

MORGAN STANLEY
Form 10-Q
November 04, 2014
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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 September 30, 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):

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Large Accelerated Filer
Non-Accelerated Filer

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 October 31, 2014, there were 1,957,403,208 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 September 30, 2014

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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)**

	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks (\$49 and \$544 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	\$ 20,242	\$ 16,602
Interest bearing deposits with banks	35,584	43,281
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements (\$149 and \$117 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	45,106	39,203
Trading assets, at fair value (\$126,689 and \$151,078 were pledged to various parties at September 30, 2014 and December 31, 2013, respectively) (\$1,122 and \$2,825 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	252,482	280,744
Available for sale securities, at fair value	63,547	53,430
Securities received as collateral, at fair value	16,694	20,508
Federal funds sold and securities purchased under agreements to resell (includes \$863 and \$866 at fair value at September 30, 2014 and December 31, 2013, respectively)	98,994	118,130
Securities borrowed	140,303	129,707
Customer and other receivables	54,839	57,104
Loans:		
Held for investment (net of allowances of \$141 and \$156 at September 30, 2014 and December 31, 2013, respectively)	51,465	36,545
Held for sale	6,744	6,329
Other investments (\$488 and \$561 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	4,515	5,086
Premises, equipment and software costs (net of accumulated depreciation of \$6,128 and \$6,420 at September 30, 2014 and December 31, 2013, respectively) (\$194 and \$201 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	5,642	6,019
Goodwill	6,589	6,595
Intangible assets (net of accumulated amortization of \$1,924 and \$1,703 at September 30, 2014 and December 31, 2013, respectively) (includes \$6 and \$8 at fair value at September 30, 2014 and December 31, 2013, respectively)	3,054	3,286
Other assets (\$15 and \$11 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally not available to the Company)	8,711	10,133
Total assets	\$ 814,511	\$ 832,702
Liabilities		
Deposits (includes \$0 and \$185 at fair value at September 30, 2014 and December 31, 2013, respectively).	\$ 124,382	\$ 112,379
Commercial paper and other short-term borrowings (includes \$1,473 and \$1,347 at fair value at September 30, 2014 and December 31, 2013, respectively)	1,760	2,142
Trading liabilities, at fair value (\$1 and \$33 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	118,896	104,521
Obligation to return securities received as collateral, at fair value	22,944	24,568
Securities sold under agreements to repurchase (includes \$609 and \$561 at fair value at September 30, 2014 and December 31, 2013, respectively)	83,706	145,676
Securities loaned	27,657	32,799
Other secured financings (includes \$4,367 and \$5,206 at fair value at September 30, 2014 and December 31, 2013, respectively) (\$380 and \$543 at September 30, 2014 and December 31, 2013, respectively, related to consolidated	12,019	14,215

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variable interest entities, generally non-recourse to the Company)		
Customer and other payables	181,899	157,125
Other liabilities and accrued expenses (\$72 and \$76 at September 30, 2014 and December 31, 2013, respectively, related to consolidated variable interest entities, generally non-recourse to the Company)	14,880	16,672
Long-term borrowings (includes \$33,159 and \$35,637 at fair value at September 30, 2014 and December 31, 2013, respectively)	152,357	153,575
Total liabilities	740,500	763,672
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock (see Note 13)	6,020	3,220
Common stock, \$0.01 par value:		
Shares authorized: 3,500,000,000 at September 30, 2014 and December 31, 2013;		
Shares issued: 2,038,893,979 at September 30, 2014 and December 31, 2013;		
Shares outstanding: 1,958,386,188 and 1,944,868,751 at September 30, 2014 and December 31, 2013, respectively	20	20
Additional paid-in capital	23,922	24,570
Retained earnings	46,573	42,172
Employee stock trusts	2,127	1,718
Accumulated other comprehensive loss	(1,115)	(1,093)
Common stock held in treasury, at cost, \$0.01 par value:		
Shares outstanding: 80,507,791 and 94,025,228 at September 30, 2014 and December 31, 2013, respectively	(2,502)	(2,968)
Common stock issued to employee stock trusts	(2,127)	(1,718)
Total Morgan Stanley shareholders' equity	72,918	65,921
Nonredeemable noncontrolling interests	1,093	3,109
Total equity	74,011	69,030
Total liabilities and equity	\$ 814,511	\$ 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Investment banking	\$ 1,551	\$ 1,160	\$ 4,492	\$ 3,687
Trading	2,448	2,259	7,926	7,847
Investments	138	728	724	1,254
Commissions and fees	1,124	1,079	3,478	3,463
Asset management, distribution and administration fees	2,716	2,389	7,886	7,139
Other	373	231	873	762
Total non-interest revenues	8,350	7,846	25,379	24,152
Interest income	1,384	1,261	3,977	3,873
Interest expense	827	1,151	2,845	3,377
Net interest	557	110	1,132	496
Net revenues	8,907	7,956	26,511	24,648
Non-interest expenses:				
Compensation and benefits	4,214	3,966	12,720	12,284
Occupancy and equipment	350	374	1,069	1,129
Brokerage, clearing and exchange fees	437	416	1,338	1,300
Information processing and communications	396	404	1,231	1,322
Marketing and business development	160	151	472	448
Professional services	522	448	1,506	1,346
Other	608	832	1,653	2,059
Total non-interest expenses	6,687	6,591	19,989	19,888
Income from continuing operations before income taxes	2,220	1,365	6,522	4,760
Provision for income taxes	463			