

MORGAN STANLEY
Form 10-Q
August 06, 2012
[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 June 30, 2012

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

New York, NY 10036

(I.R.S. Employer Identification No.)

(Registrant's telephone number,
including area code)

incorporation or organization)

(Address of principal executive

offices, including zip 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 July 31, 2012, there were 1,975,507,265 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 June 30, 2012

Table of Contents	Page
Part I Financial Information	
Item 1. <u>Financial Statements (unaudited)</u>	1
<u>Condensed Consolidated Statements of Financial Condition - June 30, 2012 and December 31, 2011</u>	1
<u>Condensed Consolidated Statements of Income - Three and Six Months Ended June 30, 2012 and 2011</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Changes in Total Equity - Six Months Ended June 30, 2012 and 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
<u>Report of Independent Registered Public Accounting Firm</u>	89
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	90
<u>Introduction</u>	90
<u>Executive Summary</u>	91
<u>Business Segments</u>	101
<u>Accounting Developments</u>	117
<u>Other Matters</u>	118
<u>Critical Accounting Policies</u>	119
<u>Liquidity and Capital Resources</u>	124
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	140
Item 4. <u>Controls and Procedures</u>	155
<u>Financial Data Supplement (Unaudited)</u>	156
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	162
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	164
Item 6. <u>Exhibits</u>	164

Table of Contents

AVAILABLE INFORMATION

Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the 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 Contributions;

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)**

	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks (\$477 and \$511 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities generally not available to the Company)	\$ 12,408	\$ 13,165
Interest bearing deposits with banks	29,598	34,147
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	29,418	29,454
Financial instruments owned, at fair value (approximately \$131,397 and \$140,749 were pledged to various parties at June 30, 2012 and December 31, 2011, respectively):		
U.S. government and agency securities	54,138	63,449
Other sovereign government obligations	33,628	29,059
Corporate and other debt (\$2,734 and \$3,007 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities, generally not available to the Company)	57,757	68,923
Corporate equities	46,346	47,966
Derivative and other contracts	34,343	48,064
Investments (\$1,809 and \$1,666 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities, generally not available to the Company)	8,229	8,195
Physical commodities	6,141	9,697
Total financial instruments owned, at fair value	240,582	275,353
Securities available for sale, at fair value	31,442	30,495
Securities received as collateral, at fair value	12,150	11,651
Federal funds sold and securities purchased under agreements to resell (includes \$622 and \$112 at fair value at June 30, 2012 and December 31, 2011, respectively)	147,988	130,155
Securities borrowed	134,263	127,074
Receivables:		
Customers	37,666	33,977
Brokers, dealers and clearing organizations	9,107	5,248
Fees, interest and other	10,208	9,444
Loans (net of allowances of \$77 and \$17 at June 30, 2012 and December 31, 2011, respectively)	21,394	15,369
Other investments	4,730	4,832
Premises, equipment and software costs (net of accumulated depreciation of \$5,311 and \$4,852 at June 30, 2012 and December 31, 2011, respectively) (\$229 and \$234 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,343	6,457
Goodwill	6,610	6,686
Intangible assets (net of accumulated amortization of \$1,078 and \$910 at June 30, 2012 and December 31, 2011, respectively) (includes \$8 and \$133 at fair value at June 30, 2012 and December 31, 2011, respectively)	3,987	4,285
Other assets (\$355 and \$446 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities, generally not available to the Company)	10,623	12,106

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Total assets	\$ 748,517	\$ 749,898
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See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Financial Condition (Continued)**

(dollars in millions, except share data)

(unaudited)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Deposits (includes \$1,965 and \$2,101 at fair value at June 30, 2012 and December 31, 2011, respectively)	\$ 68,252	\$ 65,662
Commercial paper and other short-term borrowings (includes \$840 and \$1,339 at fair value at June 30, 2012 and December 31, 2011, respectively)	1,988	2,843
Financial instruments sold, not yet purchased, at fair value:		
U.S. government and agency securities	27,770	19,630
Other sovereign government obligations	22,208	17,141
Corporate and other debt	9,041	8,410
Corporate equities	29,521	24,497
Derivative and other contracts	34,935	46,453
Physical commodities		16
Total financial instruments sold, not yet purchased, at fair value	123,475	116,147
Obligation to return securities received as collateral, at fair value	17,078	15,394
Securities sold under agreements to repurchase (includes \$346 and \$348 at fair value at June 30, 2012 and December 31, 2011, respectively)	108,678	104,800
Securities loaned	30,762	30,462
Other secured financings (includes \$9,236 and \$14,594 at fair value at June 30, 2012 and December 31, 2011, respectively) (\$1,419 and \$2,316 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	17,323	20,719
Payables:		
Customers	119,455	117,241
Brokers, dealers and clearing organizations	4,158	4,082
Interest and dividends	3,166	2,292
Other liabilities and accrued expenses (\$55 and \$121 at June 30, 2012 and December 31, 2011, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	14,717	15,944
Long-term borrowings (includes \$42,482 and \$39,663 at fair value at June 30, 2012 and December 31, 2011, respectively)	167,828	184,234
	676,880	679,820
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock	1,508	1,508
Common stock, \$0.01 par value;		
Shares authorized: 3,500,000,000 at June 30, 2012 and December 31, 2011;		
Shares issued: 2,038,893,979 at June 30, 2012 and 1,989,377,171 at December 31, 2011;		
Shares outstanding: 1,977,402,742 at June 30, 2012 and 1,926,986,130 at December 31, 2011	20	20
Paid-in capital	23,151	22,836
Retained earnings	40,586	40,341
Employee stock trust	3,198	3,166
Accumulated other comprehensive loss	(220)	(157)
Common stock held in treasury, at cost, \$0.01 par value; 61,491,237 shares at June 30, 2012 and 62,391,041 shares at December 31, 2011	(2,204)	(2,499)

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Common stock issued to employee trust	(3,198)	(3,166)
Total Morgan Stanley shareholders' equity	62,841	62,049
Noncontrolling interests	8,796	8,029
Total equity	71,637	70,078
Total liabilities and equity	\$ 748,517	\$ 749,898

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Investment banking	\$ 1,104	\$ 1,695	\$ 2,167	\$ 2,909
Principal transactions:				
Trading	2,469	3,484	4,876	6,461
Investments	63	402	148	731
Commissions and fees	1,040	1,283	2,217	2,722
Asset management, distribution and administration fees	2,268	2,174	4,420	4,257
Other	170	237	280	(237)
Total non-interest revenues	7,114	9,275	14,108	16,843
Interest income	1,323	1,961	2,865	3,820
Interest expense	1,484	2,029	3,085	3,882
Net interest	(161)	(68)	(220)	(62)
Net revenues	6,953	9,207	13,888	16,781
Non-interest expenses:				
Compensation and benefits	3,633	4,622	8,064	8,907
Occupancy and equipment	380	395	772	792
Brokerage, clearing and exchange fees	405	410	808	811
Information processing and communications	487	444	946	884
Marketing and business development	156	151	302	293
Professional services	478	467	890	870
Other	474	748	963	1,353
Total non-interest expenses	6,013	7,237	12,745	13,910
Income from continuing operations before income taxes	940	1,970	1,143	2,871
Provision for income taxes	226	538	280	294
Income from continuing operations	714	1,432	863	2,577
Discontinued operations:				
Gain (loss) from discontinued operations	49	(22)	76	(51)
Provision for (benefit from) income taxes	13	4	55	(10)
Net gain (loss) from discontinued operations	36	(26)	21	(41)
Net income	\$ 750	\$ 1,406	\$ 884	\$ 2,536
Net income applicable to noncontrolling interests	159	213	387	375
Net income applicable to Morgan Stanley	\$ 591	\$ 1,193	\$ 497	\$ 2,161

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Earnings (loss) applicable to Morgan Stanley common shareholders	\$	564	\$	(558)	\$	446	\$	188
Amounts applicable to Morgan Stanley:								
Income from continuing operations	\$	563	\$	1,221	\$	485	\$	2,205
Net gain (loss) from discontinued operations		28		(28)		12		(44)
Net income applicable to Morgan Stanley	\$	591	\$	1,193	\$	497	\$	2,161
Earnings (loss) per basic common share:								
Income (loss) from continuing operations	\$	0.28	\$	(0.36)	\$	0.23	\$	0.16
Net gain (loss) from discontinued operations		0.02		(0.02)		0.01		(0.03)
Earnings (loss) per basic common share	\$	0.30	\$	(0.38)	\$	0.24	\$	0.13
Earnings (loss) per diluted common share:								
Income (loss) from continuing operations	\$	0.28	\$	(0.36)	\$	0.23	\$	0.16
Net gain (loss) from discontinued operations		0.01		(0.02)				(0.03)
Earnings (loss) per diluted common share	\$	0.29	\$	(0.38)	\$	0.23	\$	0.13
Average common shares outstanding:								
Basic		1,885,179,182		1,464,295,984		1,881,070,509		1,460,155,981
Diluted		1,911,709,377		1,464,295,984		1,907,107,639		1,477,572,132

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Comprehensive Income****(dollars in millions)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 750	\$ 1,406	\$ 884	\$ 2,536
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments(1)	\$ (151)	\$ 94	\$ (131)	\$ 131
Amortization of cash flow hedges(2)	1	3	3	4
Net unrealized gain (loss) on Securities available for sale(3)	41	50	22	14
Pension, postretirement and other related adjustments(4)	17	2	19	7
Total other comprehensive income (loss)	\$ (92)	\$ 149	\$ (87)	\$ 156
Comprehensive income	\$ 658	\$ 1,555	\$ 797	\$ 2,692
Net income applicable to noncontrolling interests	159	213	387	375
Other comprehensive income (loss) applicable to noncontrolling interests	68	43	(24)	9
Comprehensive income applicable to Morgan Stanley	\$ 431	\$ 1,299	\$ 434	\$ 2,308

(1) Amounts are net of provision for (benefit from) income taxes of \$172 million and \$(68) million for the quarters ended June 30, 2012 and 2011, respectively, and \$176 million and \$(136) million for the six months ended June 30, 2012 and 2011, respectively.

(2) Amounts are net of provision for income taxes of \$1 million for the quarter ended June 30, 2012, and \$2 million and \$2 million for the six months ended June 30, 2012 and 2011, respectively.

(3) Amounts are net of provision for income taxes of \$30 million and \$34 million for the quarters ended June 30, 2012 and 2011, respectively, and \$17 million and \$10 million for the six months ended June 30, 2012 and 2011, respectively.

(4) Amounts are net of provision for income taxes of \$8 million and \$4 million for the quarters ended June 30, 2012 and 2011, respectively, and \$10 million for the six months ended June 30, 2012.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**MORGAN STANLEY****Condensed Consolidated Statements of Cash Flows****(dollars in millions)****(unaudited)**

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 884	\$ 2,536
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Loss on equity method investees	20	725
Compensation payable in common stock and options	618	728
Depreciation and amortization	793	759
Gain on business dispositions	(108)	
Gain on sale of securities available for sale	(23)	(94)
(Gain) loss on retirement of long-term debt	(27)	31
Impairment charges and other-than-temporary impairment charges	33	3
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	36	(6,324)
Financial instruments owned, net of financial instruments sold, not yet purchased	41,351	22,984
Securities borrowed	(7,189)	6,638
Securities loaned	300	6,281
Receivables, loans and other assets	(15,192)	(6,271)
Payables and other liabilities	5,318	13,458
Federal funds sold and securities purchased under agreements to resell	(17,833)	(32,737)
Securities sold under agreements to repurchase	6,885	(13,891)
Net cash provided by (used for) operating activities	15,866	(5,174)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (payments for):		
Premises, equipment and software costs	(436)	(725)
Business dispositions, net of cash disposed	1,536	
Purchases of securities available for sale	(6,418)	(8,632)
Sales, maturities and redemptions of securities available for sale	5,439	14,245
Net cash provided by investing activities	121	4,888
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Commercial paper and other short-term borrowings	(855)	310
Distributions related to noncontrolling interests	(178)	(153)
Derivatives financing activities	128	146
Other secured financings	(4,822)	3,176
Deposits	2,590	1,713
Net proceeds from:		
Excess tax benefits associated with stock-based awards	42	29
Issuance of long-term borrowings	9,422	22,596
Payments for:		
Long-term borrowings	(26,445)	(24,192)
Repurchases of common stock for employee tax withholding		