

MORGAN STANLEY  
Form 10-Q  
May 03, 2019  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

*For the quarterly period ended March 31, 2019*

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

**Delaware**

**1585 Broadway**

**36-3145972**

**(212) 761-4000**

(State or other jurisdiction of incorporation or organization) (Address of principal executive offices, including zip code) (I.R.S. Employer Identification No.) (Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class   | Name of exchange on which registered | Trading Symbol(s) |
|---|--------------------------------------|-------------------|
| Common Stock, \$0.01 par value  | New York Stock Exchange              | MS                |
| Depository Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, \$0.01 par value          | New York Stock Exchange              | MS/PA             |
| Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, \$0.01 par value | New York Stock Exchange              | MS/PE             |
| Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, \$0.01 par value | New York Stock Exchange              | MS/PF             |

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Depository Shares, each representing 1/1,000th interest in a share of 6.625%

Non-Cumulative Preferred Stock, Series G, \$0.01 par value New York Stock Exchange MS/PG

Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, \$0.01 par value

New York Stock Exchange MS/PI

Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K, \$0.01 par value

New York Stock Exchange MS/PK

Global Medium-Term Notes, Series A, Fixed Rate Step-Up Senior Notes Due 2026 of

Morgan Stanley Finance LLC (and Registrant's guarantee with respect thereto)

New York Stock Exchange MS/26C

Market Vectors ETNs due March 31, 2020 (two issuances)

NYSE Arca, Inc. URR/DDR

Market Vectors ETNs due April 30, 2020 (two issuances)

NYSE Arca, Inc. CNY/INR

Morgan Stanley Cushing® MLP High Income Index ETNs due March 21, 2031

NYSE Arca, Inc. MLPY

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2019, there were 1,682,234,555 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

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## QUARTERLY REPORT ON FORM 10-Q

*For the quarter ended March 31, 2019*

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**Available Information**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains an internet site, [www.sec.gov](http://www.sec.gov), that contains annual, quarterly and current reports, proxy and information statements and other information that issuers file electronically with the SEC. Our electronic SEC filings are available to the public at the SEC's internet site.

Our internet site is [www.morganstanley.com](http://www.morganstanley.com). You can access our Investor Relations webpage at [www.morganstanley.com/about-us-ir](http://www.morganstanley.com/about-us-ir). We make available free of charge, on or through our Investor Relations webpage, our Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended ( Exchange Act ), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also make available, through our Investor Relations webpage, via a link to the SEC's internet site, statements of beneficial ownership of our equity securities filed by our directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about our corporate governance at [www.morganstanley.com/about-us-governance](http://www.morganstanley.com/about-us-governance). Our Corporate Governance webpage includes:

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;
- Charters for our Audit Committee, Compensation, Management Development and Succession Committee, Nominating and Governance Committee, Operations and Technology Committee, and Risk Committee;
- Corporate Governance Policies;
- Policy Regarding Corporate Political Activities;
- Policy Regarding Shareholder Rights Plan;
- Equity Ownership Commitment;
- Code of Ethics and Business Conduct;
- Code of Conduct;
- Integrity Hotline Information; and
- Environmental and Social Policies.

Our Code of Ethics and Business Conduct applies to all directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Deputy Chief Financial Officer. We will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC ( NYSE ) on our internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, 1585 Broadway, New York, NY 10036 (212-761-4000). The information on our internet site is not incorporated by reference into this report.

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**Management Discussion and Analysis of Financial Condition and Results of Operations**

**Introduction**

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Wealth Management and Investment Management. Morgan Stanley, 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, Firm, us, we or our mean Morgan Stanley (the Parent Company) together with its consolidated subsidiaries. We define the following as part of our consolidated financial statements ( financial statements ): consolidated income statements ( income statements ), consolidated balance sheets ( balance sheets ) and consolidated cash flow statements ( cash flow statements ). See the Glossary of Common Acronyms for the definition of certain acronyms used throughout this Form 10-Q.

A description of the clients and principal products and services of each of our business segments is as follows:

*Institutional Securities* provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions, and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. Lending activities include originating corporate loans, commercial mortgage lending, providing secured lending facilities and extending financing to sales and trading customers. Other activities include investments and research.

*Wealth Management* provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering brokerage and investment advisory services; financial and wealth planning services; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking and retirement plan services.

*Investment Management* provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products include equity, fixed income, liquidity and alternative/other products. Institutional clients include defined benefit/defined contribution plans, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are served through intermediaries, including affiliated and non-affiliated distributors.

The results of operations in the past have been, and in the future may continue to be, materially affected by competition; risk factors; and legislative, legal and regulatory developments; as well as other factors. These factors also may have an adverse impact on our ability to achieve our strategic objectives. Additionally, the discussion of our results of operations herein may contain forward-looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, see Forward-Looking Statements, Business Competition, Business Supervision and Regulation, and Risk Factors in the 2018 Form 10-K, and Liquidity

and Capital Resources Regulatory Requirements herein.

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**Management's Discussion and Analysis**

**Executive Summary**

**Overview of Financial Results**

***Consolidated Results***

**Net Revenues**

*(\$ in millions)*

**Net Income Applicable to Morgan Stanley**

*(\$ in millions)*

**Earnings per Common Share<sup>1</sup>**

1. For the calculation of basic and diluted EPS, see Note 15 to the financial statements.

We reported net revenues of \$10,286 million in the quarter ended March 31, 2019 ( current quarter, or 1Q 2019 ), compared with \$11,077 million in the quarter ended March 31, 2018 ( prior year quarter, or 1Q 2018 ). For the current quarter, net income applicable to Morgan Stanley was \$2,429 million, or \$1.39 per diluted common share, compared with \$2,668 million or \$1.45 per diluted common share, in the prior year quarter.

**Non-interest Expenses<sup>1</sup>**

*(\$ in millions)*

1.

The percentages on the bars in the chart represent the contribution of compensation and benefits expenses and non-compensation expenses to total non-interest expenses.

Compensation and benefits expenses of \$4,651 million in current quarter decreased 5% from \$4,914 million in the prior year quarter, primarily due to decreases in discretionary incentive compensation and the formulaic payout to Wealth Management representatives, both driven by lower revenues. These decreases were partially offset by increases in the fair value of investments to which certain deferred compensation plans are referenced and higher salaries.

Non-compensation expenses were \$2,680 million in the current quarter compared with \$2,743 million in the prior year quarter, representing a 2% decrease. This decrease was primarily due to lower litigation and volume-related expenses, partially offset by increased investment in technology.

*Income Taxes*

The current quarter includes intermittent net discrete tax benefits of \$101 million, primarily associated with the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations. For further information, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

**Table of Contents****Management's Discussion and Analysis****Selected Financial Information and Other Statistical Data**

| <i>\$ in millions</i>   | Three Months Ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2019                            | 2018            |
| Income from continuing operations applicable to Morgan Stanley          | \$ 2,429                        | \$ 2,670        |
| Income (loss) from discontinued operations applicable to Morgan Stanley |                                 | (2)             |
| Net income applicable to Morgan Stanley                                 | 2,429                           | 2,668           |
| Preferred stock dividends and other                                     | 93                              | 93              |
| <b>Earnings applicable to Morgan Stanley common shareholders</b>        | <b>\$ 2,336</b>                 | <b>\$ 2,575</b> |
| Expense efficiency ratio <sup>1</sup>                                   | 71.3%                           | 69.1%           |