

Morgan Stanley

Your Assets  
are Safeguarded  
at Morgan Stanley

**Our valued wealth management clients have entrusted a total of more than \$1.8 trillion in assets with Morgan Stanley as of September 30, 2013,**

making us one of the world's leading wealth management firms. As we strive for excellence in advising clients and helping them manage their wealth, no responsibility is more important to us than making certain our clients' assets are safe, secure and available when needed. Morgan Stanley Smith Barney LLC ("the Firm") is subject to the regulation of the US Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), US Commodity Futures Trade Commission (CFTC) and other regulatory bodies. The Firm is a subsidiary of Morgan Stanley, a financial holding company under the Bank Holding Company Act of 1956 subject to the regulation and oversight of the Board of Governors of the Federal Reserve System (the Federal Reserve). Morgan Stanley and the Firm have built strong capital positions with substantial liquidity reserves, as detailed on the following pages.

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# Safeguarding Your Securities

In accordance with United States securities laws and regulations, the Firm segregates clients' fully paid and excess margin (not margined) securities on a daily basis at the Depository Trust & Clearing Corporation, a federally regulated and independently operated depository owned by the major brokers and banks in the US. The Firm uses an automated process to implement this segregation and holds certain US government-backed securities through the Federal Reserve Bank System in which customer securities are similarly segregated on a daily basis.

Customer foreign (non-US dollar) fully paid and excess margin securities are similarly held in custody in segregated accounts at Euroclear or third-party foreign agent bank depositories in accounts for the exclusive benefit of the Firm's customers.

Fully paid and excess margin client securities are legally the property of the Firm's clients and are not held as assets on the Firm's balance sheet. These fully paid securities may not be pledged as

collateral, loaned or used by the Firm for any purpose. Under no circumstances, including in the unlikely event of a financial institution's insolvency, can segregated client assets be used to satisfy claims of creditors other than the customers who own the assets.

The Firm has hundreds of highly trained professionals in its Operations and Finance divisions who control its segregation and customer asset protection process. Our

licensed Operations Professionals and Principals are personally responsible for noncompliance with regulatory requirements, and all our employees are strictly subject to Morgan Stanley's Code of Conduct. The Firm has implemented segregation of duties controls that are designed to ensure proper handling of customer assets, and we are regularly examined by multiple regulators to ensure compliance with all relevant rules and practices.

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# Safeguarding Your Cash

Cash swept into deposit accounts at participating banks in the Bank Deposit Program is FDIC insured, up to applicable FDIC limits.

See the addendum on the back cover for details.

Cash swept into mutual fund money market accounts is treated as securities and as such is subject to the client segregation rules as described previously.

Any relatively small amount of remaining customer cash held by the Firm in excess of amounts borrowed by customers is segregated in a special reserve bank account at an independent third-party bank. In accordance with securities regulations, the independent third-party bank is instructed that the special reserve

account balance is held for the exclusive benefit of our customers and is not to be used for any other purpose. The Firm's Finance Division calculates and our Operations Division adjusts the required deposits to its special reserve bank account each business day.

The Firm separately segregates customer funds relating to futures transactions, which are not commingled with our proprietary funds.

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# Securities Investor Protection Corporation (SIPC) Coverage of Client Securities and Cash

Morgan Stanley Smith Barney LLC is a member of SIPC, a federally mandated US nonprofit corporation that protects investors from financial loss up to the applicable limits if a member firm becomes insolvent.

See the addendum on the back cover for details.

The Firm provides, at no cost to clients, private insurance in excess of SIPC coverage, which provides an additional \$1 billion coverage on an aggregate basis to cover shortfalls if basic SIPC coverage is insufficient as a result of breach of securities rules or physical loss or damage to customer assets. This coverage is subject to a Firmwide cap of \$1 billion with no per-client limit for securities and a \$1.9 million per-client limit for the cash portion of any remaining shortfall.

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# Stringent Regulatory Compliance and Strong Capital Positions

As a financial holding company under federal law, Morgan Stanley is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for Morgan Stanley and evaluates Morgan Stanley's compliance with such capital requirements.

As of December 31, 2012, Morgan Stanley was in compliance with Basel I capital requirements, with Tier 1 capital of \$54.4 billion and ratios of Tier 1 capital to Risk Weighted Assets (RWA) of 17.7% and total capital to RWAs of 18.5% (6% and 10% being well capitalized for regulatory purposes, respectively). Also, the ratio of Tier 1 common capital to RWAs was 14.6% (5% being the minimum under the Federal Reserve's new capital plan framework). In addition, financial holding companies are

also subject to a Tier 1 leverage ratio as defined by the Federal Reserve. As of December 31, 2012, Morgan Stanley was in compliance with this leverage restriction, with a Tier 1 leverage ratio of 7.1% (5% being well capitalized for regulatory purposes). The weighted average maturity of Morgan Stanley's secured funding is in excess of 120 days. Morgan Stanley does not rely on commercial paper or money market funds for its financing. Morgan Stanley is assigned credit ratings by the major

ratings agencies that are in range with the world's largest banks.

In addition to Morgan Stanley's capital requirements, Morgan Stanley Smith Barney LLC is subject to regulatory net capital requirements for broker-dealers designed to ensure that the Firm has on hand at all times sufficient cash and other readily marketable assets to meet all of its financial obligations to its customers. The Firm has always met this strict regulatory capital requirement with substantial

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excess capital to spare. Our businesses, processes and procedures are audited on a regular basis by regulators, including the SEC (periodically, including in 2011); FINRA (annually); CFTC (periodically, including in 2012); and the National Futures Association (annually); as well as our external auditor, Deloitte & Touche LLP, and our Internal Audit Division. As a financial holding company, Morgan Stanley is subject to oversight by, among others, the Federal Reserve, as noted above.

**Morgan Stanley has been in business for more than 75 years and is committed to serving clients across all market and economic cycles.**

A commitment to safeguarding and protecting client assets has been a constant throughout this history, and we will continue to work hard every day to earn and deserve our clients' trust.

## ADDENDUM

### **SIPC and FDIC Coverage. Securities Investor Protection Corporation (SIPC) Coverage**

Morgan Stanley Smith Barney LLC is a member of SIPC, a federal mandated US nonprofit corporation that protects customer assets from financial loss in the event a broker-dealer becomes insolvent.

SIPC automatically covers securities that we hold in custody (stocks, bonds, notes) up to \$500,000 per client capacity (e.g., individual, joint) of which \$250,000 may be cash. This means in the unlikely event of a liquidation, a court-appointed trustee of a SIPC member firm and SIPC representative will examine the records of the member firm to verify that all of the securities are accounted for. If sufficient funds are not available in the firm's customer accounts to satisfy claims within the above limits, the reserve funds of SIPC are used to supplement the distribution, up to the ceiling of \$500,000 per customer, including up to \$250,000 for cash claims.

Money market funds receive SIPC coverage as securities, not as cash. Funds in the Bank Deposit Program are covered by FDIC insurance, not SIPC.

Additional information about SIPC is available at [www.sipc.org](http://www.sipc.org).

The Firm also has obtained private insurance in excess of SIPC coverage, which provides an additional \$1 billion coverage on an aggregate basis to cover shortfalls if basic SIPC coverage is insufficient as a result of breach of securities rules or physical loss or damage to customer assets. This coverage is subject to a Firmwide cap of \$1 billion with no per-client limit for securities and a \$1.9 million per-client limit for the cash portion of any remaining shortfall.

### **Federal Deposit Insurance Company (FDIC) Coverage**

The FDIC is an independent agency of the US government, created by Congress to maintain stability and public confidence in the nation's financial system by, among other things, insuring deposits.

FDIC deposit insurance protects clients against the failure of each depository institution that participates in the Firm's Bank Deposit Program.

Deposits in the Bank Deposit Program are FDIC insured up to a total of \$250,000 per bank for each insurable capacity in which funds are held (individual, joint, etc.).

Additional information about the FDIC is available at [www.fdic.gov](http://www.fdic.gov).