KILROY REALTY CORP
Form SC 13G/A
February 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 18)*

Kilroy Realty Corporation

(Name of Issuer)

Common Stock

(Title of Class of Securities)

49427F108

(CUSIP Number)

Date of Event which Requires Filing of this Statement

December 31, 2011

Check the appropriate box to designate the rule pursuant to which the Schedule is filed:

[x] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in prior coverage.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SEC 1745 (12-02)

Schedule 13G (continued)

CUSIP No. 49427F108

1 NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Cohen & Steers, Inc. 14-1904657

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*
(a) [ ]
(b) [x]

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	SOLE VOTING POWER 3,477,991
	6	SHARED VOTING POWER 0
	7	SOLE DISPOSITIVE POWER 7,678,666
	8	SHARED DISPOSITIVE POWER 0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

7,678,666

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

13.13%

12 TYPE OF REPORTING PERSON*

HC, CO

*SEE INSTRUCTIONS BEFORE FILLING OUT

Schedule 13G (continued)

CUSIP No. 49427F108

1 NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Cohen & Steers Capital Management, Inc. 13-3353336

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*
(a) [ ]
(b) [x]

3 SEC USE ONLY

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4 CITIZENSHIP OR PLACE OF ORGANIZATION

New York

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		
	5	SOLE VOTING POWER 3,398,873
	6	SHARED VOTING POWER 0
	7	SOLE DISPOSITIVE POWER 7,499,894
	8	SHARED DISPOSITIVE POWER 0

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9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

7,499,894

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10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

---

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

12.83%

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12 TYPE OF REPORTING PERSON*

IA, CO

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*SEE INSTRUCTIONS BEFORE FILLING OUT

Schedule 13G (continued)

CUSIP No. 49427F108

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1) NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (entities only)

Cohen & Steers Europe S.A.

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2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) [ ]
(b) [x]

---

3) SEC USE ONLY

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4) CITIZENSHIP OR PLACE OF ORGANIZATION

Belgium

NUMBER 5) SOLE VOTING POWER

```
    OF                  79,118
    SHARES         -------------------------------------------------------------
    BENEFICIALLY  6)    SHARED VOTING POWER
    OWNED BY            0
    EACH           -------------------------------------------------------------
    REPORTING     7)    SOLE DISPOSITIVE POWER
    PERSON              178,772
    WITH           -------------------------------------------------------------
                  8)    SHARED DISPOSITIVE POWER
                        0
-------------------------------------------------------------------------------
9)  AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

    178,772
-------------------------------------------------------------------------------
10) CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES [ ]

-------------------------------------------------------------------------------
11) PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

    0.31%
-------------------------------------------------------------------------------
12) TYPE OF REPORTING PERSON

    IA, CO
-------------------------------------------------------------------------------
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*SEE INSTRUCTIONS BEFORE FILLING OUT!

Item 1.

(a) Name of Issuer:
Kilroy Realty Corporation

(b) Address of Issuer's Principal Executive Offices:
12200 W. Olympic Boulevard, Suite 200
Los Angeles, California 90064

Item 2.

(a) Name of Persons Filing:
Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.
Cohen & Steers Europe S.A.

(b) Address of Principal Business Office:
The principal address for Cohen & Steers, Inc. and Cohen & Steers Capital Management,Inc. is:
280 Park Avenue
10th Floor
New York, NY 10017

The principal address for Cohen & Steers Europe S.A. is:
Chaussee de la Hulpe 116,
1170 Brussels, Belgium

(c) Citizenship:
Cohen & Steers, Inc: Delaware corporation
Cohen & Steers Capital Management, Inc: New York corporation
Cohen & Steers Europe S.A.: Belgium limited company

(d) Title of Class Securities:

Commmon

(e) CUSIP Number: 49427F108

Item 3. If this statement is filed pursuant to Rule 13d-l(b), or 13d-2(b), check whether the person filing is a

(a) [ ] Broker or Dealer registered under Section 15 of the Act

(b) [ ] Bank as defined in Section 3(a)(6) of the Act

(c) [ ] Insurance Company as defined in section 3(a)(19) of the Act

(d) [ ] Investment Company registered under Section 8 of the Investment Company Act

(e) [x] An investment advisor in accordance with Section 240.13d-1(b)(1)(ii)(E)

(f) [ ] An employee benefit plan or endowment fund in accordance with 240.13d-1(b)(1)(ii)(F)

(g) [x] A parent holding company or control person in accordance with Section 240.13d-l(b)(1)(ii)(G)

(h) [ ] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813)

(i) [ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15U.S.C. 80a-3)

(j) [ ] Group, in accordance with Section 240.13d-1(b)(l)(ii)(J)

Item 4. OWNERSHIP:

(a) Amount Beneficially Owned as of December 31, 2011:

See row 9 on cover sheet

(b) Percent of Class:

See row 11 on cover sheet

(c) Number of shares as to which such person has:

(i) sole power to vote or direct the vote:
See row 5 on cover sheet

(ii) shared power to vote or direct the vote:
See row 6 on cover sheet

(iii) sole power to dispose or to direct the disposition of:
See row 7 on cover sheet

(iv) shared power to dispose or direct

the disposition of:
See row 8 on cover sheet

Item 5. OWNERSHIP OF 5% OR LESS OF A CLASS
N/A

Item 6. OWNERSHIP OF MORE THAN 5% ON BEHALF OF ANOTHER PERSON
N/A

Item 7. IDENTIFICATION AND CLASSIFICATION OF THE SUBSIDIARY WHICH ACQUIRED THE SECURITY BEING REPORTED ON BY THE PARENT HOLDING COMPANY

Cohen & Steers, Inc. holds a 100% interest in Cohen & Steers Capital Management, Inc., an investment advisor registered under Section 203 of the Investment Advisers Act. Cohen & Steers, Inc. and Cohen & Steers Capital Management, Inc. together hold a 100% interest in Cohen & Steers Europe S.A., an investment advisor registered under Section 203 of the Investment Advisers Act.

Item 8. IDENTIFICATION AND CLASSIFICATION OF MEMBERS OF THE GROUP

Cohen & Steers, Inc. holds a 100% interest in Cohen & Steers Capital Management, Inc., an investment advisor registered under Section 203 of the Investment Advisers Act. Cohen & Steers, Inc. and Cohen & Steers Capital Management, Inc. together hold a 100% interest in Cohen & Steers Europe S.A., an investment advisor registered under Section 203 of the Investment Advisers Act.

Item 9. NOTICE OF DISSOLUTION OF GROUP

N/A

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of such securities and were not acquired and are not held in connection with or as a participant in any transaction having that purposes or effect.

This report is not an admission that Cohen & Steers, Inc. or its subsidiaries are the beneficial owner of any securities covered by this report, and Cohen & Steers, Inc. and its subsidiaries expressly disclaim beneficial ownership of all shares reported herein pursuant to Rule 13d-4.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 14, 2012

Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.
By:

/s/ Lisa Phelan

Signature

Lisa Phelan, Senior Vice President,
Chief Compliance Officer
Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.

Name and Title

Cohen & Steers Europe S.A.
By:

/s/ Joseph Houlihan

Signature

Joseph Houlihan, Managing Director
Cohen & Steers Europe S.A.

Name and Title

JOINT FILING AGREEMENT

In accordance with Rule 13d-1(k) promulgated under the Securities Exchange Act of 1934, as amended, the undersigned hereby agree to the joint filing with all other Reporting Persons (as such term is defined in the Schedule 13G referred to below) on behalf of each of them of a Statement on Schedule 13G including amendments thereto) with respect to the Common Shares of Kilroy Realty Corp. and that this Agreement may be included as an Exhibit to such joint filing. This Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement as of February 14, 2012.

Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.
By:

/s/ Lisa Phelan

Signature

Lisa Phelan, Senior Vice President,
Chief Compliance Officer
Cohen & Steers, Inc.
Cohen & Steers Capital Management, Inc.

Name and Title

Cohen & Steers Europe S.A.
By:

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/s/ Joseph Houlihan
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    Signature

    Joseph Houlihan, Managing Director
    Cohen & Steers Europe S.A.
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    Name and Title
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nts, see Notes 2 and 4 to the consolidated financial statements for the year ended December 31, 2011 included in the Form 10-K and Notes 2 and 3 to the condensed consolidated financial statements.

Level 3 Assets and Liabilities. The Company s Level 3 assets before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $26.3 billion and $32.5 billion at June 30, 2012 and December 31, 2011, respectively, and represented approximately 9% and 10% at June 30, 2012 and December 31, 2011, respectively, of the assets measured at fair value (approximately 4% of total assets at June 30, 2012 and December 31, 2011). Level 3 liabilities before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $8.1 billion and $11.2 billion at June 30, 2012 and December 31, 2011, respectively, and represented approximately 4% and 6%, respectively, of the Company s liabilities measured at fair value.

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Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. At June 30, 2012, certain of the Company s assets were measured at fair value on a non-recurring basis, primarily relating to loans, other investments, premises, equipment and software costs, and intangible assets. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy as described above, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by generally requiring that the observable inputs be used when available, is used in measuring fair value for these items.

For further information on assets and liabilities that are measured at fair value on a non-recurring basis, see Note 3 to the condensed consolidated financial statements.

Fair Value Control Processes. The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. For more information regarding the Company s valuation policies, processes and procedures, see Note 2 to the condensed consolidated financial statements.

Goodwill and Intangible Assets.

Goodwill. The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. Goodwill no longer retains its association with a particular acquisition once it has been assigned to a reporting unit. As such, all of the activities of a reporting unit, whether acquired or organically developed, are available to support the value of the goodwill. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques the Company believes market participants would use for each of the reporting units. The estimated fair values are generally determined utilizing methodologies that incorporate price-to-book, price-to-earnings and assets under management multiples of certain comparable companies. The Company also utilizes a discounted cash flow methodology for certain reporting units. At June 30, 2012 and December 31, 2011, each of the Company s reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

Intangible Assets. Amortizable intangible assets are amortized over their estimated useful lives and are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, an impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the expected undiscounted cash flows.

Indefinite-lived intangible assets are not amortized but are reviewed annually (or more frequently when certain events or circumstances exist) for impairment. For indefinite-lived intangible assets, an impairment exists when the carrying amount exceeds its fair value.

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

See Notes 3 and 8 to the condensed consolidated financial statements for additional information about goodwill and intangible assets.

Legal, Regulatory and Tax Contingencies.

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 entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company s business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Accruals for litigation and regulatory proceedings are generally determined on a case-by-case basis. Where available information indicates that it is probable that a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. For certain legal proceedings, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different 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 when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

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The income of certain foreign subsidiaries earned outside of the United States has previously been excluded from taxation in the U.S. as a result of a provision of U.S. tax law that defers the imposition of tax on certain active financial services income until such income is repatriated to the United States as a dividend. This provision, which expired for taxable years beginning on or after January 1, 2012, had previously been extended by Congress on several occasions, including the most recent extension which occurred during 2010. The increase to the annual effective tax rate as a result of the expiration of the provision was approximately 2.0% applicable to the pre-tax earnings for the quarter ended June 30, 2012. If this provision is extended again with respect to such income earned during 2012, the overall financial impact to the Company would depend upon the level, composition and geographic mix of earnings but could decrease the Company s 2012 annual effective tax rate and have a favorable impact on the Company s net income, but not its cash flows due to utilization of tax attributes carryforwards.

Significant judgment is required in making these estimates, and the actual cost of a legal claim, tax assessment or regulatory fine/penalty may ultimately be materially different from the recorded accruals and unrecognized tax benefits, if any. See Notes 11 and 17 to the condensed consolidated financial statements for additional information on legal proceedings and tax examinations.

Special Purpose Entities and Variable Interest Entities.

The Company s involvement with special purpose entities (SPE) consists primarily of the following:

- Transferring financial assets into SPEs;
- Acting as an underwriter of beneficial interests issued by securitization vehicles;
- Holding one or more classes of securities issued by, or making loans to or investments in, SPEs that hold debt, equity, real estate or other assets;
- Purchasing and selling (in both a market-making and a proprietary-trading capacity) securities issued by SPEs/variable interest entities (VIE), whether such vehicles are sponsored by the Company or not;
- Entering into derivative transactions with SPEs (whether or not sponsored by the Company);
- Providing warehouse financing to collateralized debt obligations and collateralized loan obligations;
- Entering into derivative agreements with non-SPEs whose value is derived from securities issued by SPEs;
- Servicing assets held by SPEs or holding servicing rights related to assets held by SPEs that are serviced by others under subservicing arrangements;
- Serving as an asset manager to various investment funds that may invest in securities that are backed, in whole or in part, by SPEs; and
- Structuring and/or investing in other structured transactions designed to provide enhanced, tax-efficient yields to the Company or its clients.

The Company engages in securitization activities related to commercial and residential mortgage loans, U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bonds and other types of financial instruments. The Company s involvement with SPEs is

discussed further in Note 6 to the condensed consolidated financial statements.

In most cases, these SPEs are deemed for accounting purposes to be VIEs. The Company applies accounting guidance for consolidation of VIEs to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Entities that previously met the criteria as qualifying SPEs that were not subject to consolidation prior to January 1, 2010 became subject to the consolidation requirements for VIEs on that date. Excluding entities subject to the Deferral (as defined in Note 2 to the condensed consolidated financial statements), effective January 1, 2010, the primary beneficiary of a VIE is the party that both (1) has the power to

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direct the activities of a VIE that most significantly affect the VIE s economic performance and (2) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates entities of which it is the primary beneficiary.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE. This determination is based upon an analysis of the design of the VIE, including the VIE s structure and activities, the power to make significant economic decisions held by the Company and by other parties and the variable interests owned by the Company and other parties.

See Note 2 to the consolidated financial statements for the year ended December 31, 2011 included in the Form 10-K for information on accounting guidance adopted on January 1, 2010 for transfers of financial assets.

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Liquidity and Capital Resources.

The Company s senior management establishes the liquidity and capital policies of the Company. Through various risk and control committees, the Company s senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate and currency sensitivity of the Company s asset and liability position. The Company s Treasury Department, Firm Risk Committee, Asset and Liability Management Committee and other control groups assist in evaluating, monitoring and controlling the impact that the Company s business activities have on its condensed consolidated statements of financial condition, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board s Risk Committee.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet on a regular basis. The Company s balance sheet management process includes quarterly planning, business specific limits, monitoring of business specific usage versus limits, key metrics and new business impact assessments.

The Company establishes balance sheet limits at the consolidated, business segment and business unit levels. The Company monitors balance sheet usage versus limits and variances resulting from business activity or market fluctuations are reviewed. On a regular basis, the Company reviews current performance versus limits and assesses the need to re-allocate limits based on business unit needs. The Company also monitors key metrics including asset and liability size, composition of the balance sheet, limit utilization and capital usage.

The tables below summarize total assets for the Company s business segments at June 30, 2012 and December 31, 2011:

	At June 30, 2012			
	Institutional Securities	Global Wealth Management Group	Asset Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 30,118	$ 11,140	$ 748	$ 42,006
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	25,565	3,853		29,418
Financial instruments owned:				
U.S. government and agency securities	53,361	777		54,138
Other sovereign government obligations	33,338	290		33,628
Corporate and other debt	56,758	999		57,757
Corporate equities	46,281	64	1	46,346
Derivatives and other contracts	33,778	315	250	34,343
Investments	4,154	107	3,968	8,229
Physical commodities	6,139	2		6,141
Total financial instruments owned	233,809	2,554	4,219	240,582
Securities available for sale		31,442		31,442
Securities received as collateral(2)	12,150			12,150
Federal funds sold and securities purchased under agreements to resell(2)	136,121	11,867		147,988
Securities borrowed(2)	133,849	414		134,263
Receivables:				
Customers	26,019	11,647		37,666
Brokers, dealers and clearing organizations	8,502	576	29	9,107
Fees, interest and other	1,997	7,608	603	10,208
Loans	7,098	14,296		21,394
Other assets(3)	19,677	11,214	1,402	32,293
Total assets(4)	$ 634,905	$ 106,611	$ 7,001	$ 748,517

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	At December 31, 2011			
	Institutional Securities	Global Wealth Management Group	Asset Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 35,288	$ 11,253	$ 771	$ 47,312
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	22,390	7,064		29,454
Financial instruments owned:				
U.S. government and agency securities	62,818	631		63,449
Other sovereign government obligations	29,056	3		29,059
Corporate and other debt	67,925	998		68,923
Corporate equities	47,937	28	1	47,966
Derivatives and other contracts	47,624	219	221	48,064
Investments	4,165	123	3,907	8,195
Physical commodities	9,693	4		9,697
Total financial instruments owned	269,218	2,006	4,129	275,353
Securities available for sale		30,495		30,495
Securities received as collateral(2)	11,651			11,651
Federal funds sold and securities purchased under agreements to resell(2)	116,819	13,336		130,155
Securities borrowed(2)	126,573	501		127,074
Receivables:				
Customers(2)	27,558	6,418	1	33,977
Brokers, dealers and clearing organizations	4,935	283	30	5,248
Fees, interest and other	1,663	7,134	647	9,444
Loans	3,867	11,477	25	15,369
Other assets(3)	21,494	11,460	1,412	34,366
Total assets(4)	$ 641,456	$ 101,427	$ 7,015	$ 749,898

(1) Cash and cash equivalents include Cash and due from banks and Interest bearing deposits with banks.
(2) These assets are included in secured financing assets (see Secured Financing herein).
(3) Other assets include Other investments; Premises, equipment and software costs; Goodwill; Intangible assets and Other assets.
(4) Total assets include Global Liquidity Reserves of $173 billion and $182 billion at June 30, 2012 and December 31, 2011, respectively.

A substantial portion of the Company s total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. The liquid nature of these assets provides the Company with flexibility in managing the size of its balance sheet. The Company s total assets decreased to $748,517 million at June 30, 2012 from $749,898 million at December 31, 2011. The decrease in total assets was primarily due to a decrease in Financial instruments owned Derivatives and other contracts, Corporate and other debt, and U.S. government and agency securities, partially offset by an increase in Federal funds sold and securities purchased under agreements to resell and Securities borrowed.

The Company s assets and liabilities are primarily related to transactions attributable to sales and trading and securities financing activities. At June 30, 2012, securities financing assets and liabilities were $361 billion and $276 billion, respectively. At December 31, 2011, securities financing assets and liabilities were $332 billion and $268 billion, respectively. Securities financing transactions include cash deposited with clearing organizations or segregated under federal and other regulations or requirements, repurchase and resale agreements, securities borrowed and loaned transactions, securities received as collateral and obligation to return securities received and customer receivables and payables. Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Note 2 to the consolidated financial statements for the year ended December 31, 2011 included in the Form 10-K and Note 5 to the condensed consolidated financial statements). Securities sold under agreements to repurchase and Securities

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loaned were $139 billion at June 30, 2012 and averaged $155 billion and $157 billion during the quarter and six months ended June 30, 2012, respectively. Securities purchased under agreements to resell and Securities borrowed were $282 billion at June 30, 2012 and averaged $293 billion and $288 billion during the quarter and six months ended June 30, 2012, respectively.

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer owned securities, and customer cash, which is segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company s prime brokerage clients. The Company s risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company s credit exposure to customers. Included within securities financing assets were $12 billion at both June 30, 2012 and December 31, 2011, recorded in accordance with accounting guidance for the transfer of financial assets that represented offsetting assets and liabilities for fully collateralized non-cash loan transactions.

Liquidity Risk Management Framework.

The primary goal of the Company s liquidity risk management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfill its financial obligations and support the execution of the Company s business strategies.

The following principles guide the Company s liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Limited access to funding should be anticipated through the Contingency Funding Plan (CFP).

The core components of the Company s liquidity risk management framework are the CFP, Liquidity Stress Tests and the Global Liquidity Reserve (as defined below), which support the Company s target liquidity profile.

Contingency Funding Plan.

The Company maintains the CFP, which describes the data and information flows, limits and triggers, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP assesses current and future funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event. A set of escalation triggers identifies early signs of stress and activates a response plan.

Liquidity Stress Tests.

The Company uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- No government support;

No access to equity and unsecured debt markets;

Repayment of all unsecured debt maturing within one year;

Higher haircuts and significantly lower availability of secured funding;

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Additional collateral that would be required by trading counterparties and certain exchanges and clearing organizations related to multi-notch credit rating downgrades;

Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;

Discretionary unsecured debt buybacks;

Drawdowns on unfunded commitments provided to third parties;

Client cash withdrawals and reduction in customer short positions that fund long positions;

Limited access to the foreign exchange swap markets;

Return of securities borrowed on an uncollateralized basis; and

Maturity roll-off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for the Parent and major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability across the Company. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from the Parent. The Parent will support its subsidiaries and will not have access to subsidiaries liquidity reserves that are subject to any regulatory, legal or tax constraints.

At June 30, 2012, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its Liquidity Stress Tests.

Global Liquidity Reserve.

The Company maintains sufficient liquidity reserves (Global Liquidity Reserve) to cover daily funding needs and meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements and additional reserve, which is primarily a discretionary surplus based on the Company s risk tolerance and is subject to change dependent on market and firm-specific events.

The Global Liquidity Reserve is held within the Parent and major operating subsidiaries. The Global Liquidity Reserve is comprised of diversified cash and cash equivalents and highly liquid unencumbered securities. Eligible unencumbered securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage backed securities, FDIC-guaranteed corporate debt, non-U.S. government securities and other highly liquid investment grade securities.

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Global Liquidity Reserve by Type of Investment.

The table below summarizes the Company s Global Liquidity Reserve by type of investment:

	At June 30, 2012 (dollars in billions)
Cash deposits with banks	$ 15
Cash deposits with central banks	22
Unencumbered highly liquid securities:	
U.S. Government obligations	59
U.S. agency and agency mortgage-backed securities	40
Non-U.S. sovereign obligations(1)	25
Investments in money market funds	
Other investment grade securities	12
Global Liquidity Reserve	$ 173

(1) Non-U.S. sovereign obligations are composed of unencumbered German, French, Dutch, U.K., Brazilian and Japanese government obligations.

The ability to monetize assets during the start of a liquidity crisis is critical. The Company believes that the assets held in the Global Liquidity Reserve can be monetized within five business days in a stressed environment given the highly liquid and diversified nature of the reserves. The currency profile of the Global Liquidity Reserve is consistent with the CFP and Liquidity Stress Tests. In addition to the Global Liquidity Reserve, the Company has other cash and cash equivalents and other unencumbered assets that are available for monetization which are not included in the balances in the table above.

Global Liquidity Reserve Held by the Parent and Operating Subsidiaries.

The table below summarizes the Global Liquidity Reserve held by the Parent and operating subsidiaries:

	At June 30, 2012	At March 31, 2012	Average Balance(1) For the Three Months Ended June 30, 2012	Average Balance(1) For the Three Months Ended March 31, 2012
	(dollars in billions)			
Parent	$ 65	$ 72	$ 69	$ 71
Non-Bank Subsidiaries:				
Domestic	17	15	15	16
Foreign	31	27	29	28
Total Non-Bank Subsidiaries	48	42	44	44
Bank Subsidiaries:				
Domestic	55	56	55	56
Foreign	5	9	8	7
Total Bank Subsidiaries	60	65	63	63
Total	$ 173	$ 179	$ 176	$ 178

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.

The Company is exposed to intra-day settlement risk in connection with liquidity provided to its major broker-dealer subsidiaries for intra-day clearing and settlement of its securities and financing activity.

As discussed in Liquidity Stress Tests , the Liquidity Stress Tests assume that the Parent will support its subsidiaries and will not have access to subsidiaries liquidity reserves that are subject to any regulatory, legal or tax constraints.

Funding Management.

The Company s funding management policies are designed to provide for financings that are executed in a manner that reduces the risk of disruption to the Company s operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company s liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company s equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing. A substantial portion of the Company s total assets consists of liquid marketable securities and short-term collateralized receivables arising principally from its Institutional Securities business segment s sales and trading activities. The liquid nature of these assets provides the Company with flexibility in funding these assets with secured financing. The Company s goal is to achieve an optimal mix of durable secured and unsecured funding. The Institutional Securities business segment actively sources term secured funding. Secured funding investors principally focus on the quality of the eligible collateral posted. Accordingly, the Company actively manages its secured financing book based on the quality of the assets being funded. The ability to fund less liquid assets may be impaired in a stress environment. To mitigate this risk, the Company obtains longer-term secured financing for less liquid assets.

The Company utilizes shorter term secured funding only for highly liquid assets and has established longer tenor limits for less liquid asset classes, for which funding may be at risk in the event of a market disruption. The Company defines highly liquid collateral as that which is consistent with the standards of the Global Liquidity Reserve, and less liquid collateral as that which does not meet those standards. At June 30, 2012, the weighted average maturity of the Company s secured financing against less liquid collateral was greater than 120 days. To further minimize the refinancing risk of secured financing for less liquid collateral, the Company diversifies its investor base and limits the amount of monthly maturities for secured financing of less liquid collateral. Finally, in addition to the above risk management framework, the Company holds a portion of its Global Liquidity Reserve against the potential disruption to its secured financing capabilities.

Unsecured Financing. The Company views long-term debt and deposits as stable sources of funding for core inventories and less liquid assets. Unencumbered securities and non security assets are financed with a combination of long and short term debt and deposits. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to the Company s interest rate risk profile (see Note 12 to the consolidated financial statements for the year ended December 31, 2011 included in the Form 10-K).

Temporary Liquidity Guarantee Program (TLGP). In October 2008, the Secretary of the U.S. Treasury invoked the systemic risk exception of the FDIC Improvement Act of 1991, and the FDIC announced the TLGP. Based on the Final Rule adopted on November 21, 2008, the TLGP provides a guarantee, through the earlier of maturity or June 30, 2012, of certain senior unsecured debt issued by participating Eligible Entities (including the Company) between October 14, 2008 and June 30, 2009. Of the $23.8 billion issued by the Company under the TLGP, no debt is outstanding at June 30, 2012.

Short-Term Borrowings. The Company s unsecured short-term borrowings consist of commercial paper, bank loans, bank notes and structured notes with maturities of 12 months or less at issuance.

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The table below summarizes the Company s short-term unsecured borrowings:

	At June 30, 2012	At December 31, 2011
	(dollars in millions)	
Commercial paper(1)	$ 288	$ 978
Other short-term borrowings	1,700	1,865
Total	$ 1,988	$ 2,843

(1) At December 31, 2011, the majority of the commercial paper balance was issued as part of client transactions and was not used for the Company s general funding purposes. During the six months ended June 30, 2012, the client transactions matured and the remaining balance at June 30, 2012 was used for the Company s general funding purposes.

Deposits. The Company s bank subsidiaries funding sources include bank deposits, repurchase agreements, federal funds purchased, certificates of deposit, money market deposit accounts, demand deposit accounts, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association (the Subsidiary Banks) are sourced from the Company s retail brokerage accounts and are considered to have stable, low cost funding characteristics.

Deposits were as follows:

	At June 30, 2012(1)	At December 31, 2011(1)
	(dollars in millions)	
Savings and demand deposits(2)	$ 65,112	$ 63,029
Time deposits(3)	3,140	2,633
Total	$ 68,252	$ 65,662

(1) Total deposits subject to FDIC Insurance at June 30, 2012 and December 31, 2011 were $55 billion and $52 billion, respectively.
(2) Amounts include non-interest bearing deposits of $1,460 million and $1,270 million at June 30, 2012 and December 31, 2011, respectively.
(3) Certain time deposit accounts are carried at fair value under the fair value option (see Note 3 to the condensed consolidated financial statements).

With the passage of the Dodd-Frank Act, the statutory standard maximum deposit insurance amount was permanently increased to $250,000 per depositor and is in effect for the Subsidiary Banks.

Long-Term Borrowings. The Company uses a variety of long-term debt funding sources to generate liquidity, taking CFP requirements into consideration. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments (*e.g.*, commercial paper and other unsecured short-term borrowings). Long-term borrowings are generally structured to ensure staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company s credit ratings and the overall availability of credit.

The Company may from time to time engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

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Long-term borrowings at June 30, 2012 consisted of the following:

	Parent	Subsidiaries (dollars in millions)	Total
Due in 2012	$ 10,419	$ 808	$ 11,227
Due in 2013	23,433	457	23,890
Due in 2014	20,486	883	21,369
Due in 2015	18,693	4,175	22,868
Due in 2016	17,618	1,656	19,274
Thereafter	67,015	2,185	69,200
Total	$ 157,664	$ 10,164	$ 167,828

Long-Term Borrowing Activity for the Six Months Ended June 30, 2012.

During the six months ended June 30, 2012, the Company issued and reissued notes with a principal amount of approximately $9 billion. In connection with the note issuances, the Company generally enters into certain transactions to obtain floating interest rates based primarily on short-term London Interbank Offered Rate (LIBOR) trading levels. The weighted average maturity of the Company s long-term borrowings, based upon stated maturity dates, was approximately 5.3 years at June 30, 2012. During the six months ended June 30, 2012, approximately $26 billion in aggregate long-term borrowings matured or were retired. Subsequent to June 30, 2012 and through July 31, 2012, the Company s long-term borrowings (net of issuances) decreased by approximately $0.8 billion.

At June 30, 2012, the aggregate outstanding carrying amount of the Company s senior indebtedness was approximately $157 billion (including guaranteed obligations of the indebtedness of subsidiaries) compared with $176 billion at December 31, 2011. The decrease in the amount of senior indebtedness was primarily due to repayments of notes, net of new issuances in long-term borrowings.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally is impacted by the Company s credit ratings. In addition, the Company s credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Issuer specific factors that are important to the determination of the Company s credit ratings include governance, the level and quality of earnings, capital adequacy, funding and liquidity, risk appetite and management, asset quality, strategic direction and business mix. Additionally, the agencies will look at other industry-wide factors such as regulatory or legislative changes, macro-economic environment, and perceived levels of government support.

The rating agencies have stated that they currently incorporate various degrees of credit rating uplift from external sources of potential support, as well as perceived government support of systemically important banks, including the credit ratings of the Company. Rating agencies continue to monitor progress of U.S. financial reform legislation to assess whether the possibility of extraordinary government support for the financial system in any future financial crises is negatively impacted. Legislative outcomes may lead to reduced uplift assumptions for U.S. banks and thereby place downward pressure on credit ratings. At the same time, proposed U.S. financial reform legislation also has positive implications for credit ratings such as higher standards for capital and liquidity levels. The net result on credit ratings and the timing of any change in rating agency assumptions on support is currently uncertain.

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At July 31, 2012, the Parent s and Morgan Stanley Bank, N.A. s senior unsecured ratings were as set forth below.

	Parent			Morgan Stanley Bank, N.A.		
	Short-Term Debt	Long-Term Debt	Rating Outlook	Short-Term Debt	Long-Term Debt	Rating Outlook
Dominion Bond Rating Service Limited	R-1 (middle)	A (high)	Negative			
Fitch Ratings	F1	A	Stable	F1	A	Stable
Moody s Investor Services, Inc.(1)	P-2	Baa1	Negative	P-2	A3	Stable
Rating and Investment Information, Inc.(2)	a-1	A	Negative			
Standard & Poor s	A-2	A-	Negative	A-1	A	Negative

(1) On June 21, 2012, Moody s Investor Services, Inc. (Moody s) downgraded the ratings of 15 banks on review for downgrade in the context of a broad review of global banks with capital markets operations. The Parent s long- and short-term debt ratings were lowered two notches to Baa1/P-2 from A2/P-1, and Morgan Stanley Bank, N.A. s long- and short-term debt ratings were lowered to A3/P-2 from A1/P-1. A Negative outlook was assigned to the Parent, and a Stable outlook was assigned to Morgan Stanley Bank, N.A.

(2) On May 14, 2012, Ratings and Investment Information, Inc. downgraded the Parent s long-term rating one notch to A from A+.

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the company is in a net asset or liability position.

As noted in the table above, the long-term credit ratings on the Company by Moody s and Standard & Poor s Ratings Services (S&P) are currently at different levels (commonly referred to as split ratings). The table below shows the future potential collateral amounts that could be called by counterparties or exchanges and clearing organizations in the event of the following credit rating scenarios for Moody s and S&P:

Company Rating Scenario (Moody s/S&P)	OTC Agreements	Other Agreements	Exchanges and Clearing Organization
	(dollars in millions)		
Baa1/BBB+	$ 435	$	$
Baa2/BBB	$ 2,565	$	$
Baa3/BBB-	$ 3,282	$ 365	$ 149

While certain aspects of a credit ratings downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Company s business and results of operation in future periods is inherently uncertain and will depend on a number of inter-related factors, including among others, the magnitude of the downgrade, individual client behavior and future mitigating actions the Company may take. The liquidity impact of additional collateral requirements is included in the Company s Liquidity Stress Tests.

At March 31, 2012, the future potential amounts that could have been called by counterparties or exchanges and clearing organizations in the event of a downgrade to (Baa1 Moody s/ BBB+ S&P) was $6.8 billion. On June 21, 2012, Moody s downgraded the Parent s long-term credit rating to Baa1, by which time the future potential amounts that could be called had declined to $6.3 billion primarily due to a reduction in the amounts callable by certain exchanges and clearing organizations. As a result of the downgrade, $2.9 billion was called and posted as of June 30, 2012 (see Executive Summary Significant Items Rating Agency Downgrade for further information). As of July 31, 2012, an additional $0.8 billion of collateral was called and posted, resulting in a total collateral outflow of $3.7 billion since the June 21, 2012 downgrade.

Capital Management.

The Company s senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks,

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capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries equity.

At June 30, 2012, the Company had approximately $1.6 billion remaining under its current share repurchase program out of the $6 billion authorized by the Board of Directors in December 2006. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases by the Company are subject to regulatory approval. During the quarter and six months ended June 30, 2012, the Company did not repurchase common stock as part of its capital management share repurchase program (see also Unregistered Sales of Equity Securities and Use of Proceeds in Part II, Item 2).

The Board of Directors determines the declaration and payment of dividends on a quarterly basis. In July 2012, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. In June 2012, the Company also announced that the Board of Directors declared a quarterly dividend of $252.78 per share of Series A Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing 1/1,000th interest in a share of preferred stock and each having a dividend of $0.25278) and a quarterly dividend of $25.00 per share of Series C Non-Cumulative Non-Voting Perpetual Preferred Stock.

The following table sets forth the Company s tangible common equity at June 30, 2012 and December 31, 2011 and average balances during the six months ended June 30, 2012:

	Balance at		Average Balance(1)
	June 30, 2012	December 31, 2011	For the Six Months Ended June 30, 2012
	(dollars in millions)		
Common equity	$ 61,333	$ 60,541	$ 60,974
Preferred equity	1,508	1,508	1,508
Morgan Stanley shareholders equity	62,841	62,049	62,482
Junior subordinated debentures issued to capital trusts	4,851	4,853	4,841
Less: Goodwill and net intangible assets(2)	(6,568)	(6,691)	(6,644)
Tangible Morgan Stanley shareholders equity	$ 61,124	$ 60,211	$ 60,679
Common equity	$ 61,333	$ 60,541	$ 60,974
Less: Goodwill and net intangible assets(2)	(6,568)	(6,691)	(6,644)
Tangible common equity(3)	$ 54,765	$ 53,850	$ 54,330

(1) The Company calculates its average balances based upon month-end balances.

(2) The goodwill and net intangible assets deduction exclude mortgage servicing rights (net of disallowable mortgage servicing rights) of $7 million and $120 million at June 30, 2012 and December 31, 2011, respectively, and include only the Company s share of MSSB s goodwill and intangible assets.

(3) Tangible common equity, a non-GAAP financial measure, equals common equity less goodwill and net intangible assets as defined above. The Company views tangible common equity as a useful measure to investors because it is a commonly utilized metric and reflects the common equity deployed in the Company s businesses.

Capital Covenants.

In October 2006 and April 2007, the Company executed replacement capital covenants in connection with offerings by Morgan Stanley Capital Trust VII and Morgan Stanley Capital Trust VIII (the Capital Securities), which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete

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description of the Capital Securities and the terms of the replacement capital covenants, see the Company s Current Reports on Form 8-K dated October 12, 2006 and April 26, 2007.

Required Capital.

The Company s capital estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk-based internal use of capital measure, which is compared with the Company s regulatory capital to help ensure the Company maintains an amount of risk-based going concern capital after absorbing potential losses from extreme stress events at a point in time. The difference between the Company s regulatory capital and aggregate Required Capital is Parent capital. Average Tier 1 common capital, aggregate Required Capital and Parent capital for the quarter ended June 30, 2012 were approximately $42.5 billion, $27.4 billion and $15.1 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, including Basel 2.5 and III, organic growth, acquisitions and other capital needs.

Tier 1 common capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital Framework. In principle, each business segment is capitalized as if it were an independent operating entity with limited diversification benefit between the business segments. Required Capital is assessed at each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis. The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. During 2012, the Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

Beginning in the quarter ended March 31, 2012, the Company and segment Required Capital is met by Tier 1 common capital. Prior to the quarter ended March 31, 2012, the Company s Required Capital was met by regulatory Tier 1 capital or Tier 1 common equity. Segment capital for prior periods has been recast under this framework.

For a further discussion of the Company s Tier 1 common capital, see Regulatory Requirements herein.

The following table presents the Parent s and business segments average Tier 1 common capital and average common equity for the quarter ended June 30, 2012 and the quarter ended March 31, 2012.

	Three Months Ended June 30, 2012		Three Months Ended March 31, 2012	
	Average Tier 1 Common Capital	Average Common Equity	Average Tier 1 Common Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities	$ 22.3	$ 29.4	$ 22.1	$ 29.5
Global Wealth Management Group	3.8	13.3	3.6	13.3
Asset Management	1.3	2.5	1.3	2.5
Parent capital	15.1	16.2	13.9	15.2
Total	$ 42.5	$ 61.4	$ 40.9	$ 60.5

Regulatory Requirements.

Capital.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company s compliance

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with such capital requirements. The Office of the Comptroller of the Currency establishes similar capital requirements and standards for the Company s national bank subsidiaries (see Other Matters Regulatory Outlook herein).

The Company calculates its capital ratios and risk-weighted assets (RWA) in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I.

At June 30, 2012, the Company was in compliance with Basel I capital requirements with ratios of Tier 1 capital to RWAs of 17.2% and total capital to RWAs of 18.4% (6% and 10% being well-capitalized for regulatory purposes, respectively). Also, the ratio of Tier 1 common capital to RWAs was 13.6% (5% being the minimum under the Federal Reserve s new capital plan framework). In addition, financial holding companies are also subject to a Tier 1 leverage ratio as defined by the Federal Reserve. The Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets and financial and non-financial equity investments). The adjusted average total assets are derived using weekly balances for the year. At June 30, 2012, the Company was in compliance with this leverage restriction, with a Tier 1 leverage ratio of 7.1% (5% being well-capitalized for regulatory purposes).

The following table reconciles the Company s total shareholders equity to Tier 1 common, Tier 1, Tier 2 and Total allowable capital as defined by the regulations issued by the Federal Reserve and presents the Company s consolidated capital ratios at June 30, 2012 and December 31, 2011:

	At June 30, 2012	At December 31, 2011
	(dollars in millions)	
Allowable capital		
Common shareholders equity	$ 61,333	$ 60,541
Less: Goodwill	(6,610)	(6,686)
Less: Non-servicing intangible assets	(3,980)	(4,165)
Less: Net deferred tax assets(1)	(5,490)	(6,098)
Less: After-tax debt valuation adjustment	(1,066)	(2,296)
Other deductions	(1,422)	(1,511)
Tier 1 common capital(1)(2)	42,765	39,785
Qualifying preferred stock	1,508	1,508
Qualifying restricted core capital elements	9,972	9,821
Tier 1 capital(1)	54,245	51,114
Qualifying subordinated debt and restricted core capital elements	4,374	4,546
Other qualifying amounts	77	17
Other deductions	(742)	(721)
Tier 2 capital	3,709	3,842
Total allowable capital(1)	$ 57,954	$ 54,956
Total risk weighted assets(1)	$ 314,800	$ 314,827
Capital ratios		
Total capital ratio(1)	18.4%	17.5%
Tier 1 common capital ratio(1)(2)	13.6%	12.6%

Tier 1 capital ratio(1)	17.2%	16.2%
Tier 1 leverage ratio(1)	7.1%	6.6%

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(1) The December 31, 2011 deferred tax asset disallowance was adjusted by approximately $1.2 billion, resulting in a reduction to the Company s Tier 1 common capital, Tier 1 capital, Total capital, RWAs and adjusted average assets by such amount, Tier 1 common capital ratio, Tier 1 capital ratio and Total capital ratio by approximately 30 basis points and Tier 1 leverage ratio by approximately 20 basis points.
(2) Tier 1 common capital ratio equals Tier 1 common capital divided by RWAs. On December 30, 2011, the Federal Reserve formalized regulatory definitions for Tier 1 common capital and Tier 1 common capital ratio. The Federal Reserve defined Tier 1 common capital as Tier 1 capital less non-common elements in Tier 1 capital, including perpetual preferred stock and related surplus, minority interest in subsidiaries, trust preferred securities and mandatory convertible preferred securities. Previously, the Company s definition of Tier 1 common capital included all of the items noted in the Federal Reserve s definition, but it also included an adjustment for the portion of goodwill and non-servicing intangible assets associated with MSSB s noncontrolling interests (i.e., Citi s) share of MSSB s goodwill and intangibles). The Company s conformance to the Federal Reserve s definition under the final rule reduced its Tier 1 common capital and Tier 1 common ratio by approximately $4.2 billion and 132 basis points, respectively at December 31, 2011.

In November 2011, the Federal Reserve issued final rules on capital plans (Capital Plans), which require large bank holding companies such as the Company to submit Capital Plans on an annual basis in order for the Federal Reserve to assess the companies systems and processes that incorporate forward-looking projections of revenue and losses to monitor and maintain their internal capital adequacy. The rules also require that such companies receive no objection from the Federal Reserve before making a capital action. The Federal Reserve published the results of its 2012 Comprehensive Capital Analysis and Review in March 2012. The Company received no objection to its 2012 capital plan, including the potential acquisition of an additional 14% of MSSB and ongoing payment of current common and preferred dividends.

Total allowable capital is composed of Tier 1 capital, which includes Tier 1 common capital, and Tier 2 capital. Under the Federal Reserve s Capital Plans final rules, Tier 1 common capital is calculated as Tier 1 capital less non-common elements in Tier 1 capital. Non-common elements include perpetual preferred stock and related surplus, minority interests in subsidiaries, trust preferred securities and mandatory convertible preferred securities. In their June 2012 Basel III proposals, the U.S. banking regulators proposed a new definition of common equity Tier 1 capital. The existing supervisory definition of Tier 1 common capital will remain in force under the Capital Plans final rules until the Federal Reserve adopts the new Basel III common equity Tier 1 ratio. Tier 1 capital consists predominantly of common shareholders equity as well as qualifying preferred stock and qualifying restricted core capital elements (trust preferred securities and noncontrolling interests) less goodwill, non-servicing intangible assets (excluding allowable mortgage servicing rights), net deferred tax assets (recoverable in excess of one year), an after-tax debt valuation adjustment and certain other deductions, including equity investments. The debt valuation adjustment in the above table represents the cumulative change in fair value of certain long-term and short-term borrowings that was attributable to the Company s own instrument-specific credit spreads and is included in retained earnings. For a further discussion of fair value, see Note 3 to the condensed consolidated financial statements.

At June 30, 2012, the Company calculated its RWAs in accordance with the regulatory capital requirements of the Federal Reserve, which is consistent with guidelines described under Basel I. RWAs reflect both on and off-balance sheet risk of the Company. The risk capital calculations will evolve over time as the Company enhances its risk management methodology and incorporates improvements in modeling techniques while maintaining compliance with the regulatory requirements and interpretations.

Market RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company s market risks and Value-at-Risk (VaR) model, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, of the Form 10-K and in Part I, Item 3 herein. Market RWAs incorporate two components: systematic risk and specific risk. Systematic and specific risk charges are computed using either the Company s VaR model or Standardized Approach in accordance with regulatory requirements.

Credit RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. For a further discussion of the Company s credit risks, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, of the Form 10-K and in Part I, Item 3 herein.

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In December 2007, the U.S. banking regulators published final regulations incorporating the Basel II Accord, which requires internationally active banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In December 2009, the Basel Committee released proposals on risk-based capital, leverage and liquidity standards, known as Basel III. In June 2012, the U.S. banking regulators proposed rules to implement many aspects of Basel III (the proposals). The proposals complement an earlier proposal for revisions to the market risk framework. The earlier proposal, also referred to as Basel 2.5 , increases capital requirements for securitizations and correlation trading within the Company s trading book. In June 2012, the U.S. banking regulators issued final rules that are intended to implement certain aspects of the Basel 2.5 market risk framework proposals. Those rules will become effective on January 1, 2013.

The proposals contain new capital standards that raise the quality of capital and strengthen counterparty credit risk capital requirements and introduce a leverage ratio as a supplemental measure to the risk-based ratio. The proposals include a new capital conservation buffer, which imposes a common equity requirement above the new minimum that can be depleted under stress, and could result in restrictions on capital distributions and discretionary bonuses under certain circumstances. The proposals also provide for a potential countercyclical buffer which regulators can activate during periods of excessive credit growth in their jurisdiction. The U.S. banking regulators did not address the new additional loss absorbency capital requirement for global systemically important banks (GSIB), such as the Company, that is included in the original Basel III standards; however, the U.S. banking regulators indicated that guidance on GSIB capital requirement would be forthcoming. The proposals also propose amendments to the advanced approaches risk-based capital rule that will amend certain aspects of the treatment of counterparty credit risk under the Basel II framework and replace the use of externally developed credit ratings with proposed alternatives such as internally developed credit ratings. Under the proposals, the new capital requirements would be phased in over several years, beginning in 2013.

In June 2011, the U.S. banking regulators published final regulations implementing a certain provision of the Dodd-Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to minimum capital requirements that are not less than the generally applicable risk-based capital requirements. The proposals would establish a standardized approach that, among other things, modifies risk weights for certain types of asset classes and would serve as the minimum capital floor for certain financial institutions, including the Company. The proposals also include proposed changes to the determination of risk weights for certain types of asset classes for financial institutions employing advanced approaches.

Pursuant to provisions of the Dodd-Frank Act, over time, trust preferred securities that meet Tier 2 capital eligibility criteria will no longer qualify as Tier 1 capital but will only qualify as Tier 2 capital. This change in regulatory capital treatment will be phased in incrementally during a transition period that will start on January 1, 2013 and end on January 1, 2016. This provision of the Dodd-Frank Act accelerates the phasing in of the disqualification of the trust preferred securities as provided for by Basel III.

Under the Basel III proposals, based on a preliminary analysis of the guidelines published to date and other factors, the Company estimates its pro forma Tier 1 common capital ratio under Basel III will be approximately 9% by the end of 2012. This is a preliminary estimate assuming relevant regulatory model approvals and may change based on final rules to be issued by the Federal Reserve. If the Company does not receive such model approvals, this could have a significant impact on the Company s estimates. The pro forma Tier 1 common capital ratio under Basel III is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to gauge future regulatory capital requirements. The pro forma Tier 1 common capital ratio estimate is based on shareholders equity, Tier 1 common capital and RWAs at June 30, 2012, adjusted for analysts consensus of earnings for the remainder of 2012, and various mitigation efforts. This preliminary estimate is forward-looking, is subject to risks and uncertainties that may cause actual results to

differ materially and should not be taken as a projection of what the Company s capital ratios, RWAs, earnings or other results will actually be at these future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, please see Risk Factors in Part I, Item 1A of the Form 10-K.

Liquidity.

The Basel Committee has developed two standards for supervisors to use in liquidity risk supervision. The first standard s objective is to promote the short-term resilience of the liquidity risk profile of banks and bank holding companies. The Basel Committee developed the Liquidity Coverage Ratio (LCR) to ensure banks have sufficient high-quality liquid assets to cover net outflows arising from significant stress lasting 30 calendar days. The standard requires that the value of the ratio be no lower than 100%. The second standard s objective is to promote resilience over a longer time horizon. The Net Stable Funding Ratio (NSFR) has a time horizon of one year and builds on traditional net liquid asset and cash capital methodologies used widely by internationally active banking organizations to provide a sustainable maturity structure of assets and liabilities. The NSFR is defined as the amount of available stable funding to the amount of required stable funding. This ratio must be greater than 100%. After an observation period that began in 2011, the LCR, including any revisions, will be introduced on January 1, 2015. The NSFR, including any revisions, will move to a minimum standard by January 1, 2018. The Company will continue to monitor the development of these standards, including the potential impact on the Company s current liquidity and funding requirements.

In addition, in December 2011, the Federal Reserve issued proposed rules to implement certain requirements of the systemic risk regime, including with respect to liquidity. The proposed rules would require systemically important financial institutions, such as the Company, to maintain a sufficient quantity of highly liquid assets to survive a projected 30-day liquidity stress event, to conduct regular liquidity stress tests, and to implement various liquidity risk management requirements.

Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including VIEs, primarily in connection with its Institutional Securities and Global Wealth Management Group business segments. See Off-Balance Sheet Arrangements with Unconsolidated Entities included in Part II, Item 7, of the Form 10-K and Note 6 to the condensed consolidated financial statements for further information.

See Note 11 to the condensed consolidated financial statements for further information on guarantees.

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Commitments.

The Company s commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, mortgage lending and margin lending at June 30, 2012 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total at June 30, 2012
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 797	$ 8	$ 6	$	$ 811
Investment activities	1,132	174	44	281	1,631
Primary lending commitments investment grade(1)(2)	11,352	12,303	33,824	946	58,425
Primary lending commitments non-investment grade(2)	1,801	2,450	9,434	1,755	15,440
Secondary lending commitments(3)	71	135	28	73	307
Commitments for secured lending transactions	891	41			932
Forward starting reverse repurchase agreements and securities borrowing agreements(4)(5)	57,864				57,864
Commercial and residential mortgage-related commitments	1,583	34	253	358	2,228
Other commitments	1,249	144	45	63	1,501
Total	$ 76,740	$ 15,289	$ 43,634	$ 3,476	$ 139,139

(1) This amount includes commitments to asset-backed commercial paper conduits of $275 million at June 30, 2012, of which $138 million have maturities of less than one year and $137 million of which have maturities of one to three years.
(2) This amount includes $24.1 billion of investment grade and $4.3 billion of non-investment grade unfunded commitments accounted for as held for investment and $4.7 billion of investment grade and $2.1 billion of non-investment grade unfunded commitments accounted for as held for sale at June 30, 2012. The remainder of these lending commitments are carried at fair value.
(3) These commitments are recorded at fair value within Financial instruments owned and Financial instruments sold, not yet purchased in the condensed consolidated statements of financial condition (see Note 3 to the condensed consolidated financial statements).
(4) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to June 30, 2012 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days and of the amount at June 30, 2012, $52.7 billion settled within three business days.
(5) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $3 billion.

The above table excludes the commitment related to the Company s exercise of its right to purchase an additional 14% in MSSB (see Business Segments Global Wealth Management Group MSSB herein).

Effects of Inflation and Changes in Foreign Exchange Rates.

The Company s assets to a large extent are liquid in nature and, therefore, are not significantly affected by inflation, although inflation may result in increases in the Company s expenses, which may not be readily recoverable in the price of services offered. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets and upon the value of financial instruments, it may adversely affect the Company s financial position and profitability.

A significant portion of the Company s business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on the Company s financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related

to net assets, revenues, expenses or cash flows.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market Risk.

Market risk refers to the exposure of the Company to adverse changes in the values of its portfolios and financial instruments due to changes in market prices or rates. Generally, the Company is exposed to market risk as a result of trading, investing and client facilitation activities, mainly within the Institutional Securities business segment where the substantial majority of the Company s Value-at-Risk (VaR) for market risk exposures is generated. In addition, the Company incurs trading related market risk within the Global Wealth Management Group business segment. The Asset Management business segment incurs mainly non-trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles. Regarding sales and trading and related activities, the Company is exposed to concentration risk in certain of its OTC derivatives portfolios related to the additional cost of closing out particularly large risk positions. For a further discussion of the Company s Market Risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A of the Form 10-K.

VaR.

The Company uses VaR as one of a range of risk management tools. VaR methodology has various strengths and limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures.

The Company s VaR model evolves over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name-specific risk factors may be added to improve the VaR model s ability to more accurately estimate risks to specific asset classes or industry sectors. Additionally, the Company continues to evaluate enhancements to the VaR model to make it more responsive to recent market conditions, while maintaining a longer-term perspective.

The Company also performs routine stress testing to more comprehensively monitor the risks in the portfolio. The Company utilizes Stress VaR (S-VaR), which is a proprietary methodology that seeks to measure both the Company s market and credit risks, while adjusting for the different liquidity characteristics of the underlying risks (in contrast to traditional VaR measures which are typically calculated using the same liquidity horizon for all risks). S-VaR is an important risk metric used in establishing the Company s risk tolerance and its capital allocation framework. Further information on S-VaR can be found in Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A of the Form 10-K.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the Company s future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company s actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days for a 95%/one-day VaR. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

The Credit Portfolio VaR has been disclosed as a separate category from the Primary Risk Categories. The Credit Portfolio VaR includes the mark-to-market relationship lending exposures and associated hedges as well as counterparty credit valuation adjustments and related hedges.

The table below presents VaR for the Company s Trading portfolio, on a quarter-end, quarterly average and quarterly high and low basis (see Table 1 below). The VaR that would result if the Company were to adopt alternative parameters for its calculations, such as a higher confidence level for the VaR statistic (99% rather than 95%) or a shorter historical time series of market data (one year rather than four years), are also disclosed (see Table 2 below).

Trading Risks.

The table below presents the Company s 95%/one-day Trading VaR:

Table 1: 95% VaR	95%/One-Day VaR for the Quarter Ended June 30, 2012				95%/One-Day VaR for the Quarter Ended March 31, 2012			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
	(dollars in millions)							
Interest rate and credit spread	$ 72	$ 75	$ 95	$ 60	$ 56	$ 57	$ 75	$ 46
Equity price	31	36	46	26	38	33	42	24
Foreign exchange rate	24	16	24	9	13	16	25	9
Commodity price	28	34	40	26	32	31	36	25
Less: Diversification benefit(1)(2)	(76)	(80)	N/A	N/A	(70)	(65)	N/A	N/A
Primary Risk Categories	$ 79	$ 81	$ 108	$ 71	$ 69	$ 72	$ 84	$ 65
Credit Portfolio	29	33	34	29	33	40	52	33
Less: Diversification benefit(1)(2)	(23)	(23)	N/A	N/A	(24)	(28)	N/A	N/A
Total Trading VaR	$ 85	$ 91	$ 118	$ 79	$ 78	$ 84	$ 93	$ 76

(1) Diversification benefit equals the difference between the total VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

(2) N/A Not Applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different days during the quarter and therefore the diversification benefit is not an applicable measure.

The Company s average VaR for the Primary Risk Categories for the quarter ended June 30, 2012 was $81 million compared with $72 million for the quarter ended March 31, 2012. This increase was driven by activity in the interest rate and credit spread asset classes.

The average Credit Portfolio VaR for the quarter ended June 30, 2012 was $33 million compared with $40 million for the quarter ended March 31, 2012. This reduction primarily reflects the transition of loans held at fair value to loans held for investment net of allowance.

The average Total Trading VaR for the quarter ended June 30, 2012 was $91 million compared with $84 million for the quarter ended March 31, 2012. This increase was principally the result of the interest rate and credit spread activity in the Primary Risk Categories.

VaR Statistics under Varying Assumptions.

VaR statistics are not readily comparable across firms because of differences in the breadth of products included in each firm s VaR model, in the statistical assumptions made when simulating changes in market risk factors, and in the methods used to approximate portfolio revaluations under the simulated market conditions. These

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differences can result in materially different VaR estimates for similar portfolios. The impact varies depending on the factor history assumptions, the frequency with which the factor history is updated, and the confidence level. As a result, VaR statistics are more reliable and relevant when used as indicators of trends in risk taking rather than as a basis for inferring differences in risk taking across firms.

Table 2 presents the VaR statistics that would result if the Company were to adopt alternative parameters for its calculations, such as the reported confidence level (95% versus 99%) for the VaR statistic or a shorter historical time series (four-year versus one-year) for market data upon which it bases its simulations. The four-year VaR measure continues to reflect the high market volatilities experienced through the second half of 2008, while the one-year VaR is no longer affected by these phenomena.

Table 2: 95% and 99% Average Trading VaR with Four-Year / One-Year Historical Time Series	**95% Average One-Day VaR for the Quarter Ended June 30, 2012**		**99% Average One-Day VaR for the Quarter Ended June 30, 2012**	
Market Risk Category	**Four-Year Risk Factor History**	**One-Year Risk Factor History**	**Four-Year Risk Factor History**	**One-Year Risk Factor History**
	(dollars in millions)			
Interest rate and credit spread	$ 75	$ 76	$ 127	$ 130
Equity price	36	30	52	43
Foreign exchange rate	16	13	27	21
Commodity price	34	29	52	44
Less: Diversification benefit(1)	(80)	(76)	(132)	(132)
Primary Risk Categories	$ 81	$ 72	$ 126	$ 106
Credit Portfolio	33	26	67	41
Less: Diversification benefit(1)	(23)	(17)	(46)	(26)
Total Trading VaR	$ 91	$ 81	$ 147	$ 121

(1) Diversification benefit equals the difference between the total VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

Distribution of VaR Statistics and Net Revenues for the quarter ended June 30, 2012.

One method of evaluating the reasonableness of the Company s VaR model as a measure of the Company s potential volatility of net revenue is to compare the VaR with actual trading revenue. Assuming no intra-day trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model could be questioned. Differences between recent market volatility and the historical volatility used in the VaR model may result in the number of days in which trading losses exceed VaR to be higher or lower than statistically expected. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for both the Company as well as individual business units. For days where losses exceed the 95% or 99% VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model s accuracy relative to realized trading results.

In line with the enhanced transparency of the Company s traded market risk displayed in Tables 1 and 2, the distribution of VaR Statistics and Net Revenues will be presented for both the Primary Risk Categories and the Total Trading populations.

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Primary Risk Categories.

As shown in Table 1, the Company s average 95%/one-day Primary Risk Categories VaR for the quarter ended June 30, 2012 was $81 million. The histogram below presents the distribution of the Company s daily 95%/one-day Primary Risk Categories VaR for the quarter ended June 30, 2012. The most frequently occurring value was between $80 million and $85 million, while for approximately 80% of trading days during the quarter the Primary Risk Categories VaR was below $85 million.

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The histogram below shows the distribution of daily net trading revenue for the Company s businesses that comprise the Primary Risk Categories for the quarter ended June 30, 2012. This excludes non-trading revenues of these businesses and revenue associated with the Company s own credit risk. During the quarter ended June 30, 2012, the Company s businesses that comprise the Primary Risk Categories experienced net trading losses on fifteen days, of which zero days were in excess of the 95%/one-day Primary Risk Categories VaR.

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Total Trading including the Primary Risk Categories and the Credit Portfolio.

As shown in Table 1, the Company s average 95%/one-day Total Trading VaR, which includes the Primary Risk Categories and the Credit Portfolio, for the quarter ended June 30, 2012 was $91 million. The histogram below presents the distribution of the Company s daily 95%/one-day Total Trading VaR for the quarter ended June 30, 2012. The most frequently occurring value was between $85 million and $90 million, while for approximately 77% of trading days during the quarter the Total Trading VaR ranged between $80 million and $95 million.

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The histogram below shows the distribution of daily net trading revenue for the Company s Trading businesses for the quarter ended June 30, 2012. This excludes non-trading revenues of these businesses and revenue associated with the Company s own credit risk. During the quarter ended June 30, 2012, the Company experienced net trading losses on fifteen days, of which zero days were in excess of the 95%/one-day Trading VaR.

Non-Trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company s non-trading risks. Reflected below is this analysis, which covers substantially all of the non-trading risk in the Company s portfolio.

Counterparty Exposure Related to the Company s Own Spread.

The credit spread risk relating to the Company s own mark-to-market derivative counterparty exposure is managed separately from VaR. The credit spread risk sensitivity of this exposure corresponds to an increase in value of approximately $6 million for each 1 basis point widening in the Company s credit spread level for both June 30, 2012 and March 31, 2012.

Funding Liabilities.

The credit spread risk sensitivity of the Company s mark-to-market funding liabilities corresponded to an increase in value of approximately $12 million for each 1 basis point widening in the Company s credit spread level for both June 30, 2012 and March 31, 2012.

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Interest Rate Risk Sensitivity on Income from Continuing Operations.

The Company measures the interest rate risk of certain assets and liabilities by calculating the hypothetical sensitivity of net interest income to potential changes in the level of interest rates over the next twelve months. This sensitivity analysis includes positions that are mark-to-market as well as positions that are accounted for on an accrual basis. For interest rate derivatives that are perfect economic hedges to non-mark-to-market assets or liabilities, the disclosed sensitivities include only the impact of the coupon accrual mismatch. This treatment mitigates the effects caused by the measurement basis differences between the economic hedge and the corresponding hedged instrument.

Given the currently low interest rate environment, the Company uses the following two interest rate scenarios to quantify the Company s sensitivity: instantaneous parallel shocks of 100 and 200 basis point increases to all points on all yield curves simultaneously.

The hypothetical model does not assume any growth, change in business focus, asset pricing philosophy or asset/liability funding mix and does not capture how the Company would respond to significant changes in market conditions. Furthermore, the model does not reflect the Company s expectations regarding the movement of interest rates in the near term, nor the actual effect on income from continuing operations before income taxes if such changes were to occur.

	June 30, 2012		March 31, 2012	
	+100 Basis Points	+200 Basis Points	+100 Basis Points	+200 Basis Points
	(dollars in millions)			
Impact on income from continuing operations before income taxes	$ 771	$ 1,303	$ 614	$ 1,019
Impact on income from continuing operations before income taxes excluding Citi s share of MSSB(1)	535	918	384	650

(1) Reflects the exclusion of the portion of income from continuing operations before taxes associated with MSSB s noncontrolling interest in the joint venture.

Principal Investments.

The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net revenues associated with a 10% decline in investment values.

	10% Sensitivity	
Investments	**June 30, 2012**	**March 31, 2012**
	(dollars in millions)	
Investments related to Asset Management activities:		
Hedge fund investments	$ 132	$ 134
Private equity and infrastructure funds	114	115
Real estate funds	133	132
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	148	137
Other Company investments	298	292

Credit Risk.

For a further discussion of the Company s credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk in Part II, Item 7A of the Form 10-K. See Notes 7 and 11 to the condensed consolidated financial statements for additional information about the Company s financing receivables and lending commitments, respectively.

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Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high-net-worth individuals. The table below summarizes the Company s loans classified as Loans and Financial instruments owned in the condensed consolidated statements of financial condition at June 30, 2012. See Notes 3 and 7 to the condensed consolidated financial statements for further information.

	Institutional Securities Corporate Lending(1)	Institutional Securities Other(2)	Global Wealth Management Group(3)	Total
	(dollars in millions)			
Commercial and industrial	$ 4,242	$ 770	$ 2,445	$ 7,457
Consumer loans			6,200	6,200
Residential real estate loans			5,489	5,489
Wholesale real estate loans		374	27	401
Loans held for investment, net of allowance	4,242	1,144	14,161	19,547
Loans held for sale	1,712		135	1,847
Loans held at fair value	12,190	8,375		20,565
Total Loans	$ 18,144	$ 9,519	$ 14,296	$ 41,959

(1) In addition to loans, at June 30, 2012, $28.4 billion of unfunded lending commitments were accounted for as held for investment, $6.8 billion of unfunded lending commitments were accounted for as held for sale and $38.6 billion of unfunded lending commitments were accounted for at fair value.

(2) In addition to loans, at June 30, 2012, $1.2 billion of unfunded lending commitments were accounted for as held for investment and $0.7 billion of unfunded lending commitments were accounted for at fair value.

(3) In addition to loans, at June 30, 2012, $2.7 billion of unfunded lending commitments were accounted for as held for investment and $0.4 billion of unfunded lending commitments were accounted for as held for sale.

Institutional Securities Corporate Lending-Credit Exposure. In connection with certain of its Institutional Securities business segment activities, the Company provides loans or lending commitments (including bridge financing) to selected corporate clients. Such loans and lending commitments can generally be classified as either relationship-driven or event-driven. These loans and lending commitments have varying terms, may be senior or subordinated, may be secured or unsecured, are generally contingent upon representations, warranties and contractual conditions applicable to the borrower, and may be syndicated, traded or hedged by the Company.

Relationship-driven loans and lending commitments refer to loans and lending commitments used for general corporate purposes, working capital and liquidity purposes. Commitments associated with relationship-driven activities may not be indicative of the Company s actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment. The Company may hedge its exposures in connection with relationship-driven transactions. Additionally, the Company may mitigate credit risk by requiring borrowers to pledge collateral and include financial covenants in lending commitments. The Company s relationship-driven loans and lending commitments typically consist of revolving lines of credit, letter of credit facilities and certain term loans. These loans are carried either at fair value with changes in fair value recorded in earnings or amortized cost in the condensed consolidated statements of financial condition.

Event-driven loans and lending commitments refer to activities associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization activities. Commitments associated with these event-driven activities may not be indicative of the Company s actual funding requirements since funding is contingent upon a proposed transaction being completed. In addition, the borrower may not fully utilize the commitment or the Company s portion of the commitment may be reduced through the syndication or sales process. The event-driven loans are typically syndicated or sold to third party institutional investors. The Company may have a custodial relationship with these institutional investors, such as prime brokerage clients.

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The borrower s ability to draw on the commitment is also subject to certain terms and conditions, among other factors. The Company risk manages its exposures in connection with event-driven transactions through various means, including syndication, distribution and/or hedging. The Company s event-driven loans and lending commitments typically consist of term loans and bridge loans. These loans are carried either at fair value, lower of cost or fair value, or amortized cost in the condensed consolidated statements of financial condition.

During 2011, the Company accounted for certain new relationship-driven and event-driven loans and lending commitments as held for investment. Effective April 1, 2012, the Company began accounting for all new relationship-driven and event-driven loans and lending commitments as either held for investment or held for sale.

The table below presents the Company s credit exposure from its corporate lending positions and lending commitments, which is measured in accordance with the Company s internal risk management standards at June 30, 2012. The total corporate lending exposure column includes both lending commitments and funded loans. Lending commitments represent legally binding obligations to provide funding to clients at June 30, 2012 for both relationship-driven and event-driven lending transactions. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements.

Corporate Lending Commitments and Funded Loans at June 30, 2012

	Years to Maturity				Total Corporate Lending
Credit Rating(1)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Exposure(2)**
			(dollars in millions)		
AAA	$ 581	$ 124	$ 111	$	$ 816
AA	3,545	1,382	4,880	67	9,874
A	3,641	5,273	9,906	581	19,401
BBB	5,236	10,072	20,956	924	37,188
Investment grade	13,003	16,851	35,853	1,572	67,279
Non-investment grade	3,313	3,612	14,524	2,223	23,672
Total	$ 16,316	$ 20,463	$ 50,377	$ 3,795	$ 90,951

(1) Obligor credit ratings are determined by the Credit Risk Management Department.
(2) Total corporate lending exposure represents the Company s potential loss assuming the market price of funded loans and lending commitments was zero.

At June 30, 2012, the aggregate amount of investment grade loans was $8.9 billion and the aggregate amount of non-investment grade loans was $8.2 billion. The relationship-driven loans held for investment were all current at June 30, 2012. In connection with these corporate lending activities (which include corporate funded loans and lending commitments), the Company had hedges (which include single name, sector and index hedges) with a notional amount of $24.4 billion related to the total corporate lending exposure of $91.0 billion at June 30, 2012.

Event-Driven Loans and Lending Commitments at June 30, 2012.

Included in the total corporate lending exposure amounts in the table above at June 30, 2012 were event-driven exposure of $10.9 billion composed of funded loans of $2.2 billion and lending commitments of $8.7 billion. Included in the event-driven exposure at June 30, 2012 were $4.8 billion of loans and lending commitments to non-investment grade borrowers. The maturity profile of the event-driven loans and lending commitments at June 30, 2012 was as follows: 59% will mature in less than 1 year, 22% will mature within 1 to 3 years, 6% will mature within 3 to 5 years, and 13% will mature in over 5 years.

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At June 30, 2012, $229 million of the Company s event-driven loans were on non-accrual basis; all other event-driven loans were current. These loans primarily are those the Company originated prior to the financial crisis in 2008 and was unable to sell or syndicate. For loans carried at fair value that are on non-accrual status, interest income is recognized on a cash basis.

Institutional Securities Other Lending Activities.

In addition to the primary corporate lending activity described above, the Institutional Securities business segment engages in other lending activity. These loans include corporate loans purchased in the secondary market, commercial and residential mortgage loans, asset-backed loans and financing extended to equities and commodities customers. At June 30, 2012, approximately 98% of Institutional Securities Other lending activities held for investment were current; less than 7% were on non-accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

Global Wealth Management Group Activities.

The principal Global Wealth Management Group activities that result in credit risk to the Company include non-purpose lending, structured credit facilities and residential mortgage lending. Non-purpose securities-based lending allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying margin stock or refinancing margin debt. The Company establishes approved lines and advance rates against qualifying securities and monitors limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce debt positions, when necessary.

The Global Wealth Management Group business segment also provides structured credit facilities to high net worth individuals and their small and medium-sized domestic businesses, with a suite of products that includes working capital lines of credit, revolving lines of credit, standby letters of credit, and term loans. Decisions to extend credit are based on an analysis of the borrower, the guarantor, the collateral, cash flow, liquidity, leverage and credit history.

With respect to first mortgages and second mortgages, including home equity line of credit (HELOC) loans, a loan evaluation process is adopted within a framework of credit underwriting policies and collateral valuation. The Company s underwriting policy is designed to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysis of applicable industry standard credit scoring models (*e.g.*, FICO scores), debt ratios and reserves of the borrower. Loan-to-collateral value ratios are determined based on independent third-party property appraisal/valuations, and security lien position is established through title/ownership reports. Eligible conforming loans are currently held for sale, while most non-conforming and HELOC loans are held for investment in the Company s portfolio.

At June 30, 2012, approximately 99% of Global Wealth Management Group s loans held for investment portfolio were current.

Credit Exposure Derivatives. For credit exposure information on the Company s OTC derivative products, see Note 10 to the condensed consolidated financial statements.

Credit Derivatives.

A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on a set of debt obligations issued by a specified reference entity. The beneficiary pays a periodic premium (typically quarterly) over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events, as defined in the contract, may include one or more of the following defined events: bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation, payment moratorium and restructurings.

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The Company trades in a variety of credit derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. In transactions referencing a portfolio of referenced names or securities, protection may be limited to a tranche of exposure or a single name within the portfolio. The Company is an active market maker in the credit derivatives markets. As a market maker, the Company works to earn a bid-offer spread on client flow business and manage any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented. The effectiveness of the Company s credit default swaps (CDS) protection as a hedge of the Company s exposures may vary depending upon a number of factors, including the contractual terms of the CDS.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company s counterparties are banks, broker-dealers, insurance and other financial institutions. Contracts with these counterparties do not include ratings-based termination events but do include provisions related to counterparty rating downgrades, which may result in additional collateral being required by the Company. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate within Principal transactions Trading.

The following table summarizes the key characteristics of the Company s credit derivative portfolio by counterparty at June 30, 2012. The fair values shown are before the application of any counterparty or cash collateral netting.

	At June 30, 2012				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$ 90,032	$ 85,136	$ 4,896	$ 1,826,088	$ 1,796,659
Insurance and other financial institutions	10,868	10,796	72	293,358	353,039
Monolines(2)	202	2	200	16,503	100
Non-financial entities	362	282	80	9,047	7,755
Total	$ 101,464	$ 96,216	$ 5,248	$ 2,144,996	$ 2,157,553

(1) The Company s CDS are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 9% of receivable fair values and 6% of payable fair values represent Level 3 amounts.

(2) Credit derivatives used to hedge the Company s credit exposure to Monolines (including derivative counterparty exposure) are included in the table based on the counterparties writing such hedges. None of these hedges are written by other Monolines.

See Note 10 to the condensed consolidated financial statements for further information on credit derivatives.

Country Risk Exposure. Country risk exposure is the risk that events within a country, such as currency crises, regulatory changes and other political events, will adversely affect the ability of the sovereign government and/or obligors within the country to honor their obligations to the Company. Country risk exposure is measured in accordance with the Company s internal risk management standards and includes obligations from sovereign governments, corporations, clearinghouses and financial institutions. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals as well as scenario analysis, and allows the Company to effectively identify, monitor and limit country risk. Country risk exposure before and after hedges are monitored and managed, with stress testing and scenario analysis conducted on a continuous basis, to identify exposure concentrations, wrong way risk and the impact of idiosyncratic events. In addition, indirect exposures are identified through the Company s counterparty credit analysis as having a vulnerability or exposure to another country or jurisdiction. Examples of such counterparties include: mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations.
The outcome of such identification can result in a reclassification of country risk, amendment of counterparty limits or exposure mitigation. The Company reduces its country risk exposure through the effect of risk

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mitigants, such as netting agreements with counterparties that permit the Company to offset receivables and payables with such counterparties, obtaining collateral from counterparties, and by hedging. For a further discussion of the Company s country risk exposure, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Country Risk Exposure in Part II, Item 7A of the Form 10-K.

The Company s sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures comprise exposures to corporations and financial institutions. The following table shows the Company s significant non-U.S. country risk exposure, except for select European countries (see Country Risk Exposure Select European Countries herein), at June 30, 2012.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)
				(dollars in millions)			
United Kingdom:							
Sovereigns	$ (308)	$ 93	$	$	$ (215)	$ (299)	$ (514)
Non-sovereigns	629	14,037	3,363	4,523	22,552	(3,547)	19,005
Sub-total	$ 321	$ 14,130	$ 3,363	$ 4,523	$ 22,337	$ (3,846)	$ 18,491
Germany:							
Sovereigns	$ 7,356	$ 445	$	$	$ 7,801	$ (1,342)	$ 6,459
Non-sovereigns	255	2,670	442	4,228	7,595	(2,665)	4,930
Sub-total	$ 7,611	$ 3,115	$ 442	$ 4,228	$ 15,396	$ (4,007)	$ 11,389
Brazil:							
Sovereigns	$ 4,188	$	$	$	$ 4,188	$	$ 4,188
Non-sovereigns	227	356	702	221	1,506	(74)	1,432
Sub-total	$ 4,415	$ 356	$ 702	$ 221	$ 5,694	$ (74)	$ 5,620
Canada:							
Sovereigns	$ 534	$ 13	$	$	$ 547	$	$ 547
Non-sovereigns	594	1,042	172	1,473	3,281	(475)	2,806
Sub-total	$ 1,128	$ 1,055	$ 172	$ 1,473	$ 3,828	$ (475)	$ 3,353
China:							
Sovereigns	$ 211	$ 356	$	$	$ 567	$	$ 567
Non-sovereigns	1,372	376	624	15	2,387	(88)	2,299
Sub-total	$ 1,583	$ 732	$ 624	$ 15	$ 2,954	$ (88)	$ 2,866

(1) Net inventory representing exposure to both long and short single name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company s hedges, see Credit Exposure Derivatives herein.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) taking into consideration legally enforceable master netting agreements and collateral.

(3) At June 30, 2012, the benefit of collateral received against counterparty credit exposure was $17.1 billion in the U.K. with all the collateral consisting of cash and U.K. government obligations, and $18.6 billion in Germany with 95% of collateral consisting of cash. The benefit of collateral received against counterparty credit exposure in the other three countries totaled approximately $2.0 billion, with collateral primarily consisting of cash. These amounts do not include collateral received on secured financing transactions.

(4)

Represents CDS hedges on net counterparty exposure and funded lending. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(5) In addition, at June 30, 2012, the Company had exposure to these countries for overnight deposits with banks of approximately $6.2 billion.

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Country Risk Exposure Select European Countries. In connection with certain of its Institutional Securities business segment activities, the Company has country risk exposure to many foreign countries. During the quarter and six months ended June 30, 2012, certain European countries, which include Greece, Ireland, Italy, Portugal and Spain (the European Peripherals) and France, experienced varying degrees of credit deterioration due to weaknesses in their economic and fiscal situations. The following table shows the Company s country risk exposure to European Peripherals and France at June 30, 2012. Such country risk exposure is measured in accordance with the Company s internal risk management standards and includes obligations from sovereign and non-sovereigns, which includes governments, corporations, clearinghouses and financial institutions.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	CDS Adjustment(4)	Exposure Before Hedges	Hedges(5)	Net Exposure
				(dollars in millions)				
Greece:								
Sovereigns	$ 24	$ 13	$	$	$	$ 37	$	$ 37
Non-sovereigns	86	5	34			125	(34)	91
Sub-total	$ 110	$ 18	$ 34	$	$	$ 162	$ (34)	$ 128
Ireland:								
Sovereigns	$ 34	$ 10	$	$	$ 4	$ 48	$ (2)	$ 46
Non-sovereigns	103	96	73	3	16	291	(18)	273
Sub-total	$ 137	$ 106	$ 73	$ 3	$ 20	$ 339	$ (20)	$ 319
Italy:								
Sovereigns	$ (610)	$ 279	$	$	$ 279	$ (52)	$ (183)	$ (235)
Non-sovereigns	322	668	426	1,406	166	2,988	(505)	2,483
Sub-total	$ (288)	$ 947	$ 426	$ 1,406	$ 445	$ 2,936	$ (688)	$ 2,248
Spain:								
Sovereigns	$ (336)	$ 16	$	$	$ 506	$ 186	$ (16)	$ 170
Non-sovereigns	225	472	77	777	184	1,735	(306)	1,429
Sub-total	$ (111)	$ 488	$ 77	$ 777	$ 690	$ 1,921	$ (322)	$ 1,599
Portugal:								
Sovereigns	$ (285)	$ 29	$	$	$ 26	$ (230)	$ (83)	$ (313)
Non-sovereigns	66	33	127		54	280	(85)	195
Sub-total	$ (219)	$ 62	$ 127	$	$ 80	$ 50	$ (168)	$ (118)
Sovereigns	$ (1,173)	$ 347	$	$	$ 815	$ (11)	$ (284)	$ (295)
Non-sovereigns	802	1,274	737	2,186	420	5,419	(948)	4,471
Total European Peripherals(6)	$ (371)	$ 1,621	$ 737	$ 2,186	$ 1,235	$ 5,408	$ (1,232)	$ 4,176
France(6):								
Sovereigns	$ (1,879)	$ 237	$	$	$ 11	$ (1,631)	$ (319)	$ (1,950)
Non-sovereigns	11	2,060	258	1,718	326	4,373	(1,071)	3,302

Sub-total(6)	$ (1,868)	$ 2,297	$ 258	$ 1,718	$ 337	$ 2,742	$ (1,390)	$ 1,352

(1) Net inventory representing exposure to both long and short single name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company s hedges, see Credit Exposure Derivatives herein.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) taking into consideration legally enforceable master netting agreements and collateral.

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(3) At June 30, 2012, the benefit of collateral received against counterparty credit exposure was $4.4 billion in the European Peripherals with 95% of such collateral consisting of cash or German government obligations, and $8.4 billion in France with 99% of such collateral consisting of cash. These amounts do not include collateral received on secured financing transactions.
(4) CDS adjustment represents credit protection purchased from European peripheral banks on European peripheral sovereign and financial institution risk, or French banks on French sovereign and financial institution risk. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(5) Represents CDS hedges on net counterparty exposure and funded lending. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(6) In addition, at June 30, 2012, the Company had European Peripherals and French exposure for overnight deposits with banks of approximately $84 million and $19 million, respectively.

Industry Exposure Corporate Lending and OTC Derivative Products. The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company s OTC derivative contracts.

The following tables show the Company s credit exposure from its primary corporate loans and lending commitments and OTC derivative products by industry at June 30, 2012:

Industry		**Corporate Lending Exposure (dollars in millions)**
Utilities	$	11,010
Energy		9,455
Funds, exchanges and other financial services(1)		7,614
Capital goods		5,843
Pharmaceuticals		5,727
Media-related entities		5,071
Chemicals, metals, mining and other materials		4,590
Telecommunications services		4,336
Technology software and services		4,043
Food, beverage and tobacco		3,981
Other		29,281
Total	$	90,951

Industry		**OTC Derivative Products(2) (dollars in millions)**
Utilities	$	4,876
Special purpose vehicles		4,561
Banks		3,961
Funds, exchanges and other financial services(1)		2,548
Regional governments		2,137
Sovereign governments		1,432
Other		985
Total	$	20,500

(1) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.
(2) For further information on derivative instruments and hedging activities, see Note 10 to the condensed consolidated financial statements.

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Item 4. Controls and Procedures.

Under the supervision and with the participation of the Company s management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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FINANCIAL DATA SUPPLEMENT (Unaudited)

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended June 30, 2012		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Financial instruments owned(1):			
U.S.	$ 132,966	$ 535	1.6%
Non-U.S.	79,886	127	0.6
Securities available for sale:			
U.S.	32,082	76	1.0
Loans:			
U.S.	18,390	130	2.9
Non-U.S.	283	9	12.9
Interest bearing deposits with banks:			
U.S.	26,556	8	0.1
Non-U.S.	11,448	16	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	189,565	(58)	(0.1)
Non-U.S.	103,320	104	0.4
Other:			
U.S.	49,027	149	1.2
Non-U.S.	18,705	227	4.9
Total	$ 662,228	$ 1,323	0.8%
Non-interest earning assets	122,136		
Total assets	$ 784,364		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 66,381	$ 45	0.3%
Non-U.S.	117		
Commercial paper and other short-term borrowings:			
U.S.	102	1	4.0
Non-U.S.	1,714	10	2.4
Long-term debt:			
U.S.	164,426	1,066	2.6
Non-U.S.	7,035	21	1.2
Financial instruments sold, not yet purchased(1):			
U.S.	40,299		
Non-U.S.	56,470		
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	94,431	243	1.0
Non-U.S.	60,488	286	1.9
Other:			
U.S.	83,553	(450)	(2.2)

Non-U.S.	34,641	262	3.1
Total	$ 609,657	$ 1,484	1.0
Non-interest bearing liabilities and equity	174,707		
Total liabilities and equity	$ 784,364		
Net interest income and net interest rate spread		$ (161)	(0.2)%

(1) Interest expense on Financial instruments sold, not yet purchased is reported as a reduction of Interest income on Financial instruments owned.

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FINANCIAL DATA SUPPLEMENT (Unaudited) Continued

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended June 30, 2011		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Financial instruments owned(1):			
U.S.	$ 124,225	$ 592	1.9%
Non-U.S.	132,668	334	1.0
Securities available for sale:			
U.S.	26,899	96	1.4
Loans:			
U.S.	11,812	77	2.6
Non-U.S.	171	6	14.2
Interest bearing deposits with banks:			
U.S.	43,834	12	0.1
Non-U.S.	15,001	31	0.8
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	222,620	(57)	(0.1)
Non-U.S.	96,348	387	1.6
Other:			
U.S.	45,473	430	3.8
Non-U.S.	17,660	53	1.2
Total	$ 736,711	$ 1,961	1.1%
Non-interest earning assets	138,191		
Total assets	$ 874,902		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 63,974	$ 60	0.4%
Non-U.S.	92		
Commercial paper and other short-term borrowings:			
U.S.	1,307	2	0.6
Non-U.S.	2,067	9	1.8
Long-term debt:			
U.S.	187,432	1,285	2.8
Non-U.S.	7,365	7	0.4
Financial instruments sold, not yet purchased(1):			
U.S.	36,686		
Non-U.S.	73,101		
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	114,917	191	0.7
Non-U.S.	79,965	491	2.5
Other:			
U.S.	89,654	(159)	(0.7)
Non-U.S.	38,882	143	1.5
Total	$ 695,442	$ 2,029	1.2
Non-interest bearing liabilities and equity	179,460		
Total liabilities and equity	$ 874,902		

Net interest income and net interest rate spread	$	(68)	(0.1)%

(1) Interest expense on Financial instruments sold, not yet purchased is reported as a reduction of Interest income on Financial instruments owned.

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FINANCIAL DATA SUPPLEMENT (Unaudited) Continued

Average Balances and Interest Rates and Net Interest Income

	Six Months Ended June 30, 2012		
	Average Weekly Balance	Interest	Annualized Average Rate
		(dollars in millions)	
Assets			
Interest earning assets:			
Financial instruments owned(1):			
U.S.	$ 132,273	$ 1,166	1.8%
Non-U.S.	83,597	287	0.7
Securities available for sale:			
U.S.	31,795	162	1.0
Loans:			
U.S.	17,158	242	2.9
Non-U.S.	239	15	12.7
Interest bearing deposits with banks:			
U.S.	27,612	13	0.1
Non-U.S.	12,049	38	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	186,359	(95)	(0.1)
Non-U.S.	101,564	254	0.5
Other:			
U.S.	49,863	381	1.5
Non-U.S.	16,239	402	5.0
Total	$ 658,748	$ 2,865	0.9%
Non-interest earning assets	126,274		
Total assets	$ 785,022		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 65,957	$ 90	0.3%
Non-U.S.	153		
Commercial paper and other short-term borrowings:			
U.S.	395	3	1.5
Non-U.S.	2,017	21	2.1
Long-term debt:			
U.S.	168,927	2,306	2.8
Non-U.S.	6,903	35	1.0
Financial instruments sold, not yet purchased(1):			
U.S.	35,423		
Non-U.S.	54,579		
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	95,344	414	0.9
Non-U.S.	61,356	578	1.9
Other:			
U.S.	81,855	(834)	(2.1)

Non-U.S.	34,701	472	2.8
Total	$ 607,610	$ 3,085	1.0
Non-interest bearing liabilities and equity	177,412		
Total liabilities and equity	$ 785,022		
Net interest income and net interest rate spread		$ (220)	(0.1)%

(1) Interest expense on Financial instruments sold, not yet purchased is reported as a reduction of Interest income on Financial instruments owned.

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FINANCIAL DATA SUPPLEMENT (Unaudited) Continued

Average Balances and Interest Rates and Net Interest Income

	Six Months Ended June 30, 2011		
	Average Weekly Balance	Interest	Annualized Average Rate
	(dollars in millions)		
Assets			
Interest earning assets:			
Financial instruments owned(1):			
U.S.	$ 122,604	$ 1,322	2.2%
Non-U.S.	126,796	523	0.8
Securities available for sale:			
U.S.	27,011	191	1.4
Loans:			
U.S.	11,388	148	2.6
Non-U.S.	183	11	12.2
Interest bearing deposits with banks:			
U.S.	46,160	24	0.1
Non-U.S.	14,812	53	0.7
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	214,927	(3)	
Non-U.S.	93,836	608	1.3
Other:			
U.S.	43,273	703	3.3
Non-U.S.	17,400	240	2.8
Total	$ 718,390	$ 3,820	1.1%
Non-interest earning assets	136,894		
Total assets	$ 855,284		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 62,809	$ 126	0.4%
Non-U.S.	865		
Commercial paper and other short-term borrowings:			
U.S.	1,040	4	0.8
Non-U.S.	2,207	14	1.3
Long-term debt:			
U.S.	186,742	2,589	2.8
Non-U.S.	7,049	15	0.4
Financial instruments sold, not yet purchased(1):			
U.S.	29,792		
Non-U.S.	67,662		
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	115,917	378	0.7
Non-U.S.	80,972	777	1.9
Other:			
U.S.	87,898	(365)	(0.8)
Non-U.S.	36,370	344	1.9
Total	$ 679,323	$ 3,882	1.2
Non-interest bearing liabilities and equity	175,961		

Total liabilities and equity	$ 855,284		
Net interest income and net interest rate spread		$ (62)	(0.1)%

(1) Interest expense on Financial instruments sold, not yet purchased is reported as a reduction of Interest income on Financial instruments owned.

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FINANCIAL DATA SUPPLEMENT (Unaudited) Continued

Rate/Volume Analysis

The following tables set forth an analysis of the effect on net interest income of volume and rate changes:

	Three Months Ended June 30, 2012 versus Three Months Ended June 30, 2011		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
		(dollars in millions)	
Interest earning assets			
Financial instruments owned:			
U.S.	$ 42	$ (99)	$ (57)
Non-U.S.	(133)	(74)	(207)
Securities available for sale:			
U.S.	18	(38)	(20)
Loans:			
U.S.	43	10	53
Non-U.S.	4	(1)	3
Interest bearing deposits with banks:			
U.S.	(5)	1	(4)
Non-U.S.	(7)	(8)	(15)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	8	(9)	(1)
Non-U.S.	28	(311)	(283)
Other:			
U.S.	34	(315)	(281)
Non-U.S.	3	171	174
Change in interest income	$ 35	$ (673)	$ (638)
Interest bearing liabilities			
Deposits:			
U.S.	$ 2	$ (17)	$ (15)
Commercial paper and other short-term borrowings:			
U.S.	(2)	1	(1)
Non-U.S.	(2)	3	1
Long-term debt:			
U.S.	(158)	(61)	(219)
Non-U.S.		14	14
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(34)	86	52
Non-U.S.	(120)	(85)	(205)
Other:			
U.S.	12	(303)	(291)
Non-U.S.	(16)	135	119
Change in interest expense	$ (318)	$ (227)	$ (545)
Change in net interest income	$ 353	$ (446)	$ (93)

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FINANCIAL DATA SUPPLEMENT (Unaudited) Continued

	Six Months Ended June 30, 2012 versus Six Months Ended June 30, 2011		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
	(dollars in millions)		
Interest earning assets			
Financial instruments owned:			
U.S.	$ 104	$ (260)	$ (156)
Non-U.S.	(178)	(58)	(236)
Securities available for sale:			
U.S.	34	(63)	(29)
Loans:			
U.S.	75	19	94
Non-U.S.	3	1	4
Interest bearing deposits with banks:			
U.S.	(10)	(1)	(11)
Non-U.S.	(10)	(5)	(15)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.		(92)	(92)
Non-U.S.	50	(404)	(354)
Other:			
U.S.	108	(430)	(322)
Non-U.S.	(16)	178	162
Change in interest income	$ 160	$ (1,115)	$ (955)
Interest bearing liabilities			
Deposits:			
U.S.	$ 6	$ (42)	$ (36)
Commercial paper and other short-term borrowings:			
U.S.	(2)	1	(1)
Non-U.S.	(1)	8	7
Long-term debt:			
U.S.	(247)	(36)	(283)
Non-U.S.		20	20
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	(67)	103	36
Non-U.S.	(188)	(11)	(199)
Other:			
U.S.	24	(493)	(469)
Non-U.S.	(16)	144	128
Change in interest expense	$ (491)	$ (306)	$ (797)
Change in net interest income	$ 651	$ (809)	$ (158)

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Part II Other Information.

Item 1. Legal Proceedings.

In addition to the matters described in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (the Form 10-K), the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (the First Quarter Form 10-Q) and those 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 entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company s business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions 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 condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income.

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. The Company cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings could be material to the Company s operating results and cash flows for a particular period depending on, among other things, the level of the Company s revenues or income for such period.

Over the last several years, the level of litigation and investigatory activity focused on residential mortgage and credit crisis related matters has increased materially in the financial services industry. As a result, the Company expects that it may become the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future and, while the Company has identified below certain proceedings that the Company believes to be material, individually or collectively, there can be no assurance that additional material losses will not be incurred from residential mortgage claims that have not yet been notified to the Company or are not yet determined to be material.

The following developments have occurred with respect to certain matters previously reported in the Form 10-K and the First Quarter Form 10-Q or concern new actions that have been filed since the first quarter Form 10-Q:

Residential Mortgage and Credit Crisis Related Matters.

Class Actions.

On July 16, 2012, the court in *In re Morgan Stanley Mortgage Pass-Through Certificate Litigation* denied defendants motion to dismiss the third amended complaint.

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Other Litigation.

On May 4, 2012, the court in *Abu Dhabi Commercial Bank v. Morgan Stanley & Co. Inc., et al.* granted the Company s motion to dismiss claims against the Company for breach of fiduciary duty and negligence, and denied the Company s motion to dismiss claims against the Company for negligent misrepresentation. On July 2, 2012, plaintiffs filed supplemental disclosures with the Court alleging that they are seeking approximately $811 million in compensatory damages. Plaintiffs are also seeking punitive damages.

On May 4, 2012, the court in *King County, Washington, et al. v. IKB Deutsche Industriebank AG, et al.*, granted the Company s motion to dismiss claims against the Company for breach of fiduciary duty and negligence, and denied the Company s motion to dismiss claims against the Company for negligent misrepresentation.

On June 28, 2012, the court in *Federal Home Loan Bank of Chicago v. Bank of America Securities LLC, et al.* overruled defendants demurrer to plaintiff s first amended complaint, which demurrer was limited to statute of limitations and statute of repose grounds.

On May 21, 2012, the Company filed a motion to dismiss the amended complaint in *Western and Southern Life Insurance Company, et al. v. Morgan Stanley Mortgage Capital Inc., et al.*

On July 13, 2012, the Company filed a motion to dismiss the complaint in *Federal Housing Finance Agency, as Conservator v. Morgan Stanley et al*. On May 11, 2012, plaintiff withdrew its motion to remand in that action as well as in *Federal Housing Finance Agency, as Conservator v. General Electric Company et al*.

On June 13, 2012, the Company removed *Federal Deposit Insurance Corporation, as Receiver for Franklin Bank S.S.B v. Morgan Stanley & Company LLC F/K/A Morgan Stanley & Co. Inc.* to the United States District Court for the Southern District of Texas. On June 21, 2012, the Company moved to transfer the action to the United States District Court for the Southern District of New York (the SDNY). On July 12, 2012, plaintiff moved to remand the action to Texas state court.

On April 26, 2012, the Company and other defendants filed a second motion to dismiss the amended complaints in the *Cambridge Place Investment Management Inc. v. Morgan Stanley & Co., Inc., et al.* coordinated cases.

Commercial Mortgage Related Matter.

On January 25, 2011, the Company was named as a defendant in *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc.,* a litigation pending in the SDNY. The suit, brought by the trustee of a series of commercial mortgage pass-through certificates, alleges that the Company breached certain representations and warranties with respect to an $81 million commercial mortgage loan that was originated and transferred to the trust by the Company. The complaint seeks, among other things, to have the Company repurchase the loan and pay additional monetary damages. On June 27, 2011, the court denied the Company s motion to dismiss, but directed the filing of an amended complaint. On July 29, 2011, the Company filed its answer to the first amended complaint. Factual discovery concluded on June 18, 2012. The court has indicated that motions for summary judgment are due to be filed by September 21, 2012.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the quarterly period ended June 30, 2012.

Issuer Purchases of Equity Securities

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs(C)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1				
(April 1, 2012 April 30, 2012)				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	399,581	$ 17.65		
Month #2				
(May 1, 2012 May 31, 2012)				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	33,680	$ 14.51		
Month #3				
(June 1, 2012 June 30, 2012)				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	93,059	$ 13.26		
Total				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	526,320	$ 16.67		

(A) On December 19, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $6 billion of the Company s outstanding stock under a share repurchase program (the Share Repurchase Program). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Company are subject to regulatory approval.

(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares; (3) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units, and (4) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset the cash payment for fractional shares. The Company s employee and director stock compensation plans provide that the value of the shares withheld, delivered or attested shall be valued using the fair market value of the Company s common stock on the date the relevant transaction occurs, using a valuation methodology established by the Company.

(C) Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Company deems appropriate.

Item 6. Exhibits.

An exhibit index has been filed as part of this Report on Page E-1.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORGAN STANLEY

(Registrant)

By: /s/ RUTH PORAT
Ruth Porat

Executive Vice President and

Chief Financial Officer

By: /s/ PAUL C. WIRTH
Paul C. Wirth

Deputy Chief Financial Officer

Date: August 6, 2012

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EXHIBIT INDEX

MORGAN STANLEY

Quarter Ended June 30, 2012

Exhibit No.	Description
4.1	Eighth Supplemental Senior Indenture dated as of May 4, 2012 between Morgan Stanley and The Bank of New York Mellon, as trustee (supplemental to Senior Indenture dated November 1, 2004).
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Earnings to Fixed Charges and Preferred Stock Dividends.
15	Letter of awareness from Deloitte & Touche LLP, dated August 6, 2012, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition June 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Income Three Months and Six Months Ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Comprehensive Income Three Months and Six Months Ended June 30, 2012 and 2011, (iv) the Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2012 and 2011, (v) the Condensed Consolidated Statements of Changes in Total Equity Six Months Ended June 30, 2012 and 2011, and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).