

MORGAN STANLEY
Form 10-Q
May 06, 2014
Table of Contents

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, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

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)	New York, NY 10036 (Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)	(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

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Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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, 2014, there were 1,971,294,604 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

Table of Contents

QUARTERLY REPORT ON FORM 10-Q

For the quarter ended March 31, 2014

Table of Contents		Page
Part I Financial Information		
Item 1.	<u>Financial Statements (unaudited)</u>	1
	<u>Condensed Consolidated Statements of Financial Condition March 31, 2014 and December 31, 2013</u>	1
	<u>Condensed Consolidated Statements of Income Three Months Ended March 31, 2014 and 2013</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income Three Months Ended March 31, 2014 and 2013</u>	3
	<u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2014 and 2013</u>	4
	<u>Condensed Consolidated Statements of Changes in Total Equity Three Months Ended March 31, 2014 and 2013</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
	<u>Report of Independent Registered Public Accounting Firm</u>	94
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	95
	<u>Introduction</u>	95
	<u>Executive Summary</u>	96
	<u>Business Segments</u>	104
	<u>Accounting Developments</u>	120
	<u>Other Matters</u>	121
	<u>Critical Accounting Policies</u>	123
	<u>Liquidity and Capital Resources</u>	127
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	145
Item 4.	<u>Controls and Procedures</u>	162
	<u>Financial Data Supplement (unaudited)</u>	163
Part II Other Information		
Item 1.	<u>Legal Proceedings</u>	166
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	168
Item 6.	<u>Exhibits</u>	168

Table of Contents

AVAILABLE INFORMATION

Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Morgan Stanley) file electronically with the SEC. Morgan Stanley's electronic SEC filings are available to the public at the SEC's internet site, www.sec.gov.

Morgan Stanley's internet site is www.morganstanley.com. You can access Morgan Stanley's Investor Relations webpage at www.morganstanley.com/about/ir. Morgan Stanley makes available free of charge, on or through its Investor Relations webpage, its 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 (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Morgan Stanley also makes available, through its Investor Relations webpage, via a link to the SEC's internet site, statements of beneficial ownership of Morgan Stanley's equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

Morgan Stanley has a Corporate Governance webpage. You can access information about Morgan Stanley's corporate governance at www.morganstanley.com/about/company/governance. Morgan Stanley posts the following on its Corporate Governance webpage:

Amended and Restated Certificate of Incorporation;

Amended and Restated Bylaws;

Charters for its Audit Committee; Operations and Technology Committee; Compensation, Management Development and Succession Committee; Nominating and Governance Committee; and Risk Committee;

Corporate Governance Policies;

Policy Regarding Communication with the Board of Directors;

Policy Regarding Director Candidates Recommended by Shareholders;

Policy Regarding Corporate Political Activities;

Policy Regarding Shareholder Rights Plan;

Code of Ethics and Business Conduct;

Code of Conduct; and

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Integrity Hotline information.

Morgan Stanley's Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer, Chief Financial Officer and Deputy Chief Financial Officer. Morgan Stanley 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 its 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 Morgan Stanley's internet site is not incorporated by reference into this report.

Table of Contents**Part I Financial Information.****Item 1. Financial Statements.****MORGAN STANLEY****Condensed Consolidated Statements of Financial Condition****(dollars in millions, except share data)****(unaudited)**

	March 31, 2014	December 31, 2013
Assets		
Cash and due from banks (\$546 and \$544 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	\$ 13,785	\$ 16,602
Interest bearing deposits with banks	41,639	43,281
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements (\$129 and \$117 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	43,651	39,203
Trading assets, at fair value (approximately \$137,157 and \$151,078 were pledged to various parties at March 31, 2014 and December 31, 2013, respectively) (\$2,854 and \$2,825 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	259,545	280,744
Securities available for sale, at fair value	58,886	53,430
Securities received as collateral, at fair value	21,613	20,508
Federal funds sold and securities purchased under agreements to resell (includes \$866 and \$866 at fair value at March 31, 2014 and December 31, 2013, respectively)	107,576	118,130
Securities borrowed	147,595	129,707
Customer and other receivables	60,506	57,104
Loans:		
Held for investment (net of allowances of \$124 and \$156 at March 31, 2014 and December 31, 2013, respectively)	41,575	36,545
Held for sale	4,730	6,329
Other investments (\$540 and \$561 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	5,143	5,086
Premises, equipment and software costs (net of accumulated depreciation of \$6,253 and \$6,420 at March 31, 2014 and December 31, 2013, respectively) (\$199 and \$201 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	5,778	6,019
Goodwill	6,601	6,595
Intangible assets (net of accumulated amortization of \$1,777 and \$1,703 at March 31, 2014 and December 31, 2013, respectively) (includes \$7 and \$8 at fair value at March 31, 2014 and December 31, 2013, respectively)	3,210	3,286
Other assets (\$24 and \$11 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	9,548	10,133
Total assets	\$ 831,381	\$ 832,702
Liabilities		
Deposits (includes \$0 and \$185 at fair value at March 31, 2014 and December 31, 2013, respectively).	\$ 116,648	\$ 112,379
Commercial paper and other short-term borrowings (includes \$1,169 and \$1,347 at fair value at March 31, 2014 and December 31, 2013, respectively)	1,786	2,142
Trading liabilities, at fair value (\$46 and \$33 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	111,590	104,521
Obligation to return securities received as collateral, at fair value	27,565	24,568
Securities sold under agreements to repurchase (includes \$610 and \$561 at fair value at March 31, 2014 and December 31, 2013, respectively)	114,183	145,676
Securities loaned	32,370	32,799
	13,481	14,215

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Other secured financings (includes \$4,514 and \$5,206 at fair value at March 31, 2014 and December 31, 2013, respectively) (\$531 and \$543 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)		
Customer and other payables	175,998	157,125
Other liabilities and accrued expenses (\$75 and \$76 at March 31, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	14,118	16,672
Long-term borrowings (includes \$35,620 and \$35,637 at fair value at March 31, 2014 and December 31, 2013, respectively)	153,374	153,575
Total liabilities	761,113	763,672
Commitments and contingent liabilities (see Note 12)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock (see Note 14)	3,220	3,220
Common stock, \$0.01 par value:		
Shares authorized: 3,500,000,000 at March 31, 2014 and December 31, 2013;		
Shares issued: 2,038,893,979 at March 31, 2014 and December 31, 2013;		
Shares outstanding: 1,971,686,139 at March 31, 2014 and 1,944,868,751 at December 31, 2013	20	20
Additional Paid-in capital	23,364	24,570
Retained earnings	43,522	42,172
Employee stock trusts	2,099	1,718
Accumulated other comprehensive loss	(968)	(1,093)
Common stock held in treasury, at cost, \$0.01 par value; 67,207,840 shares at March 31, 2014 and 94,025,228 shares at December 31, 2013	(2,087)	(2,968)
Common stock issued to employee stock trusts	(2,099)	(1,718)
Total Morgan Stanley shareholders' equity	67,071	65,921
Nonredeemable noncontrolling interests	3,197	3,109
Total equity	70,268	69,030
Total liabilities, redeemable noncontrolling interests and equity	\$ 831,381	\$ 832,702

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Income****(dollars in millions, except share and per share data)****(unaudited)**

	Three Months Ended	
	March 31,	
	2014	2013
Revenues:		
Investment banking	\$ 1,308	\$ 1,224
Trading	2,962	2,694
Investments	359	338
Commissions and fees	1,216	1,167
Asset management, distribution and administration fees	2,549	2,346
Other	227	199
Total non-interest revenues	8,621	7,968
Interest income	1,343	1,388
Interest expense	1,035	1,206
Net interest	308	182
Net revenues	8,929	8,150
Non-interest expenses:		
Compensation and benefits	4,305	4,214
Occupancy and equipment	359	377
Brokerage, clearing and exchange fees	443	428
Information processing and communications	424	448
Marketing and business development	147	134
Professional services	452	440
Other	492	526
Total non-interest expenses	6,622	6,567
Income from continuing operations before income taxes	2,307	1,583
Provision for income taxes	762	333
Income from continuing operations	1,545	1,250
Discontinued operations:		
Income (loss) from discontinued operations before income taxes	44	(30)
Provision for (benefit from) income taxes	5	(11)
Income (loss) from discontinued operations	39	(19)
Net income	\$ 1,584	\$ 1,231
Net income applicable to redeemable noncontrolling interests		122
Net income applicable to nonredeemable noncontrolling interests	79	147
Net income applicable to Morgan Stanley	\$ 1,505	\$ 962
Preferred stock dividends	56	26

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Earnings applicable to Morgan Stanley common shareholders	\$ 1,449	\$ 936
Amounts applicable to Morgan Stanley:		
Income from continuing operations	\$ 1,466	\$ 981
Income (loss) from discontinued operations	39	(19)
Net income applicable to Morgan Stanley	\$ 1,505	\$ 962
Earnings per basic common share:		
Income from continuing operations	\$ 0.73	\$ 0.50
Income (loss) from discontinued operations		