

MORGAN STANLEY SMITH BARNEY LLC

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2024
(UNAUDITED)**

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MORGAN STANLEY SMITH BARNEY LLC
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

As of June 30, 2024

(In millions of dollars)

(Unaudited)

ASSETS

Cash and cash equivalents	\$	2,193
Financial instruments owned, at fair value		4,875
Securities purchased under agreements to resell		9,411
Securities borrowed		1,079
Receivables:		
Customers		26,470
Brokers, dealers and clearing organizations		106
Fees, interest and other		974
Affiliates		40
Goodwill		8,218
Intangible assets (net of accumulated amortization of \$4,349)		2,435
Other assets		461
Total assets	\$	56,262

LIABILITIES AND MEMBER'S EQUITY

Financial instruments sold, not yet purchased, at fair value	\$	65
Securities loaned		11,997
Other secured financings, at fair value		4,797
Payables:		
Customers		12,507
Brokers, dealers and clearing organizations		340
Interest and dividends		245
Affiliates		767
Other liabilities and accrued expenses		6,835
Borrowings (includes \$12 at fair value)		444
Total liabilities	\$	37,997

Commitments and contingent liabilities (See Note 13)

Subordinated liabilities		4,001
Member's equity		14,264
Total liabilities and member's equity	\$	56,262

See Notes to Consolidated Statement of Financial Condition.

MORGAN STANLEY SMITH BARNEY LLC
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

As of June 30, 2024

(In millions of dollars, except where noted)

(Unaudited)

1. Introduction and Basis of Presentation

The Company

MSSB (Morgan Stanley Smith Barney LLC), 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 fifteen 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 equity and fixed income 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 MSCM (the “Parent”), which is a direct subsidiary of Morgan Stanley (the “Ultimate Parent”).

In February 2023, FINRA and the Company’s Board of Directors (the “Board”) approved the transfer of ETS customer accounts to the Company. As a result, ETS customer accounts, and associated assets and liabilities, were transferred to the Company. ETS is a wholly-owned subsidiary of ETCMH, which is an indirect subsidiary of 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 Notes are an integral part of the Company’s consolidated statement of financial condition.

The Company has evaluated subsequent events for adjustment to or disclosure in the consolidated statement of financial condition

through August 22, 2024, 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.

Consolidation

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

At June 30, 2024, the Company’s consolidated subsidiaries reported \$5 of assets, \$1 of liabilities and \$4 of equity on a stand-alone basis.

All material intercompany balances with its subsidiaries were 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, block discounts and discounts for entity-specific and contractual restrictions that would not transfer to market participants 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 quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, significant market inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

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 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 funds 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 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 selected referenced investments.

The Company enters into OTC derivative contracts with an affiliate 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 granted prior to 2023 that contain market-based conditions are valued using a Monte Carlo valuation model.

Accounting Development Updates

The FASB has issued certain accounting updates that apply to the Company. Accounting updates not listed below were determined to be either not applicable or to not have a material impact on the Company's consolidated statement of financial condition upon adoption.

The Company is currently evaluating the following accounting updates; however, the Company does not expect a material impact on its consolidated financial condition upon adoption.

Income Tax Disclosures. This accounting update requires disclosure of additional information in relation to income taxes, including additional disaggregation of the income tax rate reconciliation and income taxes paid. For the income tax rate reconciliation, this update requires (1) disclosure of specific categories of reconciling items; and (2) providing additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate). For income taxes paid, this update requires disclosure of information, including (1) the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes; and (2) the amount of income taxes paid (net of refunds received), disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Additionally, the update requires disclosure of (1) income (or loss) before income taxes, disaggregated between domestic and foreign; and (2) income taxes disaggregated by federal, state and foreign. The accounting update is effective for annual periods beginning January 1, 2025, with early adoption permitted.

Segment Reporting. This accounting update requires additional reportable segment disclosures on an annual and interim basis. This update does not change how operating segments are identified or aggregated, or how quantitative thresholds are applied to determine the reportable segments. The accounting update is effective for fiscal years beginning January 1, 2024, and interim periods within fiscal years beginning January 1, 2025, with early adoption permitted.

3. Cash and Cash Equivalents

At June 30, 2024, Cash and Cash equivalents comprise:

	At June 30, 2024	
Cash	\$	1,123
Restricted cash		1,070
Total	\$	2,193

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.

In March 2024, the Company settled a \$100 Subordinated Liability with ETCMH and the Ultimate Parent settled a \$100 Loan with the Company.

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 consolidated statement of financial condition.

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 these services.

The Company has an agreement with MS&Co, an affiliated broker-dealer, which allows the Company to execute reverse repurchase agreements with MS&Co. Accordingly, MS&Co agrees to transfer to the Company primarily U.S. government guaranteed securities in exchange for cash. These reverse repurchase agreements are recorded as Securities purchased under agreements to resell in the consolidated statement of financial condition.

The Company enters into collateralized financings with MS&Co. These balances are included in Securities borrowed and Securities loaned on the consolidated statement of financial condition.

The Company has various agreements with 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 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 an affiliate, included within equity contracts in Note 6, to economically hedge certain obligations under the deferred cash-based compensation plans. 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 Advance 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 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.

The Company has an intercompany service agreement with ETF, under which the Company provides ETF personnel and technology support.

**At June 30,
2024**

Assets and receivables from affiliated companies:

Cash and cash equivalents	\$	99
Financial instruments owned, at fair value		12
Reverse repurchase agreements		9,411
Securities borrowed		567
Receivables - Customers		8
Receivables - Fees, interest and other		7
Receivables - Affiliates		40
Other assets		12

Liabilities and payables to affiliated companies:

Securities loaned	\$	11,997
Payables - Customers		81
Payables - Interest and Dividends		210
Payables - Affiliates		767
Other liabilities and accrued expenses		824
Borrowings		6
Subordinated liabilities		4,001

5. Fair Values

Fair Value Measurement

Assets and Liabilities Measured at Fair Value

	At June 30, 2024				
	Level 1	Level 2	Level 3	Netting ¹	Total
Assets at fair value					
Financial instruments owned:					
U.S. Treasury and agency securities	\$ —	\$ 5	\$ —	\$ —	\$ 5
Other sovereign government obligations	—	1	—	—	1
Corporate and other debt	—	31	1	—	32
Corporate equities	4,800	1	1	—	4,802
Derivative contracts:					
Foreign exchange	—	83	—	—	83
Equity ²	—	123	—	—	123
Netting ¹	—	(35)	—	(136)	(171)
Total derivative contracts	—	171	—	(136)	35
Total financial instruments owned	\$ 4,800	\$ 209	\$ 2	\$ (136)	\$ 4,875
Liabilities at fair value					
Financial instruments sold, not yet purchased:					
U.S. government and agency securities	\$ —	\$ 1	\$ —	\$ —	\$ 1
Other sovereign government obligations	—	1	—	—	1
Corporate and other debt	—	14	—	—	14
Corporate equities	1	—	—	—	1
Derivative contracts:					
Foreign exchange	—	83	—	—	83
Netting ¹	—	(35)	—	—	(35)
Total derivative contracts	—	48	—	—	48
Total financial instruments sold, not yet purchased	\$ 1	\$ 64	\$ —	\$ —	\$ 65
Other secured financings	—	4,797	—	—	4,797
Borrowings	—	12	—	—	12

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. 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.
- Level 2 - all other agency issued debt securities, agency mortgage pass-through pool securities and CMOs if actively traded and inputs are observable.

Other sovereign government obligations

Valuation Techniques:

- Fair value is determined using quoted prices in active markets when available. When not available, quoted prices in less-active markets are used. In the absence of position-specific quoted prices, fair value may be determined through benchmarking from comparable instruments.

Valuation Hierarchy Classification:

- Level 2 - if the market is less active or prices are dispersed.

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.

Unlisted equity securities are generally valued based on an assessment of each security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable transactions, trading multiples and changes in market outlook, among other factors.

Valuation Hierarchy Classification:

Level 1 - actively traded exchange-traded securities

Level 2 - if not actively traded, inputs are observable, or undergoing a recent M&A event or corporate action

Level 3 - if not actively traded, inputs are unobservable, or if undergoing an aged M&A event or corporate action.

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, 2024				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 2,193	\$ 2,193	\$ —	\$ —	\$ 2,193
Reverse repurchase agreements	9,411	—	9,411	—	9,411
Securities borrowed	1,079	—	1,079	—	1,079
Receivables:					
Customers	26,470	—	26,470	—	26,470
Brokers, dealers and clearing organizations	106	—	106	—	106
Fees, interest and other	973	—	973	—	973
Affiliates	40	—	40	—	40
Other assets	12	—	12	—	12
Financial liabilities					
Securities loaned	\$ 11,997	\$ —	\$ 11,997	\$ —	\$ 11,997
Payables:					
Customers	12,507	—	12,507	—	12,507
Brokers, dealers and clearing organizations	340	—	340	—	340
Interest and dividends	245	—	245	—	245
Affiliates	767	—	767	—	767
Other liabilities and accrued expenses	977	—	977	—	977
Borrowings	432	—	432	—	432
Subordinated Liabilities	4,001	—	4,060	—	4,060

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).

	Derivatives at June 30, 2024			
	Asset		Liabilities	
	Fair Value	Notional ²	Fair Value	Notional ²
	Bilateral	OTC	Bilateral	OTC
Derivative contracts				
Foreign exchange	\$ 83	\$ 1,479	\$ 83	\$ 1,479
Interest rate	—	69	—	—
Equity ¹	123	4,517	—	—
Total gross derivative contracts	\$ 206	\$ 6,065	\$ 83	\$ 1,479
Counterparty netting	(35)		(35)	
Cash collateral netting	(136)		—	
Total derivative contracts	\$ 35		\$ 48	

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, 2024 and June 30, 2024, the balances related to Receivables from contracts with customers were \$598 and \$629, 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, 2024				
	Gross Amounts	Amounts Offset	Net Amounts Presented	Amounts Not Offset ¹	Net Amounts
Assets					
Reverse repurchase agreements	\$ 9,411	\$ —	\$ 9,411	\$ (9,384)	\$ 27
Securities borrowed	1,079	—	1,079	(1,042)	37
Liabilities					
Securities loaned	\$ 11,997	\$ —	\$ 11,997	\$ (11,611)	\$ 386
Other secured financings	4,797	—	4,797	(4,797)	—

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, 2024				
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities loaned	\$ 11,997	\$ —	\$ —	\$ —	\$ 11,997
Other secured financings	4,797	—	—	—	4,797
Total	\$ 16,794	\$ —	\$ —	\$ —	\$ 16,794

Gross Secured Financing Payables by Class of Collateral Pledged

	At June 30, 2024
Securities loaned	
Corporate equities	\$ 11,795
Corporate and other debt	201
Other sovereign government obligations	1
Total	\$ 11,997
Other secured financings	4,797
Total included in the offsetting disclosure	\$ 16,794

Fair Value of Collateral Received with Right to Sell or Repledge

	At June 30, 2024
Collateral received with right to sell or repledge	\$ 45,362
Collateral that was sold or repledged ¹	18,844

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, non-purpose and fully paid 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 including affiliates.

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 customers 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, 2024, the balance related to customer receivables representing margin loans (net of related customer cash and short sale proceeds) was \$25,419.

9. Goodwill and Intangibles

The Company's next annual goodwill impairment test is as of July 1, 2024 and is currently being performed. The carrying amount of the Company's goodwill, was \$8,218 at June 30, 2024. Adverse market or economic events could result in impairment charges in future periods.

10. Borrowings

Borrowings of \$444 at June 30, 2024 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 generally 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

The maturity date, interest rate and book value of the subordinated liabilities at June 30, 2024 are as follows:

Subordinated Liabilities	Maturity Date	Interest Rate	Book Value
Subordinated Revolving Credit	November 21, 2032	6.87%	4,001
Total			\$ 4,001

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

For transactions during the year relating to subordinated liabilities, see Note 4.

13. Commitments, Guarantees and Contingencies

Commitments

Central Counterparty. At June 30, 2024, the Company has outstanding commitments of \$37, 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, 2024, the amount of these guarantees is \$246, 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

liabilities 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 global diversified 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 third-party entities that are, or would otherwise be, the primary defendants in such cases are bankrupt, in financial distress, or may not honor applicable indemnification obligations. These actions have included, but are not limited to, antitrust claims, claims under various false claims act statutes, and matters arising from our sales and trading businesses and our activities in the capital markets.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental or other 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 markets 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, disgorgement, restitution, forfeiture, injunctions, limitations on our ability to conduct certain business, or other relief.

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 or the range of loss, the Company accrues an estimated loss by a charge to income, including with respect to certain of the individual proceedings or investigations described below.

The Company's legal expenses can, and may in the future, fluctuate from period to period, given the current environment regarding government or regulatory agency investigations and private litigation affecting global financial services firms, including the Company.

In many legal proceedings and investigations, it is inherently difficult to determine whether any loss is probable or reasonably possible, or to estimate the amount of any loss. In addition, even where the Company has determined that a loss is probable or reasonably possible or an exposure to loss or range of loss exists

in excess of the liability already accrued with respect to a previously recognized loss contingency, the Company may be unable to reasonably estimate the amount of the loss or range of loss. It is particularly difficult to determine if a loss is probable or reasonably possible, or to estimate the amount of loss, where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, forfeiture, disgorgement or penalties. Numerous issues may need to be resolved in an investigation or proceeding before a determination can be made that a loss or additional loss (or range of loss or range of additional loss) is probable or reasonably possible, or to estimate the amount of loss, including through potentially lengthy discovery or determination of important factual matters, determination of issues related to class certification, 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 has identified below any individual proceedings or investigations where the Company believes a material loss to be reasonably possible. In certain legal proceedings in which the Company has determined that a material loss is reasonably possible, the Company is unable to reasonably estimate the loss or range of loss. There are other matters in which the Company has determined a loss or range of loss to be reasonably possible, but the Company does not believe, based on current knowledge and after consultation with counsel, that such losses could have a material adverse effect on the Company's consolidated statement of financial condition as a whole, although the outcome of such proceedings or investigations may significantly impact the Company's business or results of operations for any particular reporting period, or cause significant reputational harm.

While the Company has identified below certain proceedings or investigations that the Company believes to be material, individually or collectively, there can be no assurance that 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 reasonably possible.

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. On October 6, 2023, the federal court settlement received final approval. The settlement covers the period April 23, 2013 to September 5, 2019. On May 24, 2024, the Company filed a motion for summary judgment, seeking dismissal of Plaintiff's action as a result of the federal court settlement.

The Company has been named in two putative class actions regarding cash sweep programs for retail clients. On February 1, 2024, the Company and E*TRADE Securities LLC (E*TRADE) were named in *Burmin, et al. v. E*TRADE Securities LLC, et al.*, filed in the United States District Court for the District of New Jersey, alleging that, from February 2018 to present, E*TRADE (and post-acquisition of E*TRADE accounts, the Company) breached customer agreements by failing to pay a reasonable rate of interest to Individual Retirement Account holders on cash balances swept to affiliate bank deposit programs. A motion to dismiss is pending. On June 14, 2024, the Company and other Firm entities were named in *Estate of Sherlip, et al. v. Morgan Stanley, et al.*, filed in the United States District Court for the Southern District of New York, alleging the defendants failed to pay a reasonable rate of interest to brokerage, retirement, and advisory account holders on cash balances swept to affiliate bank deposit programs. The class action complaints seek, among other relief, certification of the class of plaintiffs and unspecified damages.

Since April 2024, the Company has been engaged with and is responding to requests for information from the Enforcement Division of the SEC regarding advisory account cash balances swept to affiliate bank deposit programs and compliance with the Investment Advisers Act of 1940.

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 risks involved in the activities of its business and support functions.

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 the Company's, specific capital, and regulatory requirements. Additionally, the Company is generally subject to the Firm's enterprise risk management framework.

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 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, collateralized margin transactions, facilitating client futures trading, posting margin and/or collateral to financial counterparties, and placing funds on deposit at other financial institutions to support its clearing and settlement obligations

The CRM 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 CRM (and the Business Control Unit, as appropriate) who monitor risk exposures, to all margin activity, including debits, shorts, and derivatives.

CRM is responsible for ensuring timely and transparent communication of material credit risks, ensuring compliance with established limits, and escalation 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., cyber-attacks or third-party vulnerabilities) that may manifest as, for example, loss of information, business disruption, theft and fraud, legal and compliance risks, 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 Firm'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 the consolidated 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 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.

The effective challenge of models consists of 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, periodically revalidates, 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. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect the Company's liquidity and may impact its ability to raise new funding. 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 LRD 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, LRD establishes limits in line with the Company's 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 17% of the Company's total assets at June 30, 2024, 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 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 cancelled 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, over a three-year performance period, performance goals that are determined on the award date. The number of PSUs that may vest ranges from 0% to 150% of the target award, based on the Firm's level of achievement of the specified performance goals. PSUs have vesting, conversion and cancellation provisions that are generally similar to those of RSUs. The Firm determines the fair value of PSUs with non-market conditions based on the grant-date fair value of its common stock, measured at VWAP on the date of grant. PSUs granted prior to 2023 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 MSDHL.

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

Eligible employees receive discretionary 401(k) matching cash contributions as determined annually by the Firm. In 2024, 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 are invested among available funds according to each participant's investment direction and are included in the Firm's 401(k) expense.

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 separate entity income 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 tax laws of the U.S., its states and municipalities in which the Company has business operations. These tax laws are complex and subject to interpretations 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 and make estimates about certain items affecting taxable income when determining the provision for income taxes 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, 2024, MSSB's Net Capital was \$5,187, which exceeded the minimum requirement of \$ 609 by \$4,578.

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, 2024, MSSB had \$2,752 in the special reserve bank account for the exclusive benefit of customers consisting of \$1 in cash and \$2,751 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, 2024, MSSB deposited \$9 in cash in a special reserve bank account for PABs.

Glossary of Common Terms and Acronyms

ASC	Accounting Standards Codification	MSDHL	Morgan Stanley Domestic Holdings, LLC
CFTC	Commodity Futures Trading Commission	MSDI	Morgan Stanley Distribution, Inc.
CMO	Collateralized Mortgage Obligation(s)	MSIM Inc.	Morgan Stanley Investment Management Inc.
CRM	Credit Risk Management Department	MSIM Ltd.	Morgan Stanley Investment Management Limited
DRIP	Dividend Reinvestment Programs	MSPBNA	Morgan Stanley Private Bank, National Association
ETCMH	ETCM Holdings, LLC	MSSB	Morgan Stanley Smith Barney LLC
ETF	E*TRADE Futures, LLC	MSSBF	Morgan Stanley Smith Barney Financing, LLC
ETS	E*TRADE Securities LLC	MSSG	Morgan Stanley Services Group Inc.
EVD	Eaton Vance Distributors, Inc.	OECD	Organization for Economic Cooperation and Development
FASB	Financial Accounting Standards Board	OTC	Over-the-counter
FINRA	Financial Industry Regulatory Authority, Inc.	PAB	Proprietary Accounts of Broker Dealers
IRS	Internal Revenue Service	PSU	Performance-based stock units
LRD	Liquidity Risk Department	RSU	Restricted stock units
M&A	Merger, acquisition and restructuring transaction	SEA	U.S. Securities and Exchange Act
MRM	Model Risk Management department	SEC	U.S. Securities and Exchange Commission
MS&Co	Morgan Stanley & Co. LLC	SIPC	Securities Investor Protection Corporation
MS AIP GP LP	Morgan Stanley AIP GP LP	U.S.	United States of America, which includes the District of Columbia, Puerto Rico, and the U.S. territories and possessions
MSBNA	Morgan Stanley Bank, N.A.	U.S. GAAP	Accounting principles generally accepted in the United States of America
MSCM	Morgan Stanley Capital Management, LLC	VWAP	Volume-weighted average price