

**■ PARTICIPANTS**

James P. Gorman – CEO and President  
Colm Kelleher – Co-President, Institutional Securities

**■ MANAGEMENT DISCUSSION SECTION****GAAP and Non-GAAP Financial Measures**

- The presentation may also include certain non-GAAP financial measures
- The reconciliation of such measures to the comparable GAAP figures are included in Morgan Stanley's annual report on Form 10-K, Morgan Stanley's 2009 quarterly reports on Form 10-Q, and Morgan Stanley's 2009 current reports on Form 8-K which are available on Morgan Stanley's website, [www.MorganStanley.com](http://www.MorganStanley.com)

**James P. Gorman, CEO and President**

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**Business Highlights****Performance**

- Looking back, 2009 was a year of transition in which the firm achieved a number of milestones
- We maintained a prudent balance sheet and held appropriate levels of capital and leverage while reducing our troubled exposures
  - We were among the first banks to repurchase TARP and the associated warrant
- We raised \$6.9B in common equity and sold our remaining interest in MSCI, enhancing our capital structure
  - We issued a total of \$13B in unguaranteed senior unsecured debt, including a fourth quarter €1.5B raise, which was our first non-U.S. dollar unguaranteed issuance of 2009

**Global Hiring Plan**

- We made significant progress on our global hiring plan which is on track
- The new hires are primarily in our sales and trading businesses, further building out our footprint and expanding our client franchise
- We closed the Morgan Stanley Smith Barney joint venture earlier than expected, creating the industry leader with more than 18,000 financial advisors and over \$1.5 trillion in client assets

**Asset Management**

- We've made progress towards optimizing Asset Management
- The sale of our retail asset management business to Invesco is on track to close mid 2010
  - This is an important accomplishment for Asset Management as we emphasize our core institutional strengths while establishing a stake in Invesco

- We entered into a strategic outsourcing partnership with State Street for our long-only business, which enables us take advantage of their scale and ensures we will remain well positioned to deliver best-in-class service to our investment teams and to our clients
- The assets and liabilities related to Crescent that were the subject of approximately \$2B of remaining third party financing with a single lender were conveyed to that lender in November
- In addition, we have a number of new funds that are well positioned to invest opportunistically

#### **Partnership with MUFG**

- Turning next, our partnership with MUFG continues to gain strength
- We announced an MOU to integrate our securities operation in Japan which is on track to be completed later this year
- Morgan Stanley and Bank of Tokyo-Mitsubishi UFJ in partnership now lend to over 900 corporations, elevating us to the top five lenders in the Americas
- Together we committed on an aggregated basis \$3.2B to NBC Universal, the largest amount by any bank and critical to Comcast acquiring control

#### **Management Team**

- Looking forward, I believe 2010 will be a year of execution for Morgan Stanley
- We have the best management team in place to execute the firm's strategy to be number one, two or three in all of our businesses
- The team includes as you know one, Colm Kelleher and Paul Taubman, Co-Presidents of Institutional Securities; Charlie Johnson as President of Morgan Stanley Smith Barney; Greg Fleming, who's due to arrive here in early February as President of Morgan Stanley Investment Management; Walid Chammah, Chairman and CEO of Morgan Stanley International

#### **Executive Appointment**

- In addition Ruth Porat is joining us as CFO, formerly from Investment Banking
- Ken deRegt as Chief Risk Officer maintains that role; Tom Nides becomes our COO; and Jim Rosenthal is the COO of Morgan Stanley Smith Barney in addition to being Head of Corporate Strategy for the firm; and finally Gary Lynch remains as our General Counsel or Chief Legal Officer
- I'm very pleased to have elevated several key executives and it's important that Charles, Ken and Gary, who have proven track records, continued in their roles
- Together, this extremely seasoned team has on average approximately 25 years of experience in the industry
- The group has complementary skills and has been tested through one of the most difficult times for our industry

#### **Global Capital Markets**

- I'm bullish on Morgan Stanley, as I believe we're well positioned to capitalize on the recovery in the global capital markets
- Now I'll turn it over to Colm, my colleague, but before I do so I want to just publicly thank Colm for his contributions as our CFO in an extraordinarily difficult environment
- I think he's done an extraordinary job

**Colm Kelleher, Co-President, Institutional Securities****Q4 Results****Net Income, EPS and Revenue**

- Beginning with our consolidated results on page 2 in our financial supplement, for the quarter ended December 31, Morgan Stanley generated net income of \$770mm and diluted EPS from continuing operations of \$0.14
- Negative revenue of approximately \$600mm from narrowing of the firm's debt-related credit spreads lowered EPS by approximately \$0.27
- Firm-wide revenues were \$6.8B, and non-interest expenses were \$6.2B for the quarter
- The full year compensation ratio excluding the negative impact of the improvement in Morgan Stanley's debt-related credit spreads was 50%
  - This ratio reflects the inclusion of seven months of Morgan Stanley Smith Barney which carries with it an industry standard higher ratio
- We considered the impact of the U.K. bonus tax on 2009 compensation levels and since this legislation has not been finalized, we see this largely as a 2010 event, probable timing being between the first and Q2 this year
- Having said that, the cost of this tax will be shared significantly by employees globally

**Cost Saving Initiatives**

- While non-compensation expenses increased 17% sequentially, full year non-compensation expenses declined 10% from a year ago, illustrating the success of our cost saving initiatives
  - We exceeded our annual cost savings target of \$800mm by over 30%
- Excluding expenses related to Smith Barney, auction rate securities and goodwill impairment from both years, our recurring non-compensation expenses savings totaled over \$1.1B
- The effective tax rate for the quarter was a benefit of 11%, reflective of the geographic mix of earnings, domestic tax credits and the utilization of state net operating losses

**Capital Ratios**

- Now we turn to page 3 in the financial supplement
- Total assets at December 31 increased slightly to \$773B, of which \$163B is our liquidity pool
  - We continued to keep a significant portion of our balance sheet in cash and equivalents
- Our capital ratios demonstrate the strength of our balance sheet
- While we're still finalizing our calculations, we believe under Basel I our Tier 1 ratio will be 15.4% and Tier 1 common ratio will be 8.2%
- Risk-weighted assets are expected to be approximately \$301B at December 31
- Level 3 assets were in the mid 40B range at December 31, representing approximately 6% of total assets

**Institutional Securities**

- Now if we turn specifically to the businesses, starting with Institutional Securities, detailed on page 5 of the supplement
- Revenues of \$3.2B included approximately \$600mm negative impact from tightening credit spreads as discussed earlier

- Non-interest expenses were \$2.8B in Q4 2009, down 25% from Q3 on lower compensation
- Excluding the negative impact of the improvement in Morgan Stanley's debt-related credit spreads, the compensation ratio in this business was 39% for the quarter and 40% for the year
  - This business reported a pre-tax profit of \$464mm

### **Investment Banking**

- Specifically turning to Investment Banking on page 6, our franchise continued to deliver very strong performance for the quarter and the year despite volatile markets and economic uncertainty
- We were number one in announced and completed global M&A, and we secured the top spot in both the Americas and Europe
- In the quarter we led Comcast's \$14.4B joint venture with General Electric, and for the year we advised in eight of the top ten announced transactions, more than any other firm
  - We continue to act as a trusted advisor to U.S. and European governments and corporates with respect to important government-sponsored reorganizations

### **Capital Markets**

- Capital markets remained very active and were up from third quarter levels and we continue to see a broadening across products, industries and regions
- We led significant deals in the quarter including the IPOs of China Longyuan Electric and Verisk Analytics, and Warner Chilcott's \$3.2B leveraged financing to acquire P&G's drug unit

### **Revenue and M&A Volumes**

- Fourth quarter investment banking revenues of \$1.5B were up 42% sequentially
- Advisory revenues increased 90%, up across all regions on completed M&A activity
- While announced M&A volumes increased significantly in Q4 2009, they do remain on a par with 2004 levels
- Equity underwriting revenues in Q4 2009 were \$627mm, our highest disclosed quarterly revenue
- Activity was very strong across all regions with substantial increases in Asia and Europe
- Fixed income underwriting revenues increased 7% from Q3 on higher loan syndication fees and high yield bond activity

### **Equity Sales and Trading**

- Turning to Equity Sales and Trading, Equity Sales and Trading revenues of \$722mm were negatively impacted by \$221mm from the narrowing of debt-related credit spreads on firm issued structured notes
- Morgan Stanley was named the top prime broker for funds with more than \$1B in assets by Institutional Investor for 2009

### **Market Share**

- Prime brokerage continues to recapture market share reflected by a 10% increase this quarter in average client balances
  - However, a combination of seasonal and market factors including lower hedge fund activity resulted in lower revenues, down 20% sequentially
- Derivatives reported lower revenues driven by lower activity in H2 the quarter

- Cash equity revenues were flat sequentially as higher commissions from increased client flow were offset by lower trading revenues

#### **Fixed Income and Other Sales and Trading**

- Turning to Fixed Income and Other Sales and Trading, Fixed Income and Other Sales and Trading revenues of \$963mm included losses of 380mm from the narrowing of credit spreads on firm issued structured notes
- As mentioned earlier, we are positioning this business for growth through our global hiring plan, integrated analytics and new management, and this will take time
- Interest Rate, Credit and Currency combined revenues were down significantly from last quarter
- Revenues were lower across all products due to seasonality, lack of market volatility and tighter spreads
- On a full year basis, IRCC revenues rebounded from 2008 driven by a strong performance in interest rates and credit trading

#### **Commodities Revenues**

- Commodities revenues were lower from Q3 2009 driven by range-bound prices and lower volatility
- Other revenues of \$277mm include spread tightening and valuation gains in our corporate lending business

#### **VAR**

- Turning to Value at Risk, total average trading and non-trading VAR increased to \$187mm from \$168mm, primarily reflecting a modest increase in fixed income and equity trading risk
  - However, methodologies must be examined when comparing VAR measures across the industry as they are not standardized
- Morgan Stanley uses a full year market data series, therefore our VAR has tendency to maintain higher volatility assumptions with a modestly increasing trend on the current market conditions

#### **Global Wealth Management Business**

- We now turn to page 8 of the supplement in our Global Wealth Management business
  - This quarter marked the second full year of consolidated Morgan Stanley Smith Barney results
- Revenues were up 4% sequentially to \$3.1B on higher fee-based revenues and were in line with the overall retail environment
- Non-interest expenses were \$2.9B and included \$146mm of integration costs

#### **Costs**

- Full year Morgan Stanley Smith Barney integration costs were \$280mm
- For 2010 we expect integration costs of approximately \$450mm, mostly relating to the rationalization of real estate and IT
- Full year closing costs related to the joint venture were \$221mm and mostly related to FA replacement awards
- The business reported a pre-tax profit of \$231mm and pre-tax margin of 7%
- If we exclude the JV-related integration costs in the quarter, PVG would have been \$377mm and PVG margin would have been 12%

**Assets and Deposits**

- On page 9 you can see the quarterly productivity metrics for the business
- Total client assets increased 2% to \$1.6 trillion on higher market levels
- The number of FAs remained relatively unchanged, 18,135
- FA turnover within our top two quintiles remained at historic lows of under 1%
- Attrition primarily within the lower quintiles substantially declined since the closing of the joint venture
- Net new asset outflows of \$4.7B continue to reflect the lag effect of financial advisors that left Smith Barney prior to the JV closing
  - This magnitude of outflows has declined substantially and we expect this trend to continue
- Total firm-wide deposits at quarter end were \$62B
- Deposits in our bank deposit program increased to \$112B, of which \$54B is held by Morgan Stanley banks

**Core Asset Management**

- We now turn to page 10 of the supplement and Asset Management
- The financial results related to Crescent subsequent to the date of consolidation of the retail asset management business being sold to Invesco have been reclassified to discontinued operations in all periods presented
- In Q4 discontinued operations also included an accounting gain related to the present conveyance
- The continuing operations of asset management recorded a pre-tax loss of \$55mm as profits from the core business were more than offset by losses in merchant banking
  - This was the fourth consecutive profitable business for the core business
- Core asset management revenues of \$357mm declined 15% sequentially on lower net gains on alternative investments and lower performance fees, which were partially offset by higher asset management fees

**Merchant Banking Revenues and Non-Interest Expenses**

- Merchant banking revenues of \$153mm were up from Q3 2009 driven by gains in principal investments
- Asset management non-interest expenses of \$565mm declined slightly from Q3 2009 on lower compensation expenses

**Assets Under Management and Asset Flow Data**

- If you turn to page 11 of the supplement, you can see the assets under management and asset flow data
- This data has been restated and excludes assets that will be transferred to Invesco on the deal close
- As such, total assets under management of \$283B, up 6% sequentially on asset inflows and continued positive momentum in the equity markets
- Total net inflows were \$10.3B and the core business generated positive for the first time since Q2 2008
- Inflows were mostly directed to money market funds

**Equity Flows**

- Fixed income flows were positive for the second consecutive quarter

- Equity flows were slightly negative; however, we did see some significant mandate wins and performance continued to improve at 77% of equity strategies in the continued business performing above the Morning Star peer median for the three-year time period

### **Real Estate Exposures**

- We turn to page 14 of the financial supplement to look at our firm-wide real estate exposures
- Our real estate gross asset exposure as reflected on the statement of financial condition was \$2.2B at the end of the quarter, down from \$4.4B at the end of September
- Including \$1.5B of contractual commitments and other arrangements with respect to our real estate investments, our total exposure will be \$3.7B, down from \$6B at the end of September
- This exposure excludes assets and investments for the benefit of certain deferred employee compensation of co-investment plans

### **Outlook**

- Now finally, a few words on the outlook
- Global economic conditions are improving and the financial markets are healing
- The global economy likely troughed in 2009 and is recovering
  - We expect short-term rates to remain low for the time being and expect a tightening of monetary conditions thereafter

### **Global Equity Markets**

- Global equity markets are reasonably healthy and open across industries and geographies
- Public credit markets are functioning normally although bank lending remains slow
- Global M&A activity is improving as funding becomes available and corporate confidence recovers

### **Real Estate Markets**

- IPO activity has returned to a more normalized level and the momentum on completed offerings and filed backlogs are encouraging for 2010
- We do believe that real estate markets continue to be challenged and rising foreclosures may threaten prices and the availability of credit
- We expect the industry's cyclical and structural changes to continue for some time
  - This industry is on the path to re-regulation and we expect significantly higher capital and liquidity requirements
- We are well positioned for this, although concerned about the apparent lack of international coordination
- Industry consolidation, better pricing of risk and stronger growth in emerging markets present opportunities to gain market share and maintain spreads globally
  - We at Morgan Stanley remain focused on long-term secular growth opportunities for the capital markets and we are leveraging our global brand and client franchise to grow our share of the markets

## QUESTION AND ANSWER SECTION

**Analyst:** *Michael Carrier – Deutsche Bank*

**Question – Michael Carrier:** Thanks, guys. Just a – first a question on the trading side of the business, you act as CVA, you had other benefits last quarter from some spreads tightening within the derivative business in FIG. Just curious on the current FIG results, were there any reversals in this quarter or was it just a weakness across the board on both the client side and lower volatility across products?

**Answer – Colm Kelleher:** Well, CVA itself was really not much an issue at all this quarter. Our spreads have normalized, Mike. And also I'm somewhat skeptical about trying to pull CVA out of the business because I don't believe you can run a derivatives business without CVA being an integrated part, although we do disclose it in the Q.

Broadly the story was one of subdued activity for us this quarter. As you know, spreads didn't do too much during the quarter itself and I think the larger the footprint you have, the more you will benefit. And I think what you saw there was reduced client activity in our case. There was no one story that I can point to other than reduced activity.

**Question – Michael Carrier:** Okay. And then just on the comp side, you gave the adjusted numbers on the institutional business, 39% for the quarter, 40% for the year. You know, while I understand with more equity vesting over time, that ratio could trend lower at least for the next one to two years before we get to a full run rate. But I guess when we're looking out for 2010, 2011 and in this – not just for Morgan Stanley, but what you're seeing for the industry, is a 40% comp ratio going to be more like the new norm? Obviously it depends on activity levels and competitive environments, but it's obviously down significantly from the 50% that we're used to in the past.

**Answer – Colm Kelleher:** Well look, I mean, generally I've said on a number of cases I think comp generally will come down in the industry. But we are in an environment where forecasting compensation is difficult for a number of reasons, including market pressures and regulatory oversights. Having said that, we have to pay our people competitively to not only retain but also attract the top talent.

The market is still competitive itself, but obviously the structure of compensation is changing. And on that measure Morgan Stanley was the first to introduce claw-back. We strengthened those provisions. We give a high degree of deferred compensation to all our employees, the Operating Committee specifically getting at very high levels, 75%, and I think that that is a trend you will see continue.

**Question – Michael Carrier:** Okay. And then just a final one, given the updated Basel guidance and taking into consideration that we're not yet on Basel 2, some of the banks have been giving some estimates in terms of the potential impact to the regulatory capital ratios and just curious, your take on that? And then probably more importantly, you know, when do you expect – is it still like a H1 '10 to get guidance from the U.S. – the regulators on capital requirements for the U.S. firms?

**Answer – Colm Kelleher:** Look, I think Chairman Bernanke said it best, that Basel was a journey, not a destination. What you've seen is proposals come forward that are now subject to the impact of QIS studies. We have been very clear in the past about expecting and forecasting what we consider to be a big risk which is the regulatory changes coming forward and increased capital. We are looking at all the alternatives and modeling those appropriately.

We believe that we've positioned this firm with our capital ratios the way we changed our balance sheet to be able to adapt to those. Nothing that I saw on December the 17 surprised me that came out of the BCBS suggestions, but obviously the QIS, the quality of impact of those needs to be worked through. And you know, you can have quite significant bookends the way you interpret that, and it will take some time to work through this.

**Question – Michael Carrier:** Okay, thanks a lot.

**Analyst:** *Howard Chen – Credit Suisse*

**Question – Howard Chen:** Good morning, everyone.

**Answer – Colm Kelleher:** Hey, Howard.

**Question – Howard Chen:** I have one for James to begin. James, we heard a lot about the long-term goals for Institutional Securities, Global Wealth Management, but wondering if you could share some of your thoughts on plans for the Asset Management business and maybe long-term timeline for getting there?

**Answer – James Gorman:** There's a five or six point plan, Howard, that we're working on. The first was to integrate our fund to funds business, which we did by merging Graystone and AIP, which is about \$16B business, which we expect can be very significantly larger than that, given our distribution capability. The second was to sell our retail asset management businesses but to keep equity stake option which we did with the Invesco transaction.

The third is to restructure our Institutional Asset Management business which we're doing with the outsourcing and State Street and now hiring portfolio managers and generally focusing our attention on the institutional and liquidity space. The fourth is to look at all of the hedge fund stakes that we have and that's something Greg Fleming who's now coming in to run core Asset Management and Merchant Banking will be looking at, includes our stakes across how we're managing FrontPoint and our various stakes in Avenue, Lansdowne, Traxis.

And then finally to work with our Merchant Banking side both in rolling out more funds across private equity. We have a mezz fund we've just raised. We're looking at distressed fund, potentially commodities. And then on the real estate side, we have Measure 7 which is over \$5B fund waiting to invest.

Obviously we've had a traumatic couple of years in terms of initially fund performance and then in terms of actual investments in the merchant bank, and problems in our SIV portfolio. We believe the vast majority of that is behind us with Crescent being an important sort of chapter closed. And we're looking forward to Greg's arrival and prosecuting that strategy.

**Question – Howard Chen:** Great, thanks for the update. And then, Colm, just a few on the numbers. On the trading businesses, clearly as you spoke to, a very muted fourth quarter activity levels but there was also a few moving parts with the human capital installation and the allocation of unallocated capital in the business. So as we try to just gauge a bit of a run rate or progress report on getting to this top one to three player in 2010 of year of execution, you know, can we just get an update or early thoughts on kind of how the year has begun? Are you pleased with just – are you seeing the same seasonal uplift as you saw seasonal downdraft in Q4?

**Answer – Colm Kelleher:** Well look, I mean it's early days but we've had a pretty [inaudible] January so far in the same way as we had a depressed December, so I would hope it would last like that, but I suspect it won't. But – so we feel pretty good about that. In terms of getting to one or three, I think what you have to do is – I'm not going to give you guidance on numbers but you have to look at what our gap to leader is across our competitors and sector and see what our aspirations will be in which we'll plot that.

And thirdly, you keep talking about unallocated capital – not you specifically, but everybody. This is part of what we were talking – we call it buffer capital these days because our expectations are that capital will be absorbed in the light of what's happening with regulatory change.

**Question – Howard Chen:** Okay, thanks, Colm, and point well taken. And just on the muted client activity, I guess some of the more transaction driven expense line items that I've been seeing like brokerage and clearing appeared to be a bit higher in the year end quarter. Am I wrong to think that or if not, what's driving that?

**Answer – Colm Kelleher:** No, it's up slightly. We definitely have some activity going up there. I mean clearly when we look at our non-comp expenses, the way we've been managing them, the one variable that you can't control too much is brokerage and clearing because that is dependent upon client activity and so on. My view is if that goes up, that's probably because we've seen a pick up in activity in client revenues, so actually it nets itself out. But away from that, we've made significant in-roads in getting the non-comps down.

**Question – Howard Chen:** Okay, and then final one for me, could you just provide a bit more color on the accounting write-up that you mentioned related to Crescent this quarter? And then post the conveyance, what remains to be resolved with Crescent, if anything? Thanks.

**Answer – Colm Kelleher:** Sure, sure. Yeah, I mean it's a relatively small write-up. In fact it's there, if you look at page 13 of the financial supplement, you'll see \$200mm line, and it's the bulk of that. If you remember, we took impairment charges and then as we moved the portfolio across to the

Bank, we provided the secured financing – the non-recourse financing, we were able to write that back.

In terms of what we've got left, it's relatively small. It's primarily related to our – it is one very small property – two very small properties which we've taken impairment charges on. They're not material. And in addition to that, we do have a keep well agreement – more of guarantee than a line of credit, it's meant to cover losses on certain defined obligations. It is on our exposure format although still operational, we don't believe there's a lot of risk in that.

**Question – Howard Chen:** Thanks so much.

**Analyst:** *Guy Moszkowski – Bank of America*

**Question – Guy Moszkowski:** Good morning. I just wanted to try and follow up a little bit on the unallocated capital issue. Given what we know so far about Basel 3, shouldn't we expect that some of that will be allocated back into some of the lines of business, especially Institutional? You're small in terms of your allocated capital relative to some of your peers and obviously you are rebuilding the footprint there.

**Answer – Colm Kelleher:** Well, first of all, Guy, we're one of only a few institutions that actually show our economic capital model, in all fairness. So given that we do that, I'm not sure we're comparing like for like. But yes, I totally agree with you. The bulk of our capital will be absorbed in the Institutional Securities business in the light of the BCBS recommendations we saw on December the 17th. And that's why I refer to it as buffer capital. There's no doubt that we could not operate a business with \$17B dedicated to ISG unless people thought there was a significant amount of capital behind that. And I think the regulatory changes will force that issue.

**Question – Guy Moszkowski:** And do you think that we should expect some of that capital to roll into the business over the course of this year or is that really still in abeyance until you know more about BIS?

**Answer – Colm Kelleher:** I think it's a function of what's happening. As you know, there are a number of initiatives going on. There's securitization framework which is now law. There was the Basel 2/Basel 1 conversion for us and the other firm, which will become active as well. And then rolling forward you have, you know, the Basel 1 to Basel 2 conversion and what you're referring to as Basel 3. So I think there are a number of initiatives in here that will actually start soaking up that buffer capital.

**Question – Guy Moszkowski:** Fair enough. If I can just turn the conversation to the Global Wealth Management/Smith Barney integration, can you just give us an update on time period and estimates of when we might expect to see those further integration costs realized? And what we should be thinking of in terms of timing of the IT and real estate integration?

**Answer – James Gorman:** Guy, it's James here, I'll address it. We're obviously through a very – we're in the middle of a very complex integration program. The first most immediate concerns were getting the management structure right, harmonizing the compensation programs and harmonizing the pricing differences, and all of that is now in place. We have essentially made our technology decisions and we are now planning the rollout of the new technology integration in addition to closing some of the excess real estate that we have.

So we've said for some time that these items will all come to a head full year 2011 and some of the charges expensed at the end of – through 2012. So it's kind of a two to three year program essentially from when we close. And we're confident as we have said of achieving our 20% pre-tax margin targets up from obviously where we are today.

**Question – Guy Moszkowski:** Great. And then just a final question on GWM, can you just help us reconcile the minority interest expense for the joint venture to the net profit shown above that line? It sure seems like a lot more than 51% – or rather a lot more than 49%.

**Answer – Colm Kelleher:** No, I think it's – well, it's because there's a lot of reconciling items going back and forth in terms of the normalization. It's the costs allocated more than anything else. We can give you specific details later. And there's a severance cost in there which is probably what's skewing it. But that's really what's happening, Guy.

**Question – Guy Moszkowski:** And going forward as we model, should we – is it fair to think of a 51/49 split or is there still the potential for a lot of those items?

**Answer – Colm Kelleher:** No, I think it's pretty fair to think of it as a 51/49 split. You won't get much noise after this.

**Question – Guy Moszkowski:** Great, thank you.

**Analyst:** *Glenn Schorr – UBS*

**Question – Glenn Schorr:** Thanks. Hi, guys.

**Answer – Colm Kelleher:** Hi, Glenn.

**Question – Glenn Schorr:** The – let's do a quick follow-up on the non-comp first. So part of the pick up in the quarter was the merger related charges, I'm sure. But I hear you loud and clear on the uncontrollable brokerage and clearing, but all the line items were up, for one. And two, the brokerage and clearing was up a lot, but revenues weren't and activity was down. So I'm being nit-picky but I'm trying to set the stage for what I think the company can earn going forward, so just want to understand the mechanics.

**Answer – Colm Kelleher:** Well, we had – look, we had some occupancy write-offs in GWM. There was \$146mm in JV integration costs. There's some higher professional service fees there.

However, we reduced our recurring non-comp expenses by approximately 1.1B for the year. So if you actually take out the normalization and even adjust 2008 for auction rate securities and all the goodwill impairments and so on, and compare like for like, what you have got as a true rate is \$1.1B out.

**Question – Glenn Schorr:** and then – but in your mind, the true rate in the quarter is the 2.447 less the merger and integration?

**Answer – Colm Kelleher:** Yes.

**Question – Glenn Schorr:** Okay, that's what I was trying to get at.

**Answer – Colm Kelleher:** Sorry.

**Question – Glenn Schorr:** No worries. I don't think you disclosed it but I'll take a shot, but head count year end for the Institutional business this year vs. last?

**Answer – Colm Kelleher:** No, we don't disclose it.

**Question – Glenn Schorr:** Nice try. In Wealth Management you made the comment about the lowest turnover in a long time in the top – overall and the top two quintiles. Just curious for a little color, how much do you think of it's seasonal, how much of it do you think is the fact that everybody except one of the big guys had lock-ups? And just maybe anything on expectations on it keeping this level?

**Answer – James Gorman:** Oh, I think – Glenn, it's James. We went through a frenetic period as an industry over the last couple of years in terms of deals and dislocation, and then ultimately mergers. So some of it is exactly as you've described it, lock-up and people sitting on previous deals. But I truly believe the industry is moving toward a more rationale recruiting model. There is relatively low recruiting activity, probably the lowest I've seen in my career of 10 years of overseeing these kinds of businesses, and the lower turnover I believe is for real. You know, I can't predict five years out from now, but I think for the next couple of years that we'll stay – should stay low and relatively stable.

**Question – Glenn Schorr:** Wow, that will be a breath of fresh air. Final question, maybe for Colm, on the "rebuild" I think we have a pretty clear and some visibility on what you've done and what's going on in equities and prime brokerage on the banking side. I could use a little more color on the fixed side and maybe – and I'm not looking for head to head obviously, I'm looking for more of where you think there's market share, where's the largest market share potential?

Because you mentioned gap to leader and what – I basically am looking for a redefinition of what you do and don't want to be. Because I feel like the whole industry got in trouble from gap to leader now, because I know that's not what is driving the rebuild because I think there are some real constraints and thought process around Rayrock and stuff like that.

**Answer – Colm Kelleher:** Yeah, well, we know we don't want to do off-floor proprietary trading and you know that, Glenn, right?

**Question – Glenn Schorr:** Yeah.

**Answer – Colm Kelleher:** So what it's about is having a business where trading and sales work together to optimize the footprint. So if we look specifically at fixed income, which is what you want

to know about, we actually have a business where we believe we are in the top three, which is the credit trading business. The revenues there are very sound and they've been a significant improvement over last year. The interesting thing is that declines by and large are the same clients as the other businesses where we underperform. So what we have to do is sort of join those dots up.

In interest rates, whilst head to head we have very productive salesmen and traders, we just don't have the footprint from a client point of view and the salesmen and traders themselves, and that's what we're working on and that's what part of this hiring spree has been. The same is true for foreign exchange as well. So we have productivity per employee but we don't actually have the footprint and frankly the breadth of talent for various reasons that were there, so that's the area I would work on it.

Now let's talk specifically about Commodities. I actually think Commodities is one of the two best businesses around. It's a very good business. We don't think that that business is in any way impaired. It's doing well, but that business needs volatility and client transactions to support it. And as you know, for various reasons the commodities market has been somewhat subdued from a client point of view for the last few quarters. You tend to get bumper quarters every now and then because of extreme volatility and pricing that draws on it.

So what you need to look at really is within our fixed income business, I am very focused and will be going forward on our interest rate and on foreign exchange businesses and the subparts thereof, if that helps.

**Question – Glenn Schorr:** It does help. And just the last follow-up on the rebuild per se, I think you brought it up perfectly, is same clients are participating as – that you have this top three credit business, but a lot of times it's a different person in each asset class that had the client, so you do need to hire on the sales and distribution side. I guess tying into Mike's earlier question on comp, is can you rebuild, have a lower absolute and relative comp ratio and manage that process all at once?

**Answer – Colm Kelleher:** Well, I think the answer to that is you can because Morgan Stanley is clearly a winner here in terms of being an integrated global bank providing a range of services. There's a huge amount of [inaudible] from clients who want to have Morgan Stanley as a credible counter party. But what they want to see is those dots joined up, i.e. delivering the firm to the client. And you correctly state that the credit portfolio manager on a long earning fund may be different from the rate manager and so on so. So what we have to have is a lot more discipline in the way we approach this.

Now remember there was a time when we were dominant in these markets with our client coverage. And by the way, you and I can think of two firms that not that long ago had slipped quite significantly in their coverage of clients and they've made it back up. I think the quality of the longest standing brand name and the quality of people we have will allow us to attract people to deal with this.

**Question – Glenn Schorr:** Excellent, all right, thanks very much.

**Analyst:** Robert Freeman – Barclays Capital

**Question – Roger Freeman:** Hi, good morning.

**Answer – Colm Kelleher:** Hi, Roger.

**Question – Roger Freeman:** Hi, I guess I'll start out with FIG, specifically in commodities, a couple of questions there. One is can you maybe just talk a little bit more about the market conditions? I know you said that sort of volatility was down, prices were range bound. But I think one – as I understand it, one business that's been important for you is sort of the physical business, given that you're I think the largest owner of storage outside of commercial. And I'm wondering how the economics of that have sort of progressed over the course of the year?

And I also noticed that I think there was a write-down or an impairment of an alternative energy business that was actually in discontinued ops. But I'm wondered if there was anything tied in there?

And the second sort of unrelated – sort of related question I guess is what do you think about the impact of the new CFTC rules proposed last week with respect to dealer hedge exemptions and how much of an impact that might have on your client business in commodities?

**Answer – Colm Kelleher:** There are four questions there, Roger.

**Question – Roger Freeman:** Yeah, sorry. [inaudible]

**Answer – Colm Kelleher:** The write-down impairment had no standing or influence whatsoever. Fourth quarter 2009 revenues were down significantly from last quarter. The overhang of inventory and the late cold snap basically created an oversupply in inventory that reduced volatility and dampened opportunities. And as you know, to a large extent, commodities can be weather or event related, right? So the market itself remained range bound for most of the quarter and as a result customer flow was subdued. So I think it is that. You do need that volatility or events to happen to drive it.

In terms of the regulations coming forward, it's just too early to say. I mean I cannot handicap those. We're looking at them very closely. I see a whole range of interpretations from analysts. So I just wouldn't really want to comment on them at this stage.

**Question – Roger Freeman:** Okay, fair enough. And then – so I – with respect to head count, I think you mentioned – I think there was a quote this morning from an interview that you've hired like 350 of the 400 folks in Institutional Securities. I guess my question is what percentage of those people have actually started that have completed the [inaudible]?

**Answer – Colm Kelleher:** I think quite a lot have started or are about to start now. So what I think you should be thinking about is that certainly by Q1 2010 we're going to be pretty much up to speed on most of those people.

**Question – Roger Freeman:** Okay, that's helpful. And then also following up on Basel 3, obviously a lot of moving pieces there, but I guess the broad question from my perspective would be like how do you see these proposals which in my opinion look pretty draconian. How do you see them pushing out any capital plans that you might have with respect to your general overcapitalization, i.e. is it fair to say this pushes back any thinking about stock buybacks or anything down the road?

**Answer – Colm Kelleher:** Well, I think, without upsetting my regulators, I'd like to make sure that we get full feedback from what the QIS studies will be on this. And I do think you'll probably going to end up in a different place.

**Question – Roger Freeman:** Yeah.

**Answer – Colm Kelleher:** And I do think it's going to take some time to work this out. You and I have spoken a lot about what I thought the regulatory changes would be and I think that on a relative basis, we're well positioned. So I think this is less a Morgan Stanley issue than an industry issue and I think that's what the regulators are looking at.

**Question – Roger Freeman:** Got it, okay. And then my last question, just not to nit-pick around Crescent, but could you just explain how you were actually able to get \$200mm gain? Were you having to accrue for the difference between the equity value and the value of the loan?

**Answer – Colm Kelleher:** Remember it's not – you know, we weren't fair value in Crescent. We were consolidating it. So after reflecting all the write-downs and impairments in prior periods, the carrying value of Crescent's assets were less than the amount of the remaining finance outstanding. And as such, the conveyance of those assets in full satisfaction of the financing resulted in that gain.

**Question – Roger Freeman:** Okay, got it. Okay, thanks.

**Analyst:** Michael Mayo – CLSA

**Question – Michael Mayo:** Good morning.

**Answer – Colm Kelleher:** Hi, Mike.

**Question – Michael Mayo:** First a follow-up, for the 350 to 400 employees that you've hired, how will you know if you're getting your return on investment and whether you've hired too many or if you should be hiring more? How are you going to measure that investment?

**Answer – Colm Kelleher:** Well, we have a number of measures and metrics and we've done this before. I mean certainly in the 1990s we had a hiring plan and we were able to measure the effectiveness of those employees through a number of measures, you know, whether it's just

revenue per employee which is one crude measure. You clearly look at return on assets because you want to look at the velocity of balance sheet and so on. I think we'll be able to work that out and we have internal metrics that will allow us to do that, Mike.

**Question – Michael Mayo:** And then in Wealth Management, you continue to have outflows and you look for 50B of inflows this year or so. So how do we get from outflows to inflows?

**Answer – James Gorman:** Mike, as you've probably seen the business at Smith Barney, in particular in H1 this year, had very large outflows relating to their turnover from the end of 2008 and early 2009 and that continued through the year. We anticipated or predicted expected outflows of between zero and 10B. We thought it would be around 5. We must be pretty good forecasters because it was negative 4.7. I expect this quarter it would be closer to flat.

It's just a function of the run-off of the assets which take about six months after a financial advisor leaves and that's netted against the inflows. We've said we've got a target of 50B for 2011, not for 2010. I expect us to be positive in 2010 and we'll grow through the course of the year. The good news is that the very significant outflows for H1 this year which we predicted would decline dramatically did decline dramatically, and we're back to now sort of rounding our territory and obviously we expect to grow from here.

**Question – Michael Mayo:** All right. And then last question for you, James, just a big picture question as you take over the firm. What sort of risk appetite do you want to set for Morgan Stanley? I mean at times risk was taken up and it was taken down. And how do you view risk taking at Morgan Stanley over the next say three to five years?

**Answer – James Gorman:** Yeah, well, let's – firstly, let's just step back from a little bit. There's a lot of discussion, a lot of people have asked me this question and it's presented as a binary answer. We either take risk or we don't take risk, which is obviously absurd. We are in the risk taking businesses. We have a balance sheet now of about \$800B and we currently leverage around 15, 16, 17 times. At our peak we had leverage at 35 times and we had a balance sheet of 1.2 trillion. At our trough we're about 600B and leverage of about 11 or 12 times.

So we're a leveraged institution. We take risk across currencies, emerging markets, credit equity trading. We take risk in commodities, we take risk in our structured products group, and we take risk in rates. So we take a lot of risk, we take positional risk and we take trading risk around the inventory that we carry, and we take risk in our various capital investments and our merchant bank and seed capital.

So we are clearly in the risk business. This is all about turning the dial and it's about not taking outside risks for – particularly in complex illiquid products with little ability for ourselves to get out of these positions. So for example we are – we will not be making investments in our merchant bank for mature funds on bridges we give to Crescent. That is clearly a kind of risk which – where we're basically open to turning the market environment in real estate.

We have closed down most of our proprietary trading positions and are working off a number of those trading desks with a couple of exceptions. We have two [inaudible] businesses we have. We monitor the risk across all of the businesses and my view is we're in a risk taking industry. We take risks professionally, we apply our capital, we get the leverage on it. The question is what outsized risks are we going to be taking which could jeopardize our financial health going forward and the answer is none.

**Question – Michael Mayo:** So tell me if I'm paraphrasing correctly, so less illiquid investments, less complex, less proprietary trading and less leverage?

**Answer – James Gorman:** And less outsized. I mean go back to the subprime trade, we will not be having \$10B net exposure on one trade for one group.

**Question – Michael Mayo:** Okay, all right. Thank you.

**Analyst:** Michael Hecht – JMP Securities

**Question – Michael Hecht:** Hey, guys, good morning. Jus tone quick follow-up for me on just capital management and balance sheet from here, any expectation in kind of further accelerating your growth in deposits or even reducing gross leverage, particularly given concerns around Obama's kind of proposed tax levy proposal?

**Answer – Colm Kelleher:** Well, let's talk about that for a second. We've given pretty clear guidance on where we think leverage ratios should be, which is 5 to 7%, 14 to 20 times. We think that that operates for us and makes sense. In terms of the guidelines that come from Obama, we really have no – President Obama, we really have nothing to add at this stage. But I think the balance sheet itself and the leverage is fine as it stands and is a workable proposition. We center the balance sheet around a certain size. We are obviously carrying a significant amount of liquidity. I think that's all we have to say on that, Mike..

**Question – Michael Hecht:** Okay, fair enough. Thanks, guys.

**Answer – Colm Kelleher:** Thank you

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