

<b>BIPRU DISCLOSURES: REMUNERATION FOR YEAR ENDED DECEMBER 31, 2011</b>	<b>2</b>
Code Staff	2
<b>1. DECISION-MAKING PROCESS USED FOR DETERMINING THE REMUNERATION POLICY</b>	<b>2</b>
Composition and mandate of the Remuneration Committee	2
Role of relevant stakeholders and external consultant	2
<b>2. LINK BETWEEN PAY AND PERFORMANCE</b>	<b>3</b>
<b>3. DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM</b>	<b>3</b>
Risk Adjustment	5
Performance Measurement	5
<b>4. PERFORMANCE CRITERIA ON WHICH THE ENTITLEMENT TO SHARES OR VARIABLE REMUNERATION IS BASED</b>	<b>5</b>
<b>5. MAIN PARAMETERS AND RATIONALE FOR ANY VARIABLE COMPONENT SCHEME AND ANY OTHER NON-CASH BENEFIT</b>	<b>5</b>
<b>6. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA</b>	<b>6</b>
<b>7. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE FIRM</b>	<b>6</b>
A. Amounts of remuneration for financial year 2011, split into fixed and variable remuneration, and the number of beneficiaries	6
B. Amounts and forms of variable remuneration for 2011, split into cash, shares, share-linked instruments and other types	6
C. Amounts of outstanding deferred remuneration, split into vested and unvested portions	6
D. Amounts of deferred remuneration awarded during the financial year 2011, paid out and reduced through performance adjustments	6
E. New sign-on and severance payments made during the financial year 2011, and the number of beneficiaries of those payments	6
F. Amounts of severance payments awarded during the financial year 2011, number of beneficiaries and highest such award to a single person	7

## **BIPRU DISCLOSURES: REMUNERATION FOR YEAR ENDED DECEMBER 31, 2011**

In recent years, Morgan Stanley has made significant changes to our compensation programs in response to the lasting impact of the global financial crisis on the industry. For 2011, Morgan Stanley continued to refine the way we pay our employees, consistent with global regulatory principles, the Company's risk policies, the Company's performance and the broader economic environment. As a result, a significantly greater portion of total compensation is "at-risk," subject to cancellation and clawback and for the most senior executives continues to be closely tied to long-term Company performance.

### **Code Staff**

The information outlined in this disclosure relates primarily to Senior Management and staff whose professional activities have a material impact on the risk profile of the Firm in the UK and global subsidiaries of the UK regulated entities, as required in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), Chapter 11, clauses 5.18 (1) through (7). The following criteria are used in the determination of this category of staff, known as Code Staff:

- Individuals performing a Significant Influence Function (a SIF);
- Senior Management, including Control Functions (not otherwise included as a SIF);
- Risk takers (not otherwise included in the above categories); or
- Other risk takers whose total compensation may put them into the same compensation bracket as senior management and whose professional activities have a material impact on the risk profile of the Firm.

Human Resources continued to enhance the way in which we monitor and manage the composition of employees considered Code Staff throughout the year, through reviews with Control Function Heads, Senior Management and Business Unit Heads. There is also ongoing dialogue among Legal and Compliance, Risk Functions and Human Resources to analyze, for example, whether changes in organizational or functional responsibilities, employees' individual risk profiles and/or remuneration warrant any change in Code Staff designations. In addition, the Company analyses risk capital thresholds in the overseas subsidiaries and branches to ascertain the material risk posed therein to ensure Code Staff representation where necessary.

## **1. DECISION-MAKING PROCESS USED FOR DETERMINING THE REMUNERATION POLICY**

### **Composition and mandate of the Remuneration Committee**

The Remuneration Committee of Morgan Stanley is the Compensation, Management Development and Succession

(CMDS) Committee of the Morgan Stanley Board of Directors, which consists of four directors all of whom are independent under the New York Stock Exchange listing standards and the independence requirements of the Company. In 2011, the CMDS Committee members were Erskine B. Bowles (Chair), C. Robert Kidder (Lead Director), Donald T. Nicolaisen and Hutham S. Olayan. The CMDS Committee held 14 meetings during 2011. The CMDS Committee Charter is available on our website at <http://www.morganstanley.com/about/company/governance/comchart.html>.

Each year, the CMDS Committee reviews and approves, as appropriate, the year-end incentive compensation pool for variable compensation and long-term incentive awards and the design and structure of our compensation programs, including the form of awards, deferral formulas, timing of payments and vesting and cancellation provisions. The CMDS Committee also reviews and approves annually base salary and year-end equity and cash-based long-term incentive compensation decisions for executive officers and other officers as the Committee determines appropriate. Year-end incentive awards are typically granted to eligible employees after the end of the calendar year, which allows the CMDS Committee to evaluate individual and Company performance.

### **Role of relevant stakeholders and external consultant**

The CMDS Committee receives updates throughout the year on matters affecting compensation, including regulatory and legislative guidance. It also works with the Chief Risk Officer annually to evaluate whether the Company's compensation programs encourage unnecessary or excessive risk-taking and whether risks arising from the Company's compensation arrangements, if any, are reasonably likely to have a material adverse affect on the Company.

The CMDS Committee retains the services of a qualified and independent compensation consultant that possesses the necessary skill, experience and resources to meet the CMDS Committee's needs and that has no relationship with the Company that would interfere with its ability to provide independent advice. The consultant assists the CMDS Committee in collecting and evaluating external market data regarding executive compensation and performance, and advises the CMDS Committee on developing trends and best practices in compensation and long-term incentive plan design.

The independent compensation consultant generally attends all CMDS Committee meetings, reports directly to the CMDS Committee Chairman and regularly meets with the CMDS Committee without management present.

In addition, the Chairman of the CMDS Committee regularly speaks with the independent compensation consultant, without management, outside of Committee meetings. As a good corporate governance practice, the CMDS Committee periodically reviews and may change the independent compensation consultant.

The CMDS Committee selected Hay Group as its independent compensation consultant for 2011. Hay Group was also retained by the Nominating and Governance Committee to provide consulting services on Board compensation. Other than the consulting services that it provided to the CMDS and Nominating and Governance Committees in 2011, Hay Group provided no services to the Company or its executive officers in 2011.

## 2. LINK BETWEEN PAY AND PERFORMANCE

Morgan Stanley has a clear and well-defined “pay-for-performance” philosophy that pervades our culture and motivates our employees. This philosophy is exhibited in our compensation programs and is reflected in our 2011 compensation decisions. Our compensation programs are designed to achieve four key objectives. These objectives are considered and applied, as applicable, across our employee population.

- 1. Deliver Pay-for-Performance.** The core of our discretionary compensation program emphasizes variable and long-term incentive compensation that is clearly linked to Company and individual performance. This approach encourages eligible employees to balance increasing financial performance and shareholder value over the year with achievement of the Company’s long-term strategic priorities. It is also designed to reward superior individual performance and promote a shared long-term view among eligible employees.
- 2. Attract and Retain Top Talent.** The Company competes for talent globally with investment banks, commercial banks, brokerage firms, hedge funds and other companies offering financial services, and the Company’s ability to sustain or improve its position in this highly competitive environment depends substantially on its ability to continue to attract and retain the most highly qualified employees. As part of the Company’s effort to be competitive in retaining top talent, our long-term incentive awards include holdback, cancellation and clawback provisions to protect the Company’s interests and to encourage employees not to leave the Company for a competitor.
- 3. Align Compensation with Shareholders’ Interests.** The Company delivers a significant portion of long-term incentive compensation in equity awards to align employee interests with those of shareholders. Linking incentive compensation to Company results over the year

and delivering it primarily as deferred long-term incentive awards that are subject to market and cancellation risk over the course of several years helps motivate employees to achieve financial and strategic goals. In addition, under our Equity Ownership Commitment, executive officers and members of the Company’s Operating Committee are required to retain at least 75% of common stock and equity awards (less allowances for the payment of any option exercise price and taxes) made to them while they are on the Operating Committee. This commitment ties a portion of our executives’ compensation to the Company’s stock price and provides a continuing incentive for them to work towards superior long-term stock price performance.

- 4. Mitigate Excessive Risk-taking.** The CMDS Committee is advised by the Chief Risk Officer together with its independent consultant to help ensure that the structure and design of compensation arrangements do not encourage unnecessary or excessive risk-taking that threatens the Company’s interests or gives rise to risk that could have a material adverse effect on the Company. As noted above, the Chief Risk Officer conducts an annual review of Morgan Stanley’s compensation programs and reports his findings to the CMDS Committee. In 2011, he determined that such programs do not incentivize employees to take unnecessary or excessive risk and that such programs do not create risks that are reasonably likely to have a material adverse effect on the Company.

## 3. DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM

Compensation programs for the majority of employees are comprised of two key elements:

- Fixed pay that is reviewed at least annually, although may remain unchanged; and
- Year-end variable compensation that is at-risk and discretionary based on risk-adjustment and performance measures outlined below.

Year-end variable compensation for Code Staff in 2011 was payable in cash, stock bonus awards and a mix of deferred cash-based and equity awards. It was structured in the following way to ensure full compliance with the FSA’s Remuneration Principle 12 (“Remuneration Structures”):

- 40% to 60% of year-end incentive compensation is deferred over a period of three years;
- 50% of the deferred components are in the form of deferred cash-based awards and 50% in equity awards;
- 50% of the non-deferred components are awarded as stock bonus awards, with the remaining 50% as cash; and
- Both deferred and non-deferred equity awards are subject to a 6-month post-vest transfer/sale restriction and Code

Staff are also prohibited from engaging in hedging strategies, selling short or trading derivatives with Company securities.

Code Staff whose (i) variable compensation is no more than 33% of their total compensation, and (ii) whose total compensation is no more than £500,000 (or the local currency equivalent) were not subject to the full scope of FSA Remuneration Principles, but were also eligible to receive the Firm's deferral structure for non-Code Staff,

under which the deferral is based on a tax table that ranges from 50% to 100% of variable compensation. 67% of deferred components were granted in the form of deferred cash-based awards, paid over 2 years and 33% in equity awards, paid over 3 years.

The following table provides details of the principal year-end variable compensation elements for Code Staff in 2011, including the deferral policy and vesting criteria.

Code Staff Compensation Elements	Description	Cancellation and clawback features
a. Deferred Cash-Based Awards	Deferred cash-based awards offer participants the ability to notionally invest their awards in certain reference investments, and awards are payable, and cancellation provisions lift, pro-rata over the three years following grant.	The following clawback provision applies to deferred cash-based awards and RSUs and, with the exception of clauses (a)(iii) and (b), stock bonus awards and PSUs:
b. Restricted Stock Units (RSUs)	RSUs align employee interests with those of shareholders. RSUs convert to shares of Morgan Stanley common stock, and cancellation provisions lift, pro-rata over the three years following grant.	All vested and unvested awards are subject to cancellation until the applicable Scheduled Distribution/Conversion Date if any of the following events occur:
	RSUs are also used as stock bonus awards for the portion of non-deferred equity, and vest after 6 months.	(a) the employee takes any action, or omits to take any action (including with respect to direct supervisory responsibilities), where such action or omission:
	Employees receive dividend equivalents with respect to the RSUs in the form of additional RSUs, which are subject to the same vesting, cancellation and payment provisions as the RSUs to which dividend equivalents relate. RSUs provide for voting rights.	i. causes a restatement of the Firm's consolidated financial results;
c. Performance Stock Units (PSUs)	"At-risk" PSUs vest and pay out after a three-year performance period, with the number of PSUs ultimately earned determined by the Company's performance against predetermined goals that are established by the CMDS Committee. If the minimum performance is not met, the executives will receive no compensation under this program.	ii. constitutes a violation of the Firm's risk policies and standards (where prior authorization and approval of appropriate senior management was not obtained) whether such action results in a favorable or unfavorable impact to the Firm's consolidated financial results; or
(for Code Staff who are also on the Company's Management Committee)	PSUs accumulate cash dividend equivalents that are paid only to the extent the underlying units convert to shares. PSUs do not provide for voting rights before they convert to shares.	iii. causes, or is reasonably expected to cause, a substantial financial loss on a trading strategy, investment, commitment or other holding originating either in the current year or in any prior year (without the prior understanding of the possibility and magnitude of such loss by appropriate senior management) and such trading strategy, investment, commitment or other holding was a factor in award determination; or
	To the extent shares are delivered after the three-year performance period and the CMDS Committee determines the performance was based on materially inaccurate financial statements or criteria, the applicable number of shares (or cash equivalent) would be subject to repayment.	(b) The Firm and/or relevant business unit subsequently suffers a material downturn in its financial performance or the Firm and/or relevant business unit suffers a material failure of risk management.
		Cancellation events include competition, conduct constituting cause, disclosure of proprietary information and solicitation of employees or clients.

### Risk Adjustment

The Company continues to monitor the effectiveness of our compensation structure and evaluate whether it achieves balanced risk-taking. In 2011, we implemented a rigorous ex-ante risk adjustment process including the following controls regarding year-end incentive compensation:

- Redesigning the process for sizing the year-end incentive compensation pool to more fully consider risk adjusted returns, compliance with risk limits and the market and competitive environment;
- Implementing a new process to allocate the year-end incentive compensation pool among business areas to take into account the businesses' returns on certain financial, capital and risk metrics.

The Company's independent control functions also implemented an enhanced, robust review process for identifying and evaluating situations occurring throughout the course of the year that could require explicit ex-post adjustment, such as clawback or cancellation of previously awarded compensation, as well as adjustments to current year compensation. There is also implicit ex-post adjustment in all deferred equity incentive compensation awards that link vesting to risk outcomes and other aspects of performance during the deferral period.

### Performance Measurement

Employee eligibility for year-end incentive compensation is discretionary and subject to multi-dimensional performance measurement, which considers individual, Firm and business segment performance.

In order to maintain a fully flexible remuneration policy, including the possibility to pay zero year-end incentive compensation, pre-established performance priorities are non-formulaic in nature, do not require specific performance targets or preset goals to be met prior to the awarding of compensation and are not assigned any specific weighting.

In 2011, the Company adopted a global incentive compensation discretion policy that sets forth standards for exercise of managerial discretion in year-end incentive compensation decisions. The policy requires consideration of demonstrated and documented performance, including feedback elicited through the 2011 Talent Development Process; client service; contribution to revenue and profitability (with consideration of risk taken); teamwork; management abilities (including the ability to attract and retain key talent); technical, substantive skills; adherence to core franchise values, business principles and policies; and market and competitive conditions.

## 4. PERFORMANCE CRITERIA ON WHICH THE ENTITLEMENT TO SHARES OR VARIABLE REMUNERATION IS BASED

The global incentive compensation discretion policy, noted above, also provides guidelines to help ensure that year-end incentive compensation decisions take relevant factors into consideration, including actual and potential risks to the Firm that the employee may be able to control or influence. The policy specifically provides that all managers must consider whether an employee managed risk appropriately and effectively managed and supervised the risk control practices of his or her employee reports during the performance year.

Other performance criteria that may be taken into account in deciding whether to award and the amount of any variable remuneration or long-term incentive award remuneration includes (but is not limited to): business and market conditions, individual conduct, including but is not limited to, adherence to the Firm's Code of Conduct and policies, contribution to the performance and profitability of both business unit and the Firm and the strategic objectives of the Firm, business unit and the team and the associated value attributed to the role.

In order to be eligible for any year-end award, the individual must also remain an active employee performing duties on behalf of the Firm, who has not given or been given notice of termination, at the time awards are communicated across the Firm to the eligible population of employees.

## 5. MAIN PARAMETERS AND RATIONALE FOR ANY VARIABLE COMPONENT SCHEME AND ANY OTHER NON-CASH BENEFIT

In general (and also as a result of following the FSA's Remuneration Principles) as an employee's compensation and responsibilities increase, a greater percentage of his or her year-end incentive compensation, relative to other employees, is delivered as long-term incentive awards, rather than as an immediate cash bonus based on annual results. In 2011, the most senior employees had 100% of year-end variable compensation deferred and received no upfront cash bonus.

The mix of deferred cash-based awards and equity awards is determined based on a variety of factors including the number of shares available for grant under our equity plans. Delivering a portion of long-term incentive awards in the form of restricted stock units inextricably links variable compensation to Company performance through the high correlation of our stock price with profitability. In addition, risk outcomes



that result in a negative impact on our profitability reduce the value of the restricted stock units and the employee is subject to this decline in value through the deferral period.

We continue to enhance our clawback provisions to apply to all long-term incentive compensation including RSUs and PSUs, in addition to deferred cash-based awards. Following a review with an outside consultant of the “at-risk” PSUs in 2011, we modified the award terms to reduce the maximum payout in order to better align the program with principles of balanced risk-taking.

We believe that our compensation decisions for 2011 demonstrate our focus on long-term profitability and our commitment to sustainable shareholder value with appropriate rewards to retain and motivate top talent throughout economic cycles.

## 6. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA

The following tables set out aggregate quantitative information on remuneration of Code Staff who are employed by, or are seconded to the following Morgan Stanley entities that are subject to the FSA Remuneration Code:

- Morgan Stanley & Co. International plc
- Morgan Stanley International Incorporated
- Morgan Stanley Bank International Limited
- Morgan Stanley Investment Management Limited
- Morgan Stanley Private Wealth Management Limited
- Morgan Stanley S.V., S.A.U.
- Morgan Stanley Spanish Holdings S.L.
- Morgan Stanley UK Limited

	Institutional Securities Group	Non-Institutional Securities Group <sup>1</sup>
<b>Aggregate Remuneration (£ millions)</b>	81.8	31.9

<sup>1</sup> Group includes Company Functions, Global Wealth Management, Investment Management, Operations and Technology.

## 7. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE FIRM

**A. Amounts of remuneration for financial year 2011, split into fixed and variable remuneration, and the number of beneficiaries**

	Senior Management	Others
<b>Number of beneficiaries (Code Staff)</b>	29	80
<b>Fixed Remuneration (£ millions)</b>	9.3	23.8
<b>Variable Remuneration (£ millions)<sup>1</sup></b>	39.7	40.9

<sup>1</sup> Variable Remuneration awarded for performance year 2011 contained cash bonuses, stock bonus awards, equity long-term incentives including restricted stock units and at-risk performance stock units, plus deferred cash long-term incentives.

**B. Amounts and forms of variable remuneration for 2011, split into cash, shares, share-linked instruments and other types**

Variable Remuneration (£ millions)	Senior Management	Others
Cash	6.8	9.0
Stock	8.0	7.7
Deferred Cash	13.3	12.6
Deferred Stock	11.6	11.5

**C. Amounts of outstanding deferred remuneration, split into vested and unvested portions**

Deferred Remuneration (£ millions)	Senior Management	Others
Vested at Year End 2011 <sup>1</sup>	4.3	6.4
Unvested at Year End 2011 <sup>2</sup>	76.0	65.9

<sup>1</sup> Vested long-term equity and cash-based incentives awarded prior to performance year 2011.

<sup>2</sup> Long-term equity and cash-based incentives awarded during and prior to performance year 2011 and unvested at 31 December 2011.

**D. Amounts of deferred remuneration awarded during the financial year 2011, paid out and reduced through performance adjustments**

Deferred Remuneration (£ millions)	Senior Management	Others
Awarded	32.9	33.3
Paid Out from Prior Years <sup>1</sup>	25.4	26.9
Reduced from Prior Years	0	6.0

<sup>1</sup> Long-term equity and cash-based incentives paid in 2011.

**E. New sign-on and severance payments made during the financial year 2011, and the number of beneficiaries of those payments**

None

**F. Amounts of severance payments awarded during the financial year 2011, number of beneficiaries and highest such award to a single person**

	<b>Senior Management</b>	<b>Others</b>
Severance payments awarded in 2011 (£ millions)	0	0.25
Number of beneficiaries	0	3
Highest such award to a single person (£ millions)	0	0.13