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## FSA BIPRU DISCLOSURES: REMUNERATION FOR YEAR ENDED DECEMBER 31, 2010

The below disclosures are in accordance with the Financial Services Authority (“FSA”) Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) 11.5.18 R (1) through (7).

### ROLE OF THE COMPENSATION COMMITTEE

The Compensation, Management Development and Succession Committee of Morgan Stanley’s Board of Directors (“CMDS” or “Compensation Committee”) is responsible for reviewing and approving annually all compensation awarded to the Company’s executive officers and such other officers as the Committee determines appropriate. The Compensation Committee also administers and oversees the broad-based equity and non-qualified deferred compensation plans, pursuant to which a broader base of employees receive their incentive compensation. At year-end, the Compensation Committee reviews and, as appropriate, approves the aggregate variable compensation pool, deferral formulas and the material terms of the year-end incentive awards granted to the eligible employee population. The Compensation Committee also reviews Compensation Policy Statements, as appropriate (for example, the Company’s Remuneration Policy Statement for 2010—as submitted to FSA—as provided to the Chairman of the Compensation Committee in advance of its submission).

### COMPOSITION OF THE COMPENSATION COMMITTEE

The Compensation Committee currently consists of four directors, including our Lead Director, all of whom are independent members of the Board under the New York Stock Exchange listing standards and the Company’s Director Independence Categorical Standards. The current members of the Compensation Committee are: Erskine B. Bowles (Chair), C. Robert Kidder (Lead Director), Donald T. Nicolaisen, and Hutham Olayan.

### DECISION-MAKING PROCESS

Each year, the Compensation Committee and senior management review the design and structure of our compensation programs including the variable compensation pools, form of awards, timing of payments and other vesting and cancellation provisions of long-term incentive awards. In addition, the Compensation Committee works with the Chief Risk Officer annually to evaluate whether the Company’s incentive compensation programs encourage unnecessary or excessive risk-taking and whether risks arising from the Company’s compensation arrangements are reasonably likely to have a material adverse affect on the Company. The Compensation Committee also

receives updates throughout the year on developments in compensation, including legislative updates.

The Compensation Committee retains its own independent consultant, the Hay Group, who has no relationship with the Company that would interfere with its ability to provide independent advice to the Committee on executive compensation matters. The independent consultant generally attends all Compensation Committee meetings, reports directly to the Compensation Committee Chairman and regularly meets with the Compensation Committee without management present. In addition, the Chairman of the Compensation Committee regularly speaks with the Compensation Committee compensation consultant, without management, outside of the Compensation Committee meetings. As a good corporate governance practice, the Compensation Committee periodically reviews and may change the independent consultant.

The Compensation Committee held 12 meetings during 2010. The Compensation Committee’s charter is available on the Company’s website ([www.morganstanley.com](http://www.morganstanley.com)).

### DETERMINATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON RISK PROFILE—“CODE STAFF”

The criteria used by the Company to identify its “Code Staff” was primarily as follows:

- Individuals performing a Significant Influence Function (a “SIF”) for the Company
- Senior Management (not otherwise included as a “SIF”)
- Individuals whose total compensation may put them into the same compensation bracket as senior management and risk takers whose professional activities have a material impact on the Company’s risk profile

In making a determination as to who should be considered “Code Staff,” a thorough multi-dimensional analysis was undertaken by Human Resources, Heads of Business Units, Senior Management including the EMEA Chairman and COO, Legal and Compliance, and Risk Functions to analyse, for example, organizational responsibilities, business revenues, and employees’ individual risk profiles. In addition, the Company analysed risk capital thresholds in its overseas subsidiaries and branches to ascertain the material risk posed therein.

### 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 policies and programs and is reflected

in our 2010 compensation decisions and the changes that our Compensation Committee and our senior management implemented for 2010.

Morgan Stanley's executive compensation programs for 2010 are designed to meet four key objectives outlined below. These objectives are considered and applied across our employee population.

- **Attract and Retain Top Talent.** The Company competes for talent globally with commercial banks, brokerage firms, hedge funds and other companies offering financial services. The Compensation Committee determines executive compensation, in part, by monitoring competitive pay levels and structures, and making sure our executive compensation programs are competitive across the industry. As part of the Company's effort to retain top talent, our long-term incentive awards include payment and cancellation provisions to protect the Company's interests, align employee interests with shareholders and to retain executives within the Company.
- **Deliver Pay-for-Performance.** The core of our executive compensation program emphasizes variable incentive compensation that is clearly and appropriately linked to Company and individual performance. This approach encourages executives to balance increasing financial performance and shareholder value over the year with achievement of the Company's strategic priorities. It is also designed to reward superior individual performance and promote a shared long-term view among our executive team.
- **Align Executive Compensation with Shareholders' Interests.** The Company delivers a significant portion of long-term incentive compensation in equity to align employee interests to increased shareholder value. As an employee's compensation and responsibilities increase, a greater percentage of his or her incentive compensation, relative to other employees, is delivered as long-term incentive awards, rather than as an immediate cash bonus based on annual results. The Compensation Committee believes that linking incentive compensation to Company results over the year and delivering it partially as long-term awards that are subject to market and cancellation risk over the course of several years helps motivate executives to achieve both short- and long-term financial and strategic goals. In addition, executive officers and members of the Company's Operating Committee are required to retain at least 75% of the common stock and equity awards received while they serve on the Committee (less allowances for any option exercise price and taxes). Executives are also prohibited from engaging in hedging strategies, selling short or trading derivatives

with Company securities. These policies tie a significant portion of our executive officers' compensation directly to the Company's stock price.

- **Mitigate Excessive Risk Taking.** The Compensation Committee works with the Company's Chief Risk Officer and the Compensation Committee's independent consultant to help ensure that the structure and design of compensation arrangements do not encourage unnecessary and excessive risk-taking that threatens the Company's interests or gives rise to risk that could have a material adverse effect on the Company.

For employees at all levels of the Company these principles are used to a greater or lesser extent depending on the risks associated with their activities. A number of performance criteria are used to determine compensation and measures are in place to ensure that excessive risk taking outside of established risk parameters cannot be used to inappropriately influence compensation decisions and awards.

## REMUNERATION DESIGN AND STRUCTURE

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

- A fixed base salary that is reviewed at least annually
- A variable compensation component that is at-risk based on Company performance over a one-year period measured against multiple financial performance metrics (both at a Company and a business unit level) as well as individual performance. It includes an annual incentive payable in cash and a mix of long-term incentives. The mix is determined based on a variety of factors including the number of shares available for grant under our equity plans. For performance year 2010 the long-term incentive mix was comprised of:
  - Equity-based long-term incentives, including restricted stock units and, for senior executives, at-risk Performance Stock Units
  - Cash-based long-term incentives

Employee eligibility for variable compensation is discretionary and subject to a multi-dimensional process, which considers individual, firm and business segment performance. Determination of individual awards takes into consideration assessment of the employee's compliance with the Company's policies in these areas. The determination of the overall variable compensation pool is also a multi-dimensional process which reflects a number of financial and strategic measures, as well as internal and external benchmarking. The Company takes into account the balance of the entire franchise, where shareholder return is dependent on the ability to attract and retain the best talent.

As noted above, Morgan Stanley currently uses a number of methods to ensure that its incentive compensation arrangements appropriately balance risk and financial results in a manner that does not encourage employees to expose the Company to imprudent risks. These methods include the risk-adjustment of compensation pools and the deferral of incentive compensation payments over multiyear periods, and linked to continued employment and potential future adjustment of awards, (including a three-year performance-based vesting for Performance Stock Unit awards granted to senior executives and expansive cancellation and clawback provisions).

## RISK ADJUSTMENT

For performance year 2010, internal stress metrics and economic capital, capture tail risk. The accounting methods we employed, including the mark-to-market valuation of our counterparty risk, were factored into revenues, profits and risk measures. These metrics were utilized when determining performance year 2010 compensation pools. We believe these measures, together with our current deferral periods for long-term incentive awards, capture longer-term risk outcomes. We continue to monitor the effectiveness of our compensation structure and evaluate whether it achieves balanced risk-taking, including with respect to the length of deferral, performance-based vesting and other features, and to consider further changes for performance year 2011.

## LONG-TERM INCENTIVES

A significant portion of annual compensation for a broad-based group of eligible employees is delivered in the form of deferred incentive compensation which vests and becomes payable over a period of time beyond the year it is granted. For 2010, the portion of total incentive compensation that was paid in deferred compensation substantially increased. For the eligible population, in 2010, a portion of deferred incentive compensation was paid in the form of restricted stock units and the remainder was paid in the form of a deferred cash award, other than for senior executives who also received performance stock units (as described below). The deferred compensation was delivered in a combination of time- and performance-based awards, as follows:

- At-risk performance stock units, granted to members of senior management, that only deliver value if the Company meets predetermined performance targets after three years;
- Restricted stock units tied to the stock price and subject to cancellation prior to conversion for engaging in certain activities, including failure to comply with the Company's compliance, ethics or risk management standards; and

- Deferred cash awards that allow for clawback for up to 18 months. The clawback can be triggered, for example, if:
  - an employee engages in conduct (including with respect to supervisory responsibilities) that causes or contributes to the need for a material restatement of the Company's financial results;
  - an employee engages in conduct (including with respect to supervisory responsibilities) that causes or is reasonably expected to cause a substantial financial loss or any injury to the interest or business reputation of the Company or of a business area; or
  - the Company determines that there has been:
    - (i) a substantial loss on a trading position, investment, commitment or other holding; or
    - (ii) a loss on a trading position, investment, commitment or other holding where an employee operates outside the risk parameters or risk profile applicable to such position, investment, commitment or holding;

where, in either (i) or (ii), such position, investment, commitment or other holding was a factor in determining compensation.

The Company believes that these features achieve balanced risk-taking incentives. The Company also believes that the deferred incentive compensation awards link vesting to risk outcomes and other aspects of performance during the deferral period, as follows:

- The performance stock units are directly linked to risk and performance outcomes. The core financial metrics are established by the Compensation Committee and, if the performance is not met, the executives will receive no compensation under this program. To the extent shares are delivered after the three-year performance period, and the Compensation 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;
- The restricted stock units are linked to risk outcomes in two ways. The first and most important link is the high correlation of our stock price with our profitability. Risk outcomes that result in a negative impact on our profitability reduce the value of the restricted stock units. The employee is subject to this decline in value through the deferral period. In addition, the Company's senior executives are required to retain 75% of their equity awards over time. The second link includes the cancellation provisions of the restricted stock units during the deferral period as described above; and
- The deferred cash award is linked to risk outcomes as a result of the expansive clawback provisions referenced above.

In addition, as discussed above, the Chief Risk Officer annually reviews all incentive compensation arrangements to assess whether they incent excessive risk taking or give rise to material risks to the Company.

## LONG-TERM INCENTIVES FOR CODE STAFF

Variable compensation awards for the Company's Code Staff employees have been structured to ensure full compliance with the FSA's Remuneration Principle 12 ("Remuneration Structures"):

- 40% to 60% of variable compensation awarded to Code Staff employees is deferred over a period of three years, in line with FSA requirements;
- 50% of the deferred components are in the form of equity-based long-term incentives including restricted stock units and, for senior executives, at-risk performance stock units, and 50% in deferred cash long-term incentives. 50% of the non-deferred components is awarded as an equity-based incentive, with the remaining 50% as cash;
- Vesting of both equity-based and cash-based long-term incentives will be one-third annually over three years;
- Both deferred and non-deferred equity-based awards are subject to a further six-month transfer/sale restriction in compliance with FSA requirements;
- In addition to the expansive cancellation provisions referenced above, Code Staff employees' deferred awards (both equity and cash awards) are subject to clawback for up to three years in the event that the Company and/or business unit subsequently suffers a material downturn in its financial performance or the Company and/or business unit in which the Code Staff employee works suffers a material failure of risk management; and
- All Code Staff employees 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, per the FSA principles outlined at SYSC 19A.3.34G(1), subject to the Code Staff variable compensation award terms, but instead were subject to the Company's global deferral rules.

## QUANTITATIVE REMUNERATION DISCLOSURE

The Company is required to disclose quantitative remuneration information for its Code Staff.

### 1. Aggregate Remuneration

15 of the 74 UK Code Staff employees were classified as Senior Management. The aggregate remuneration expenditure was as follows:

Institutional Securities (£ millions)	Non-Institutional Securities (£ millions)
98	24

## 2. Amounts of fixed and variable remuneration

### Fixed Remuneration

Fixed remuneration paid in 2010 consisted of base salaries.

Senior Management (£ millions)	Others (£ millions)
5	15

### Variable Remuneration in fiscal year 2010

Variable remuneration awarded for performance year 2010 contained cash bonuses, equity-based long-term incentives including restricted stock units and at-risk performance stock units, plus deferred cash long-term incentives.

Form of Remuneration	Senior Management (£ millions)	Others (£ millions)
Cash	8	18
Deferred Cash	10	19
Deferred Stock	14	33

### 3. Sign-on and severance payments

No severance or sign-on payments were provided to Code Staff in performance year 2010.

### 4. Outstanding deferred remuneration through 2010

Long-term equity-based and cash-based incentives awarded during performance year 2010 and unvested at 31 December 2010, subject to multiyear performance conditions. Plus, vested long-term cash-based incentives awarded prior to performance year 2010.

Category of Deferred Remuneration	Senior Management (£ millions)	Others (£ millions)
Awarded in 2010	26	58
Paid out from Prior Years	11	16
Reduced from Prior Years	0	0
Vested at Year-end	2	2
Unvested at Year-end	52	130

Unvested long-term equity-based incentives valued at the volume weighted average price of Morgan Stanley stock as at January 21, 2011. Unvested long-term cash-based incentives valued as at January 21, 2011. Long-term equity-based and cash-based incentives paid in 2010 valued as at their dates of distribution. The value of the vested outstanding long-term cash-based incentives was determined by reference to their most recent valuation.