MORGAN STANLEY
Form 10-Q
August 08, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

Delaware	**1585 Broadway**	**36-3145972**	**(212) 761-4000**
(State or other jurisdiction of incorporation or organization)	**New York, NY 10036**	(I.R.S. Employer Identification No.)	(Registrant s telephone number, including area code)
	(Address of principal executive offices, including zip code)		

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 31, 2011, there were 1,927,916,237 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended June 30, 2011

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AVAILABLE INFORMATION

Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Morgan Stanley) file electronically with the SEC. Morgan Stanley s electronic SEC filings are available to the public at the SEC s internet site, *www.sec.gov*.

Morgan Stanley s internet site is *www.morganstanley.com*. You can access Morgan Stanley s Investor Relations webpage at *www.morganstanley.com/about/ir*. Morgan Stanley makes available free of charge, on or through its Investor Relations webpage, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Morgan Stanley also makes available, through its Investor Relations webpage, via a link to the SEC s internet site, statements of beneficial ownership of Morgan Stanley s equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

Morgan Stanley has a Corporate Governance webpage. You can access information about Morgan Stanley s corporate governance at *www.morganstanley.com/about/company/governance*. Morgan Stanley posts the following on its Corporate Governance webpage:

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;
- Charters for its Audit Committee; Compensation, Management Development and Succession Committee; Nominating and Governance Committee; Operations and Technology Committee; and Risk Committee:
- Corporate Governance Policies;
- Policy Regarding Communication with the Board of Directors;
- Policy Regarding Director Candidates Recommended by Shareholders;
- Policy Regarding Corporate Political Contributions;
- Policy Regarding Shareholder Rights Plan;
- Code of Ethics and Business Conduct;
- Code of Conduct; and

Integrity Hotline information.

Morgan Stanley s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer, Chief Financial Officer and Deputy Chief Financial Officer. Morgan Stanley will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC (NYSE) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, 1585 Broadway, New York, NY 10036 (212-761-4000). The information on Morgan Stanley s internet site is not incorporated by reference into this report.

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Part I Financial Information.

Item 1. Financial Statements.

MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in millions, except share data)

(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks ($254 and $297 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities generally not available to the Company)	$ 9,066	$ 7,341
Interest bearing deposits with banks	41,681	40,274
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	25,504	19,180
Financial instruments owned, at fair value (approximately $122,209 and $129,969 were pledged to various parties at June 30, 2011 and December 31, 2010, respectively):		
U.S. government and agency securities	35,676	48,446
Other sovereign government obligations	39,172	33,908
Corporate and other debt ($4,005 and $3,816 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	89,159	88,154
Corporate equities ($100 and $625 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	66,053	68,416
Derivative and other contracts	46,167	51,292
Investments ($2,012 and $1,873 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	9,020	9,752
Physical commodities	9,551	6,778
Total financial instruments owned, at fair value	294,798	306,746
Securities available for sale, at fair value	24,306	29,649
Securities received as collateral, at fair value	15,862	16,537
Federal funds sold and securities purchased under agreements to resell	180,990	148,253
Securities borrowed	132,092	138,730
Receivables:		
Customers	39,142	35,258
Brokers, dealers and clearing organizations	9,439	9,102
Fees, interest and other	9,911	9,790
Loans (net of allowances of $36 and $82 at June 30, 2011 and December 31, 2010, respectively)	12,476	10,576
Other investments	4,831	5,412
Premises, equipment and software costs (net of accumulated depreciation of $4,524 and $4,476 at June 30, 2011 and December 31, 2010, respectively) ($310 and $321 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,399	6,154
Goodwill	6,744	6,739
Intangible assets (net of accumulated amortization of $779 and $605 at June 30, 2011 and December 31, 2010, respectively) (includes $133 and $157 at fair value at June 30, 2011 and December 31, 2010, respectively)	4,474	4,667
Other assets ($371 and $118 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	13,032	13,290

Total assets	$ 830,747	$ 807,698

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

(dollars in millions, except share data)

(unaudited)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Deposits (includes $2,830 and $3,027 at fair value at June 30, 2011 and December 31, 2010, respectively)	$ 65,525	$ 63,812
Commercial paper and other short-term borrowings (includes $1,710 and $1,799 at fair value at June 30, 2011 and December 31, 2010, respectively)	3,566	3,256
Financial instruments sold, not yet purchased, at fair value:		
U.S. government and agency securities	27,520	27,948
Other sovereign government obligations	22,479	22,250
Corporate and other debt	9,166	10,918
Corporate equities	27,618	19,838
Derivative and other contracts	41,113	47,802
Total financial instruments sold, not yet purchased, at fair value	127,896	128,756
Obligation to return securities received as collateral, at fair value	20,741	21,163
Securities sold under agreements to repurchase (includes $358 and $849 at fair value at June 30, 2011 and December 31, 2010, respectively)	133,707	147,598
Securities loaned	35,375	29,094
Other secured financings (includes $16,632 and $8,490 at fair value at June 30, 2011 and December 31, 2010, respectively) ($3,157 and $2,656 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	22,476	10,453
Payables:		
Customers	133,372	123,249
Brokers, dealers and clearing organizations	5,178	3,363
Interest and dividends	3,066	2,572
Other liabilities and accrued expenses ($132 and $117 at June 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	15,596	16,518
Long-term borrowings (includes $43,434 and $42,709 at fair value at June 30, 2011 and December 31, 2010, respectively)	196,106	192,457
	762,604	742,291
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders equity:		
Preferred stock	1,508	9,597
Common stock, $0.01 par value;		
Shares authorized: 3,500,000,000 at June 30, 2011 and December 31, 2010;		
Shares issued: 1,989,377,171 at June 30, 2011 and 1,603,913,074 at December 31, 2010;		
Shares outstanding: 1,929,032,583 at June 30, 2011 and 1,512,022,095 and December 31, 2010	20	16
Paid-in capital	22,346	13,521
Retained earnings	38,637	38,603
Employee stock trust	3,385	3,465
Accumulated other comprehensive loss	(320)	(467)
Common stock held in treasury, at cost, $0.01 par value; 60,344,588 shares at June 30, 2011 and 91,890,979 shares at December 31, 2010	(2,484)	(4,059)

Common stock issued to employee trust	(3,385)	(3,465)
Total Morgan Stanley shareholders equity	59,707	57,211
Noncontrolling interests	8,436	8,196
Total equity	68,143	65,407
Total liabilities and equity	$ 830,747	$ 807,698

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except share and per share data)

(unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Investment banking	$ 1,695	$ 1,080	$ 2,909	$ 2,140
Principal transactions:				
Trading	3,485	3,353	6,462	7,111
Investments	402	(52)	731	317
Commissions	1,291	1,308	2,740	2,568
Asset management, distribution and administration fees	2,206	1,974	4,315	3,937
Other	275	159	(169)	453
Total non-interest revenues	9,354	7,822	16,988	16,526
Interest income	1,957	1,747	3,811	3,483
Interest expense	2,029	1,606	3,882	2,974
Net interest	(72)	141	(71)	509
Net revenues	9,282	7,963	16,917	17,035
Non-interest expenses:				
Compensation and benefits	4,675	3,886	9,008	8,302
Occupancy and equipment	401	401	803	791
Brokerage, clearing and exchange fees	416	371	821	719
Information processing and communications	448	416	893	811
Marketing and business development	154	153	301	287
Professional services	494	496	922	891
Other	750	537	1,353	1,016
Total non-interest expenses	7,338	6,260	14,101	12,817
Income from continuing operations before income taxes	1,944	1,703	2,816	4,218
Provision for income taxes	542	240	286	676
Income from continuing operations	1,402	1,463	2,530	3,542
Discontinued operations:				
Gain from discontinued operations	5	866	6	767
Provision for income taxes	1	345		314
Net gain from discontinued operations	4	521	6	453
Net income	$ 1,406	$ 1,984	$ 2,536	$ 3,995
Net income applicable to noncontrolling interests	213	24	375	259

Net income applicable to Morgan Stanley	$ 1,193	$ 1,960	$ 2,161	$ 3,736
Earnings (loss) applicable to Morgan Stanley common shareholders	$ (558)	$ 1,578	$ 188	$ 2,990
Amounts applicable to Morgan Stanley:				
Income from continuing operations	$ 1,189	$ 1,439	$ 2,155	$ 3,283
Net gain from discontinued operations	4	521	6	453
Net income applicable to Morgan Stanley	$ 1,193	$ 1,960	$ 2,161	$ 3,736
Earnings (loss) per basic common share:				
Income (loss) from continuing operations	$ (0.38)	$ 0.84	$ 0.12	$ 1.96
Net gain from discontinued operations		0.36	0.01	0.31
Earnings (loss) per basic common share	$ (0.38)	$ 1.20	$ 0.13	$ 2.27
Earnings (loss) per diluted common share:				
Income (loss) from continuing operations	$ (0.38)	$ 0.80	$ 0.12	$ 1.82
Net gain from discontinued operations		0.29	0.01	0.26
Earnings (loss) per diluted common share	$ (0.38)	$ 1.09	$ 0.13	$ 2.08
Average common shares outstanding:				
Basic	1,464,295,984	1,317,686,493	1,460,155,981	1,316,147,257
Diluted	1,464,295,984	1,748,208,948	1,477,572,132	1,687,528,753

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

(unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 1,406	$ 1,984	$ 2,536	$ 3,995
Other comprehensive income, net of tax:				
Foreign currency translation adjustments(1)	94	35	131	37
Amortization of cash flow hedges(2)	3	2	4	5
Net unrealized gain on Securities available for sale(3)	50	107	14	87
Pension, postretirement and other related adjustments(4)	2	105	7	109
Comprehensive income	$ 1,555	$ 2,233	$ 2,692	$ 4,233
Net income applicable to noncontrolling interests	213	24	375	259
Other comprehensive income applicable to noncontrolling interests	43	44	9	32
Comprehensive income applicable to Morgan Stanley	$ 1,299	$ 2,165	$ 2,308	$ 3,942

(1) Amounts are net of provision for (benefit from) income taxes of $(68) million and $(19) million for the quarters ended June 30, 2011 and 2010, respectively, and $(136) million and $70 million for the six months ended June 30, 2011 and 2010, respectively.

(2) Amounts are net of provision for income taxes of $2 million for the quarter ended June 30, 2010, and $2 million and $3 million for the six months ended June 30, 2011 and 2010, respectively.

(3) Amounts are net of provision for income taxes of $34 million and $90 million for the quarters ended June 30, 2011 and 2010, respectively, and $10 million and $76 million for the six months ended June 30, 2011 and 2010, respectively.

(4) Amounts are net of provision for income taxes of $4 million and $66 million for the quarters ended June 30, 2011 and 2010, respectively, and $68 million for the six months ended June 30, 2010.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

(unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,536	$ 3,995
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
(Gain) loss on equity method investees	725	(78)
Compensation payable in common stock and options	728	671
Depreciation and amortization	759	1,191
Gain on business dispositions		(514)
Gain on sale of securities available for sale	(94)	
Loss on repurchase of long-term debt	31	
Insurance reimbursement		(88)
Loss on assets held for sale		951
Impairment charges and other-than-temporary impairment charges	3	27
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(6,324)	1,782
Financial instruments owned, net of financial instruments sold, not yet purchased	22,984	7,242
Securities borrowed	6,638	(11,358)
Securities loaned	6,281	278
Receivables, loans and other assets	(6,271)	343
Payables and other liabilities	13,458	872
Federal funds sold and securities purchased under agreements to resell	(32,737)	(1,654)
Securities sold under agreements to repurchase	(13,891)	25,733
Net cash provided by (used for) operating activities	(5,174)	29,393
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (payments for):		
Premises, equipment and software costs	(725)	(436)
Business acquisitions, net of cash acquired		(1,028)
Business dispositions, net of cash disposed		800
Japanese securities joint venture with MUFG		283
Purchases of securities available for sale	(8,632)	(19,233)
Sales and redemptions of securities available for sale	14,245	
Net cash provided by (used for) investing activities	4,888	(19,614)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Commercial paper and other short-term borrowings	310	1,457
Dividends related to noncontrolling interests	(153)	(14)
Derivatives financing activities	146	(64)
Other secured financings	3,176	(367)
Deposits	1,713	(847)
Net proceeds from:		
Excess tax benefits associated with stock-based awards	29	3
Public offerings and other issuances of common stock		2
Issuance of long-term borrowings	22,596	13,757
Payments for:		
Long-term borrowings	(24,192)	(17,570)

Repurchases of common stock for employee tax withholding	(283)	(275)
Cash dividends	(594)	(582)
Net cash provided by (used for) financing activities	2,748	(4,500)
Effect of exchange rate changes on cash and cash equivalents	416	(923)
Effect of cash and cash equivalents related to variable interest entities	254	
Net increase in cash and cash equivalents	3,132	4,356
Cash and cash equivalents, at beginning of period	47,615	31,991
Cash and cash equivalents, at end of period	$ 50,747	$ 36,347
Cash and cash equivalents include:		
Cash and due from banks	$ 9,066	$ 8,770
Interest bearing deposits with banks	41,681	27,577
Cash and cash equivalents, at end of period	$ 50,747	$ 36,347

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $3,144 million and $3,302 million for the six months ended June 30, 2011 and 2010, respectively.

Cash payments for income taxes were $530 million and $236 million for the six months ended June 30, 2011 and 2010, respectively.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

Six Months Ended June 30, 2011

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2010	$ 9,597	$ 16	$ 13,521	$ 38,603	$ 3,465	$ (467)	$ (4,059)	$ (3,465)	$ 8,196	$ 65,407
Net income				2,161					375	2,536
Dividends				(401)						(401)
Shares issued under employee plans and related tax effects			(1,072)		(80)		1,858	80		786
Repurchases of common stock							(283)			(283)
Net change in cash flow hedges						4				4
Pension, postretirement and other related adjustments						7				7
Foreign currency translation adjustments						122			9	131
Change in net unrealized gains on securities available for sale						14				14
Other increase in equity method investments			86							86
MUFG stock conversion	(8,089)	4	9,811	(1,726)						
Decrease in noncontrolling interests related to dividends of noncontrolling interests									(153)	(153)
Other increases in noncontrolling interests									9	9
BALANCE AT JUNE 30, 2011	$ 1,508	$ 20	$ 22,346	$ 38,637	$ 3,385	$ (320)	$ (2,484)	$ (3,385)	$ 8,436	$ 68,143

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY (Continued)

Six Months Ended June 30, 2010

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2009	$ 9,597	$ 15	$ 8,619	$ 35,056	$ 4,064	$ (560)	$ (6,039)	$ (4,064)	$ 6,092	$ 52,780
Net income				3,736					259	3,995
Dividends				(582)						(582)
Shares issued under employee plans and related tax effects			(1,687)		(398)		2,210	398		523
Repurchases of common stock							(275)			(275)
Net change in cash flow hedges						5				5
Pension and postretirement adjustments						109				109
Foreign currency translation adjustments						5			32	37
Gain on Japanese securities joint venture with MUFG			717							717
Change in net unrealized gains on securities available for sale						87				87
Increase in noncontrolling interests related to Japanese securities joint venture with MUFG									1,130	1,130
Increase in noncontrolling interests related to the consolidation of certain real estate partnerships sponsored by the Company									468	468
Decrease in noncontrolling interests related to dividends of noncontrolling interests									(14)	(14)
Other increases in noncontrolling interests									179	179
BALANCE AT JUNE 30, 2010	$ 9,597	$ 15	$ 7,649	$ 38,210	$ 3,666	$ (354)	$ (4,104)	$ (3,666)	$ 8,146	$ 59,159

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

The Company. Morgan Stanley, a financial holding company, is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management. Unless the context otherwise requires, the terms Morgan Stanley and the Company mean Morgan Stanley and its consolidated subsidiaries.

A summary of the activities of each of the Company s business segments is as follows:

Institutional Securities provides capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign exchange and commodities; and investment activities.

Global Wealth Management Group, which includes the Company s 51% interest in Morgan Stanley Smith Barney Holdings LLC (MSSB), provides brokerage and investment advisory services to individual investors and small-to-medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income principal trading, which primarily facilitates clients trading or investments in such securities.

Asset Management provides a broad array of investment strategies that span the risk/return spectrum across geographies, asset classes and public and private markets to a diverse group of clients across the institutional and intermediary channels as well as high net worth clients (see Discontinued Operations Retail Asset Management Business herein).

Discontinued Operations.

Retail Asset Management Business. On June 1, 2010, the Company completed the sale of substantially all of its retail asset management business (Retail Asset Management), including Van Kampen Investments, Inc., to Invesco Ltd. (Invesco). The Company received $800 million in cash and approximately 30.9 million shares of Invesco stock upon the sale. The results of Retail Asset Management are reported as discontinued operations within the Asset Management business segment for all periods presented through the date of sale. The Company recorded the 30.9 million shares as securities available for sale. In the fourth quarter of 2010, the Company sold its investment in Invesco.

Revel Entertainment Group, LLC. On March 31, 2010, the Board of Directors authorized a plan of disposal by sale for Revel Entertainment Group, LLC (Revel), a development stage enterprise and subsidiary of the Company that was primarily associated with a development property in Atlantic City, New Jersey. On February 17, 2011, the Company completed the sale of Revel to a group of investors led by Revel s chief executive officer. The Company did not retain any stake or ongoing involvement. The sale price approximated the carrying value of Revel and, accordingly, the Company did not recognize any pre-tax gain or loss on the sale. Total assets of Revel included in the Company s condensed consolidated statement of financial condition at December 31, 2010 approximated $28 million. The results of Revel are reported as discontinued operations within the Institutional Securities business segment for all periods presented through the date of sale. The three and six months ended June 30, 2010 included losses of approximately $19 million and $951 million, respectively, in connection with such planned disposition. See Note 17 for additional information about an income tax benefit related to Revel.

CityMortgage Bank. In the third quarter of 2010, the Company completed the disposal of CityMortgage Bank (CMB), a Moscow-based mortgage bank. The results of CMB are reported as discontinued operations for all periods presented through the date of disposal within the Institutional Securities business segment.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other. In the third quarter of 2010, the Company completed a disposal of a real estate property within the Asset Management business segment. The results of operations are reported as discontinued operations for all periods presented through the date of disposal.

Discover. On June 30, 2007, the Company completed the spin-off of its business segment Discover Financial Services (DFS) to its shareholders. On February 11, 2010, DFS paid the Company $775 million in complete satisfaction of its obligations to the Company regarding the sharing of proceeds from a lawsuit against Visa and MasterCard. The payment was recorded as a gain in discontinued operations for the six months ended June 30, 2010.

Prior period amounts have been recast for discontinued operations. See Note 20 for additional information on discontinued operations.

Basis of Financial Information. The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill, compensation, deferred tax assets, the outcome of litigation and tax matters, and other matters that affect the condensed consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the condensed consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

At June 30, 2011, the Company recorded approximately $5.6 billion in Financial instruments owned Corporate and other debt, $3.4 billion of physical commodities within Financial instruments owned Physical commodities, and $9.0 billion of financing obligations within Other secured financing in the condensed consolidated statements of financial condition in connection with certain physical commodities swap transactions. Prior to June 30, 2011, the Company accounted for these types of transfers of assets as sales and purchases instead of financings. There was no impact on the Company s results of operations in any period presented as a result of this change. The Company did not restate the balances in connection with such transactions at December 31, 2010 as amounts did not materially affect the Company s condensed consolidated statement of financial condition.

Material intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the Form 10-K). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Consolidation. The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest, including certain variable interest entities (VIE) (see Note 6). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The portion of net income attributable to noncontrolling interests for such subsidiaries is presented as Net income (loss) applicable to noncontrolling interests in the condensed consolidated statements of income, and the portion of the shareholders equity of such subsidiaries is presented as Noncontrolling interests in the condensed consolidated statements of financial condition and condensed consolidated statements of changes in total equity.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Company consolidates those entities it controls either through a majority voting interest or otherwise. For entities that do not meet these criteria, commonly known as VIEs, the Company consolidates those entities where the Company has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that are money market funds, investment companies or are entities qualifying for accounting purposes as investment companies. Generally, the Company consolidates those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For investments in entities in which the Company does not have a controlling financial interest but has significant influence over operating and financial decisions, the Company generally applies the equity method of accounting with net gains and losses recorded within Other revenues. Where the Company has elected to measure certain eligible investments at fair value in accordance with the fair value option, net gains and losses are recorded within Principal transactions Investments (see Note 3).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies are carried at fair value.

The Company s significant regulated U.S. and international subsidiaries include Morgan Stanley & Co. LLC (MS&Co.), Morgan Stanley Smith Barney LLC, Morgan Stanley & Co. International plc (MSIP), Morgan Stanley MUFG Securities, Co., Ltd. (MSMS), Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association and Morgan Stanley Investment Advisors Inc.

Income Statement Presentation. The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. In connection with the delivery of the various products and services to clients, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in its Institutional Securities business segment, the Company considers its principal trading, investment banking, commissions and interest income, along with the associated interest expense, as one integrated activity.

2. Significant Accounting Policies.

For a detailed discussion about the Company s significant accounting policies, see Note 2 to the consolidated financial statements for the year ended December 31, 2010 included in the Form 10-K.

During the six months ended June 30, 2011, other than the following, no other updates were made to the Company s significant accounting policies.

Financial Instruments and Fair Value.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthinness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

model derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions. The Company applies credit-related valuation adjustments to its short-term and long-term borrowings (primarily structured notes) for which the fair value option was elected and to OTC derivatives. The Company considers the impact of changes in its own credit spreads based upon observations of the Company s secondary bond market spreads when measuring the fair value for short-term and long-term borrowings. For OTC derivatives, the impact of changes in both the Company s and the counterparty s credit standing is considered when measuring fair value. In determining the expected exposure, the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap (CDS) spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty s credit rating or CDS spread data that reference a comparable counterparty may be utilized. The Company also considers collateral held and legally enforceable master netting agreements that mitigate the Company s exposure to each counterparty. Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter. The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk position. Where possible, these adjustments are based on observable market information but in many instances significant judgment is required to estimate the costs of closing out concentrated risk positions due to the lack of liquidity in the marketplace.

Allowance for Loan Losses.

The Company places loans on nonaccrual status if principal or interest is past due for a period of 90 days or more or payment of principal or interest is in doubt unless the obligation is well secured and in the process of collection. Payments received on nonaccrual loans held for investment are applied to principal if there is doubt regarding the ultimate collectability of principal (cost recovery method). If collection of the principal of nonaccrual loans held for investment is not in doubt, interest income is recognized on a cash basis. If neither principal nor interest collection is in doubt, loans are on accrual status and interest income is recognized using the effective interest method.

Condensed Consolidated Statements of Cash Flows.

For purposes of the condensed consolidated statements of cash flows, cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks, which are highly liquid investments with original maturities of three months or less and readily convertible to known amounts of cash, and are held for investment purposes. At June 30, 2011, Mitsubishi UFJ Financial Group, Inc. (MUFG) and the Company converted MUFG s outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (Series B Preferred Stock) in the Company with a face value of $7.8 billion (carrying value $8.1 billion) into the Company s common stock. As a result of the adjustment to the conversion ratio, pursuant to the transaction agreement, the Company incurred a one-time, non-cash negative adjustment of approximately $1.7 billion in its calculation of basic and diluted earnings per share during the quarter and six months ended June 30, 2011 (see Note 13). In addition, in the six months ended June 30, 2010, the Company s significant non-cash activities include assets acquired of approximately $0.4 billion and assumed liabilities of approximately $0.1 billion in connection with a business acquisition and approximately $0.6 billion of equity securities received in connection with the sale of Retail Asset Management.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting Developments.

Goodwill Impairment Test.

In December 2010, the Financial Accounting Standards Board (the FASB) issued accounting guidance that modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity shall consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance. This guidance became effective for the Company on January 1, 2011. The adoption of this accounting guidance did not have a material impact on the Company s condensed consolidated financial statements.

3. Fair Value Disclosures.

Fair Value Measurements.

A description of the valuation techniques applied to the Company s major categories of assets and liabilities measured at fair value on a recurring basis follows.

Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased.

U.S. Government and Agency Securities.

U.S. Treasury Securities. U.S. Treasury securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy.

U.S. Agency Securities. U.S. agency securities are composed of three main categories consisting of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations. Non-callable agency-issued debt securities are generally valued using quoted market prices. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of the comparable To-be-announced (TBA) security. Collateralized mortgage obligations are valued using indices, quoted market prices and trade data for identical or comparable securities. Actively traded non-callable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through pool securities and collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy.

Other Sovereign Government Obligations.

Foreign sovereign government obligations are valued using quoted prices in active markets when available. To the extent quoted prices are not available, fair value is determined based on a valuation model that has as inputs interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the bond in terms of issuer, maturity and seniority. These bonds are generally categorized in Level 1 or Level 2 of the fair value hierarchy.

Corporate and Other Debt.

State and Municipal Securities. The fair value of state and municipal securities is determined using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

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Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and other Asset-Backed Securities (ABS). RMBS, CMBS and other ABS may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers. When position-specific external price data are not observable, the fair value determination may require benchmarking to similar instruments and/or analyzing expected credit losses, default and recovery rates. In evaluating the fair value of each security, the Company considers security collateral-specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity. In addition, for RMBS borrowers, Fair Isaac Corporation (FICO) scores and the level of documentation for the loan are also considered. Market standard models, such as Intex, Trepp or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, default and prepayment rates for each asset category. Valuation levels of RMBS and CMBS indices are also used as an additional data point for benchmarking purposes or to price outright index positions.

RMBS, CMBS and other ABS are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs, then RMBS, CMBS and other ABS are categorized in Level 3 of the fair value hierarchy.

Corporate Bonds. The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name credit default swap spreads and recovery rates as significant inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where prices, spreads or any of the other aforementioned key inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Collateralized Debt Obligations (CDO). The Company holds cash CDOs that typically reference a tranche of an underlying synthetic portfolio of single name credit default swaps. The collateral is usually ABS or other corporate bonds. Credit correlation, a primary input used to determine the fair value of a cash CDO, is usually unobservable and derived using a benchmarking technique. The other model inputs such as credit spreads, including collateral spreads, and interest rates are typically observable. CDOs are categorized in Level 2 of the fair value hierarchy when the credit correlation input is insignificant. In instances where the credit correlation input is deemed to be significant, these instruments are categorized in Level 3 of the fair value hierarchy.

Corporate Loans and Lending Commitments. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Corporate loans and lending commitments are categorized in Level 2 of the fair value hierarchy except in instances where prices or significant spread inputs are unobservable, in which case they are categorized in Level 3 of the fair value hierarchy.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Mortgage Loans. Mortgage loans are valued using observable prices based on transactional data or third party pricing for identical or comparable instruments, when available. Where observable prices are not available, the Company estimates fair value based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions. Mortgage loans valued based on observable market data for identical or comparable instruments are categorized in Level 2 of the fair value hierarchy. Where observable prices are not available, due to the subjectivity involved in the comparability assessment related to mortgage loan vintage, geographical concentration, prepayment speed and projected loss assumptions, mortgage loans are categorized in Level 3 of the fair value hierarchy.

Auction Rate Securities (ARS). The Company primarily holds investments in Student Loan Auction Rate Securities (SLARS) and Municipal Auction Rate Securities (MARS) with interest rates that are reset through periodic auctions. SLARS are ABS backed by pools of student loans. MARS are municipal bonds often wrapped by municipal bond insurance. ARS were historically traded and valued as floating rate notes, priced at par due to the auction mechanism. Beginning in fiscal 2008, uncertainties in the credit markets have resulted in auctions failing for certain types of ARS. Once the auctions failed, ARS could no longer be valued using observations of auction market prices. Accordingly, the fair value of ARS is determined using independent external market data where available and an internally developed methodology to discount for the lack of liquidity and non-performance risk.

Inputs that impact the valuation of SLARS are independent external market data, the underlying collateral types, level of seniority in the capital structure, amount of leverage in each structure, credit rating and liquidity considerations. Inputs that impact the valuation of MARS are independent external market data when available, the maximum rate, quality of underlying issuers/insurers and evidence of issuer calls. ARS are generally categorized in Level 2 of the fair value hierarchy as the valuation technique relies on observable external data.

Corporate Equities.

Exchange-Traded Equity Securities. Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy; otherwise, they are categorized in Level 2 or Level 3 of the fair value hierarchy.

Derivative and Other Contracts.

Listed Derivative Contracts. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives; they are generally categorized in Level 2 of the fair value hierarchy.

OTC Derivative Contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model,

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and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy.

Other derivative products, including complex products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. This includes derivative interests in certain mortgage-related CDO securities, certain types of ABS credit default swaps, basket credit default swaps and CDO-squared positions (a CDO-squared position is a special purpose vehicle that issues interests, or tranches, that are backed by tranches issued by other CDOs) where direct trading activity or quotes are unobservable. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy.

Derivative interests in complex mortgage-related CDOs and ABS credit default swaps, for which observability of external price data is extremely limited, are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each position is evaluated independently taking into consideration the underlying collateral performance and pricing, behavior of the tranche under various cumulative loss and prepayment scenarios, deal structures (*e.g.*, non-amortizing reference obligations, call features, etc.) and liquidity. While these factors may be supported by historical and actual external observations, the determination of their value as it relates to specific positions nevertheless requires significant judgment.

For basket credit default swaps and CDO-squared positions, the correlation input between reference credits is unobservable for each specific swap or position and is benchmarked to standardized proxy baskets for which correlation data are available. The other model inputs such as credit spread, interest rates and recovery rates are observable. In instances where the correlation input is deemed to be significant, these instruments are categorized in Level 3 of the fair value hierarchy; otherwise, these instruments are categorized in Level 2 of the fair value hierarchy.

The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier price curves, implied volatility of the underlying commodities and, in some cases, the implied correlation between these inputs. The fair value of these products is determined using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and data points, based on historic and/or implied observations, are employed as a technique to estimate the model input values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

For further information on derivative instruments and hedging activities, see Note 10.

Investments.

The Company s investments include investments in private equity funds, real estate funds and hedge funds (which include investments made in connection with certain employee deferred compensation plans) as well as direct investments in equity securities. Direct investments are presented in the fair value hierarchy table as Principal investments and Other. Initially, the transaction price is generally considered by the Company as the exit price and is the Company s best estimate of fair value.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

After initial recognition, in determining the fair value of internally and externally managed funds, the Company generally considers the net asset value of the fund provided by the fund manager to be the best estimate of fair value. For non-exchange-traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Exchange-traded direct equity investments are generally valued based on quoted prices from the exchange.

Exchange-traded direct equity investments that are actively traded are categorized in Level 1 of the fair value hierarchy. Non-exchange-traded direct equity investments and investments in private equity and real estate funds are generally categorized in Level 3 of the fair value hierarchy. Investments in hedge funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

Physical Commodities.

The Company trades various physical commodities, including crude oil and refined products, natural gas, base and precious metals and agricultural products. Fair value for physical commodities is determined using observable inputs, including broker quotations and published indices. Physical commodities are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Securities Available for Sale.

Securities available for sale are composed of U.S. government and agency securities, including U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and collateralized mortgage obligations. Actively traded U.S. Treasury securities and non-callable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through securities and collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy. For further information on securities available for sale, see Note 4.

Deposits.

Time Deposits. The fair value of certificates of deposit is determined using third-party quotations. These deposits are generally categorized in Level 2 of the fair value hierarchy.

Commercial Paper and Other Short-term Borrowings/Long-term Borrowings.

Structured Notes. The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices that the notes are linked to, interest rate yield curves, option volatility and currency, commodity or equity rates. Independent, external and traded prices for the notes are also considered. The impact of the Company s own credit spreads is also included based on the Company s observed secondary bond market spreads. Most structured notes are categorized in Level 2 of the fair value hierarchy.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities Sold under Agreements to Repurchase.

In 2010, the fair value option was elected for certain securities sold under agreements to repurchase. The fair value of a repurchase agreement is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities. In instances where the unobservable inputs are deemed significant, repurchase agreements are categorized in Level 3 of the fair value hierarchy; otherwise, they are categorized in Level 2 of the fair value hierarchy.

The following fair value hierarchy tables present information about the Company s assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at June 30, 2011
			(dollars in millions)		
Assets					
Financial instruments owned:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 13,062	$ 21	$	$	$ 13,083
U.S. agency securities	2,499	20,092	2		22,593
Total U.S. government and agency securities	15,561	20,113	2		35,676
Other sovereign government obligations	30,743	8,297	132		39,172
Corporate and other debt:					
State and municipal securities		3,166			3,166
Residential mortgage-backed securities		3,025	509		3,534
Commercial mortgage-backed securities		2,586	136		2,722
Asset-backed securities		1,639	298		1,937
Corporate bonds		36,972	1,179		38,151
Collateralized debt obligations		1,932	1,650		3,582
Loans and lending commitments		17,055	10,420		27,475
Other debt		8,429	163		8,592
Total corporate and other debt		74,804	14,355		89,159
Corporate equities(1)	62,535	3,057	461		66,053
Derivative and other contracts:					
Interest rate contracts	1,660	578,414	4,919		584,993
Credit contracts		96,664	15,622		112,286
Foreign exchange contracts		55,956	517		56,473
Equity contracts	1,900	38,839	1,240		41,979
Commodity contracts	5,638	42,934	1,297		49,869
Other		233	312		545
Netting(2)	(8,020)	(720,762)	(11,253)	(59,943)	(799,978)
Total derivative and other contracts	1,178	92,278	12,654	(59,943)	46,167
Investments:					
Private equity funds			2,160		2,160
Real estate funds		7	1,290		1,297
Hedge funds		436	827		1,263
Principal investments	213	228	3,120		3,561
Other	188	26	525		739
Total investments	401	697	7,922		9,020
Physical commodities		8,878	673		9,551
Total financial instruments owned	110,418	208,124	36,199	(59,943)	294,798

Securities available for sale:					
U.S. government and agency securities	9,378	14,928			24,306
Securities received as collateral	15,778	84			15,862
Intangible assets(3)			133		133
Liabilities					
Deposits	$	$ 2,830	$	$	$ 2,830
Commercial paper and other short-term borrowings		1,687	23		1,710
Financial instruments sold, not yet purchased:					
U.S. government and agency securities:					
U.S. Treasury securities	25,315				25,315
U.S. agency securities	2,191	14			2,205
Total U.S. government and agency securities	27,506	14			27,520
Other sovereign government obligations	19,903	2,576			22,479

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at June 30, 2011
			(dollars in millions)		
Corporate and other debt:					
State and municipal securities		4			4
Residential mortgage-backed securities			41		41
Commercial mortgage-backed securities		18			18
Corporate bonds		7,962	35		7,997
Unfunded lending commitments		669	240		909
Other debt		19	178		197
Total corporate and other debt		8,672	494		9,166
Corporate equities(1)	26,563	1,054	1		27,618
Derivative and other contracts:					
Interest rate contracts	1,560	551,231	4,602		557,393
Credit contracts		93,508	8,230		101,738
Foreign exchange contracts		57,275	473		57,748
Equity contracts	1,758	43,459	2,901		48,118
Commodity contracts	6,196	43,852	981		51,029
Other		612	709		1,321
Netting(2)	(8,020)	(720,762)	(11,253)	(36,199)	(776,234)
Total derivative and other contracts	1,494	69,175	6,643	(36,199)	41,113
Total financial instruments sold, not yet purchased	75,466	81,491	7,138	(36,199)	127,896
Obligation to return securities received as collateral	20,657	84			20,741
Securities sold under agreements to repurchase			358		358
Other secured financings		15,890	742		16,632
Long-term borrowings	12	42,171	1,251		43,434

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.
(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 10.
(3) Amount represents mortgage servicing rights (MSR) accounted for at fair value. See Note 6 for further information on MSRs.

Transfers Between Level 1 and Level 2 During the Quarter Ended June 30, 2011.

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the quarter ended June 30, 2011, the Company reclassified approximately $0.9 billion of derivative assets and approximately $1.3 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

Transfers Between Level 1 and Level 2 During the Six Months Ended June 30, 2011.

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the six months ended June 30, 2011, the Company reclassified approximately $1.1 billion of derivative assets and approximately $0.9 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (dollars in millions)	Counterparty and Cash Collateral Netting	Balance at December 31, 2010
Assets					
Financial instruments owned:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 19,226	$	$	$	$ 19,226
U.S. agency securities	3,827	25,380	13		29,220
Total U.S. government and agency securities	23,053	25,380	13		48,446
Other sovereign government obligations	25,334	8,501	73		33,908
Corporate and other debt:					
State and municipal securities		3,229	110		3,339
Residential mortgage-backed securities		3,690	319		4,009
Commercial mortgage-backed securities		2,692	188		2,880
Asset-backed securities		2,322	13		2,335
Corporate bonds		39,569	1,368		40,937
Collateralized debt obligations		2,305	1,659		3,964
Loans and lending commitments		15,308	11,666		26,974
Other debt		3,523	193		3,716
Total corporate and other debt		72,638	15,516		88,154
Corporate equities(1)	65,009	2,923	484		68,416
Derivative and other contracts:					
Interest rate contracts	3,985	616,016	966		620,967
Credit contracts		95,818	14,316		110,134
Foreign exchange contracts	1	61,556	431		61,988
Equity contracts	2,176	36,612	1,058		39,846
Commodity contracts	5,464	57,528	1,160		64,152
Other		108	135		243
Netting(2)	(8,551)	(761,939)	(7,168)	(68,380)	(846,038)
Total derivative and other contracts	3,075	105,699	10,898	(68,380)	51,292
Investments:					
Private equity funds			1,986		1,986
Real estate funds		8	1,176		1,184
Hedge funds		736	901		1,637
Principal investments	286	486	3,131		3,903
Other(3)	403	79	560		1,042
Total investments	689	1,309	7,754		9,752
Physical commodities		6,778			6,778
Total financial instruments owned	117,160	223,228	34,738	(68,380)	306,746
Securities available for sale:					
U.S. government and agency securities	20,792	8,857			29,649
Securities received as collateral	15,646	890	1		16,537
Intangible assets(4)			157		157

Liabilities					
Deposits	$	$ 3,011	$ 16	$	$ 3,027
Commercial paper and other short-term borrowings		1,797	2		1,799
Financial instruments sold, not yet purchased:					
U.S. government and agency securities:					
U.S. Treasury securities	25,225				25,225
U.S. agency securities	2,656	67			2,723
Total U.S. government and agency securities	27,881	67			27,948
Other sovereign government obligations	19,708	2,542			22,250
Corporate and other debt:					
State and municipal securities		11			11
Asset-backed securities		12			12
Corporate bonds		9,100	44		9,144
Collateralized debt obligations		2			2
Unfunded lending commitments		464	263		727
Other debt		828	194		1,022
Total corporate and other debt		10,417	501		10,918

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2010
			(dollars in millions)		
Corporate equities(1)	19,696	127	15		19,838
Derivative and other contracts:					
Interest rate contracts	3,883	591,378	542		595,803
Credit contracts		87,904	7,722		95,626
Foreign exchange contracts	2	64,301	385		64,688
Equity contracts	2,098	42,242	1,820		46,160
Commodity contracts	5,871	58,885	972		65,728
Other		520	1,048		1,568
Netting(2)	(8,551)	(761,939)	(7,168)	(44,113)	(821,771)
Total derivative and other contracts	3,303	83,291	5,321	(44,113)	47,802
Total financial instruments sold, not yet purchased	70,588	96,444	5,837	(44,113)	128,756
Obligation to return securities received as collateral	20,272	890	1		21,163
Securities sold under agreements to repurchase		498	351		849
Other secured financings		7,474	1,016		8,490
Long-term borrowings		41,393	1,316		42,709

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.
(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 10.
(3) In June 2010, the Company voluntarily contributed $25 million to certain other investments in funds that it manages in connection with upcoming rule changes regarding net asset value disclosures for money market funds. Based on current liquidity and fund performance, the Company does not expect to provide additional voluntary support to non-consolidated funds that it manages.
(4) Amount represents MSRs accounted for at fair value. See Note 6 for further information on MSRs.

Transfers Between Level 1 and Level 2 during the Quarter Ended June 30, 2010.

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the quarter ended June 30, 2010, the Company reclassified approximately $1.5 billion of derivative assets and approximately $1.5 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

Financial instruments owned Corporate equities. During the quarter ended June 30, 2010, the Company reclassified approximately $0.5 billion of certain Corporate equities from Level 2 to Level 1 as transactions in these securities occurred with sufficient frequency and volume to constitute an active market. During the quarter ended June 30, 2010, the Company reclassified approximately $1.0 billion of certain Corporate equities from Level 1 to Level 2 as transactions in these securities did not occur with sufficient frequency and volume to constitute an active market.

Transfers Between Level 1 and Level 2 During the Six Months Ended June 30, 2010.

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the six months ended June 30, 2010, the Company reclassified approximately $1.8 billion of derivative assets and approximately $1.9 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments owned Corporate equities. During the six months ended June 30, 2010, the Company reclassified approximately $1.1 billion of certain Corporate equities from Level 2 to Level 1 as transactions in these securities occurred with sufficient frequency and volume to constitute an active market.

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis.

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter and six months ended June 30, 2011 and for the quarter and six months ended June 30, 2010, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (*e.g.*, changes in market interest rates) and unobservable (*e.g.*, changes in unobservable long-dated volatilities) inputs.

For assets and liabilities that were transferred into Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the period; similarly, for assets and liabilities that were transferred out of Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred out at the beginning of the period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended June 30, 2011

	Beginning Balance at March 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2011	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2011(2)
					(dollars in millions)				
Assets									
Financial instruments owned:									
U.S. agency securities	$ 57	$ 1	$ 29	$ (72)	$	$	$ (13)	$ 2	$
Other sovereign government obligations	126	9		(4)			1	132	9
Corporate and other debt:									
State and municipal securities	4		21	(25)					
Residential mortgage-backed securities	361	(10)	101	(54)			111	509	
Commercial mortgage-backed securities	132	(21)	81	(10)			(46)	136	(1)
Asset-backed securities		259	4				35	298	259
Corporate bonds	1,366	(93)	216	(353)			43	1,179	(57)
Collateralized debt obligations	1,593	17	357	(352)		(19)	54	1,650	14
Loans and lending commitments	11,218	(168)	1,898	(676)		(1,285)	(567)	10,420	(236)
Other debt	165	5	6	(13)				163	1
Total corporate and other debt	14,839	(11)	2,684	(1,483)		(1,304)	(370)	14,355	(20)
Corporate equities	502	11	127	(144)			(35)	461	24
Net derivative and other contracts(3):									
Interest rate contracts	(58)	472	22		(45)	(62)	(12)	317	376
Credit contracts	6,079	1,002	1,089		(109)	(737)	68	7,392	958
Foreign exchange contracts	46	(34)	2			30		44	(39)
Equity contracts	(645)	58	77	(7)	(1,163)	52	(33)	(1,661)	60
Commodity contracts	330	(129)	330		(146)	(99)	30	316	(139)
Other	(508)	(74)	2		(112)	296	(1)	(397)	(81)
Total net derivative and other contracts	5,244	1,295	1,522	(7)	(1,575)	(520)	52	6,011	1,135
Investments:									
Private equity funds	2,006	153	91	(90)				2,160	129
Real estate funds	1,251	81	17	(59)				1,290	148
Hedge funds	871	(17)	20	(120)			73	827	(17)
Principal investments	3,057	182	75	(108)			(86)	3,120	(15)
Other	398	2	2	(3)			126	525	(2)
Total investments	7,583	401	205	(380)			113	7,922	243
Physical commodities		(48)	721					673	(48)
Intangible assets	144	(11)	1			(1)		133	(11)
Liabilities									
Commercial paper and other short-term borrowings	$ 4	$ 7	$	$	$ 29	$ (3)	$	$ 23	$ 7

Financial instruments sold, not yet purchased:									
Corporate and other debt:									
Residential mortgage-backed securities		(13)	(13)	41				41	(13)
Corporate bonds	150	49	(324)	336			(78)	35	60
Collateralized debt obligations	2		(1)				(1)		
Unfunded lending commitments	171	(69)						240	(69)
Other debt	180	13		13			(2)	178	13
Total corporate and other debt	503	(20)	(338)	390			(81)	494	(9)
Corporate equities	9	13	(8)	12			1	1	3
Securities sold under agreements to repurchase	352	(5)			1			358	(5)
Other secured financings	605	(9)			145	(17)		742	(9)
Long-term borrowings	1,374	38			215	(175)	(125)	1,251	20

(1) Total realized and unrealized gains (losses) are primarily included in Principal transactions Trading in the condensed consolidated statements of income except for $401 million related to Financial instruments owned Investments, which is included in Principal transactions Investments.

(2) Amounts represent unrealized gains (losses) for the quarter ended June 30, 2011 related to assets and liabilities still outstanding at June 30, 2011.

(3) Net derivative and other contracts represent Financial instruments owned Derivative and other contracts net of Financial instruments sold, not yet purchased Derivative and other contracts. For further information on Derivative instruments and hedging activities, see Note 10.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments owned Corporate and other debt. During the quarter ended June 30, 2011, the Company reclassified approximately $1.2 billion of certain Corporate and other debt, primarily corporate loans, from Level 3 to Level 2. The Company reclassified the corporate loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $0.8 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Six Months Ended June 30, 2011

	Beginning Balance at December 31, 2010	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2011	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2011(2)
					(dollars in millions)				
Assets									
Financial instruments owned:									
U.S. agency securities	$ 13	$	$ 34	$ (40)	$	$	$ (5)	$ 2	$
Other sovereign government obligations	73	8	56				(5)	132	8
Corporate and other debt:									
State and municipal securities	110	(1)		(96)			(13)		
Residential mortgage-backed securities	319	(62)	279	(193)		(1)	167	509	(71)
Commercial mortgage-backed securities	188	(19)	96	(30)			(99)	136	(18)
Asset-backed securities	13	259	13	(17)			30	298	258
Corporate bonds	1,368	(26)	273	(409)		34	(61)	1,179	42
Collateralized debt obligations	1,659	273	641	(862)		(55)	(6)	1,650	70
Loans and lending commitments	11,666	213	2,321	(537)		(2,038)	(1,205)	10,420	212
Other debt	193		5	(33)			(2)	163	(9)
Total corporate and other debt	15,516	637	3,628	(2,177)		(2,060)	(1,189)	14,355	484
Corporate equities	484	(207)	219	(176)			141	461	1
Net derivative and other contracts(3):									
Interest rate contracts	424	702	19		(704)	(192)	68	317	600
Credit contracts	6,594	388	1,148		(197)	(614)	73	7,392	772
Foreign exchange contracts	46	(159)	1			159	(3)	44	(130)
Equity contracts	(762)	105	119		(1,236)	98	15	(1,661)	96
Commodity contracts	188	165	455		(321)	(281)	110	316	153
Other	(913)	117	2		(116)	428	85	(397)	110
Total net derivative and other contracts	5,577	1,318	1,744		(2,574)	(402)	348	6,011	1,601
Investments:									
Private equity funds	1,986	260	88	(245)			71	2,160	209
Real estate funds	1,176	145	31	(62)				1,290	255
Hedge funds	901	(25)	15	(172)			108	827	(25)
Principal investments	3,131	242	(26)	(195)			(32)	3,120	(105)
Other	560	51	(4)	(11)			(71)	525	41
Total investments	7,754	673	104	(685)			76	7,922	375
Physical commodities		(48)	721					673	(48)
Securities received as collateral	1			(1)					
Intangible assets	157	(26)	5	(1)	(1)	(1)		133	(26)
Liabilities									
Deposits	$ 16	$ 2	$	$	$	$ (14)	$	$	$
	2	7			29	(1)		23	7

Commercial paper and other short-term borrowings									
Financial instruments sold, not yet purchased:									
Corporate and other debt:									
Residential mortgage-backed securities		(13)	(12)	40				41	(13)
Commercial mortgage-backed securities		1		1					
Corporate bonds	44	40	(367)	426			(28)	35	30
Unfunded lending commitments	263	23						240	23
Other debt	194	4	(10)	14			(16)	178	4
Total corporate and other debt	501	55	(389)	481			(44)	494	44
Corporate equities	15	5	(19)	6			4	1	3
Obligation to return securities received as collateral	1		(1)						
Securities sold under agreements to repurchase	351	(6)	1					358	(8)
Other secured financings	1,016	(12)			142	(122)	(306)	742	(12)
Long-term borrowings	1,316	(28)			388	(342)	(139)	1,251	(22)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Total realized and unrealized gains (losses) are primarily included in Principal transactions Trading in the condensed consolidated statements of income except for $673 million related to Financial instruments owned Investments, which is included in Principal transactions Investments.
(2) Amounts represent unrealized gains (losses) for the six months ended June 30, 2011 related to assets and liabilities still outstanding at June 30, 2011.
(3) Net derivative and other contracts represent Financial instruments owned Derivative and other contracts net of Financial instruments sold, not yet purchased Derivative and other contracts. For further information on Derivative instruments and hedging activities, see Note 10.

Financial instruments owned Corporate and other debt. During the six months ended June 30, 2011, the Company reclassified approximately $1.8 billion of certain Corporate and other debt, primarily corporate loans, from Level 3 to Level 2. The Company reclassified these corporate loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $0.6 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended June 30, 2010

	Beginning Balance at March 31, 2010	Total Realized and Unrealized Gains (Losses)(1)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers	Ending Balance at June 30, 2010	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2010(2)
			(dollars in millions)			
Assets						
Financial instruments owned:						
U.S. agency securities	$ 1	$	$ (5)	$ 5	$ 1	$
Other sovereign government obligations	80	(1)	70	(76)	73	
Corporate and other debt:						
State and municipal securities	398	19	(180)	(16)	221	1
Residential mortgage-backed securities	625	(37)	(97)	(15)	476	(42)
Commercial mortgage-backed securities	779	23	133	(322)	613	13
Asset-backed securities	149	8	(75)	19	101	6
Corporate bonds	1,145	86	154	(41)	1,344	79
Collateralized debt obligations	1,512	(25)	40	(14)	1,513	42
Loans and lending commitments	13,503	(40)	152	(868)	12,747	(64)
Other debt	1,921	(61)	(28)	(22)	1,810	(68)
Total corporate and other debt	20,032	(27)	99	(1,279)	18,825	(33)
Corporate equities	536	(33)	(183)	26	346	(1)
Net derivative and other contracts(3):						
Interest rate contracts	384	310	(132)	(46)	516	311
Credit contracts	7,952	315	265	(431)	8,101	499
Foreign exchange rate contracts	206	(1)	(134)		71	(2)
Equity contracts	(701)	(137)	(191)	31	(998)	(129)
Commodity contracts	90	(152)	53	23	14	(126)
Other	(579)	(402)	(40)	(18)	(1,039)	(352)
Total net derivative and other contracts	7,352	(67)	(179)	(441)	6,665	201
Investments:						
Private equity funds	1,634	82	123		1,839	21
Real estate funds	1,751	4	(115)	3	1,643	109
Hedge funds	1,027	(29)	5	(93)	910	(29)
Principal investments	2,700	(132)	7		2,575	(83)
Other	434	64	(60)	6	444	3
Total investments	7,546	(11)	(40)	(84)	7,411	21
Intangible assets	175	(15)	(21)		139	(27)
Liabilities						
Deposits	$ 15	$ 1	$	$	$ 14	$
Commercial paper and other short-term borrowings	300		(293)		7	
Financial instruments sold, not yet purchased:						
Corporate and other debt:						
Residential mortgage-backed securities		(6)	(4)		2	(5)
Asset-backed securities	4					