

**MORGAN STANLEY SMITH BARNEY LLC**

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
AS OF JUNE 30, 2023  
(UNAUDITED)**

\*\*\*\*\*

**MORGAN STANLEY SMITH BARNEY LLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

As of June 30, 2023

(In millions of dollars)

(Unaudited)

**ASSETS**

Cash and cash equivalents	\$	1,089
Financial instruments owned, at fair value		841
Securities purchased under agreements to resell		8,842
Securities borrowed		524
Receivables:		
Customers		10,397
Brokers, dealers and clearing organizations		81
Fees, interest and other		964
Affiliates		43
Goodwill		4,769
Intangible assets (net of accumulated amortization of \$3,497)		578
Other assets		852
<b>Total assets</b>	<b>\$</b>	<b>28,980</b>

**LIABILITIES AND MEMBER'S EQUITY**

Financial instruments sold, not yet purchased, at fair value	\$	28
Securities loaned		1,132
Other secured financings, at fair value		765
Payables:		
Customers		8,118
Brokers, dealers and clearing organizations		240
Interest and dividends		25
Affiliates		530
Other liabilities and accrued expenses		6,354
Borrowings (includes \$11 at fair value)		170
<b>Total liabilities</b>		<b>17,362</b>

**Commitments and contingent liabilities (See Note 13)**

Member's equity		11,618
<b>Total liabilities and member's equity</b>	<b>\$</b>	<b>28,980</b>

See Notes to Consolidated Statement of Financial Condition.

**MORGAN STANLEY SMITH BARNEY LLC**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**As of June 30, 2023**  
**(In millions of dollars, except where noted)**

## **1. Introduction and Basis of Presentation**

### **The Company**

MSSB, together with its wholly owned subsidiaries (the “Company”), provides a wide variety of financial products and services to a large and diversified group of clients and customers including financial institutions and individuals. The Company offers financial advisor-led brokerage and investment advisory services; securities-based lending; self-directed brokerage services covering various investment alternatives; financial and wealth planning services; workplace services including stock plan administration; annuity and insurance products; cash management; and retirement plan services through a network of approximately sixteen thousand financial advisors in the U.S. The Company also performs sales and trading activities, primarily on an agency basis, in the equity and fixed income businesses and new issue distribution of fixed income and equity products. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout the notes to the consolidated statement of financial condition.

MSSB is registered with the SEC as a wealth management broker-dealer and an investment adviser. The Company is also registered as an introducing broker with the CFTC and clears futures transactions through an affiliate, MS&Co. MSSB is also a member of FINRA, SIPC and various securities exchanges.

MSSB is a wholly owned subsidiary of MSDHL (the “Parent”, formerly named as MSDHI) which is an indirect subsidiary of Morgan Stanley (the “Ultimate Parent”).

### **Basis of Financial Information**

The consolidated statement of financial condition is prepared in accordance with U.S. GAAP, which requires the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, the outcome of legal and tax matters, deferred tax assets and other matters that affect its consolidated statement of financial condition and related disclosures. The Company believes that the estimates utilized in the preparation of its consolidated statement of financial condition are prudent and reasonable. Actual results could differ materially from these estimates.

The Company has evaluated subsequent events for adjustment to or disclosure in the consolidated statement of financial condition through August 23, 2023, the date the consolidated statement of financial condition was issued, and the Company has not identified any recordable or disclosable events not otherwise reported in the consolidated statement of financial condition or the notes thereto except for the below.

On August 1, 2023, the Company ceased to be a wholly owned subsidiary of MSDHL and became a wholly owned subsidiary of MSCM, which is a direct subsidiary of the Ultimate Parent.

Pursuant to the change, the existing subordinated revolving credit agreement was assigned from MSDHL to MSCM.

In February 2023, FINRA approved the transfer of ETS customer accounts, assets, and liabilities to the Company (the “Transfer”). ETS is an indirect wholly owned subsidiary of the Ultimate Parent. Also, in February 2023, the Company’s Board of Directors approved the Transfer and subsequent merger of ETS with and into the Company, which is scheduled to be completed on or about January 1, 2024 (see Note 4).

### **Consolidation**

The consolidated statement of financial condition includes the accounts of MSSB and its wholly owned licensed insurance subsidiaries in which MSSB has a controlling financial interest.

At June 30, 2023, the Company’s consolidated subsidiaries reported \$11 of assets, \$7 of liabilities and \$4 of equity on a stand-alone basis.

All material intercompany balances with its subsidiaries have been eliminated in consolidation.

## **2. Significant Accounting Policies**

### **Fair Value of Financial Instruments**

Instruments within Financial instruments owned and Financial instruments sold, not yet purchased, are measured at fair value, either as required or allowed by accounting guidance. These financial instruments represent the Company’s trading positions to facilitate customer transactions and include both cash and derivative products.

The fair value of OTC financial instruments, including derivative contracts related to financial instruments, is presented in the accompanying consolidated statement of financial condition on a net-by-counterparty basis, when appropriate. Additionally, the Company nets the fair value of cash collateral paid or received against the fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting agreement.

### **Fair Value Option**

The Company has elected the fair value option to measure other secured financings. Please see Note 5 for additional information.

### **Fair Value Measurement – Definition and Hierarchy**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the “exit price”) in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets, financial liabilities, and nonfinancial items accounted for as derivatives on the basis of its net exposure to either market risk or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability that are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest:

*Level 1.* Valuations based on quoted prices in active markets that the Company has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

*Level 2.* Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3.* Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of

prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

### ***Valuation Techniques***

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

See Note 5 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

### **Offsetting of Derivative Instruments**

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off cash collateral against any net amount owed by the counterparty.

Derivatives with enforceable master netting agreements are reported net of cash collateral received and posted.

For information related to offsetting of derivatives, see Note 6.

### **Income Taxes**

Deferred tax assets and liabilities are recorded based upon the temporary differences between the consolidated statement of financial condition and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be

realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and results of recent operations. When performing the assessment, the Company considers all types of deferred tax assets in combination with each other, regardless of the origin of the underlying temporary difference. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. If the Company subsequently determines that it would be able to realize deferred tax assets in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance.

Uncertain tax positions are recorded on the basis of a two-step process whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (ii) for those tax positions that meet this threshold, the Company recognizes the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with the related tax authority.

#### **Cash and Cash Equivalents**

Cash and cash equivalents represent funds deposited with financial institutions, and deposited with clearing organizations or segregated under federal and other regulations or requirements (“Restricted cash”). Restricted cash primarily includes cash segregated in compliance with federal and other regulations and the Company’s initial margin deposited with clearing organizations (see Note 3).

#### **Contracts with Customers**

Receivables from contracts with customers are primarily recognized as Fees, interest and other receivable balances in the consolidated statement of financial condition when the underlying performance obligations have been satisfied and the Company has the right per the contract to bill the customer. Contract assets are recognized in Other assets when the Company has satisfied its performance obligations but payment is conditional and Other liabilities and accrued expenses when the Company has collected payment from a customer based on the terms of the contract, but the underlying performance obligations are not yet satisfied.

#### **Collateralized Financings**

Securities borrowed, Securities purchased under agreements to resell (“reverse repurchase agreements”), Securities loaned, Securities sold under agreements to repurchase (“repurchase agreements”) and other secured financings are treated as collateralized financings. Reverse repurchase agreements and repurchase agreements are carried in the consolidated statement of financial condition at the amounts of cash paid or received, plus accrued interest. Where appropriate, repurchase agreements and reverse repurchase agreements with the same counterparty are reported on a net basis. Securities borrowed and Securities

loaned are recorded at the amount of cash collateral advanced or received.

In order to manage credit exposure arising from these transactions, in appropriate circumstances, the Company enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right to net a counterparty’s rights and obligations under the agreement and to liquidate and set-off collateral held by the Company against the net amount owed by the counterparty.

The Company’s policy is generally to take possession of securities purchased or borrowed in connection with reverse repurchase agreements and securities borrowed transactions, respectively, and to receive cash and/or securities delivered under repurchase agreements or securities loaned transactions (with rights of rehypothecation).

The Company executes purchases and sales of equity securities and/or parts thereof (“fractional shares”) on behalf of its customers. Customers may elect to reinvest dividends by purchasing equity securities and/or fractional shares through dividend reinvestment programs (DRIPs). Separately, customers may purchase and sell fractional shares as part of certain investment advisory programs. Fractional shares acquired by customers do not meet the criteria for derecognition by the Company under ASC 860, Transfers and Servicing, and are accounted for as a secured borrowing (repurchase obligation) with the underlying financial assets pledged as collateral. Fractional shares are presented as financial instruments owned with a corresponding repurchase obligation recorded in other secured financings in the consolidated statement of financial condition.

For information related to offsetting of certain collateralized transactions, see Note 8.

#### **Receivables and Payables – Customers**

Receivables from customers primarily include margin loans (net of related customer cash and short sale proceeds). Payables to customers primarily include cash and short sale activity (net of related customer margin loans).

Customers’ securities transactions are recorded on a settlement date basis. Securities owned by customers, including those that collateralize margin loans, are not reflected in the consolidated statement of financial condition.

#### **Receivables and Payables – Brokers, Dealers and Clearing Organizations**

Receivables from and payables to brokers, dealers and clearing organizations primarily include amounts on unsettled trades, and amounts for securities failed to deliver by the Company to the purchaser or failed to receive by the Company from the seller by the settlement date. Receivables and payables arising from unsettled trades are reported on a net basis.

## Goodwill and Intangible Assets

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests goodwill for impairment at the reporting unit level, which is at the Company level. For both the annual and interim tests, the Company has the option to either (a) perform a quantitative impairment test or (b) first perform a qualitative assessment to determine whether it is more likely than not that the fair value is less than its carrying amount, in which case the quantitative test would be performed.

When performing a quantitative impairment test, the Company compares the fair value with its carrying amount, including goodwill. If the fair value is less than its carrying amount, the impairment loss is equal to the excess of the carrying value over the fair value limited by the carrying amount.

The estimated fair value is derived based on valuation techniques the Company believes market participants would use. The estimated fair values are generally determined by utilizing a discounted cash flow methodology.

Goodwill is not amortized. Finite lived intangible assets are amortized over their estimated useful lives and are reviewed for impairment on an interim basis when impairment indicators are present.

See Note 9 for further information on Goodwill and Intangible assets.

## Deferred Compensation Plans

Certain current and former employees of the Company and affiliates participate in various deferred stock-based and cash-based compensation plans.

The deferred cash-based compensation plans generally provide a return to the plan participants based upon the performance of each participant's referenced investments.

The Company enters into OTC derivative contracts with affiliates to economically hedge certain obligations under the deferred cash-based compensation plans.

The Company measures compensation expense for stock-based awards at fair value. The Company determines the fair value of RSUs and PSUs with non-market performance conditions based on the grant-date fair value of the common stock of the Ultimate Parent, measured as the VWAP on the date of grant. PSUs that contain market-based conditions are valued using a Monte Carlo valuation model.

## Accounting Updates Adopted in 2023

The Company has adopted the Financial Instruments - Credit Losses accounting update from January 1, 2023. This accounting update eliminates the accounting guidance for Troubled Debt

Restructurings ("TDRs") and requires new disclosures regarding certain modifications of financing receivables (i.e., principal forgiveness, interest rate reductions, other-than-insignificant payment delays and term extensions) to borrowers experiencing financial difficulty. The update also requires disclosure of current period gross charge-offs by year of origination for financing receivables measured at amortized cost. The Company noted no impact on its consolidated statement of financial condition upon adoption.

## Accounting Development Updates

The FASB has issued certain accounting updates, which the Company has either determined are not applicable or are not expected to have a significant impact on the Company's consolidated statement of financial condition.

## 3. Cash and Cash Equivalents

At June 30, 2023, Cash and Cash equivalents include:

	<b>At June 30, 2023</b>	
Cash	\$	543
Restricted cash		546
Total	\$	1,089

## 4. Related Party Transactions

The Company enters into transactions with the Ultimate Parent and its consolidated subsidiaries (the "Firm") in order to, among other things, manage risk, facilitate client demand, satisfy regulatory and liquidity requirements, and fund business activities. These transactions include OTC derivatives and collateralized transactions, as described in Notes 6 and 8, respectively. The Company also obtains funding from the Ultimate Parent as described in Note 10.

On January 23, 2023, a \$9,000 Loan to Ultimate Parent and \$8,000 Subordinated Liabilities with Parent were settled.

As of June 30, 2023, approximately 5% of the customer assets under management of ETS, have been transferred to the Company in advance of the merger. The transfers, which included Goodwill, Intangible Assets and Deferred Tax Liabilities, consisted of Assets and Liabilities of \$1,008 and \$637, respectively, resulting in an increase in Member's Equity of \$370.

The Company is a party to deposit sweep agreements with MSBNA and MSPBNA, both bank affiliates. Under these sweep agreements, each bank sources certain deposits from the Company. These deposits are primarily garnered through the Deposit Program whereby certain cash balances are primarily swept into separate money market deposit accounts and demand deposit accounts. The Company receives fees from each bank for

the deposits obtained through the Deposit Program. In addition, MSBNA and MSPBNA issue certain types of loans and lending commitments to clients of the Company.

The Company has non-interest bearing deposit accounts with MSPBNA and MSBNA. These amounts are recorded within Cash and Cash Equivalents in the statement of financial condition.

The Company participates in various deferred stock-based and cash-based compensation plans for the benefit of certain current and former employees, as described in Notes 2 and 15, as well as employee benefit plans as described in Note 16. The Company enters into OTC derivative contracts with affiliates to economically hedge certain obligations under the deferred cash-based compensation plans. See Note 6 for additional disclosures on fair value and notional amounts related to the derivatives associated with these deferred compensation plans, included within equity contracts. Additionally, the Company has recognized liabilities to the Ultimate Parent for the deferred stock-based compensation plans which are recorded in Other liabilities and accrued expenses in the consolidated statement of financial condition.

The Company has agreements with affiliates for other activities, including a tax sharing agreement with the Ultimate Parent as described in Note 17, global transfer pricing policies, and other activities as described further below. Unsettled amounts for these activities are recorded within Receivables from or Payables to affiliates and are payable on demand.

The Company applies global transfer pricing policies among affiliates. These policies are consistent with 2022 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The Firm has also engaged in negotiations of Advanced Pricing Agreements with selected tax authorities in respect of its key transfer pricing methodologies. Negotiations may result in changes to methodologies or inputs that could have an impact on the Company's consolidated statement of financial condition in the future.

The Company has various agreements with an affiliated broker-dealer, MS&Co., in which the Company provides certain sales and distribution services to its clients for MS&Co.'s investment banking, equities and fixed income trading activities, and MS&Co. provides certain research, sales and trading services to the Company's clients.

The Company receives fees from MSDI and EVD, affiliated broker-dealers, to distribute shares of various funds and provide shareholder services to customers.

The Company receives fees from MSIM Inc., MS AIP GP LP, and MSIM Ltd., investment advisor affiliates, for providing advisory services to customers investing in various fund products managed by those affiliates.

The Company has agreements with affiliated service entities, MSSG and MSSBF. MSSG provides the Company with certain services including infrastructure group support, healthcare and life insurance benefits for the employees of the Company, information processing, communications, and occupancy and equipment. MSSBF provides other services including information processing, communications, and occupancy and equipment.

Certain employees of the Company provide services for business activities conducted on two affiliates, MSBNA and MSPBNA. The Company is reimbursed by these affiliates for expenses related to these services.

The Company and ETS are party to an intercompany agreement under which the Company provides ETS with call center support services.

	<b>At June 30, 2023</b>
<b>Assets and receivables from affiliated companies:</b>	
Cash and cash equivalents	\$ 67
Financial instruments owned, at fair value	34
Reverse repurchase agreements	8,841
Securities borrowed	524
Receivables - Customers	3
Receivables - Fees, interest and other	6
Receivables - Affiliates	43
Other assets	14
<b>Liabilities and payables to affiliated companies:</b>	
Securities loaned	1,132
Payables - Customers	69
Payables - Affiliates	530
Other liabilities and accrued expenses	725
Borrowings	26

## 5. Fair Values

### Fair Value Measurement

#### Assets and Liabilities Measured at Fair Value

	At June 30, 2023					
	Level 1	Level 2	Level 3 <sup>2</sup>	Netting <sup>1</sup>	Total	
<b>Assets at fair value</b>						
Financial instruments owned:						
U.S. Treasury and agency securities	\$ 1	\$ —	\$ —	\$ —	\$ —	1
Corporate and other debt	—	15	3	—	—	18
Corporate equities	766	—	—	—	—	766
Derivative contracts:						
Foreign exchange	—	53	—	—	—	53
Equity <sup>3</sup>	—	95	—	—	—	95
Netting <sup>1</sup>	—	(31)	—	(61)	(61)	(92)
<b>Total derivative contracts</b>	<b>—</b>	<b>117</b>	<b>—</b>	<b>(61)</b>	<b>(61)</b>	<b>56</b>
<b>Total financial instruments owned</b>	<b>\$ 767</b>	<b>\$ 132</b>	<b>\$ 3</b>	<b>\$ (61)</b>	<b>\$ (61)</b>	<b>\$ 841</b>
<b>Liabilities at fair value</b>						
Financial instruments sold, not yet purchased:						
U.S. government and agency securities	\$ —	\$ —	\$ —	\$ —	\$ —	1
Corporate and other debt	—	6	—	—	—	6
Corporate equities	1	—	—	—	—	1
Derivative contracts:						
Foreign exchange	—	53	—	—	—	53
Equity <sup>3</sup>	—	—	—	—	—	—
Netting <sup>1</sup>	—	(31)	—	(1)	(1)	(32)
<b>Total derivative contracts</b>	<b>—</b>	<b>22</b>	<b>—</b>	<b>(1)</b>	<b>(1)</b>	<b>21</b>
<b>Total financial instruments sold, not yet purchased</b>	<b>\$ 1</b>	<b>\$ 28</b>	<b>\$ —</b>	<b>\$ (1)</b>	<b>\$ (1)</b>	<b>\$ 28</b>
Other secured financings	—	765	—	—	—	765
Borrowings	—	11	—	—	—	11

1. For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled "Netting". Positions classified within the same level that are with the same counterparty are netted within that level. For further information on derivative instruments, see Note 6.
2. Primarily consists of purchases during the year.
3. Represents fair value of derivatives associated with deferred compensation plans as mentioned in Note 4.

## Valuation Techniques for Assets and Liabilities Measured at Fair Value

### U.S. Treasury and Agency Securities

#### *U.S. Treasury Securities*

##### Valuation Techniques:

- Fair value is determined using quoted market prices.

##### Valuation Hierarchy Classification:

- Level 1 - as inputs are observable and in an active market.

#### *U.S. Agency Securities*

##### Valuation Techniques:

- Non-callable agency-issued debt securities are generally valued using quoted market prices, and callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for comparable instruments.
- The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of comparable to-be-announced securities.

##### Valuation Hierarchy Classification:

- Level 1 - on-the-run agency issued debt securities if actively traded and inputs are observable.

### Corporate and other debt

##### Valuation Techniques:

- Corporate and other debt includes transfers of financial assets that failed to meet the accounting criteria for a purchase.

##### Valuation Hierarchy Classification:

- Level 2 - if value based on observable market data for comparable instruments
- Level 3 - in instances where prices or significant spread inputs are unobservable

### Corporate Equities

##### Valuation Techniques:

- Exchange-traded equity securities are generally valued based on quoted prices from the exchange.

##### Valuation Hierarchy Classification:

- Level 1 - actively traded exchange-traded securities

### Derivative Contracts

#### *OTC Derivative Contracts*

##### Valuation Techniques:

- OTC derivative contracts include forward, swap and option contracts related to foreign currencies or equity prices.
- Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modelled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a

combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.

##### Valuation Hierarchy Classification:

- Level 2 - when valued using observable inputs or where the unobservable input is not deemed significant.

For further information on the valuation techniques for OTC derivative products, see Note 2

### Other secured financings

##### Valuation Techniques:

- Other secured financings represent repurchase obligations for investments held by customers.

##### Valuation Hierarchy Classification:

- Level 2 - classified as Level 2 as the liability is not actively traded in the market.

### Borrowings

##### Valuation Techniques:

- Borrowings are contracts that are not classified as OTC derivatives because they fail net investment criteria. See the Derivative Contracts section above for a description of the valuation technique applied to the Company's Borrowings.

##### Valuation Hierarchy Classification:

- Level 2 - when valued using observable inputs, or where the unobservable input is not deemed significant.

## Financial Instruments Not Measured at Fair Value

	At June 30, 2023				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and cash equivalents	\$ 1,089	\$ 1,089	\$ —	\$ —	\$ 1,089
Reverse repurchase agreements	8,842	—	8,842	—	8,842
Securities borrowed	524	—	524	—	524
Receivables:					
Customers	10,397	—	10,397	—	10,397
Brokers, dealers and clearing organizations	81	—	81	—	81
Fees, interest and other	964	—	964	—	964
Affiliates	43	—	43	—	43
Other assets	16	—	16	—	16
<b>Financial liabilities</b>					
Securities loaned	\$ 1,132	\$ —	\$ 1,132	\$ —	\$ 1,132
Payables:					
Customers	8,118	—	8,118	—	8,118
Brokers, dealers and clearing organizations	240	—	240	—	240
Interest and dividends	25	—	25	—	25
Affiliates	530	—	530	—	530
Other liabilities and accrued expenses	969	—	969	—	969
Borrowings	159	—	159	—	159

The previous table excludes certain financial instruments such as deferred compensation arrangements.

## 6. Derivative Instruments

The Company may trade exchange-traded futures and options, as well as OTC swaps, forwards, options and other derivatives referencing, among other things, interest rates, equities, currencies, and bonds. The Company uses these instruments to economically hedge their client facilitation activity and obligations under certain deferred cash-based compensation plans. The Company does not apply hedge accounting.

The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures, forwards, swaps and options).

	Derivative at June 30, 2023			
	Asset		Liabilities	
	Fair Value	Notional <sup>2</sup>	Fair Value	Notional <sup>2</sup>
	Bilateral	OTC	Bilateral	OTC
<b>Derivative contracts</b>				
Foreign exchange	\$ 53	\$ 1,518	\$ 53	\$ 1,518
Equity <sup>1</sup>	95	4,062	—	—
<b>Total gross derivative contracts</b>				
	\$ 148	\$ 5,580	\$ 53	\$ 1,518
Counterparty netting	(31)		(31)	
Cash collateral netting	(61)		(1)	
<b>Total derivative contracts</b>	\$ 56		\$ 21	

1. Bilateral OTC Equity contracts represent derivative assets associated with deferred compensation plans, as mentioned in Note 4.

2. The Company believes that the notional amounts of derivative contracts generally overstate its exposure. In most circumstances, notional amounts are used only as a reference point from which to calculate amounts owed between the parties to the contract. Furthermore, notional amounts do not reflect the benefit of legally enforceable netting arrangements or risk mitigating transactions.

## 7. Receivables from Contracts with Customers

Receivables from contracts with customers, which are included across the various types of Receivables balances in the Company's consolidated statement of financial condition, arise when the Company has both recorded revenues and has the right per the contract to bill customers. At January 1, 2023 and June 30, 2023, the balances related to Receivables from contracts with customers were \$547 and \$596, respectively.

## 8. Collateralized Transactions

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions with affiliates to, among other things, acquire securities to cover short positions and settle other securities obligations, accommodate customers' needs, finance its inventory positions, and meet liquidity and regulatory requirements.

The Company monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and requests or posts additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized, or that excess collateral is returned.

The risk related to a decline in the market value of collateral pledged or received is managed by setting appropriate market-based margin requirements. Increases in collateral margin calls on repurchase agreements and securities loaned transactions (collectively, "secured financing payables") due to market value declines may be mitigated by increases in collateral margin calls on reverse repurchase agreements and securities borrowed transactions with similar quality collateral. Additionally, the Company may request lower quality collateral pledged be replaced with higher quality collateral through collateral substitution rights in the underlying agreements.

The Company actively manages its secured financing payables in a manner that reduces the potential refinancing risk of secured financing payables of less liquid assets and also considers the quality of collateral when negotiating collateral eligibility with counterparties. The Company utilizes shorter-term secured financing payables for highly liquid assets and establishes longer tenor limits for less liquid assets, for which funding may be at risk in the event of a market disruption.

## Offsetting of Certain Collateralized Transactions

At June 30, 2023					
	Gross Amounts	Amounts Offset	Net Amounts Presented	Amounts Not Offset <sup>1</sup>	Net Amounts
<b>Assets</b>					
Reverse repurchase agreements	\$ 8,842	\$ —	\$ 8,842	\$ (8,817)	\$ 25
Securities borrowed	524	—	524	(517)	8
<b>Liabilities</b>					
Securities loaned	\$ 1,132	\$ —	\$ 1,132	\$ (1,117)	\$ 15
Other secured financings	765	—	765	(765)	—

1. Does not include securities segregated under federal and other regulations or requirements.

1. Amounts relate to master netting agreements that have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

For information related to offsetting of derivatives, see Note 6.

## Gross Secured Financing Payables by Remaining Contractual Maturity

At June 30, 2023					
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities loaned	\$ 1,132	\$ —	\$ —	\$ —	\$ 1,132
Other secured financings	765	—	—	—	765
Total	\$ 1,897	\$ —	\$ —	\$ —	\$ 1,897

## Gross Secured Financing Payables by Class of Collateral Pledged

At June 30, 2023	
<b>Securities loaned</b>	
Corporate equities	\$ 1,046
Corporate and other debt	85
Other sovereign government obligations	1
Total	\$ 1,132
<b>Other secured financings</b>	\$ 765
Total included in the offsetting disclosure	\$ 1,897

## Fair Value of Collateral Received with Right to Sell or Repledge

At June 30, 2023	
Collateral received with right to sell or repledge	\$ 21,634
Collateral that was sold or repledged <sup>1</sup>	1,633

1. Does not include securities segregated under federal and other regulations or requirements.

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed, and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to collateralize repurchase agreements, securities loaned, and derivatives, as well as for delivery to counterparties to cover short positions held by customers.

As part of the secured borrowing transactions, financial instruments owned, representing fractional shares investments held by the customer, collateralize the related repurchase obligation that is recorded as other secured financings in the consolidated statement of financial condition. The repurchase obligation is collateralized by the customer's equity securities.

### Customer Margin Lending

The Company provides margin lending arrangements which allow customers, to borrow against the value of qualifying securities. Receivables from these arrangements are included within Receivables - Customers in the Company's consolidated statement of financial condition. Under these arrangements, the Company receives collateral, including U.S. Treasury and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Margin loans are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit terms daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

Margin loans are extended on a demand basis and generally are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account and the amount of collateral, as well as an overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk.

Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company's collateral policies significantly limits its credit exposure in the event of a customer default. The Company may request additional margin collateral from customers if appropriate and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At June 30, 2023, the balance related to customer receivables representing margin loans (net of related customer cash and short sale proceeds) was \$9,377.

## 9. Goodwill and Intangibles

The Company's next annual goodwill impairment test is as of July 1, 2023 and is currently being performed. The carrying amount of the Company's goodwill, was \$4,769 at June 30, 2023. Adverse market or economic events could result in impairment charges in future periods.

In June 2023, Goodwill and Intangible assets totaling \$265 were transferred from ETS to the Company.

## 10. Borrowings

Borrowings of \$170 at June 30, 2023 primarily consist of cash overdrafts as well as unsecured borrowings from the Ultimate Parent, at variable rates and maturing in less than 12 months.

The interest rates for unsecured borrowing from the Ultimate Parent are established by the treasury function of the Firm. These rates reflect the rate of interest that the Firm incurs in funding its business (the "Firm proxy rate").

## 11. Other Liabilities and Accrued Expenses

Other liabilities and accrued expenses primarily consists of accrued compensation payable.

## 12. Subordinated Liabilities

On January 23, 2023, \$8,000 Subordinated Liabilities with the Parent were settled, and the Cash Subordination Agreement was terminated, effective the same day.

The maturity date, interest rate and book value of the subordinated liabilities at June 30, 2023 are as follows:

Subordinated Liabilities	Maturity Date	Interest Rate	Book Value
Subordinated Revolving Credit	November 21, 2032	6.46%	—
<b>Total</b>			<b>\$ —</b>

The interest rates for the agreement is in line with the Firm proxy rate, with the Subordinated Revolving Credit Agreement subject to a cap.

## 13. Commitments, Guarantees and Contingencies

### Commitments

*Central Counterparty.* At June 30, 2023, the Company has outstanding commitments of \$34, with original maturities of five years or more. These commitments relate to the Company's membership in certain clearing houses and are contingent upon the default of a clearing house member or other stress events

## Guarantees

The Company has obligations under certain guarantee arrangements, including contracts and indemnity agreements that contingently require the Company to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party.

The Company provides guarantees for the performance of an affiliate, MSSBF, as a tenant for various properties. As of June 30, 2023, the amount of these guarantees is \$212, which represents the future lease payments on the properties.

*Indemnities.* The Company provides indemnities to two affiliates, MSBNA and MSPBNA, related to services that certain employees and vendors of the Company provide for business activities conducted by these affiliates. MSBNA and MSPBNA have the right to seek indemnification from the Company for losses arising out of the provision of such services by the Company, its employees or its vendors, including for any operational losses caused by human error, failed process management, information technology malfunctions/limitations, fraud, or violations of legal or regulatory requirements. The maximum potential amount of future payment that the Company could be required to make under these indemnities cannot be estimated. The Company has not recorded any contingent liability in its consolidated statement of financial condition for these indemnities.

## Contingencies

### *Legal*

In addition to the matters described below, in the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business, and involving, among other matters, sales, trading, financing, prime brokerage, market-making activities, investment banking advisory services, capital market activities, financial products or offerings sponsored, underwritten or sold by the Company, wealth and investment management services, and accounting and operational matters, certain of which may result in adverse judgments, settlements,

fines, penalties, injunctions, limitations on our ability to conduct certain business, or other relief.

While the Company has identified below any individual proceedings or investigations where the Company believes a material loss to be reasonably possible and in some cases reasonably estimable, there can be no assurance that additional material losses will not be incurred from claims that have not yet been asserted or those where potential losses have not yet been determined to be probable or possible and reasonably estimable.

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. Numerous issues may need to be resolved before a loss or additional loss, or range of loss or additional range of loss, can be reasonably estimated for a proceeding or investigation, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and consideration of novel or unsettled legal questions relevant to the proceedings or investigations in question.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the consolidated statement of financial condition and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income.

For certain other legal proceedings and investigations, the Company can, in some instances, estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued (if any) but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's financial condition, other than the matters referred to in the following paragraphs.

On May 27, 2014, the Company was named as a defendant in a civil case styled *Tracy Chen, as an aggrieved employee, v. Morgan Stanley Smith Barney LLC, et al.*, which is pending in the Superior Court of California, County of Orange, seeking civil penalties on behalf of the State of California and all current and former California employees pursuant to the California Private Attorney General Act, California Labor Code section 2699 et seq. Plaintiff asserts that the Company's expense reimbursement and final pay policies, and specifically, the Company's Alternative Flexible Grid program, violate the California Labor Code under various factual and legal theories, including by

passing the Company's costs of doing business on to Financial Advisors, and by paying some terminated Financial Advisors outside the statutorily prescribed time period for final wages. On November 21, 2018, the parties in a related federal litigation against the Company styled *Brandon Harvey, individually and on behalf of others similarly situated, v. Morgan Stanley Smith Barney LLC*, pending in the United States District Court for the Northern District of California, reached a settlement in principle for approximately \$10. The federal court settlement, if approved, would resolve the representative claims in Plaintiff's action, which has been stayed. Following an appeal challenging the proposed settlement at the United States Court of Appeals for the Ninth Circuit, the matter was remanded for further consideration of whether proposed settlement participants had all suffered an actual injury.

Beginning on July 29, 2020, various plaintiffs filed complaints against the Company in the United States District Court for the Southern District of New York, asserting claims arising out of two data breach incidents in 2016 and 2019. On September 17, 2020, the Court consolidated the cases under the caption *In re Morgan Stanley Data Security Litigation*. On November 2, 2020, class plaintiffs filed a consolidated amended class action complaint asserting claims of negligence, invasion of privacy, unjust enrichment, breach of confidence, and various claims under state unfair and deceptive practices laws and data breach protection and notification statutes. On August 5, 2022, the court granted final approval of an agreement between the parties to settle the consolidated matter. On September 20, 2022, the Company's settlement with the U.S. Securities Exchange Commission to resolve related allegations became effective. The Company has also received a related regulatory inquiry from various State Attorneys General.

## 14. Risk Management

Risk is an inherent part of the Company's business activities. Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company has policies and procedures in place to identify, measure, monitor, advise, challenge, and control the principal risks involved in the activities of its business and support functions. The principal risks involved in the Company's business activities include credit, operational, model, compliance, cybersecurity, liquidity, strategic and reputational risk.

The Company's risk management policies and related procedures are aligned with those of the Firm. These policies and related procedures are administered on a coordinated global and legal entity basis with consideration given to each subsidiary's, including the Company's, specific capital, and regulatory requirements. For the Risk Management discussion which follows, the term "Company" includes the Ultimate Parent and its subsidiaries.

The cornerstone of the Company's risk management philosophy is the pursuit of risk-adjusted returns through prudent risk-taking

that protects the Company's capital base and franchise. This is implemented utilizing five key principles: integrity, comprehensiveness, independence, accountability, and transparency. To help ensure the efficacy of risk management, which is an essential component of the Company's reputation, senior management requires thorough and frequent communication and the appropriate escalation of risk matters. The fast-paced, complex, and constantly-evolving nature of global financial markets requires the Company to maintain a risk management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement.

### Risk Management Process

The following is a discussion of the Company's risk management policies and procedures for the Company's primary risks.

### Risk Limits Framework

Risk limits and quantitative metrics provide the basis for monitoring risk taking activity and avoiding outsized risk-taking. Risk limits and associated limit frameworks are reviewed on at least an annual basis, with more frequent updates as necessary. Board-level risk limits and approved frameworks address the most important Company-wide aggregations of risk. Additional risk limits approved by risk management may address more specific types of risk and are bound by the higher-level Board risk limits.

### Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit Risk includes Country Risk, which is the risk that the events in, or that affect a foreign country (any country other than the U.S.) might adversely affect the Company. The Company primarily incurs credit risk exposure to institutions and individuals. This risk may arise from a variety of business activities, including, but not limited to, entering into swap or derivative contracts under which counterparties may have obligations to make payments to the Company; extending credit to clients through lending commitments; providing short- or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral to clearinghouses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; placing funds on deposit at other financial institutions to support its clearing and settlement obligations; and investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans. This type of risk requires credit analysis of specific counterparties, both initially and on an ongoing basis. The Company also incurs credit risk through margin and other

customer securities-based lending transactions, which are collateralized by securities.

The Company establishes practices to evaluate, monitor and control credit risk exposure both within and across its business activities.

The Company's credit risk exposure is actively managed by credit professionals (and the Business Control Unit, as appropriate) who monitor risk exposures, including margin loans and credit-sensitive, higher risk transactions.

The Company is responsible for ensuring timely and transparent communication of material credit risks, ensuring compliance with established limits, approving material extensions of credit and escalating of risk concentrations to appropriate senior management.

### **Operational Risk**

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e.g., fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g., providing financial advice) and support and control groups (e.g., information technology and trade processing).

The Company's operational risk framework is established to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment.

### **Cybersecurity**

The Firm's cybersecurity and information security policies, procedures, and technologies are designed to protect the Company's own, client and employee data against unauthorized disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorized activity, incident response and recovery planning.

### **Model Risk**

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision making or damage to the Company's reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions.

Model risk is generated from the use of models impacting financial statements, regulatory filings capital adequacy assessments and the formulation of strategy.

Sound model risk management is an integral part of the Company's Risk Management Framework. MRM is a distinct department in Firm Risk Management responsible for the oversight of model risk. MRM establishes a model risk tolerance in line with the Ultimate Parent's risk appetite. The tolerance is based on an assessment of the materiality of the risk of financial loss or reputational damage due to errors in design, implementation and/or inappropriate use of models.

The tolerance is monitored through model-specific and aggregate business-level assessments, which are based upon qualitative and quantitative factors.

A guiding principle for managing model risk is the "effective challenge" of models. The effective challenge of models is defined as critical analysis by objective, informed parties who can identify model limitations and assumptions and drive appropriate changes. MRM provides effective challenge of models, independently validates and approves models for use, annually recertifies models, identifies and tracks remediation plans for model limitations and reports on model risk metrics. The department also oversees the development of controls to support a complete and accurate Firm-wide model inventory.

### **Liquidity Risk**

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Generally, the Company incurs liquidity and funding risk as a result of its trading, lending, investing and client facilitation activities.

The Company's Liquidity Risk Management Framework is critical to help ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet the Company's daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department establishes limits in line with its risk appetite, identifies and analyzes emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning its Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

## **Concentration Risk**

Substantially all of the collateral held by the Company for reverse repurchase agreements which together represented approximately 31% of the Company's total assets at June 30, 2023, consist of securities issued by the U.S. government.

## **15. Employee Stock-Based Compensation Plans**

Certain current and former employees of the Company and affiliates participate in several of the Ultimate Parent's stock-based compensation plans. These plans include RSUs and PSUs, the details of which are further outlined below.

### **Restricted Stock Units**

RSUs are subject to vesting over time, generally one to four years from the date of award, contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All or a portion of an award may be forfeited if employment is terminated before the end of the relevant vesting period or canceled after the relevant vesting period in certain situations. Recipients of RSUs may have voting rights, at the Ultimate Parent's discretion, and generally receive dividend equivalents, if the awards vest. The Ultimate Parent determines the fair value of RSUs based on the grant-date fair value of its common stock, measured at VWAP on the date of grant. Certain awards provide the Ultimate Parent discretion to claw back or cancel all or a portion of the award under specified circumstances.

### **Performance-Based Stock Units**

PSUs will vest and convert to shares of common stock only if the Firm satisfies predetermined performance and market-based conditions over a three-year performance period. The number of PSUs that will vest ranges from 0% to 150% of the target award based on the extent to which the Firm achieves the specified performance goals. PSUs have vesting, restriction, forfeiture and cancellation provisions that are generally similar to those of RSUs. The Firm determines the fair value of PSUs with non-market performance conditions based on the grant-date fair value of the common stock of the Ultimate Parent, measured at VWAP on the date of grant. PSUs that contain market-based conditions are valued using a Monte Carlo valuation model.

## **16. Employee Benefit Plans**

Certain current and former employees of the Company and affiliates participate in various pension and postretirement benefit plans sponsored by the Parent.

### **Pension and Other Postretirement Plans**

The pension and postretirement plans, which are recorded on MS&Co. with associated employee costs charged to MSSB, have ceased future benefit accruals.

The Firm's pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans.

### **Morgan Stanley 401(k) Plan**

The Company's employees meeting certain eligibility requirements may participate in the Morgan Stanley 401(k) Plan sponsored by the Parent. Eligible employees receive discretionary 401(k) matching cash contributions as determined annually by the Firm. In 2023, the Company matched eligible employee contributions up to the IRS limit at 4%, or 5% up to a certain compensation level. Eligible employees with eligible pay less than or equal to \$100,000 also received a fixed contribution equal to 2% of eligible pay. Contributions were invested among available funds according to each participant's investment direction.

## **17. Income Taxes**

The Company is a single-member limited liability company that is treated as a disregarded entity for federal income tax purposes, but has elected to continue to include its allocated amount of current and deferred taxes in the consolidated statement of financial condition. As such, the Company has a Tax Sharing Agreement with the Ultimate Parent in order to record its related current and deferred federal, state and local taxes. The Company is included in the consolidated federal income tax return filed by the Ultimate Parent. Federal income taxes have generally been provided on a modified separate entity basis. The Company is included in the combined state and local income tax returns with the Ultimate Parent and certain other subsidiaries of the Ultimate Parent. State and local income taxes have been provided on a separate entity income basis at the effective tax rate of the Company's combined filing group.

In accordance with the terms of the Tax Sharing Agreement, current taxes (federal, combined and unitary states) are settled periodically with the Ultimate Parent, who pays these taxes on behalf of the Company.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities in which the Company has significant business operations. These tax laws are complex and subject to interpretation by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the relevant accounting guidance. Once established, unrecognized

tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the Company's effective tax rate over the next 12 months.

The Company, through its inclusion in the return of the Ultimate Parent, is routinely under examination by the IRS and other tax authorities in certain states and localities in which the Company has significant business operations, such as New York.

The Company believes that the resolution of these tax examinations will not have a material effect on the consolidated statement of financial condition.

## **18. Regulatory Requirements**

### **MSSB Regulatory Capital**

MSSB is a registered U.S. broker-dealer and, accordingly, is subject to the minimum net capital requirements of the SEC. Under SEA Rule 15c3-1, MSSB is required to maintain minimum Net Capital, as defined, of the greater of 2% of aggregate debit items arising from customer transactions, plus excess margin collateral on reverse repurchase agreements, or \$1. At June 30, 2023, MSSB's Net Capital was \$3,771, which exceeded the minimum requirement of \$ 200 by \$3,571.

### **MSSB Customer Protection**

As a registered U.S. broker dealer, MSSB is subject to the customer protection provisions under SEA Rule 15c3-3, which requires MSSB to compute a reserve requirement for customers and deposit cash or securities into a special reserve bank account for the exclusive benefit of customers. As of June 30, 2023, MSSB had \$2,972 in the special reserve bank account for the exclusive benefit of customers consisting of \$2 in cash and \$2,970 in qualified U.S. Government securities. These qualified securities are sourced from reverse repurchase agreements in the Company's consolidated statement of financial condition.

As a clearing and carrying broker dealer, MSSB is also required to compute a reserve requirement for PAB under SEA Rule 15c3-3. As of June 30, 2023, MSSB deposited \$ 40 in cash in a special bank account for PABs.

\*\*\*\*\*

## Glossary of Common Terms and Acronyms

ASC	Accounting Standards Codification	MSIM Inc.	Morgan Stanley Investment Management Inc.
ASU	Accounting Standards Update	MSIM Ltd.	Morgan Stanley Investment Management Limited
CFTC	Commodity Futures Trading Commission	MSPBNA	Morgan Stanley Private Bank, National
ETS	E*TRADE Securities LLC	MSSB	Morgan Stanley Smith Barney LLC
EVD	Eaton Vance Distributors, Inc.	MSSBF	Morgan Stanley Smith Barney Financing, LLC
FASB	Financial Accounting Standards Board	MSSG	Morgan Stanley Services Group Inc.
Firm	Ultimate Parent and its consolidated Subsidiaries	OECD	Organization for Economic Cooperation and Development
FINRA	Financial Industry Regulatory Authority, Inc.	OTC	Over-the-counter
IRS	Internal Revenue Service	PAB	Proprietary Accounts of Broker Dealers
MRM	Model Risk Management department	PSU	Performance-based stock units
MS&Co.	Morgan Stanley & Co. LLC	RSU	Restricted stock units
MS AIP GP LP	Morgan Stanley AIP GP LP	SEA	U.S. Securities and Exchange Act
MSBNA	Morgan Stanley Bank, N.A.	SEC	U.S. Securities and Exchange Commission
MSCM	Morgan Stanley Capital Management, LLC	SIPC	Securities Investor Protection Corporation
MSDHI	Morgan Stanley Domestic Holdings, Inc.	U.S.	United States of America, which includes the District of Columbia, Puerto Rico, and the U.S. territories and possessions
MSDHL	Morgan Stanley Domestic Holdings, LLC	U.S. GAAP	Accounting principles generally accepted in the United States of America
MSDI	Morgan Stanley Distribution, Inc.	VWAP	Volume-weighted average price