Morgan Stanley

Pillar 3

Regulatory Disclosure (UK)

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Remuneration disclosures for year ended December 31, 2013

In 2013, Morgan Stanley ("the Company") continued to refine the way it pays its employees to ensure that the compensation program is highly motivating, competitive and shareholder-aligned, and reflects best practices in corporate governance, risk management and regulatory principles. A significant portion of total compensation is deferred, subject to cancellation and clawback and, for the most senior executives, closely tied to long-term Company performance. The Company continues to monitor both the award structure and processes to ensure they provide a long-term, stable and sustainable reward program.

COMPLIANCE WITH THE REMUNERATION CODE

The information outlined in this disclosure provides an overview of Morgan Stanley's compliance with the UK Remuneration Code and relates primarily to Senior Management and other employees whose professional activities have a material impact on the risk profile of the Company in the UK and global subsidiaries of the UK regulated entities, as required in Senior Management Arrangements, Systems and Controls (SYSC) 19A.3.12A; and in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), Chapter 11, clauses 5.18 (1) through (7). The following criteria are used in the determination of employees that are subject to the full requirements of the Remuneration Code, known as Code Staff:

- Individuals performing a Significant Influence Function (a SIF);
- Senior Management, including Control Functions (not otherwise included as a SIF);
- Senior material risk takers (not otherwise included in the above categories), where they or their direct reports can exert influence on the risk profile of the Company; or
- Other risk takers whose total compensation may put them into the same compensation bracket as Senior Management and whose professional activities have a material impact on the risk profile of the Company.

Human Resources continues to enhance the way in which Morgan Stanley monitors and manages the composition of employees considered Code Staff throughout the year, through reviews with Control Function Heads, Senior Management and Business Unit Heads. There is also ongoing dialogue among Legal and Compliance, Risk Functions and Human Resources to analyse the population, for example, whether changes in organisational or functional responsibilities, employees' individual risk profiles and/or remuneration warrant any change in Code Staff designations. In addition, the Company analyses risk capital thresholds in the overseas subsidiaries and branches to ascertain the material risk posed therein to ensure Code Staff representation where necessary.

1. Decision-making process used for determining the remuneration policy

COMPOSITION AND MANDATE OF THE REMUNERATION COMMITTEE

The Remuneration Committee of Morgan Stanley is the Compensation, Management Development and Succession (CMDS) Committee of the Morgan Stanley Board of Directors, which consists of four directors, all of whom are independent under the New York Stock Exchange listing standards and fulfil the independence requirements of the Company. In 2013, the CMDS Committee members were Erskine B. Bowles (Chair), C. Robert Kidder (Lead Director), Donald T. Nicolaisen and Hutham S. Olayan (effective February 1, 2014, Mr. Bowles succeeded Mr. Kidder as Lead Director and Mr. Nicolaisen succeeded Mr. Bowles as Chair of the CMDS Committee). The CMDS Committee held 12 meetings during 2013. The CMDS Committee Charter is available on Morgan Stanley's website at http://www.morganstanley.com/about/company/governance/comchart.html.

Each year, the CMDS Committee reviews the annual incentive compensation pool for variable compensation, including deferred incentive awards and the design and structure of the Company's compensation programs, including the form of awards, deferral formulas, timing of payments and vesting, and cancellation and clawback provisions. The CMDS Committee also reviews and approves annually base salary and allowances, annual incentive compensation decisions, and equity and cash-based deferred incentive compensation terms for executive officers and other officers as the CMDS Committee determines appropriate. Annual incentive compensation is typically granted to eligible employees after the end of the calendar year, which allows the CMDS Committee to evaluate individual and Company performance.

ROLE OF RELEVANT STAKEHOLDERS AND EXTERNAL CONSULTANT

The CMDS Committee receives updates throughout the year on matters relating to compensation globally, including regulatory and legislative guidance. It also works with the Chief Risk Officer annually to evaluate whether the Company's compensation programs encourage unnecessary or excessive risk-taking and whether risks arising from the Company's compensation arrangements, if any, are reasonably likely to have a material adverse effect on the Company.

The CMDS Committee retains the services of a qualified and independent compensation consultant that possesses the necessary skill, experience and resources to meet the CMDS Committee's needs and that has no relationship with the Company that would interfere with its ability to provide independent advice. The consultant assists the CMDS Committee in collecting and evaluating external market data regarding executive compensation and performance, and advises the CMDS Committee on developing trends and best practices in compensation and deferred incentive plan design.

The independent compensation consultant generally attends CMDS Committee meetings, reports directly to the CMDS Committee Chair and regularly meets with the CMDS Committee without management present. In addition, the Chair of the CMDS Committee regularly speaks with the independent compensation consultant, without management, outside of Committee meetings. As a good corporate governance practice, the CMDS Committee periodically reviews and may change the independent compensation consultant.

Effective October 2012, the CMDS Committee retained Pay Governance as its compensation consultant. Other than the aforementioned consulting services, Pay Governance did not provide other services to the Company or its executive officers in 2012 or 2013.

2. Link between pay and performance

Morgan Stanley is committed to responsible and effective compensation programs. The CMDS Committee and the Company continually evaluate the Company's compensation programs with a view toward balancing the following key objectives:

1. DELIVER PAY FOR SUSTAINABLE PERFORMANCE. The Company's compensation program emphasises discretionary variable annual incentive compensation (including deferred incentive compensation) that is adjusted year-over-year to appropriately reward annual achievement of the Company's financial and strategic objectives and, for senior executives, long-term incentive compensation conditioned upon future performance that executes on the Company's long-term business strategy. The structure of the Company's compensation program balances the objectives of delivering returns for shareholders and providing appropriate rewards to motivate superior individual performance.

2. ALIGN COMPENSATION WITH SHAREHOLDERS' INTERESTS. The Company delivers a significant portion of deferred incentive compensation in equity awards to align employee interests with those of shareholders. Linking incentive compensation to Company results over the year and delivering it primarily as deferred incentive awards that are subject to market, cancellation and clawback risk over a multiyear period helps motivate employees to achieve financial and strategic goals.

In addition, under the Company's Equity Ownership Commitment, members of the Company's Operating Committee are required to retain shares and equity awards equal to at least 75% of the after-tax shares they receive as compensation for service on the Operating Committee. Senior Management is also prohibited from engaging in hedging strategies, selling short or trading derivatives with Company securities. These policies tie a significant portion of employees' compensation directly to the Company's stock price.

3. ATTRACT AND RETAIN TOP TALENT. The Company competes for talent globally with investment banks, commercial banks, brokerage firms, hedge funds and other companies offering financial services, and the Company's ability to sustain or improve its position in this highly competitive environment depends substantially on its ability to continue to attract and retain the most highly qualified employees. In support of the Company's recruitment and retention objectives, Human Resources continually monitors competitive pay levels, and the Company structures its incentive awards to include vesting, deferred payment, and cancellation and clawback provisions that protect the Company's interests.

4. MITIGATE EXCESSIVE RISK-TAKING. The Company is committed to responsible and effective compensation programs that mitigate excessive risk-taking by employees. As noted above, the CMDS Committee is advised by the Chief Risk Officer and the CMDS Committee's independent compensation consultant to help ensure that the structure and design of compensation arrangements disincentivise unnecessary or excessive risk-taking that threatens the Company's interests or give rise to risk that could have a material adverse effect on the Company. The Chief Risk Officer conducts an annual review of Morgan Stanley's compensation programs and reports his findings to the CMDS Committee. In 2013, he determined that such programs do not incentivise employees to take unnecessary or excessive risk and that such programs do not create risks that are reasonably likely to have a material adverse effect on the Company.

3. Design characteristics of the remuneration system

Compensation programs for the majority of employees comprise two key elements:

- Fixed pay that is comprised of base salary and, in certain circumstances, one or more allowances that are reviewed at least annually; and
- Variable annual incentive compensation that is discretionary based on risk-adjustment and performance measures outlined below.

The variable annual incentive compensation for Code Staff may be payable in current cash bonus, stock bonus awards and a mix of deferred cash-based and equity awards, and, at a minimum, is structured to satisfy the following requirements of Remuneration Code Principle 12 (Remuneration Structures):

- 40% to 60% of annual incentive compensation is deferred over a period of three years;
- 50% of the deferred incentive compensation is in the form of deferred equity awards, with the remaining 50% in the form of deferred cash-based awards;
- 50% of the remaining incentive compensation is awarded as stock bonus awards, with the remaining 50% as current cash bonus; and
- Deferred equity awards are subject to a six-month post-vest transfer/sale restriction, and stock bonus awards vest after six months.

Per Remuneration Code guidance, Code Staff whose (i) variable compensation is no more than 33% of their total compensation, and (ii) total compensation is no more than £500,000 (or the local currency equivalent) are not subject to the full scope of Remuneration Principles. However, such Code Staff employees continue to be subject to the Company's deferral practices for the general employee population.

The following table provides details of the principal variable annual incentive compensation elements for Code Staff in 2013, including the deferral policy and vesting criteria.

<table>
<tr><th>CODE STAFF COMPENSATION ELEMENTS</th><th>DESCRIPTION</th><th>CANCELLATION AND CLAWBACK/MALUS FEATURES</th></tr>
<tr><td>a. Deferred Cash-Based Awards</td><td>The deferred cash-based awards provide a cash incentive with a rate of return based upon notional reference investments. The terms of deferred cash-based awards support retention objectives and mitigate excessive risk-taking. Awards are payable, and cancellation provisions lift, pro rata over the three years following grant.</td><td rowspan="3">All vested and unvested awards will be cancelled in full or, in the case of (a)(iii) in full or in part, if any of the following events occur on or prior to the applicable scheduled distribution date:
(a) the employee takes any action, or omits to take any action (including with respect to direct supervisory responsibilities), where such action or omission:
i. causes a restatement of the Company's consolidated financial results;
ii. constitutes a violation of the Company's Global Risk Management Principles, Policies and Standards (where prior authorisation and approval of appropriate Senior Management was not obtained) whether such action results in a favorable or unfavorable impact to the Company's consolidated financial results; or
iii. causes a loss in the current year on a trade or transaction originating in the current year or in any prior year for which revenue was recognised and which was a factor in the participant's award determination, and violated internal control policies that resulted from the participant's:
1. Violation of business unit, product or desk-specific risk parameters;
2. Use of an incorrect valuation model, method or inputs for transactions subject to the "STAR" approval process;
3. Failure to perform appropriate due diligence prior to a trade or transaction, or failure to provide critical information known at the time of the transaction that might negatively affect the valuation of the transaction;
4. Failure to timely monitor or escalate to management a loss position pursuant to applicable policies and procedures; or
(b) (Not applicable to stock bonus awards) The Company and/or relevant business unit suffers a material downturn in its financial performance or the Company and/or relevant business unit suffers a material failure of risk management.
Furthermore, awards are subject to cancellation for competition, cause (i.e., any act or omission that constitutes a breach of obligation to the Company, including failure to comply with internal compliance, ethics or risk management standards, and failure or refusal to perform duties satisfactorily, including supervisory and management duties), disclosure of proprietary information and solicitation of employees or clients.
Beginning with awards made in 2014, awards granted to members of the Global Operating Committee are also subject to clawback if the CMDS Committee determines that the Operating Committee member had significant responsibility for a material adverse outcome for the Company or any of its businesses or functions.</td></tr>
<tr><td>b. Equity Awards — Restricted Stock Units (RSUs) and Stock Bonus Awards</td><td>RSUs support retention objectives and link realised value to shareholder returns. The terms of RSUs serve to mitigate excessive risk-taking. RSUs convert to shares of Morgan Stanley common stock, and cancellation provisions lift, pro rata over the three years following grant.
Stock bonus awards vest after six months.
Employees receive dividend equivalents with respect to the RSUs and stock bonus awards in the form of additional stock units, which are subject to the same vesting, cancellation and payment provisions as the award to which dividend equivalents relate.</td></tr>
<tr><td>c. Long-Term Incentive Program (LTIP) Awards (for Code Staff who are members of the Global Operating Committee)</td><td>Future-oriented LTIP awards incentivise forward-looking performance by tying compensation to the Company's long-term financial performance over a three-year period (2014 – 2016).
Each LTIP award consists of a target number of performance stock units that will vest and convert to shares of the Company's common stock in 2017 only if the Company achieves predetermined performance goals that are established by the CMDS Committee.
If the minimum performance is not met, the LTIP awards will be cancelled without payment.
If, after conversion of the LTIP awards, the CMDS Committee determines that the performance certified by the CMDS Committee was based on materially inaccurate financial statements, then the shares delivered will be subject to clawback by the Company.</td></tr>
<tr><td>d. Cash Bonus</td><td>Paying a portion of compensation in cash bonus is aligned with competitive pay approaches.</td><td></td></tr>
</table>

RISK ADJUSTMENT

The Company continues to monitor the effectiveness of its compensation structure, and evaluate whether it achieves balanced risk-taking and has a thorough process of considering risk-adjusted performance, compliance with risk limits and the market and competitive environment when sizing and allocating annual incentive compensation pools.

The Company's independent control functions take part in an enhanced, formalised review process for identifying and evaluating situations occurring throughout the course of the year that could require explicit ex-post adjustment, such as clawback or cancellation of previously awarded compensation, as well as adjustments to current-year compensation. For Global Operating Committee members, there is also an implicit ex-post adjustment in all deferred equity incentive compensation awards that link vesting to risk outcomes and other aspects of Company performance during the deferral period.

PERFORMANCE MEASUREMENT

Employee eligibility for annual incentive compensation is discretionary and subject to a multidimensional performance measurement, which considers individual, Company and business segment performance.

In order to maintain a fully flexible annual remuneration policy, including the possibility to pay zero annual incentive compensation, pre-established Company performance priorities are non-formulaic in nature.

The Company has a Global Incentive Compensation Discretion Policy that sets forth standards for the exercise of managerial discretion in annual incentive compensation decisions. The policy requires consideration of performance, including feedback elicited through the Talent Development Process; client service; contribution to revenue and profitability (with consideration of risk taken); teamwork; management abilities (including the ability to attract and retain key talent); technical, substantive skills; adherence to core franchise values, business principles and policies; and market and competitive conditions.

4. Performance criteria on which the entitlement to shares or variable remuneration is based

The Global Incentive Compensation Discretion Policy, noted above, also provides guidelines to help ensure that annual incentive compensation decisions take relevant factors into consideration, including actual and potential risks to the Company that the employee may be able to control or influence. The policy specifically provides that all managers must consider whether or not an employee managed risk appropriately, and effectively managed and supervised the risk control practices of his or her employee reports during the performance year. Managers are required to certify that they have followed the requirements of Company policies and escalated situations potentially requiring attention.

Other performance criteria that may be taken into account in deciding whether to award, and the amount of any variable remuneration or deferred incentives to award, include (but are not limited to): business and market conditions, individual conduct, including, but not limited to, adherence to the Company's Code of Conduct and policies, contribution to the performance and profitability of both the business unit and the Company, the strategic objectives of the Company, business unit and the team, and the associated value attributed to the role.

Pursuant to the Company's Global Incentive Compensation Discretion Policy, in order to be eligible for any annual incentive compensation, the individual must also remain an active employee performing duties on behalf of the Company, who has not given or been given notice of termination, at the time annual incentive compensation is communicated across the Company to the eligible population of employees.

5. Main parameters and rationale for any variable component scheme and any other non-cash benefit

For 2013, employees who reached a certain eligibility threshold received a portion of their variable annual incentive compensation in the form of deferred incentive compensation awards. In 2013, and in general over the years (and also as a result of following Remuneration Code Principles), as an eligible employee's compensation and responsibilities increase, a greater percentage of his or her annual incentive compensation, relative to other employees, is delivered as deferred incentive compensation awards, rather than as a current cash bonus.

The mix of deferred cash-based awards and equity awards is determined based on a variety of factors including the number of shares available for grant under the Company's equity plans and, for Code Staff, ensuring compliance with the Remuneration Code Principle that states at least 50% of any variable remuneration consist of an appropriate balance of shares or share-linked instruments. Delivering a portion of deferred incentive compensation awards in the form of equity links variable compensation to Company performance through the Company's stock price performance. In addition, risk outcomes that result in a negative impact to the Company reduce the value of the equity and the employee is subject to this decline in value through the deferral period.

In 2013, the Company continued to include cancellation and clawback provisions that apply to a broad scope of employee behavior in all deferred incentive compensation awards, including deferred cash-based awards and equity awards. Beginning with awards made in 2014, awards granted to members of the Global Operating Committee are also subject to clawback if the CMDS Committee determines that the Operating Committee member had significant responsibility for a material adverse outcome for the Company or any of its businesses or functions.

Morgan Stanley believes that its compensation decisions for 2013 demonstrate its focus on long-term profitability and commitment to sustainable shareholder value with appropriate rewards to retain and motivate top talent throughout economic cycles.

6. Aggregate quantitative information on remuneration, broken down by business area

The following tables set out aggregate quantitative information on remuneration of Code Staff who are employed by, or are seconded to, the following Morgan Stanley entities that were subject to the Remuneration Code in 2013:

- Morgan Stanley & Co. International plc
- Morgan Stanley International Incorporated
- Morgan Stanley Bank International Limited
- Morgan Stanley Investment Management Limited
- Morgan Stanley Private Wealth Management Limited
- Morgan Stanley S.V., S.A.U.
- Morgan Stanley Spanish Holdings S.L.
- Morgan Stanley UK Limited
- OOO Morgan Stanley Bank

	INSTITUTIONAL SECURITIES GROUP	NON-INSTITUTIONAL SECURITIES GROUP[1]
Aggregate Remuneration (£ millions)	127.8	51.1

[1] Group includes Company Functions, Global Wealth Management, Investment Management, Operations and Technology.

7. Aggregate quantitative information on remuneration, broken down by Senior Management and members of staff whose actions have a material impact on the risk profile of the firm

A. Amounts of remuneration for financial year 2013, split into fixed and variable remuneration, and the number of beneficiaries.

	SENIOR MANAGEMENT	OTHERS
Number of Beneficiaries (Code Staff)	37.0	79.0
Fixed Remuneration (£ millions)	16.3	29.2
Variable Remuneration (£ millions)[1]	58.9	74.5

[1] Variable Remuneration awarded for performance year 2013 contained deferred equity incentives including restricted stock units plus deferred cash incentives.

B. Amounts and forms of variable remuneration for 2013, split into cash, shares, share-linked instruments and other types.

VARIABLE REMUNERATION (£ MILLIONS)	SENIOR MANAGEMENT	OTHERS
Cash	2.1	15.6
Deferred Cash	26.6	30.0
Deferred Stock	30.2	28.9

C. Amounts of outstanding deferred remuneration, split into vested and unvested portions.

DEFERRED REMUNERATION (£ MILLIONS)	SENIOR MANAGEMENT	OTHERS
Vested at Year End 2013[1]	10.2	2.4
Unvested at Year End 2013[2]	124.0	126.5

[1] Vested deferred equity and cash-based incentives awarded prior to performance year 2013.

[2] Deferred equity and cash-based incentives awarded during and prior to performance year 2013 and unvested at 31 December 2013.

D. Amounts of deferred remuneration awarded during the financial year 2013, paid out and reduced through performance adjustments.

DEFERRED REMUNERATION (£ MILLIONS)	SENIOR MANAGEMENT	OTHERS
Awarded	56.8	58.9
Paid Out From Prior Years[1]	64.0	70.2
Reduced From Prior Years	7.8	12.8

[1] Deferred equity and cash-based incentives paid in 2013.

E. New sign-on and severance payments made during the financial year 2013 and the number of beneficiaries of those payments.

None.

F. Amounts of severance payments awarded during the financial year 2013, number of beneficiaries and highest such award to a single person.

	SENIOR MANAGEMENT	OTHERS
Severance payments awarded in 2013 (£ millions)	1.0	0.6
Number of beneficiaries	3.0	3.0
Highest such award to a single person (£ millions)	0.5	0.3

UK Pillar 3 2013