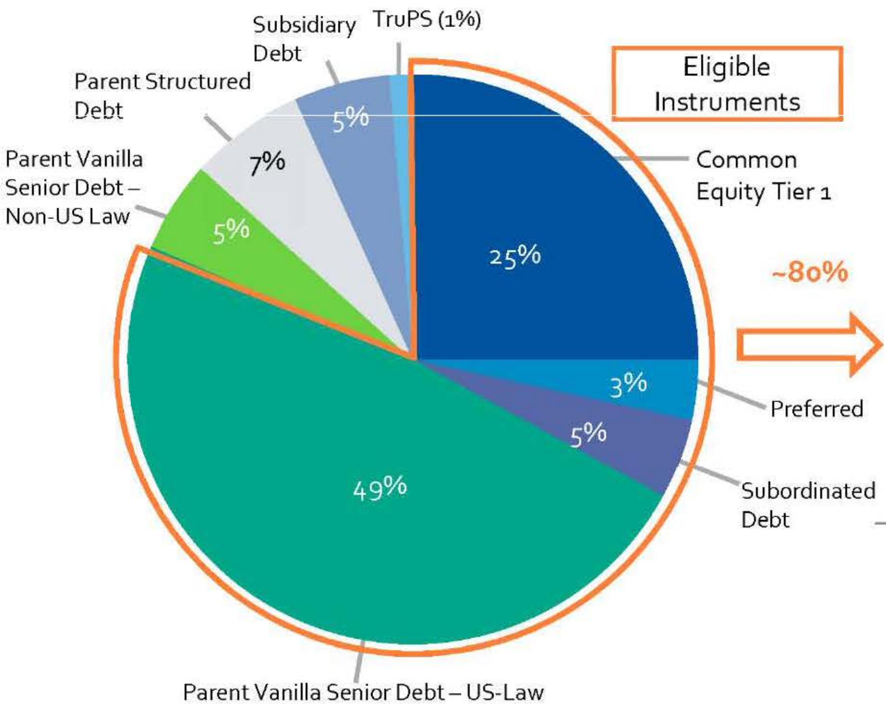
FUNDABILITY	OMO ELIGIBLE AND / OR 23A EXEMPT AND FED DW ELIGIBLE	CCP ELIGIBLE	GOVT. SEC / GOVT. FULL FAITH AND CREDIT	MARKET HAIRCUT	INVESTOR DEPTH	SECURED FINANCING CAPACITY	% OF BOOK [1]
SUPER GREEN	✓	✓	✓	< 10%	> 50	100%	61%
GREEN				<= 15%	>= 15	>= 95%	37%
AMBER				> 15%	>= 10	>= 60%	1%
RED				> 20%	< 10	< 60%	1%

1. As of March 31, 2016.

3 Positioned For Upcoming TLAC Regulation

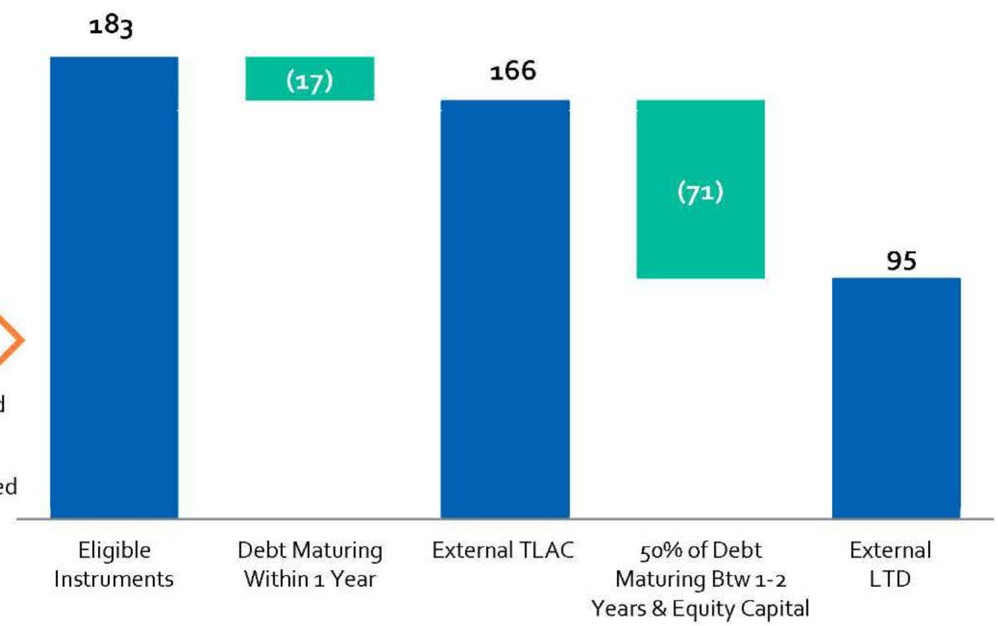
Based on Morgan Stanley's Interpretation of U.S. NPR Released on October 30, 2015(1)(2)(3)(4)

1Q16 Outstanding Debt & Capital Instruments (%)



Total Outstanding: $224Bn

Eligible External TLAC & Long-Term Debt Requirements ($Bn)



	External TLAC	External LTD
% RWAs	~43%	~24%
% Leverage	~15%	~8%

1. The Company estimates its pro forma External Total Loss Absorbing Capacity ("TLAC") and pro forma External Long Term Debt ("LTD") requirements based on the Company's current assessment of the notice of proposed rule making ("NPR") released on October 30, 2015. Our interpretation of the NPR includes the Company's expectations of the proposed requirements, which may be subject to change as the Company receives additional clarification and guidance. These pro forma calculations are non-GAAP financial measures that the Company consider to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements
2. Eligible instruments include debt with acceleration clauses for reasons other than insolvency or payment default
3. Debt securities reported at outstanding notional value
4. Capital ratios and components calculated on a U.S. Basel III fully phased-in basis

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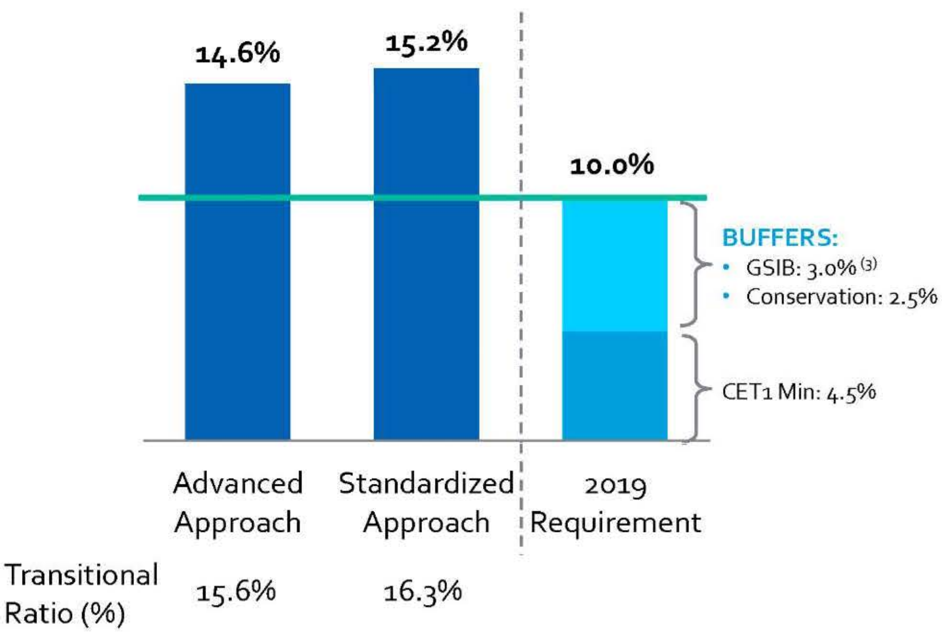
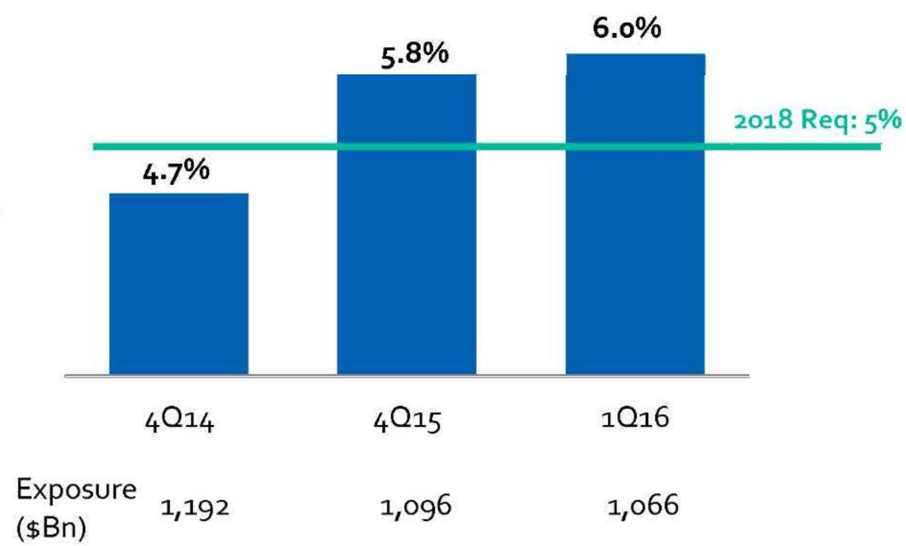
Common Equity Tier 1 and Supplementary Leverage Ratios Above Fully Phased-in Requirements[1]

1Q16 Pro Forma Fully Phased-In Common Equity Tier 1 Ratio (%)[2]



Pro Forma Fully Phased-In U.S. Supplementary Leverage Ratio (%)[2]



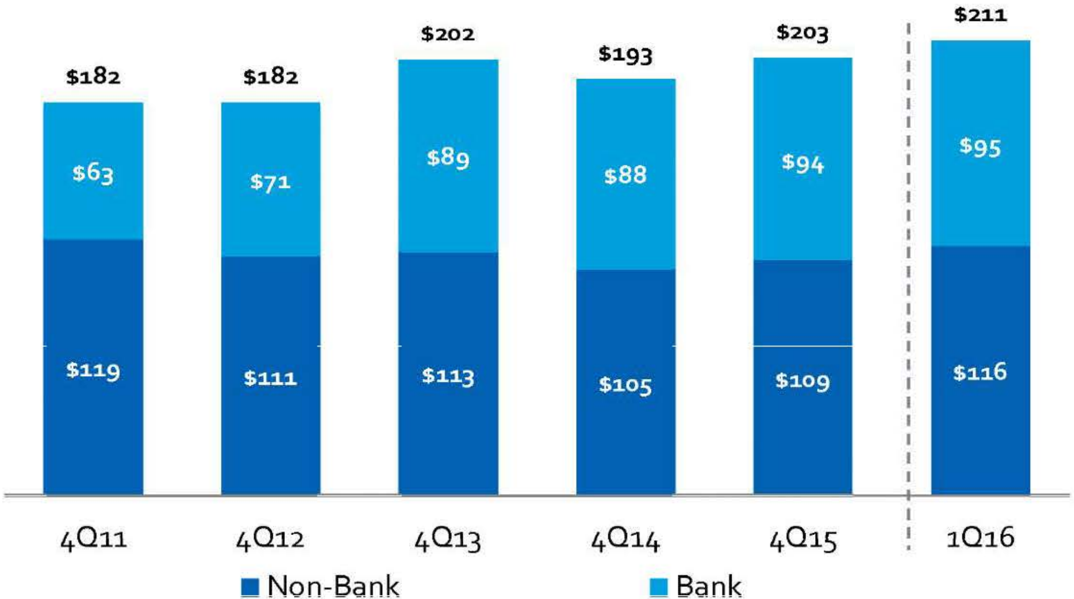
1. Pro forma Basel III Common Equity Tier 1 ratio and pro forma Supplementary Leverage ratio are non-GAAP financial measures that the Company considers to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements.
2. The Company estimates pro forma fully phased-in Common Equity Tier 1 ratio and pro forma fully phased-in Supplementary Leverage ratio based on the Company's current assessment of the Basel III final rules and other factors, including the Company's expectations and interpretations of the proposed requirements. These estimates may be subject to change as the Company receives additional clarification and guidance from the Federal Reserve.
3. GSIB buffer calculated under the July 20, 2015, FRB final rule for determining a global systemically important bank's GSIB surcharge.

4 Significant Global Liquidity Position

Pro Forma Liquidity Coverage Ratio (1)

- The Company is compliant with the U.S. LCR requirements

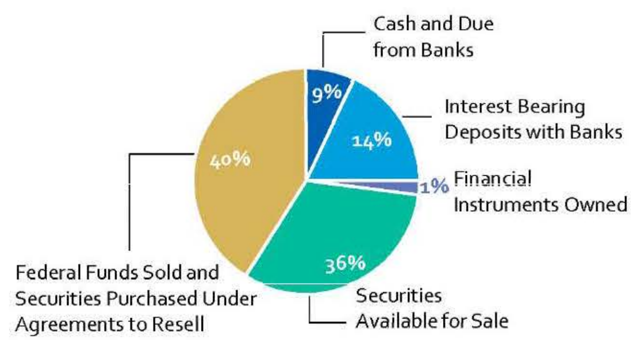
Period End Liquidity ($Bn)



Composition of the Liquidity Reserve at 1Q16

TYPE OF INVESTMENT	($Bn)
CASH / CASH EQUIVALENTS	48
UNENCUMBERED LIQUID SECURITIES	163
TOTAL	211

Detailed Breakdown of Liquidity Reserve (2)



1. The Company calculates its pro forma LCR based on its current interpretation of the final Federal Reserve Bank rule published in September 2014. Pro forma LCR is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to evaluate compliance with future regulatory capital requirements.

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Appendix

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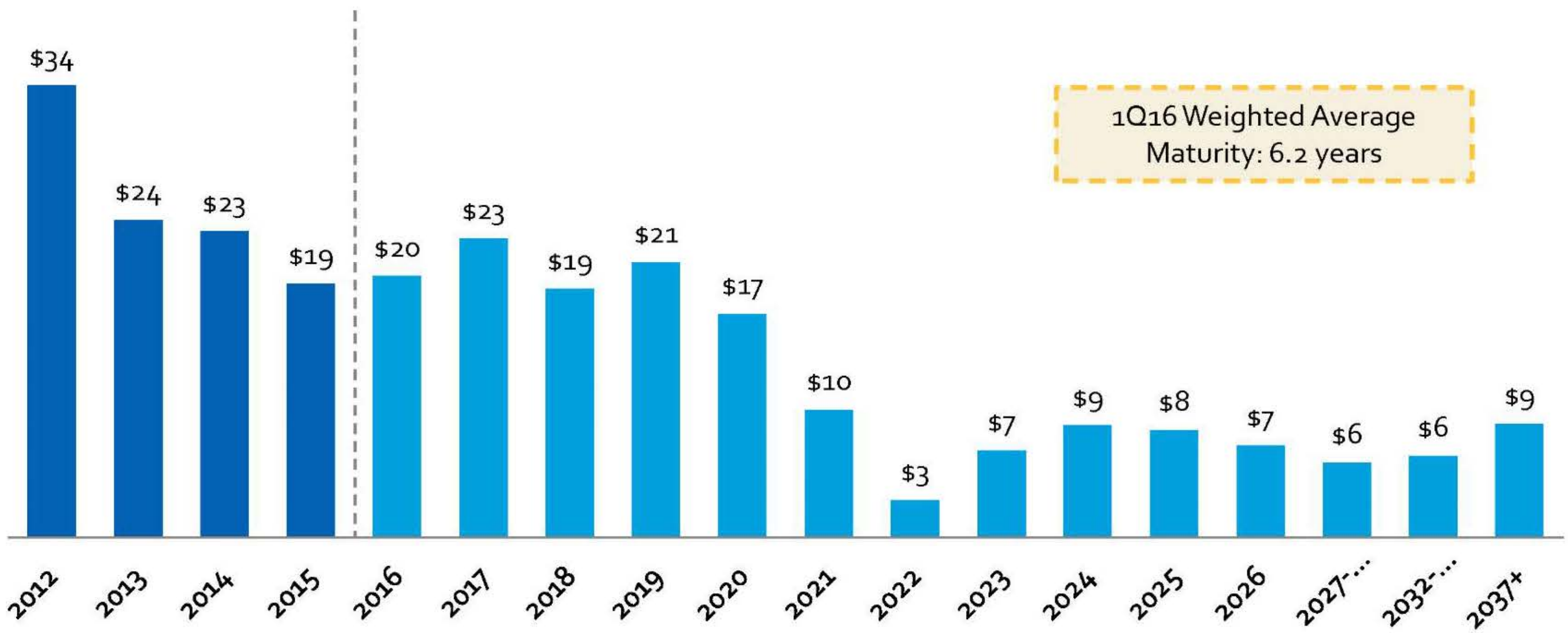
Extending Maturity Profile of Unsecured Borrowings

Total Short-Term and Long-Term Maturities (1)(2)(3)

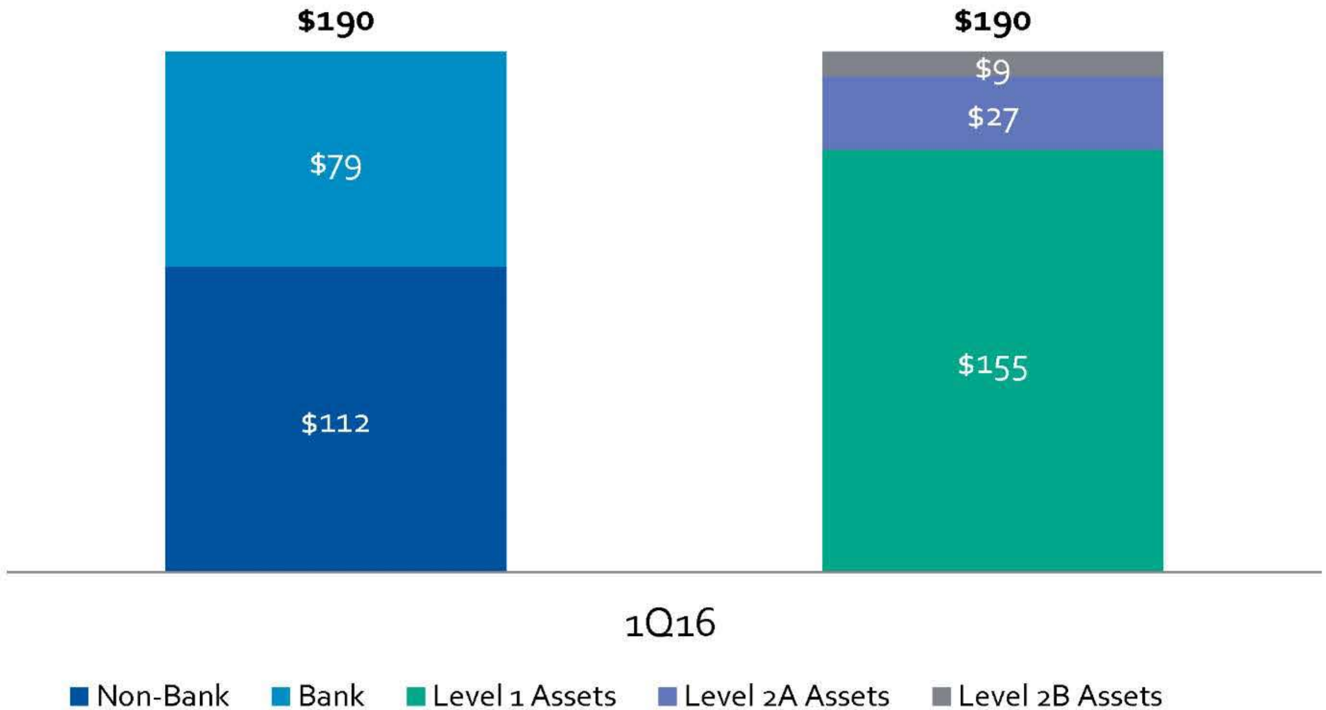
($Bn)



1. As of March 31, 2016
2. Total short-term and long-term maturities include Plain Vanilla (Senior Unsecured Debt, Subordinated Debt, Trust Preferred Securities), Structured Notes and Commercial Paper. Maturities are based on contractual maturities.
3. Excludes assumptions for secondary buyback activity.

High Quality Liquid Assets (HQLA)

Pro Forma High Quality Liquidity Assets ($Bn)[1]



1. Pro forma High Quality Liquid Assets is based on the current interpretation of the final Federal Reserve Bank LCR rule published in September 2014 and estimated as of March 31, 2016. These estimates are preliminary and are subject to change. Pro forma HQLA is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to evaluate compliance with future regulatory capital requirements.

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1Q16 Fixed Income Investor Call

May 5, 2016