

**Registered number: 2164628**

Registered office  
25 Cabot Square  
Canary Wharf  
London E14 4QA

**MORGAN STANLEY & CO. LIMITED**

**Report and financial statements**

**31 December 2010**



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# **MORGAN STANLEY & CO. LIMITED**

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# **MORGAN STANLEY & CO. LIMITED**

## **DIRECTORS' REPORT**

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet and the related notes 1 to 21) for Morgan Stanley & Co Limited (the "Company") for the year ended 31 December 2010

## **RESULTS AND DIVIDENDS**

The profit for the year, after tax, was \$190,692,000 (2009 \$181,233,000 profit after tax)

During the year no dividends were paid or proposed (2009 nil)

## **PRINCIPAL ACTIVITY**

The principal activity of the Company is the provision of financial services to corporations and financial institutions

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group"

The Company is authorised and regulated by the Financial Services Authority ("FSA")

There have not been any significant changes in the Company's principal activity in the year under review and no significant change in the Company's principal activity is expected

## **BUSINESS REVIEW**

The profit and loss account for the year is set out on page 8. The company made a profit on ordinary activities before tax of \$190,612,000, an increase of \$9,448,000 or 5% compared to the year ended 31 December 2009. This was primarily driven by a decrease in 'Other expense' of \$16,477,000, partially offset by a decrease in fee and commission income.

The balance sheet is set out on page 9. The Company's net assets at the end of the year were \$1,008,290,000, an increase of \$190,692,000 over the prior year, mainly attributable to an increase in amounts due from other Morgan Stanley Group undertakings.

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission. The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

### **Bank payroll tax**

On 8 April 2010 the UK government enacted legislation as part of the 2010 Finance Act imposing a bank payroll tax. The tax applies to discretionary bonuses over a certain amount awarded to certain employees within scope ("Banking Employees") in the period from 9 December 2009 to 5 April 2010. The liability for the tax is that of the entity that benefits from the services of the Banking Employees, rather than the employing entity. The final charge incurred by the Company for the bank payroll levy was \$23,660,000 and this was recognised in 'Other expense'.

# MORGAN STANLEY & CO. LIMITED

## DIRECTORS' REPORT (continued)

### **Risk management**

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Morgan Stanley Group's business activities. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities.

#### *Market risk*

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

The Morgan Stanley Group manages the market risk associated with its trading activities in consideration of each individual legal entity, but on a global basis, at both a trading division and an individual product level.

#### *Credit risk*

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations.

The Morgan Stanley Group manages credit risk exposure on a global basis as well as giving consideration to each individual legal entity, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements.

#### *Liquidity risk*

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price.

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact. The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

#### *Operational risk*

Operational risk refers to the risk of financial or other loss, or damage to the Company's or the Morgan Stanley Group's reputation, resulting from inadequate or failed internal processes, people, resources, systems or from other internal or external events (e.g. internal or external fraud, legal and compliance risks, damage to physical assets, etc.). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal and regulatory risk".

The Company's business is highly dependent on the ability to process a number of transactions across numerous countries and currencies. In general, the transactions processed are increasingly complex. The Company relies on the ability of its employees, its internal systems, and systems at technology centres operated by third parties to process transactions.

The Company's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and may be vulnerable to unauthorized access, mishandling or misuse, computer viruses and other events that could have a security impact on such systems. If one or more of such events occur, this potentially could jeopardize the Company's or the Company's clients' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, the Company's computer systems. Furthermore, such events could cause interruptions or malfunctions in the Company's, the Company's clients', the Company's counterparties' or third parties' operations, which could result in reputational damage, litigation or regulatory fines or penalties not covered by insurance maintained by the Company, or adversely affect the business, financial condition or results of operations.

**DIRECTORS' REPORT (continued)**

The Morgan Stanley Group has established an operational risk management process which operates on a global and regional basis to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks.

Despite the business contingency plans the Company has in place, the Company's ability to conduct its business may also be adversely affected by a disruption in the infrastructure that supports its business and the communities in which it is located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, catastrophic events, electrical, environmental, communications or other services used by the Company, its employees or third parties with whom the Company conducts business.

The business continuity management function is responsible for identifying key risks and threats to the Morgan Stanley Group's resiliency and planning to ensure a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a global basis. The key components of the disaster recovery plans include crisis management, business recovery plans, applications/data recovery, work area recovery, and other elements addressing management, analysis, training and testing.

*Legal and regulatory risk*

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/or settlements in conjunction with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements or litigation. Legal risk also includes contractual risk such as the risk that a counterparty's performance obligations will be unenforceable. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk.

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to conduct, ethics and business practices are followed globally. In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, credit granting, money laundering, privacy and record keeping. In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, the rest of Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include taxation of financial transactions, liabilities and employee compensation, capital and registration requirements.

Many of these reforms, if enacted, may materially affect the Company's and the Morgan Stanley Group's business, financial condition, results of operations and cash flows in the future.

# MORGAN STANLEY & CO. LIMITED

## DIRECTORS' REPORT (continued)

### *Basel II Pillar 3 disclosures*

The disclosures made in order to comply with the FSA's rules, which implement in the UK the European Union Directives underlying the revised capital adequacy framework, for the Company are incorporated in the Pillar 3 disclosures of Morgan Stanley International Limited which are available on the Morgan Stanley website

### **Going concern**

During 2010, economic conditions, while improving, have remained challenging. These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

During the year ended 31 December 2010, Morgan Stanley has continued to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally. In August 2010, the Morgan Stanley Group strengthened its capital position by converting \$5.6 billion of subordinated debentures issued to China Investment Corporation Limited into \$5.6 billion of equity shares. Throughout the year, the Morgan Stanley Group has been focussed on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources. This remains an ongoing objective of the Morgan Stanley Group.

The risk management section above sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks.

Taking all of the above factors into consideration, the Directors have no reason to believe that the Company will not have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

## DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report (except where otherwise shown)

M Colucci	
F R Petitgas	
S C T Robey	(Resigned 26 January 2011)
R S Rosenthal	
D G Turowski	(Resigned 14 March 2011)

## DIRECTORS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors of the Company.

## QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and up to and including the date of the Director's report for the benefit of the Directors of the Company.

## POST BALANCE SHEET EVENTS

On 26 April 2011, the Directors approved the payment of an interim dividend of \$160,265 in total to the holders of the Company's \$1.00 Non-Cumulative Preference shares. This dividend will be reflected in the 2011 financial statements.

# **MORGAN STANLEY & CO. LIMITED**

## **DIRECTORS' REPORT (continued)**

### **AUDITORS**

Deloitte LLP have expressed their willingness to continue in office as auditors of the Company and, under sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed

#### **Statement as to disclosure of information to auditors**

Each of the persons who are Directors of the Company at the date when this report is approved confirms that

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

# MORGAN STANLEY & CO. LIMITED

## DIRECTORS' REPORT (continued)

### DIRECTORS' RESPONSIBILITIES STATEMENT

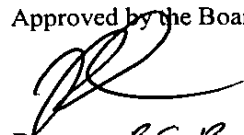
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by



Director RS ROSENTHAL

Date 26 APRIL 2011



# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORGAN STANLEY & CO. LIMITED**

We have audited the financial statements of Morgan Stanley & Co Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Oliver Grundy FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

Date

26th April 2011

# MORGAN STANLEY & CO. LIMITED

## PROFIT AND LOSS ACCOUNT

Year ended 31 December 2010

	Note	2010 \$'000	2009 \$'000
Fee and commission income	2	583,599	588,148
Interest income	3	21,595	25,122
Interest expense	4	(4,817)	(5,665)
Other income	5	298	99
Other expense	6	(410,063)	(426,540)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>190,612</b>	<b>181,164</b>
Tax on profit on ordinary activities	8	80	69
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>190,692</b>	<b>181,233</b>

All operations were continuing in the current and prior year

There were no recognised gains or losses during the current or prior year other than those disclosed above  
Accordingly no statement of total recognised gains and losses has been prepared

The notes on pages 10 to 19 form an integral part of the financial statements

**MORGAN STANLEY & CO. LIMITED**

Registered number 2164628

**BALANCE SHEET****As at 31 December 2010**

	Note	2010 \$'000	2009 \$'000
<b>CURRENT ASSETS</b>			
Loans and receivables			
- Debtors	10	1,206,932	942,906
Other assets	11	6,463	5,661
		<u>1,213,395</u>	<u>948,567</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Financial liabilities at amortised cost	13	(195,626)	(113,342)
Other creditors	14	(9,159)	(17,240)
		<u>1,008,610</u>	<u>817,985</u>
<b>NET CURRENT ASSETS</b>			
		<u>1,008,610</u>	<u>817,985</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>1,008,610</u>	<u>817,985</u>
<b>PROVISION FOR LIABILITIES</b>	15	(320)	(387)
		<u>1,008,290</u>	<u>817,598</u>
<b>NET ASSETS</b>			
		<u>1,008,290</u>	<u>817,598</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	11,001	11,001
Profit and loss account	17	997,289	806,597
		<u>1,008,290</u>	<u>817,598</u>
<b>SHAREHOLDERS' FUNDS</b>			
		<u>1,008,290</u>	<u>817,598</u>

These financial statements were approved by the Board and authorised for issue on 26 April, 2011  
Signed on behalf of the Board



Director RS RESENTHAL

The notes on pages 10 to 19 form an integral part of the financial statements

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES**

The Company's principal accounting policies are summarised below and have been applied consistently throughout the year and preceding year

**a) Basis of preparation**

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(f) below, and in accordance with applicable United Kingdom company law and accounting standards

Certain limited format changes have been made to prior year amounts to conform to the current year presentation

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 400 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley International Limited, a company registered in England and Wales, which will prepare consolidated financial statements for the year to 31 December 2010. The financial statements therefore present information about the Company as an individual entity and not about its group

The Company's ultimate UK parent undertaking, Morgan Stanley International Limited, presents information in accordance with Financial Reporting Standard ("FRS") 29 *Financial instruments Disclosures*. Accordingly, the Company is exempt from the disclosure requirements of FRS 29

**b) The going concern assumption**

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 4

As set out in the Directors' report, the Company operates within the global liquidity management framework of the Morgan Stanley Group. Throughout the difficult market conditions, this framework has continued to provide sufficient liquidity to the Morgan Stanley Group and to the Company, and the Company's capital and liquidity position is satisfactory

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

**c) Functional currency**

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates

All currency amounts in the Directors' report and the financial statements are rounded to the nearest thousand US dollars

**d) Foreign currencies**

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Transactions in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. Exchange differences recognised in the profit and loss account are presented in 'Other income' or 'Other expense', except where noted in 1(e) below

**e) Financial instruments**

The Company classifies its financial assets into the following categories on initial recognition including investments in subsidiary undertakings and loans and receivables

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES (CONTINUED)**

The Company classifies its financial liabilities into the following categories on initial recognition financial liabilities at amortised cost

More information regarding these classifications is included below

**i) Investments in subsidiary undertakings**

Investments in subsidiary undertakings outside the scope of FRS 26 *Financial instruments recognition and measurement* ("FRS 26"), are recorded within 'Investments in subsidiary undertakings' and are stated at cost, less provision for any impairment. Interest (recognised on an accruals basis), dividend income (recognised when the Company's right to receive payment is established), impairment losses, reversals of impairment losses, and foreign exchange differences on monetary investments are all reported in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary undertakings'.

**ii) Loans and receivables and financial liabilities at amortised cost**

Financial assets categorised as loans and receivables are initially recognised on settlement date at fair value and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the profit and loss account in 'Interest income', using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of the financial asset are added to or deducted from the fair value on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Impairment losses, reversals of impairment losses and foreign exchange differences on financial assets classified as loans and receivables are recognised in the profit and loss account in either 'Other expense' or 'Other income' as appropriate.

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value and subsequently measured at amortised cost. Interest is recognised in the profit and loss account in 'Interest expense' using the effective interest method as described above. Foreign exchange differences on financial liabilities held at amortised cost are recognised in the profit and loss account in 'Other income' or 'Other expense' as appropriate. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

**f) Fair value of financial instruments**

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

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES (CONTINUED)**

**g) Impairment of financial assets**

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment in the value of financial assets classified as available-for-sale fixed asset investments, other fixed asset investments or loans and receivables. Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated.

Impairment losses on fixed asset investments in subsidiary and associated undertakings, measured as the difference between cost and the current estimated recoverable amount, are recognised within the profit and loss account in 'Net gains and losses on fixed asset investments in subsidiary and associated undertakings' and are reflected against the carrying amount of the impaired asset on the balance sheet.

Impairment losses on loans and receivables carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the profit and loss account within 'Other expenses' and are reflected against the carrying amount of the impaired asset on the balance sheet. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

If the amount of the estimated impairment loss on previously impaired financial assets decreases in subsequent years, because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as detailed by financial asset in note 1(e)(ii). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

**h) Fees and commissions**

Fees and commissions in the profit and loss account include advisory fees. These amounts are recognised as the related services are performed.

**i) Taxation**

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Full provision has been made for deferred tax assets and liabilities arising from timing differences. Deferred tax is measured using the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**j) Cash flow statement**

The Company's ultimate parent undertaking produces consolidated financial statements in which the Company is included and which are publicly available. Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in FRS 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement.

# MORGAN STANLEY & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 2. FEE AND COMMISSION INCOME

	2010 \$'000	2009 \$'000
Trust and other fiduciary activities – external counterparties	280,593	219,618
Management charges to other Morgan Stanley Group undertakings	303,006	368,530
	<u>583,599</u>	<u>588,148</u>

### 3. INTEREST INCOME

	2010 \$'000	2009 \$'000
Interest income from loans to Morgan Stanley Group undertakings	<u>21,595</u>	<u>25,122</u>

### 4. INTEREST EXPENSE

	2010 \$'000	2009 \$'000
Interest expense amounts owing to Morgan Stanley Group undertakings	<u>4,817</u>	<u>5,665</u>

### 5. OTHER INCOME

	2010 \$'000	2009 \$'000
Foreign exchange gains	<u>298</u>	<u>99</u>

### 6. OTHER EXPENSE

	2010 \$'000	2009 \$'000
Management charges relating to staff costs borne by other Morgan Stanley Group undertakings	251,494	280,569
Bank payroll tax	23,660	-
Impairment losses on receivables	2,148	10,875
Reversal of impairment losses on receivables	(825)	(11,258)
Auditors' remuneration – fees for audit of statutory accounts	43	42
Management charges from other Morgan Stanley Group undertakings relating to other services	<u>133,543</u>	<u>146,312</u>
	<u>410,063</u>	<u>426,540</u>

The Company employed no staff during the year (2009 nil), but incurred management charges relating to staff costs from other Morgan Stanley Group undertakings

The Company paid no remuneration to its Directors during the current or prior year but incurred management charges in respect of Directors' services provided to the Company. The amount of remuneration received by Directors in respect of their services to the Company is disclosed in note 7.

#### Non-audit fees

The Company's ultimate UK parent undertaking, Morgan Stanley International Limited, prepares consolidated financial statements, which include disclosure of fees paid to the Company's auditors for non-audit services. Accordingly, the Company is exempt from disclosing fees payable to the Company's auditors for non-audit services to the Company.

# MORGAN STANLEY & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 7. DIRECTORS' BENEFITS

	2010 \$'000	2009 \$'000
<b>Total emoluments of all Directors:</b>		
Aggregate emoluments	3,331	5,172
Long term incentive schemes	2,266	167
Company contributions to pension schemes	43	52
	<u>5,640</u>	<u>5,391</u>
<b>Disclosures in respect of the highest paid Director:</b>		
Aggregate emoluments	1,291	2,236
Long term incentive schemes	1,505	42
Company pension contributions to a money purchase scheme	<u>20</u>	<u>20</u>

Directors' emoluments have been calculated as the sum of cash, bonuses, and benefits in kind

All Directors who are employees of the Morgan Stanley Group are eligible for shares and share options of the parent company, Morgan Stanley, awarded under the Morgan Stanley Group's equity based long term incentive schemes. In accordance with Schedule 5 paragraph 1(3)(a) of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the above disclosures include neither the value of shares or share options awarded, nor the gains made on exercise of share options. During the year no Directors exercised share options awarded under these incentive schemes, including the highest paid Director (2009 none)

The value of assets (other than shares or share options) awarded under other long term incentive schemes has been included in the above disclosures when the awards vest, which is generally within three years from the date of the award

There are five Directors to whom retirement benefits are accruing under a money purchase scheme (2009 five). One Director has benefits accruing under the US defined benefits scheme (2009 two).

The Company has provided no advances and credit to its Directors during the year.



# MORGAN STANLEY & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

#### Analysis of credit in the year

	2010 \$'000	2009 \$'000
Deferred taxation		
- Current year	73	41
- Adjustment in respect of prior years	(1)	28
- Impact of change in UK Corporation tax rate	8	-
<b>Total deferred tax</b>	<b>80</b>	<b>69</b>
<b>Tax on profit on ordinary activities</b>	<b>80</b>	<b>69</b>

#### Factors affecting the tax credit for the year

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 28% (2009 28%). The main differences are explained below

	2010 \$'000	2009 \$'000
Profit on ordinary activities before tax	190,612	181,164
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	53,371	50,726
<b>Effects of:</b>		
Expenses not deductible for tax purposes	434	406
Non deductible bank payroll tax	6,625	-
Group relief received for nil consideration	(61,932)	(55,658)
Depreciation for the year in excess of capital allowances	-	(15)
Capital allowances for the year in excess of depreciation	17	-
Ten year spreading of FRS 26 transitional adjustment	56	56
Other	1,429	4,485
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

The Finance (No 2) Act 2010 enacted a 1% reduction in the UK corporation tax rate to 27% with effect from April 2011. In the Budget announcement on 23 March 2011, a further 1% reduction in the rate of UK corporation tax to 26% was announced and subsequently substantively enacted on 29 March 2011. The combined 2% reduction in the tax rate will impact the current tax charge in 2011.

# MORGAN STANLEY & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 9. FIXED ASSET INVESTMENTS

#### Fixed asset investments in subsidiary undertakings

Details of the subsidiary investment the Company holds at 31 December 2010 are as follows

Name of company	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights	Nature of business
East Sussex Financing Limited	Jersey	Ordinary	100%	100%	Holding company

The carrying value of this investment is \$100 (2009 \$100). In the opinion of the Directors, neither the results nor the financial position of the Company's subsidiary undertaking has a significant effect on the figures shown in these financial statements

### 10. DEBTORS

	2010 \$'000	2009 \$'000
<b>Debtors classified within loans and receivables at amortised cost</b>		
Trade debtors		
- External counterparties	67,083	25,661
Other amounts due from Morgan Stanley Group undertakings	1,139,849	917,245
	<u>1,206,932</u>	<u>942,906</u>

Debtors are stated after impairment losses of \$15,124,000 (2009 \$22,485,000) on aged receivables. A reconciliation of impairment losses for debtors is as follows

	2010 \$'000	2009 \$'000
At 1 January	22,485	24,733
Charge for the year	2,148	10,875
Reversal of impairment losses	(825)	(11,258)
Amounts written off	(8,129)	(2,431)
Foreign exchange revaluation	(555)	566
At 31 December	<u>15,124</u>	<u>22,485</u>

### 11 OTHER ASSETS

	2010 \$'000	2009 \$'000
Deferred taxation (see note 12)	86	73
Other taxes	33	35
Prepayments and accrued income	6,344	5,553
	<u>6,463</u>	<u>5,661</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**12. DEFERRED TAX**

Deferred tax has been fully recognised and is analysed as follows

	<b>2010</b>		<b>2009</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred tax arising on prior year hedges of forecasted currency transactions	-	(331)	-	(387)
Accelerated capital allowances	89	-	73	-
Impact of change in the UK corporation tax rate	(3)	11	-	-
	<u>86</u>	<u>(320)</u>	<u>73</u>	<u>(387)</u>

The movement in the provision for deferred tax during the year is analysed as follows

	<b>Asset</b>	<b>Liability</b>
	<b>\$'000</b>	<b>\$'000</b>
At 1 January 2010	73	(387)
Amounts recognised in the profit and loss account		
- Current year timing differences	17	56
- Prior year timing differences	(1)	-
- Impact of change in the UK corporation tax rate	(3)	11
At 31 December 2010	<u>86</u>	<u>(320)</u>

The Finance (No 2) Act 2010 enacted a 1% reduction in the UK corporation tax rate to 27% with effect from April 2011. This rate reduction has had an impact on the Company's deferred tax balance as indicated above. As part of the Budget announcements on 23 March 2011, a further 1% cut in the rate of UK Corporation tax to 26% was announced and substantively enacted on 29 March 2011. The effect of this further reduction has not been applied to the valuation of the Company's deferred tax assets and liabilities.

**13. FINANCIAL LIABILITIES AT AMORTISED COST**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities at amortised cost falling due within one year</b>		
Trade creditors		
- External counterparties	8	2
Other amounts owing to Morgan Stanley Group undertakings	195,618	113,340
	<u>195,626</u>	<u>113,342</u>

**14. OTHER CREDITORS**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Amounts falling due within one year</b>		
Other taxes	2,192	535
Accruals and deferred income	6,967	16,705
	<u>9,159</u>	<u>17,240</u>

# MORGAN STANLEY & CO. LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 15. PROVISIONS FOR LIABILITIES

	Deferred tax (note 12) \$'000
At 1 January 2010	387
Provisions released	(67)
At 31 December 2010	<u>320</u>

### 16. CALLED UP SHARE CAPITAL

	2010 \$'000	2009 \$'000
Allotted and fully paid.		
1,001,000 ordinary shares of \$1 each	1,001	1,001
10,000,000 non-cumulative preference shares of \$1 each	<u>10,000</u>	<u>10,000</u>
	<u>11,001</u>	<u>11,001</u>

#### Equity shares

On 5 June 2009, the board approved the reduction of 430,000,000 non-cumulative preference shares of \$1 each at par. This non-cumulative preference share capital was previously held by a fellow Morgan Stanley group undertaking.

No dividends (2009: \$nil) were paid to the Company's ordinary shareholders in the year ended 31 December 2010 (2009: \$nil). On 26 April 2011, the Directors approved the payment of an interim dividend of \$160,265 in total to the holders of the Company's \$1.00 Non-Cumulative Preference shares. This dividend will be reflected in the 2011 financial statements.

### 17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Profit and loss account \$'000	Total \$'000
At 1 January 2009	441,001	625,364	1,066,365
Total recognised gains and losses	-	181,233	181,233
Reduction of share capital	<u>(430,000)</u>	<u>-</u>	<u>(430,000)</u>
At 1 January 2010	11,001	806,597	817,598
Total recognised gains and losses	-	190,692	190,692
At 31 December 2010	<u>11,001</u>	<u>997,289</u>	<u>1,008,290</u>

### 18. SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, Europe, Middle East and Asia.

### 19. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow wholly owned Morgan Stanley Group undertakings under paragraph 3(c) of FRS 8 *Related party disclosures*. There were no other related party transactions requiring disclosure.

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2010**

**20. POST BALANCE SHEET EVENTS**

On 26 April 2011, the Directors approved the payment of an interim dividend of \$160,265 in total to the holders of the Company's \$1 00 Non-Cumulative Preference shares. This dividend will be reflected in the financial statements of 2011.

**21. PARENT UNDERTAKINGS**

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in Delaware, the United States of America and copies of its financial statements can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA.

The Company's immediate controlling party is Morgan Stanley UK Group, which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Mandy, Cardiff CF14 3UZ.

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley International Limited, which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Mandy, Cardiff CF14 3UZ.