Morgan Stanley

Liquidity Coverage Ratio Disclosures Report

For the Quarterly Period Ended June 30, 2017

Morgan Stanley

U.S. LCR DISCLOSURES REPORT

For the quarterly period ended June 30, 2017

1. Morgan Stanley

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions, and individuals. Unless the context otherwise requires, the terms "Morgan Stanley" or the "Firm" mean Morgan Stanley together with its consolidated subsidiaries.

Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. The Firm is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Board of Governors of the Federal Reserve System (the "Federal Reserve").

The Firm conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the United States of America ("U.S."), and its principal offices in London, Tokyo, Hong Kong, and other world financial centers. The Federal Reserve establishes liquidity requirements for the Firm, and evaluates the Firm's compliance with such liquidity requirements. The Office of the Comptroller of the Currency (the "OCC") establishes similar liquidity requirements and standards for the Firm's U.S. bank subsidiaries, Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, N.A. (collectively, "U.S. Bank Subsidiaries").

For descriptions of the Firm's business, see "Business" in Part I, Item 1 of the Firm's Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Form 10-K").

2. U.S. Liquidity Coverage Ratio

The Basel Committee on Banking Supervision published the Liquidity Coverage Ratio in December 2010 as part of its Basel III package and published a revised version of the Liquidity Coverage Ratio in January 2013 ("BCBS LCR"). In September 2014, the U.S. banking regulators adopted a final rule to implement the BCBS LCR for certain U.S. banking organizations ("Covered Companies"), including the Firm and its U.S. Bank Subsidiaries ("U.S. LCR").

As of January 1, 2017, the Firm and its U.S. Bank Subsidiaries are required to maintain a minimum of 100% of the fully phased-in U.S. LCR.

The U.S. LCR requires Covered Companies, including the Firm, to maintain on each business day an amount of high-quality liquid assets ("HQLA") that are unencumbered and controlled by the Covered Company's liquidity risk management function ("eligible HQLA") sufficient to meet their total stressed net cash outflows over a prospective 30 calendar-day period, as calculated in accordance with the U.S. LCR.

Consistent with the BCBS LCR, the U.S. LCR classifies HQLA into three categories of assets: Level 1, Level 2A, and Level 2B liquid assets. The U.S. LCR provides that Level 1 liquid assets, which are the highest quality and most liquid assets, are included in a Covered Company's eligible HQLA without a limit and without haircuts. The U.S. LCR treats Level 2A and 2B liquid assets as having characteristics that are associated with being relatively stable and significant sources of liquidity, but not to the same degree as Level 1 liquid assets. Accordingly, the U.S. LCR subjects Level 2A liquid assets to a 15 percent haircut and, when combined with Level 2B liquid assets, they may not exceed 40 percent of the total eligible HQLA. Level 2B liquid assets, which are associated with a lesser degree of liquidity and more volatility than Level 2A liquid assets, are subject to a 50 percent haircut and may not exceed 15 percent of the total eligible HQLA. All other classes of assets do not qualify as HQLA.

To be included in a Covered Company's eligible HQLA, which is the numerator of the U.S. LCR, Level 1, 2A or 2B assets must meet a variety of specific standards designed to ensure that such assets have robust liquidity characteristics. In general, however, Level 1 assets include central bank reserve balances, both domestic and foreign, that are withdrawable by a Covered Company without restriction; securities issued or guaranteed by the U.S. Treasury Department or, in some cases, by other agencies of the U.S. government; and certain other securities that are issued or guaranteed by non-U.S. sovereign governments, multilateral development banks and similar institutions. Level 2A assets include certain investment grade securities issued or guaranteed by U.S. government-sponsored enterprises and certain other securities that are issued or guaranteed by non-U.S. sovereign governments, multilateral development banks and similar institutions that do not meet Level 1 asset criteria. Level 2B assets include certain corporate debt and common equity securities that are not issued by financial sector entities and that meet a variety of eligibility criteria, including market price stability in periods of significant stress.

The Firm's eligible HQLA under the U.S. LCR does not include our borrowing capacity at the Federal Reserve Bank of New York, the Federal Home Loan Banks, and non-U.S. central banks at which the Firm or its subsidiaries have borrowing capacity. In practice, the Firm could increase its availability liquidity, if necessary, by exercising such borrowing rights on a secured basis against collateral meeting applicable standards, which vary by facility.

A Covered Company's total net cash outflow amount, which is the denominator of the U.S. LCR, is determined under the U.S. LCR by applying mandated outflow and inflow rates, which reflect certain prescribed, industry-wide stressed assumptions, against the balances of a Covered Company's funding sources, obligations, transactions, and assets over a prospective 30 calendar-day period. Inflows that can be included to offset outflows are limited to 75 percent of outflows to ensure that Covered Companies are maintaining sufficient on-balance sheet liquidity and are not overly reliant on inflows, which may not materialize in a period of stress. The total net cash outflow calculation also includes an add-on calculation that takes into account the largest daily difference between certain outflows and inflows with set maturity dates. The inflow and outflow rates mandated by the U.S. LCR may be materially different from what actual inflow and outflow rates would be in a stress period.

The U.S. LCR recognizes that, under certain circumstances, it may be necessary for a Covered Company's U.S. LCR to fall briefly below 100 percent to fund unanticipated liquidity needs. The U.S. LCR establishes a framework for a flexible supervisory response when a Covered Company's U.S. LCR falls below 100 percent. Under the U.S. LCR, a Covered Company must notify the appropriate U.S. banking regulator (which is the Federal Reserve, in the case of the Firm) on any business day that its U.S. LCR is less than 100 percent. In addition, if a Covered Company's U.S. LCR is below 100 percent for three consecutive business days, the Covered Company must submit to its appropriate U.S. banking regulator a plan for remediation of the shortfall.

For a further discussion of the regulatory liquidity framework applicable to the Firm, see "Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")—Liquidity and Capital Resources—Regulatory Liquidity Framework" in the Firm's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 ("Form 10-Q").

3. U.S. LCR Disclosure Requirements

The U.S. LCR requires certain Covered Companies, including Morgan Stanley (but not the U.S. Bank Subsidiaries), to make quantitative and qualitative disclosures related to their U.S. LCR calculations and liquidity management practices on a quarterly basis ("LCR Disclosures"), beginning with the quarter ended June 30, 2017. This report contains the Firm's LCR Disclosures for the quarter ended June 30, 2017. For each subsequent quarter, the Firm must make its LCR Disclosures within 45 days of the end of the calendar quarter.

The Firm's LCR Disclosures are not required to be, and have not been, audited by the Firm's independent registered public accounting firm. The Firm's LCR Disclosures are based on our current understanding of the U.S. LCR and other factors, which may be subject to change as the Firm receives additional clarification and implementation guidance from regulators relating to the U.S. LCR, and as the interpretation of the U.S. LCR evolves over time. Some measures of exposures contained in this report may not be consistent with accounting principles generally accepted in the U.S. ("U.S. GAAP"), and may not be comparable with measures reported in the 2016 Form 10-K and the Form 10-Q.

4. U.S. LCR Qualitative Disclosures

The main drivers of the liquidity coverage ratio

Our U.S. LCR quantitative disclosures, shown in the chart in Section 5, reflect the daily average value of each disclosure category across the quarter. When discussing the main drivers of our U.S. LCR, we refer to these daily average values.

The most significant drivers of the Firm's cash outflow amounts this quarter were secured wholesale funding (referred to here as secured funding transactions) and asset exchange outflows, outflows related to derivative exposures and other collateral requirements, and non-operational funding outflows. These outflows primarily arose in connection with our Institutional Securities segment, except for non-operational funding outflows, a substantial portion of which related to our Wealth Management segment. These outflows reflect prescribed, industry-wide assumptions in the U.S. LCR about the liquidity risk in the Firm's business lines, activities and products, as measured for a projected 30-day stress period.

Secured funding transactions include repurchase transactions, loans of collateral to customers to effect short positions, and other secured loans received by a Covered Company. Asset exchanges are transactions where the counterparties have previously exchanged non-cash assets and have agreed to return such assets to each other at a later date, but do not include secured funding and secured lending transactions. Net derivative cash outflows include contractual payments and collateral that a Covered Company will make or deliver to a counterparty within 30 calendar days under derivative transactions, taking into account any qualifying master netting agreement. Non-operational funding outflows include certain unsecured wholesale funding sources, including brokered deposits from wholesale counterparties.

Our cash inflow amounts this quarter were principally driven by secured lending and asset exchange cash inflows, which constituted more than 50 percent of our U.S. LCR cash inflow amount and which were concentrated in our Institutional Securities segment. Secured lending transactions include reverse repurchase transactions and securities borrowing transactions.

The composition of eligible HQLA

As shown in the following chart, Level 1 assets constituted a significant portion of the Firm's total eligible HQLA in the quarter, on both an unweighted and a weighted basis. The Firm's Level 1 assets primarily include cash on deposit with central banks, U.S. Treasury securities and other high quality non-U.S. sovereign securities. The Firm's combined Level 2A and Level 2B assets fall below the 40% cap for such assets under the U.S. LCR, and the Level 2B assets fall below the rule's 15% cap. The Firm's Level 2A assets primarily include U.S. government-sponsored enterprises and certain non-U.S. sovereign securities, and the Level 2B assets primarily include publicly traded corporate debt and equity securities that are not issued by financial sector entities.

	HQLA Categories as Percentage of Firm's Total Eligible HQLA	
	Average Unweighted	Average Weighted
Level 1 assets	86%	89%
Level 2A assets	11%	10%
Level 2B assets	3%	1%

Our liquidity management function dynamically manages the composition of our eligible HQLA, taking into account the Firm's liquidity risk tolerance, as approved by our Board of Directors; liquidity risk limits established by the Liquidity Risk Department; the results of liquidity stress testing; regulatory requirements; and other relevant considerations.

Derivative exposures and potential collateral calls

The Firm is a participant in global derivatives markets, with net derivative assets and net derivative liabilities of $18,917 million and $20,177 million, respectively, as of June 30, 2017, as measured on a fair value basis. In some cases, our derivative counterparties have contractual rights that require us to post collateral to them in the event that credit rating agencies downgrade our credit rating. In measuring collateral call risks, we consider all amounts of collateral that we could be required to post in accordance with the terms and conditions of the downgrade trigger clauses found in applicable legal agreements. The impact of potential collateral calls related to our derivatives exposures is inherently uncertain and would depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions we might take. We manage the risk of potential collateral calls on our derivative positions by employing a variety of risk mitigation strategies, including modeling the impact of credit rating agency downgrades in our liquidity stress test program, diversifying risk exposures, hedging, managing counterparty and product risk limits and maintaining eligible HQLA and a substantial Global Liquidity Reserve to enable us to meet unexpected collateral calls or other potentially adverse developments. For a discussion of our Global Liquidity Reserve, see "MD&A—Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve" in Part II, Item 7 of the 2016 Form 10-K.

Currency mismatch in the liquidity coverage ratio

A significant portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar, therefore, can affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and strategies can be adopted to reduce the impact of these fluctuations on our financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows. We actively monitor and manage risks associated with currency mismatch, and currency mismatch is not a main driver of our U.S. LCR.

Concentration of funding sources

The Firm has adopted a comprehensive risk management program to ensure the durability of our funding, including concentration limits on certain funding sources. As of June 30, 2017, our primary sources of funding were long-term debt (37 percent), deposits (29 percent), secured funding (17 percent), and shareholders' equity (16 percent).[1] Our long-term debt instruments are diversified across tenors, currencies and channels, and our deposits are diversified across more than three million Wealth Management segment household relationships. We execute our secured funding program in accordance with risk management principles that require a significant weighted average maturity, a maturity limit structure, and an investor limit structure to ensure no over-concentration in secured funding sources.

The centralized liquidity management function and its interaction with other functional areas

[1] Figures may not sum due to rounding.

Our Board of Directors has adopted a formal liquidity risk management framework that imposes specific responsibilities on the centralized liquidity management function, including with respect to its interaction with other functional areas within the Firm. Under this framework, the Firm's Corporate Treasury and Bank Resource Management functions, together with our U.S. Bank Subsidiaries' Chief Investment Officer team, are the "first line of defense" with respect to liquidity risk management. Among other responsibilities, these functions are required to identify and assess the Firm's liquidity risks; incorporate identified liquidity risks into liquidity stress testing models and the risk management framework; conduct rigorous liquidity stress testing to measure liquidity risks over a range of scenarios and time horizons, enabling the Firm to determine liquidity and funding needs under adverse conditions; determine the size of the Firm's required liquidity in accordance with the Firm's liquidity risk tolerance and business needs; and dynamically manage the Firm's liquidity reserves, HQLA, and sources of funding, taking into account liquidity risk management limits and strategies, market conditions, client and counterparty behavior, monetary policy, legal or regulatory requirements and developments, or other factors in the markets in which we operate.

The liquidity risk management framework adopted by our Board of Directors assigns "second line of defense" responsibilities to the Firm's Liquidity Risk Department and Model Risk Management function. Among other responsibilities, these functions are required to oversee the liquidity risk arising from business activities that are primarily managed by the first line of defense; review and approve all changes to liquidity stress test models, methodologies and assumptions; ensure the appropriateness and adequacy of liquidity stress test assumptions; and report the results of their independent identification, assessment and monitoring of liquidity risk and related limits across the Firm.

The Firm's Internal Audit function serves as the "third line of defense." Internal Audit's responsibilities with respect to liquidity risk management include auditing the Firm's compliance with internal guidelines set for liquidity risk management and liquidity risk monitoring; providing an independent assessment of liquidity and funding risks, controls and processes; and providing an independent assessment of whether the Firm's liquidity risk management function complies with applicable regulatory standards and supervisory expectations.

Changes in the liquidity coverage ratio over time and causes of such changes

Morgan Stanley is a global financial services firm with operations in all major financial markets around the world. The Firm's U.S. LCR will fluctuate over time in response to changes in our liquidity risk profile, market conditions, client and counterparty behavior, liquidity risk management limits, monetary policy, legal or regulatory developments, or other factors in the markets in which we operate. Volatility may be material and under some circumstances may result in a ratio of less than 100 percent. The main drivers of our U.S. LCR, referred to above, were relatively stable throughout this quarter, and the Firm is in compliance with U.S. LCR requirements.

5. U.S. LCR Quantitative Disclosures

In the following table, the figures reported in the "Average Weighted Amount" column reflect the prescribed, industry-wide assumptions and haircuts defined by the U.S. LCR to determine the Firm's eligible HQLA, cash outflow amounts and cash inflow amounts. The figures reported in the "Average Unweighted Amount" column reflect gross values that are not included in the calculation used to determine the Firm's compliance with U.S. LCR requirements.

Period: April 3, 2017 to June 30, 2017 *$ in millions*		**Average Unweighted Amount[1]**	**Average Weighted Amount[1]**
High-Quality Liquid Assets (HQLA) [2]			
1	**Total eligible high-quality liquid assets (HQLA), of which:**	**$176,961**	**$171,230**
2	Eligible level 1 liquid assets	151,901	151,901
3	Eligible level 2A liquid assets	19,425	16,511
4	Eligible level 2B liquid assets	5,635	2,817
Cash Outflow Amounts			
5	Deposit outflow from retail customers and counterparties, of which:	130,847	26,875
6	Stable retail deposit outflow	-	-
7	Other retail funding	7,846	2,928
8	Brokered deposit outflow	123,001	23,948
9	Unsecured wholesale funding outflow, of which:	49,023	33,166
10	Operational deposit outflow	-	-
11	Non-operational funding outflow	44,659	28,803
12	Unsecured debt outflow	4,363	4,363
13	Secured wholesale funding and asset exchange outflow	336,249	162,936
14	Additional outflow requirements, of which:	175,409	91,459
15	Outflow related to derivative exposures and other collateral requirements	69,857	65,743
16	Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	105,552	25,716
17	Other contractual funding obligation outflow	919	919
18	Other contingent funding obligations outflow	175,105	5,823
19	**Total Cash Outflow**	**$867,552**	**$321,178**
Cash Inflow Amounts			
20	Secured lending and asset exchange cash inflow	366,867	112,046
21	Retail cash inflow	1,725	862
22	Unsecured wholesale cash inflow	21,334	19,074
23	Other cash inflows, of which:	60,262	60,262
24	Net derivative cash inflow	44,253	44,253
25	Securities cash inflow	959	959
26	Broker-dealer segregated account inflow	15,050	15,050
27	Other cash inflow	-	-
28	**Total Cash Inflow**	**$450,188**	**$192,245**

		Average Amount
29	**Total HQLA[2]**	**$171,230**
30	**Total Net Cash Outflow Amount Excluding The Maturity Mismatch Add-On**	**$128,933**
31	**Maturity Mismatch Add-On**	**$5,718**
32	**Total Net Cash Outflow Amount**	**$134,650**
33	**Liquidity Coverage Ratio (%)**	**127%**

1. Figures may not sum due to rounding.
2. HQLA figures exclude excess eligible HQLA held by the Firm's U.S. Bank Subsidiaries that are disregarded for purposes of calculating the Firm's eligible HQLA on a consolidated basis.