

PROSPECTUS

Morgan Stanley

MORGAN STANLEY FINANCE LLC

as Issuer

(formed under the laws of the State of Delaware in the United States of America)

\$5,000,000 Fixed Rate Step-Up Senior Notes Due 2026
Fully and Unconditionally Guaranteed by Morgan Stanley
(the "Notes")

This prospectus (this "**Prospectus**") comprises (i) this document, and (ii) the documents and information specified in the section headed "Incorporation by Reference" below.

Application has been made to the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF") in its capacity as Luxembourg competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"), and the Luxembourg law on prospectuses for securities of July 10, 2005, as amended by law dated July 3, 2012 (the "**Luxembourg Law**") to approve this Prospectus. Application will be made for the Notes to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive), and to be listed on the official list of the Luxembourg Stock Exchange. This Prospectus has been prepared for the purpose of the admission of the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 16.

THE NOTES ARE NOT DEPOSITS OR SAVINGS ACCOUNTS AND ARE NOT INSURED BY THE UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OR INSTRUMENTALITY, NOR ARE THEY OBLIGATIONS OF, OR GUARANTEED BY, A BANK.

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE NOTES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE. As provided in Article 7(7) of the Luxembourg Law, the CSSF assumes no responsibility as to the economics or financial soundness of an investment in the Notes or the quality or solvency of Morgan Stanley or Morgan Stanley Finance LLC.

None of Morgan Stanley Finance LLC (the "Issuer" or "MSFL"), Morgan Stanley (the "Guarantor") nor Morgan Stanley & Co. International plc (the "Agent" or "MSI plc") has taken or will take any action in any country or jurisdiction that would permit a public offering of the Notes or possession or distribution of any offering material in relation to a public offering in any country or jurisdiction outside the United States where action for that purpose is required. Each investor must comply with all applicable laws and regulations in each country or jurisdiction in or from which the investor purchases, offers, sells or delivers such Notes or has in the investor's possession or distributes this Prospectus.

The Notes have been assigned a rating of BBB+, with a stable outlook, by Standard and Poor's Ratings Services ("**S&P**").

According to S&P's rating scale, "an obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation." The modification of the rating "BBB" by the addition of a plus (+) sign shows "relative standing within the major rating categories".

As of the date of this Prospectus, MSFL's long-term debt has been rated BBB+, with a stable outlook, by S&P.

As of the date of this Prospectus, Morgan Stanley's short-term and long-term debt has been respectively rated (i) R-1 (middle) and A (high), with a stable outlook, by DBRS, Inc. ("**DBRS**"), (ii) F1 and A, with a stable outlook, by Fitch Ratings, Inc. ("**Fitch**"), (iii) P-2 and A3, with a stable outlook, by Moody's Investors Service, Inc. ("**Moody's**"), (iv) a-1 and A-, with a stable outlook, by Ratings and Investment Information, Inc. ("**R&I**") and (v) A-2 and BBB+, with a stable outlook, by Standard & Poor's Financial Services LLC through its business unit S&P.

- (i) According to DBRS's rating scale, (a) "R-1 (middle)" denotes a "superior credit quality. The capacity for the payment of short-term financial obligations as they fall due is very high. Differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events." and (b) "A" denotes a "good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable." The designation of subcategory "(high)" to the rating "A" indicates that it is at the higher end of the category.
- (ii) According to Fitch's rating scale, (a) "F1" is the "highest short-term credit quality" which "indicates the strongest intrinsic capacity for timely payment of financial commitments" and (b) "A" denotes a "high credit quality" and "expectations of low credit risk" and that "the capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings."
- (iii) According to Moody's rating scale, (a) "issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations" and (b) "obligations rated A are judged to be upper-medium grade and are subject to low credit risk". The numerical modifier "3" appended to the rating "A" indicates a ranking in the lower end of that generic rating category.
- (iv) According to R&I's rating scale, (a) "a-1" means "certainty of the fulfillment of a short-term obligation is high" and (b) "A" means high creditworthiness supported by a few excellent factors. A plus (+) sign is appended to the category of "A" to indicate relative standing within that rating category. The plus sign is part of the rating symbol.
- (v) According to S&P's rating scale, (a) "an obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category." and (b) "an obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments." The modification of the rating "BBB" by the addition of a plus (+) sign shows "relative standing within the major rating categories".

DBRS is not established in the European Economic Area (the "**EEA**") but the rating it has assigned to Morgan Stanley may be endorsed by DBRS Ratings Limited, a rating agency which is established in the EEA and registered under Regulation 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**") by the relevant competent authority.

Fitch is not established in the EEA but the rating it has assigned to Morgan Stanley is endorsed by Fitch Ratings Limited, a rating agency established in the EEA and registered under the CRA Regulation by the relevant competent authority.

Moody's is not established in the EEA but the rating it has assigned to Morgan Stanley is endorsed by Moody's Investors Service Limited, a rating agency established in the EEA and registered under the CRA Regulation by the relevant competent authority.

R&I is not incorporated in the EEA and is not registered under the CRA Regulation.

S&P is not established in the EEA but the rating it has assigned to Morgan Stanley is, with effect from 9 April 2012, endorsed by Standard & Poor's Credit Market Services Europe Limited, a rating agency established in the EEA and registered under the CRA Regulation by the relevant competent authority.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

MORGAN STANLEY FINANCE LLC

14 June 2016

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive.

Each of MSFL and Morgan Stanley accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of MSFL and Morgan Stanley (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised by MSFL or Morgan Stanley to give any information or to make any representation not contained or incorporated by reference in this Prospectus or any other document entered into in relation to the Notes, and, if given or made, that information or representation should not be relied upon as having been authorised by MSFL, Morgan Stanley or the Agent. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes will, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented, or that there has been no adverse change in the financial situation of MSFL or Morgan Stanley since the date hereof or, as the case may be, the date upon which this Prospectus has been most recently amended or supplemented, or that any other information supplied in connection with the Notes is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Agent expressly does not undertake to review the financial condition or affairs of MSFL or Morgan Stanley during the life of the Notes. Investors should review, inter alia, the most recent financial statements of MSFL and Morgan Stanley when evaluating the Notes or an investment therein. Such financial statements shall not form a part of this Prospectus unless they have been expressly incorporated herein. In case of any websites mentioned in this Prospectus, none of MSFL, Morgan Stanley or the Agent accepts responsibility for the information appearing on such websites. For the avoidance of doubt, the information appearing on such websites and pages does not form part of this Prospectus save to the extent expressly incorporated by reference herein.

The Agent has not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Agent as to the accuracy or completeness of this Prospectus or any document incorporated by reference herein or any further information supplied in connection with the Notes. The Agent does not accept liability in relation to this Prospectus or any document incorporated by reference herein or their distribution or with regard to any other information supplied by or on behalf of MSFL or Morgan Stanley.

The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by MSFL, Morgan Stanley and the Agent to inform themselves about and to observe those restrictions.

This Prospectus may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which that offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

This Prospectus does not constitute an offer of or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by MSFL, Morgan Stanley or the Agent that any recipient of this Prospectus should subscribe for or purchase any Notes. Each recipient of this Prospectus will be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of MSFL and Morgan Stanley and of the terms of the Notes.

Prospective investors should consult their own legal and financial advisors as to any specific risks for them in the light of their own circumstances entailed by the purchase of, or holding of, or the receipt of any payments on the Notes or otherwise by an investment in the Notes, for example, as a result of their being residents of or subject to tax in any jurisdiction.

Save as disclosed in:

- a) the section entitled "Legal Proceedings" in Part I - Item 3 at pages 24-32 and in the paragraphs beginning with "Legal" under the heading "Contingencies" under the heading**

"Commitments, Guarantees and Contingencies" in "Notes to Consolidated Financial Statements" in Part II – Item 8 at pages 202-205 of Morgan Stanley's Annual Report on Form 10-K for the year ended 31 December 2015;

- b) the section entitled "Legal Settlement" under the heading "24. Subsequent Events" in "Notes to the Consolidated Financial Statements" in Part II – Item 8 at page 250 of Morgan Stanley's Annual Report on Form 10-K for the year ended 31 December 2015;**
- c) the paragraphs beginning with "Legal" under the heading "Contingencies" under the heading "Commitments, Guarantees and Contingencies" in "Notes to Condensed Consolidated Financial Statements" in Part I – Item 1 at pages 47-50 and the section entitled "Legal Proceedings" in Part II – Item 1 at page 126 of Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended 31 March 2016; and**
- d) the section entitled "Legal Proceedings and Contingencies" under the heading "Description of Morgan Stanley" at pages 39 to 53 of the Registration Document,**

there are no, nor have there been, any governmental, legal or arbitration proceedings involving MSFL or Morgan Stanley (including any such proceedings which are pending or threatened of which MSFL or Morgan Stanley respectively is aware) during the 12-month period before the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of MSFL, Morgan Stanley or the Morgan Stanley group of companies (consisting of Morgan Stanley and its consolidated subsidiaries (the "Morgan Stanley Group")).

There has been no significant change in the financial or trading position of MSFL or Morgan Stanley Group (other than Morgan Stanley) since 31 December 2015 or of Morgan Stanley since 31 March 2016.

There has been no material adverse change in the prospects of MSFL or Morgan Stanley since 31 December 2015. There are no recent events particular to MSFL or Morgan Stanley which are to a material extent relevant to the evaluation of MSFL's or Morgan Stanley's solvency.

The issue of the Notes was approved by resolutions of the board of directors of MSFL held on 5 February 2016. The giving of the guarantee was approved by resolutions of the board of directors of Morgan Stanley held on 25 January 2016.

Total expenses related to the admission to trading of the Notes is about EUR 7,370.

The yield with respect to the Notes is 3.785 per cent. per annum, as calculated at the Issue Date on the basis of the Principal Amount. This is not an indication of future yield.

Neither the Issuer nor the Guarantor intends to provide any post-issuance information in respect of the Notes.

THE NOTES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

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SUMMARY

This section provides an overview of information included in this Prospectus.

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "Not Applicable".

| Section A – Introduction and Warnings | | |
|--|---|--|
| A.1 | Introduction and warning: | <p>This summary should be read as an introduction to the Prospectus and any decision to invest in the Notes should be based on consideration of the Prospectus as a whole by the investor, including the information incorporated by reference.</p> <p>Where a claim relating to the information contained in the Prospectus is brought before a court in a Member State of the European Economic Area, the claimant investor may, under the national legislation of the Member States, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Notes.</p> |
| A.2 | Consent: | Not applicable. This Prospectus has been prepared for the purposes of admission of the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange |
| Section B – Issuer and Guarantor | | |
| B.1 | Legal and commercial name of the Issuer: | Morgan Stanley Finance LLC ("MSFL"). |
| B.2 | Domicile and legal form of the Issuer: | MSFL is a wholly-owned finance subsidiary of Morgan Stanley and a limited liability company formed pursuant to the Delaware Limited Liability Company Act on 27 March 2002 for an unlimited duration under the name of Morgan Stanley Tower LLC. On 8 January 2016 Morgan Stanley Tower LLC changed its name to Morgan Stanley Finance, LLC. On 12 January 2016 Morgan Stanley Finance, LLC changed its name to Morgan Stanley Finance LLC. MSFL'S registered address is at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. MSFL's principal place of business is 1585 Broadway, New York, NY 10036. MSFL is formed under, and subject to, the laws of the state of Delaware, United States. |
| B.4b | Known trends: | The business of Morgan Stanley, the ultimate holding company of MSFL, in the past has been, and in the future may continue to be, materially affected by many factors, including: the effect of economic and political conditions and geopolitical events; sovereign risk; the effect of market conditions, particularly in the global equity, fixed |

| | | income, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets and energy markets; the impact of current, pending and future legislation (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the " Dodd-Frank Act ")), regulation (including capital, leverage, funding and liquidity requirements), policies (including fiscal and monetary), and legal and regulatory actions in the United States of America ("U.S.") and worldwide; the level and volatility of equity, fixed income and commodity prices (including oil prices), interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to Morgan Stanley's unsecured short-term and long-term debt; investor, consumer and business sentiment and confidence in the financial markets; the performance and results of Morgan Stanley's acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements; Morgan Stanley's reputation and the general perception of the financial services industry; inflation, natural disasters, pandemics and acts of war or terrorism; the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations; the effectiveness of Morgan Stanley's risk management policies; technological changes instituted by Morgan Stanley, its competitors or counterparties and technological risks, including cybersecurity, business continuity and related operational risks; Morgan Stanley's ability to provide innovative products and services and execute its strategic objectives; or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to Morgan Stanley's businesses are likely to increase costs, thereby affecting results of operations. | | | | | | | | | | | | | | | |
|-------------------|---|---|--|--------------------|--|--|--|--|------------|--------------|-------------|--------------|---------------|---------------|-------------------|-----------|-----------|
| B.5 | The Group: | MSFL has no subsidiaries. It is a wholly-owned finance subsidiary of Morgan Stanley. Morgan Stanley is the ultimate parent undertaking of the Morgan Stanley Group. | | | | | | | | | | | | | | | |
| B.9 | Profit forecast: | Not Applicable. MSFL does not provide profit forecasts. | | | | | | | | | | | | | | | |
| B.10 | Audit report qualifications: | Not Applicable. There are no qualifications in the auditor's reports on the financial statements of MSFL for the years ended 31 December 2014 and 31 December 2015. | | | | | | | | | | | | | | | |
| B.12 | Selected key financial information, no material adverse change and significant change statement: | <p>The selected financial information set out below has been extracted without material adjustment from the audited financial statements of MSFL for the years ended 31 December 2014 and 31 December 2015:</p> <table> <tr> <th></th><th colspan="2">Years Ended</th></tr> <tr> <th></th><th>31 December 2014 (U.S.\$ thousands)</th><th>31 December 2015 (U.S.\$ thousands)</th></tr> <tr> <td>Net income</td><td>114,986, 489</td><td>110,072,000</td></tr> <tr> <td>Total assets</td><td>6,797,385,100</td><td>6,942,318,599</td></tr> <tr> <td>Total liabilities</td><td>6,797,385</td><td>6,942,319</td></tr> </table> <p>There has been no material adverse change in the prospects of MSFL since 31 December 2015.</p> <p>Not applicable. There has been no significant change in the financial or trading position of MSFL since 31 December 2015.</p> | | Years Ended | | | 31 December 2014 (U.S.\$ thousands) | 31 December 2015 (U.S.\$ thousands) | Net income | 114,986, 489 | 110,072,000 | Total assets | 6,797,385,100 | 6,942,318,599 | Total liabilities | 6,797,385 | 6,942,319 |
| | Years Ended | | | | | | | | | | | | | | | | |
| | 31 December 2014 (U.S.\$ thousands) | 31 December 2015 (U.S.\$ thousands) | | | | | | | | | | | | | | | |
| Net income | 114,986, 489 | 110,072,000 | | | | | | | | | | | | | | | |
| Total assets | 6,797,385,100 | 6,942,318,599 | | | | | | | | | | | | | | | |
| Total liabilities | 6,797,385 | 6,942,319 | | | | | | | | | | | | | | | |

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| B.13 | Recent events materially relevant to evaluation of solvency of the Issuer: | Not Applicable. MSFL considers that no event particular to itself and which is to a material extent relevant to the evaluation of its solvency has taken place since the publication of its last annual financial statements. |
| B.14 | Dependence upon other entities within the Group: | MSFL is ultimately controlled by Morgan Stanley. Morgan Stanley is a holding company and depends on payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. |
| B.15 | Principal activities: | MSFL's principal activity is the issuance of securities. 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, Wealth Management and Investment Management. Through its subsidiaries and affiliates, it 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. |
| B.16 | Controlling persons: | MSFL is ultimately controlled by Morgan Stanley. |
| B.17 | Credit ratings of MSFL: | As of the date of this Prospectus, MSFL's long-term debt has been rated BBB+, with a stable outlook, by S&P. The Notes have been assigned a rating of BBB+, with a stable outlook, by S&P. |
| B.18 | Nature and scope of the Guarantee: | The payment obligations of MSFL in respect of the Notes are unconditionally and irrevocably guaranteed by Morgan Stanley pursuant to a senior debt indenture dated as of 16 February 2016 between MSFL, as issuer, Morgan Stanley, as guarantor, and The Bank of New York Mellon, a New York banking corporation, as trustee (as supplemented from time to time, the " Senior Debt Indenture ") which is governed by New York law (the " Guarantee "). The Guarantor's obligations under the Guarantee constitute direct, general and unsecured obligations of the Guarantor which rank without preference among themselves and <i>pari passu</i> with all other outstanding, unsecured and unsubordinated obligations of the Guarantor, present and future, but in the event of insolvency only to the extent permitted by laws affecting creditors' rights. |
| B.19 | Information about the Guarantor: | Please see below in relation to the Guarantor. |
| B.19 (B.1) | Legal name and commercial name of the Guarantor: | Morgan Stanley. |
| B.19 (B.2) | Domicile and legal form of the Guarantor, the legislation under which the Guarantor operates and its country of | Morgan Stanley is incorporated under the laws of the State of Delaware. As a financial holding company, it is regulated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended. Morgan Stanley has its registered office in Delaware, U.S. |

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|---|--|--|---|-------------------------|---------------------|-------------------------|--|--|--|------|------|--------------|---------|---------|---------|---------|
| | incorporation: | | | | | | | | | | | | | | | |
| B.19 (B.4b) | Trends: | The business of Morgan Stanley in the past has been, and in the future may continue to be, materially affected by many factors, including: the effect of economic and political conditions and geopolitical events; sovereign risk; the effect of market conditions, particularly in the global equity, fixed income, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets and energy markets; the impact of current, pending and future legislation (including the Dodd-Frank Act) regulation (including capital, leverage, funding and liquidity requirements), policies (including fiscal and monetary), and legal and regulatory actions in the U.S. and worldwide; the level and volatility of equity, fixed income and commodity prices (including oil prices), interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to Morgan Stanley’s unsecured short-term and long-term debt; investor, consumer and business sentiment and confidence in the financial markets; the performance and results of Morgan Stanley’s acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements; Morgan Stanley’s reputation and the general perception of the financial services industry; inflation, natural disasters, pandemics and acts of war or terrorism; the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations; the effectiveness of Morgan Stanley’s risk management policies; technological changes instituted by Morgan Stanley, its competitors or counterparties and technological risks, including cybersecurity, business continuity and related operational risks; Morgan Stanley’s ability to provide innovative products and services and execute its strategic objectives; or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to Morgan Stanley’s businesses are likely to increase costs, thereby affecting results of operations. | | | | | | | | | | | | | | |
| B.19 (B.5) | The group and the Guarantor's position within the group: | Morgan Stanley is the ultimate parent undertaking of the Morgan Stanley Group. | | | | | | | | | | | | | | |
| B.19 (B.9) | Profit forecast: | Not Applicable. Morgan Stanley does not provide profit forecasts. | | | | | | | | | | | | | | |
| B.19 (B.10) | Audit report qualifications: | Not Applicable. There are no qualifications in the auditor's reports on the financial statements of Morgan Stanley for the years ended 31 December 2014 and 31 December 2015, as contained in Morgan Stanley's Annual Report on Form 10-K for the year ended 31 December 2015. | | | | | | | | | | | | | | |
| B.19 (B.12) | Selected key financial information, no material adverse change and significant change statement: | <div>Selected key financial information relating to Morgan Stanley:</div> <table><tr><td rowspan="2">Consolidated Balance Sheet (\$ in millions)</td><td>At 31 December 2014</td><td>At 31 December 2015</td><td colspan="2">At 31 March (unaudited)</td></tr><tr><td></td><td></td><td>2015</td><td>2016</td></tr><tr><td>Total assets</td><td>801,510</td><td>787,465</td><td>829,099</td><td>807,497</td></tr></table> | Consolidated Balance Sheet (\$ in millions) | At 31 December 2014 | At 31 December 2015 | At 31 March (unaudited) | | | | 2015 | 2016 | Total assets | 801,510 | 787,465 | 829,099 | 807,497 |
| Consolidated Balance Sheet (\$ in millions) | At 31 December 2014 | At 31 December 2015 | | At 31 March (unaudited) | | | | | | | | | | | | |
| | | | 2015 | 2016 | | | | | | | | | | | | |
| Total assets | 801,510 | 787,465 | 829,099 | 807,497 | | | | | | | | | | | | |

| | | |
|-------------|---|---|
| | | <div>Total liabilities and equity</div> <div>801,510</div> <div>787,465</div> <div>829,099</div> <div>807,497</div> <div>Consolidated Income Statement (\$ in millions)</div> <div><div><div>2014</div><div>2015</div><div>Three months ended 31 March (unaudited)</div></div><div><div>2015</div><div>2016</div></div></div> <div>Net revenues</div> <div>34,275</div> <div>35,155</div> <div>9,907</div> <div>7,792</div> <div>Income from continuing operations before income taxes</div> <div>3,591</div> <div>8,495</div> <div>2,855</div> <div>1,738</div> <div>Net income</div> <div>3,667</div> <div>6,279</div> <div>2,463</div> <div>1,157</div> <div>There has been no material adverse change in the prospects of Morgan Stanley since 31 December 2015, the date of the latest published annual audited financial statements of Morgan Stanley.</div> <div>Not applicable. There has been no significant change in the financial or trading position of Morgan Stanley since 31 March 2016, the date of the latest published interim (unaudited) financial statements of Morgan Stanley.</div> |
| B.19 (B.13) | Recent events materially relevant to evaluation of solvency of the Guarantor: | Not Applicable. Morgan Stanley considers that no event particular to itself which is to a material extent relevant to the evaluation of its solvency has taken place since the publication of its last annual financial statements. |
| B.19 (B.14) | Dependence upon other entities within the group: | <div>See Element B.19 (B.5) above for the group and the Guarantor's position within Morgan Stanley Group.</div> <div>Morgan Stanley is a holding company and depends on payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations.</div> |
| B.19 (B.15) | The Guarantor's principal activities: | 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, Wealth Management and Investment Management. Through its subsidiaries and affiliates, it 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. |
| B.19 (B.16) | Controlling Persons: | Not applicable; Morgan Stanley is a publicly-held company listed on the New York Stock Exchange and not directly or indirectly owned or controlled by any individual shareholder or affiliated group of shareholders. |
| B.19 (B.17) | Credit Rating: | As of the date of this Prospectus, Morgan Stanley's short-term and long-term debt has been respectively rated (i) R-1 (middle) and A (high), with a stable outlook, by DBRS, (ii) F1 and A, with a stable outlook, by Fitch, (iii) P-2 and A3, with a stable outlook, by Moody's, (iv) a-1 and A-, with a stable outlook, by R&I and (v) A-2 and BBB+ with a stable outlook, by Standard & Poor's Financial Services LLC through its |

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|-------------------------------|---|---|
| | | business unit S&P. |
| Section C - Securities | | |
| C.1 | Description and type and class of securities: | <p>The Notes comprise the \$5,000,000 Fixed Rate Step-Up Senior Notes Due 2026 which are debt securities of MSFL issued under the Senior Debt Indenture and fully and unconditionally guaranteed by Morgan Stanley.</p> <p><i>Form of Notes</i></p> <p>The Notes are in registered form and represented by a global note registered in the name of The Depository Trust Company, as "Depository". Each registered global security will be registered in the name of Cede & Co., the Depository's nominee.</p> <p><i>Security identification number:</i></p> <p>ISIN: US61767BAA89</p> <p>CUSIP: 61767BAA8</p> |
| C.2 | Currency of the securities issue: | U.S. dollars. |
| C.5 | Free transferability: | <p>The Notes are transferable. Purchases of the securities under the Depository's system must be made by or through its direct participants, which will receive a credit for the securities on the Depository's records. The ownership interest of each actual purchaser of each security (the "beneficial owner") is in turn to be recorded on the records of direct and indirect participants. Beneficial owners will not receive written confirmation from the Depository of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owner entered into the transaction. Transfers of ownership interests in the securities are to be made by entries on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in securities, except in the event that use of the book-entry system for the securities is discontinued.</p> <p>MSFL and Morgan Stanley & Co. LLC as its agent have agreed certain restrictions on the offer, sale and delivery of the Notes and on the distribution of offering materials in the United States, the European Economic Area, the United Kingdom, Japan, Hong Kong, Singapore and Switzerland. In addition, investors in the Notes, by their purchase of the Notes, will be deemed to have given certain representations, warranties, undertakings, acknowledgements and agreements.</p> |
| C.8 | The rights attaching to the securities, including ranking and limitations to those rights: | <p>The terms of the Notes include, among others, the following:</p> <p>Ranking</p> <p>The Notes rank on parity with all other unsecured and unsubordinated indebtedness of MSFL, subject to statutory exceptions in the event of liquidation upon insolvency.</p> |

Negative pledge

The Senior Debt Indenture provides that Morgan Stanley will not, and will not allow MSFL to, create, assume, incur or guarantee any indebtedness for borrowed money that is secured by a pledge, lien or other encumbrance, except for liens specifically permitted by the Senior Debt Indenture on certain of the securities of certain subsidiaries (not including MSFL), without making effective provisions so that the debt securities issued under the Senior Debt Indenture will be secured equally and ratably with indebtedness so secured.

Merger or Consolidation of MSFL, as Issuer, or Morgan Stanley, as Guarantor, Under the Senior Debt Indenture

The Senior Debt Indenture provides that neither MSFL, as issuer, nor Morgan Stanley, as guarantor, will merge, consolidate with any other person and will not sell, lease or convey all or substantially all of its assets to any other person unless:

- MSFL or Morgan Stanley, as applicable, will be the continuing corporation; or
- the successor person by merger or consolidation to MSFL or Morgan Stanley, as applicable will be a corporation organized under the laws of the United States, a state of the United States or the District of Columbia and will expressly assume all of MSFL's or Morgan Stanley's obligations, as applicable obligations under the Senior Debt Indenture and the Notes or the guarantees, as applicable, issued under the Senior Debt Indenture; and
- immediately after the merger, consolidation, sale, lease or conveyance, MSFL, Morgan Stanley or that successor person will not be in default in the performance of the covenants and conditions of the Senior Debt Indenture applicable to it.

Absence of Protections against All Potential Actions of the Issuer and the Guarantor.

There are no covenants or other provisions in the Senior Debt Indenture applicable that would afford Noteholders additional protection in the event of a recapitalization transaction, a change of control of MSFL or Morgan Stanley, is applicable, or a highly leveraged transaction. The merger covenants described above would only apply if the recapitalization transaction, change of control or highly leveraged transaction were structured to include a merger or consolidation of MSFL or Morgan Stanley, as applicable, or a sale, lease or conveyance of all or substantially all of the assets of MSFL or Morgan Stanley, as applicable.

Events of default

The Senior Debt Indenture provides Noteholders with remedies if MSFL, fails to perform specific obligations or if MSFL becomes bankrupt. There are no events of default with respect to Morgan Stanley, as guarantor. Holders should review these provisions and understand which actions of MSFL trigger an event of default and which actions do not. The Senior Debt Indenture permits the issuance of debt securities in one or more series, and, in many cases, whether an event of default has occurred is determined on a series by series basis.

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| | <p>An event of default is defined under the Senior Debt Indenture, with respect to the Notes issued by MSFL under that indenture, as being:</p> <ul style="list-style-type: none"> • default in payment of any principal of the Notes, either at maturity or upon any redemption, by declaration or otherwise; • default for 30 days in payment of any interest on any Notes; • default for 60 days after written notice in the observance or performance by MSFL of any covenant or agreement in the Notes or the indenture (other than a covenant or warranty with respect to the Notes of that series the breach or nonperformance of which is otherwise included in the definition of "event of default"); or • events of bankruptcy, insolvency or reorganization of MSFL. <p>The Notes issued under the Senior Debt Indenture will not have the benefit of any cross-default or cross-acceleration provisions with other indebtedness of MSFL or Morgan Stanley. In addition, under the Senior Debt Indenture, a covenant default by Morgan Stanley, as guarantor, or an event of bankruptcy, insolvency or reorganization of Morgan Stanley, as guarantor, does not constitute an event of default.</p> <p>Annulment of Acceleration and Waiver of Defaults.</p> <p>The Senior Debt Indenture provides that in some circumstances, if any and all events of default under it, other than the non-payment of the principal of the Notes that has become due as a result of an acceleration, have been cured, waived or otherwise remedied, then the holders of a majority in aggregate principal amount of all series of outstanding debt securities affected, voting as one class, may waive past defaults and rescind and annul past declarations of acceleration of the debt securities.</p> <p>Prior to the acceleration of any debt securities, the holders of a majority in aggregate principal amount of all series of outstanding debt securities with respect to which an event of default has occurred and is continuing, voting as one class, may waive any past default or event of default, other than a default in the payment of principal or interest (unless such default has been cured and an amount sufficient to pay all matured installments of interest and principal due otherwise than by acceleration has been deposited with the trustee) or a default in respect of a covenant or provision in that indenture that cannot be modified or amended without the consent of the holder of each debt security affected.</p> <p>Indemnification of Trustee for Actions Taken on Noteholders' Behalf.</p> <p>The Senior Debt Indenture contains a provision entitling the trustee, subject to the duty of the trustee during a default to act with the required standard of care, to be indemnified by the holders of debt securities issued under that indenture before proceeding to exercise any trust or power at the request of Noteholders.</p> |
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| | | <p>Subject to these provisions and some other limitations, the holders of a majority in aggregate principal amount of each series of outstanding debt securities of each affected series, voting as one class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee.</p> <p>Limitation on Actions by a Noteholder as an Individual Holder.</p> <p>The Senior Debt Indenture provides that no individual Noteholder may institute any action against the issuer or the guarantor, if applicable, under it, except actions for payment of overdue principal and interest, unless the following actions have occurred:</p> <ul style="list-style-type: none"> • the Noteholder must have previously given written notice to the trustee of the continuing default; • the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, treated as one class, must have (1) requested the trustee to institute that action and (2) offered the trustee reasonable indemnity; • the trustee must have failed to institute that action within 60 days after receipt of the request referred to above; and • the holders of a majority in principal amount of the outstanding debt securities of each affected series, voting as one class, must not have given directions to the trustee inconsistent with those of the holders referred to above. <p>Annual Certification</p> <p>The Senior Debt Indenture contains a covenant MSFL will file annually with the trustee a certificate of no default or a certificate specifying any default that exists.</p> <p>Discharge, Defeasance and Covenant Defeasance</p> <p>Under the Senior Debt Indenture MSFL and Morgan Stanley have the ability to eliminate or discharge most or all of the obligations of MSFL or Morgan Stanley, as applicable, on the Notes prior to maturity if it complies with certain conditions, which may include irrevocably depositing with the trustee cash in trust for the benefit of the holders of the Notes in an amount certified to be sufficient to pay the principal of and interest on the Notes.</p> <p>Modification Without Consent of Noteholders.</p> <p>MSFL, Morgan Stanley and the trustee may enter into supplemental indentures without the consent of the Noteholders issued under the Senior Debt Indenture to:</p> <ul style="list-style-type: none"> • secure any debt securities and to secure the guarantee of any debt securities securities; • evidence the assumption by a successor of the obligations of MSFL or Morgan Stanley (including, to evidence the merger of MSFL with and into Morgan Stanley and, in such case, to evidence the elimination of the guarantee); • add covenants for the protection of the Noteholders; |
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| | | <ul style="list-style-type: none"> • cure any ambiguity or correct any inconsistency; • add to, change or eliminate any of the provisions of the Senior Debt Indenture in respect of all or any securities of any series; provided that any such addition, change or elimination (i) shall neither (a) apply to any security issued prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (b) modify the rights of any holder of such security with respect to such provision or (ii) shall become effective only when there is no such security outstanding; • establish the forms or terms of debt securities of any series; or • evidence the acceptance of appointment by a successor trustee. <p>Modifications with Consent of Noteholders</p> <p>The Senior Debt Indenture provides that MSFL, Morgan Stanley and the trustee, with the consent of the holders of not less than a majority in aggregate principal amount of each affected series of outstanding debt securities, voting as one class, may add any provisions to, or change in any manner or eliminate any of the provisions of, the Senior Debt Indenture or modify in any manner the rights of the holders of those debt securities. However, MSFL, Morgan Stanley and the trustee may not make certain changes to any outstanding debt security without the consent of each holder that would be affected by such change, including:</p> <ul style="list-style-type: none"> • extending the final maturity of the principal; • reducing the principal amount; • reducing the rate or extend the time of payment of interest; • reducing any amount payable on redemption; • changing the currency in which the principal and any amount of interest thereon is payable; • modifying or amending the provisions for conversion of any currency into another currency; • reducing the amount of any original issue discount security payable upon acceleration or provable in bankruptcy; • impairing the right of any Noteholder to institute suit for the enforcement of any payment on any Note when due; • removing the guarantee (except upon the merger of MSFL with and into Morgan Stanley); or • reducing the percentage of debt securities the consent of whose holders is required for modification of the Senior Debt Indenture. <p>Governing law</p> <p>The Notes are governed by the laws of the State of New York.</p> |
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| C.9 | Interest, redemption and representation: | <p>See Element C.8 for rights attaching to the Notes, including ranking and limitations to those rights.</p> <p>Each Note bears interest:</p> <ul style="list-style-type: none"> from and including February 22, 2016 to but excluding 23 February 2021: 3.50% per annum; from and including 23 February 2021 to but excluding 23 February 2023: 3.75% per annum; from and including 23 February 2023 to but excluding 23 February 2024: 4.00% per annum; from and including 23 February 2024 to but excluding 23 February 2025: 4.25% per annum; and from and including 23 February 2025 to but excluding the maturity date: 5.00% per annum, <p>(calculated on a 30/360 day count basis), such interest being payable semi-annually in arrears on each 23 February and 23 August, commencing 23 August 2016.</p> <p>Each Note will be redeemed at 100% of its principal amount on the Maturity Date.</p> <p>The yield with respect to the Notes is 3.785 per cent. per annum, as calculated at the Issue Date on the basis of the Principal Amount. This is not an indication of future yield.</p> <p>The Bank of New York Mellon is the trustee for the Noteholders.</p> |
| C.10 | Derivative components: | Not Applicable. The Notes do not have a derivative component. |
| C.11 | Application for admission to trading: | Application will be made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange. |
| Section D - Risks | | |
| D.2 | Key risks specific to the Issuer and the Guarantor: | <p>There are certain factors that may affect MSFL's ability to fulfil its obligations under the Notes. These include:</p> <ul style="list-style-type: none"> as a finance subsidiary, MSFL has no independent operations and will have no independent assets available for distributions to Noteholders if they make claims in respect of the Notes in a bankruptcy, resolution or similar proceeding. Any recoveries by Noteholders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank <i>pari passu</i> with all other unsecured, unsubordinated obligations of Morgan Stanley. The Notes will not have the benefit of any cross-default or cross-acceleration with other indebtedness of MSFL or Morgan Stanley; |

- A Morgan Stanley covenant default or bankruptcy, insolvency or reorganization event does not constitute an event of default with respect to the Notes.

The following key risks affect Morgan Stanley:

- **Market Risk:** Morgan Stanley's results of operations may be materially affected by market fluctuations and by global and economic conditions and other factors. Holding large and concentrated positions may expose Morgan Stanley to losses. These factors may result in losses for a position or portfolio owned by Morgan Stanley.
- **Credit Risk:** Morgan Stanley is exposed to the risk that third parties that are indebted to it will not perform their obligations, as well as that a default by a large financial institution could adversely affect financial markets. Such factors give rise to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to Morgan Stanley.
- **Operational Risk:** Morgan Stanley is subject to the risk of loss, or of damage to its reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Morgan Stanley may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g. sales and trading) and support and control groups (e.g. information technology and trade processing).
- **Liquidity and Funding Risk:** Liquidity is essential to Morgan Stanley's businesses and Morgan Stanley relies on external sources to finance a significant portion of its operations. Morgan Stanley's borrowing costs and access to the debt capital markets depend significantly on its credit ratings. Morgan Stanley is a holding company and depends on payments from its subsidiaries. Further, Morgan Stanley's liquidity and financial condition have in the past been, and in the future could be, adversely affected by U.S. and international markets and economic conditions. As a result of the foregoing, there is a risk that Morgan Stanley will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets; or be unable to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.
- **Legal, Regulatory and Compliance Risk:** Morgan Stanley is subject to the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation it may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its business activities. Morgan Stanley is also subject to contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. Additionally, Morgan Stanley is subject to anti-money laundering and terrorist financing rules and regulations. Further, in today's environment of rapid and possibly transformational regulatory change, Morgan Stanley also views regulatory

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| | | <p>change as a component of legal, regulatory and compliance risk.</p> <ul style="list-style-type: none"> • Risk Management: Morgan Stanley's risk management strategies, models and processes may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk. • Competitive Environment: Morgan Stanley faces strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect its revenue and profitability. Further, automated trading markets may adversely affect Morgan Stanley's business and may increase competition (for example, by putting increased pressure on bid-offer spreads, commissions, markups or comparable fees). Finally, Morgan Stanley's ability to retain and attract qualified employees is critical to the success of its business and the failure to do so may materially adversely affect its performance. • International Risk: Morgan Stanley is subject to numerous political, economic, legal, operational, franchise and other risks as a result of its international operations (including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls, increased taxes and levies and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability) which could adversely impact its businesses in many ways. • Acquisition, Divestiture and Joint Venture Risk: Morgan Stanley may be unable to fully capture the expected value from acquisitions, divestitures, joint ventures, minority stakes and strategic alliances. • Risk Relating to the Exercise of Potential Resolution Measures Powers: The application of regulatory requirements and strategies in the United States to facilitate the orderly resolution of large financial institutions may pose a greater risk of loss for the holders of securities issued or guaranteed by Morgan Stanley. |
| D.3 | Key risks specific to the securities: | <p>The key risks that are specific to the Notes include:</p> <ul style="list-style-type: none"> • Foreign currency risks. The Notes are not appropriate investments for investors who are not sophisticated in foreign currency transactions; • General exchange rate and exchange control risks, including the risk that exchange rates will affect an investment in the Notes, the risk of MSFL's lack of any control over exchange rates and the risk that some currencies may become unavailable and of an alternative payment method used if the payment currency becomes unavailable or governments may, from time to time, use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes or changes in interest rates to influence the exchange rates of their currencies. As a consequence, these government actions could adversely affect yields or payouts in a Noteholder's home currency for securities denominated or payable in currencies other than your home currency; |

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| | | <ul style="list-style-type: none"> Secondary trading of the Notes may be limited. There may be little or no secondary market for the Notes. Even if there is a secondary market, it may not provide enough liquidity to allow the investor to sell or trade the Notes easily. Affiliates of MSFL may from time to time make a market in the Notes, but they are not required to do so. |
| Section E - Offer | | |
| E.2(b) | Use of proceeds: | The Issuer intends to lend the net proceeds from the sale of the Notes to Morgan Stanley. Morgan Stanley intends to use the proceeds from such loans for general corporate purposes. |
| E.3 | Terms and conditions of the offer: | Not Applicable. This Prospectus has been prepared for the purpose of the admission of the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange. |
| E.4 | Interests material to the issue: | Not Applicable. See E.3 above. |
| E.7 | Expenses charged to the investor by MSFL: | Not Applicable. See E.3 above. |

RISK FACTORS

This section describes the principal risks of investing in the Notes. Prospective investors should read the entire Prospectus. Words and expressions defined elsewhere in this Prospectus have the same meanings in this section. Prospective investors should consider, among other things, the following:

Holders of Notes bear the credit risk of MSFL and Morgan Stanley, that is the risk that the Issuer and/or the Guarantor is not able to meet its obligations under such Notes, irrespective of whether such Notes are referred to as capital or principal protected or how any principal, interest or other payments under Notes are to be calculated.

RISKS RELATING TO MSFL

The following are risks that may affect MSFL and its ability to fulfil its obligations under the Notes.

As a finance subsidiary, MSFL has no independent operations and is expected to have no independent assets.

The principal risks with respect to Morgan Stanley will also represent the principal risks with respect to MSFL, either as an individual entity or as part of the Morgan Stanley Group.

MSFL has no independent operations beyond the issuance and administration of its securities and is expected to have no independent assets available for distributions to holders of the Notes if they make claims in respect of the Notes in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of Morgan Stanley present and future, but, in the event of insolvency, only to the extent permitted by laws affecting creditors' rights. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of the Notes should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

RISKS RELATING TO MORGAN STANLEY

The following are risks that may affect Morgan Stanley and its ability to fulfil its obligations under the guarantee in respect of the Notes.

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 market liquidity, will result in losses for a position or portfolio owned by Morgan Stanley.

Morgan Stanley's results of operations may be materially affected by market fluctuations and by global and economic conditions and other factors.

Morgan Stanley's results of operations have been in the past and may be materially affected by market fluctuations due to global and economic conditions and other factors, including the level and volatility of equity, fixed income and commodity prices (including oil prices), interest rates, currency values and other market indices. The results of Morgan Stanley's Institutional Securities business segment, particularly results relating to Morgan Stanley's involvement in primary and secondary markets for all types of financial products, are subject to substantial market fluctuations due to a variety of factors that Morgan Stanley cannot control or predict with great certainty. These fluctuations impact results by causing variations in new business flows and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realisation of returns from Morgan Stanley's principal investments. During periods of unfavourable market or economic conditions, the level of individual investor participation in the global markets, as well as the level of client assets, may also decrease, which would negatively impact the results of Morgan Stanley's

Wealth Management business segment. In addition, fluctuations in global market activity could impact the flow of investment capital into or from assets under management or supervision and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact Morgan Stanley's Investment Management business segment.

The value of Morgan Stanley's financial instruments may be materially affected by market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets make it extremely difficult to value certain of Morgan Stanley's financial instruments, particularly during periods of market displacement. Subsequent valuations in future periods, in light of factors then prevailing, may result in significant changes in the values of these instruments and may adversely impact historical or prospective performance-based fees (also known as incentive fees or carried interest) in respect of certain business. In addition, at the time of any sales and settlements of these financial instruments, the price Morgan Stanley ultimately realises will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of Morgan Stanley's financial instruments, which may have an adverse effect on its results of operations in future periods.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale. Morgan Stanley's risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. However, severe market events have historically been difficult to predict and Morgan Stanley could realise significant losses if extreme market events were to occur.

Holding large and concentrated positions may expose Morgan Stanley to losses.

Concentration of risk may reduce revenues or result in losses in Morgan Stanley's market-making, investing, block trading, underwriting and lending businesses in the event of unfavourable market movements. Morgan Stanley commits substantial amounts of capital to these businesses, which often results in its taking large positions in the securities of, or making large loans to, a particular issuer or issuers in a particular industry, country or region.

Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to Morgan Stanley.

Morgan Stanley is exposed to the risk that third parties that are indebted to it will not perform their obligations.

Morgan Stanley incurs significant credit risk exposure through its Institutional Securities business segment. This risk may arise from a variety of business activities, including but not limited to extending credit to clients through various loans and lending commitments; providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; entering into swap or other derivative contracts under which counterparties have obligations to make payments to Morgan Stanley; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans.

Morgan Stanley also incurs credit risk in its Wealth Management business segment lending to mainly individual investors, including, but not limited to, margin and securities-based loans collateralised by securities, residential mortgage loans and home equity lines of credit.

While Morgan Stanley believes current valuations and reserves adequately address its perceived levels of risk, adverse economic conditions may negatively impact its clients and its current credit exposures. In addition, as a clearing member of several central counterparties, Morgan Stanley finances its customer positions and it could be held responsible for the defaults or misconduct of its customers. Although

Morgan Stanley regularly reviews its credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

A default by a large financial institution could adversely affect financial markets.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. For example, increased centralisation of trading activities through particular clearing houses, central agents or exchanges as required by provisions of the Dodd-Frank Act may increase Morgan Stanley's concentration of risk with respect to these entities. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which Morgan Stanley interacts with on a daily basis, and therefore could adversely affect Morgan Stanley.

Operational Risk

Operational risk refers to the risk of loss, or of damage to Morgan Stanley's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g., fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Morgan Stanley may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g., sales and trading) and support and control groups (e.g., information technology and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under "Legal, Regulatory and Compliance Risk".

Morgan Stanley is subject to operational risks, including a failure, breach or other disruption of its operational or security systems, that could adversely affect its businesses or reputation.

Morgan Stanley's businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In some of its businesses, the transactions Morgan Stanley processes are complex. In addition, Morgan Stanley may introduce new products or services or change processes, resulting in new operational risk that Morgan Stanley may not fully appreciate or identify. The trend toward direct access to automated, electronic markets and the move to more automated trading platforms has resulted in using increasingly complex technology that relies on the continued effectiveness of the programming code and integrity of the data to process the trades. Morgan Stanley performs the functions required to operate its different businesses either by itself or through agreements with third parties. Morgan Stanley relies on the ability of its employees, its internal systems and systems at technology centres operated by unaffiliated third parties to process a high volume of transactions.

As a major participant in the global capital markets, Morgan Stanley maintains extensive controls to reduce the risk of incorrect valuation or risk management of its trading positions due to flaws in data, models, electronic trading systems or processes or due to fraud. Nevertheless, such risk cannot be completely eliminated.

Morgan Stanley also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate its securities transactions. In the event of a breakdown or improper operation of Morgan Stanley's or a third party's systems or improper or unauthorised action by third parties or Morgan Stanley's employees, Morgan Stanley could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions or damage to its reputation. In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact Morgan Stanley's ability to conduct business.

Despite the business contingency plans Morgan Stanley has in place, there can be no assurance that such plans will fully mitigate all potential business continuity risks to Morgan Stanley. Morgan Stanley's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its business and the communities where Morgan Stanley is located, which are concentrated in the New York metropolitan area, London, Hong Kong and Tokyo as well as Mumbai, Budapest, Glasgow and Baltimore. This may include a disruption involving physical site access, cyber incidents, terrorist

activities, disease pandemics, catastrophic events, natural disasters, extreme weather events, electrical, environmental, computer servers, communications or other services Morgan Stanley uses, its employees or third parties with whom Morgan Stanley conducts business.

Although Morgan Stanley devotes significant resources to maintaining and upgrading its systems and networks with measures such as intrusion and detection prevention systems, monitoring firewalls to safeguard critical business applications, and supervising third party providers that have access to Morgan Stanley's systems, there is no guarantee that these measures or any other measures can provide absolute security. Like other financial services firms, Morgan Stanley and its third party providers continue to be the subject of attempted unauthorised access, mishandling or misuse of information, computer viruses or malware, cyber attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, denial of service attacks and other events. These threats may derive from human error, fraud or malice on the part of Morgan Stanley's employees or third parties, including third party providers, or may result from accidental technological failure. Additional challenges are posed by external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends. Any of these parties may also attempt to fraudulently induce employees, customers, clients, third parties or other users of Morgan Stanley's systems to disclose sensitive information in order to gain access to Morgan Stanley's data or that of its customers or clients. There can be no assurance that such unauthorised access or cyber incidents will not occur in the future, and they could occur more frequently and on a more significant scale.

If one or more of these events occur, it could result in a security impact on Morgan Stanley's systems and jeopardise its or its clients', partners' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, its and its third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in Morgan Stanley's, its clients', partners', counterparties' or third parties' operations, which could result in reputational damage with Morgan Stanley's clients and the market, client dissatisfaction, additional costs to Morgan Stanley (such as repairing systems or adding new personnel or protection technologies), regulatory investigations, litigation or enforcement, or regulatory fines or penalties, all or any of which could adversely affect Morgan Stanley's business, financial condition or results of operations.

Given Morgan Stanley's global footprint and the high volume of transactions Morgan Stanley processes, the large number of clients, partners and counterparties with which Morgan Stanley does business and the increasing sophistication of cyber attacks, a cyber attack could occur and persist for an extended period of time without detection. Morgan Stanley expects that any investigation of a cyber attack would be inherently unpredictable and that it would take time before the completion of any investigation and before there is availability of full and reliable information. During such time Morgan Stanley would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber attack.

While many of Morgan Stanley's agreements with partners and third party vendors include indemnification provisions, Morgan Stanley may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses. In addition, although Morgan Stanley maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

Liquidity and Funding Risk

Liquidity and funding risk refers to the risk that Morgan Stanley will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses its ability to meet its financial obligations, including the guarantee obligations of Morgan Stanley in respect of the Notes, without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

Liquidity is essential to Morgan Stanley's businesses and Morgan Stanley relies on external sources to finance a significant portion of its operations.

Liquidity is essential to Morgan Stanley's businesses. Morgan Stanley's liquidity could be negatively affected by its inability to raise funding in the long-term or short-term debt capital markets or its inability to access the secured lending markets. Factors that Morgan Stanley cannot control, such as disruption of

the financial markets or negative views about the financial services industry generally, including concerns regarding fiscal matters in the U.S. and other geographic areas, could impair Morgan Stanley's ability to raise funding. In addition, Morgan Stanley's ability to raise funding could be impaired if investors or lenders develop a negative perception of Morgan Stanley's long-term or short-term financial prospects due to factors such as an incurrence of large trading losses, a downgrade by the rating agencies, a decline in the level of its business activity, or if regulatory authorities take significant action against Morgan Stanley or its industry, or Morgan Stanley discovers significant employee misconduct or illegal activity. If Morgan Stanley is unable to raise funding using the methods described above, it would likely need to finance or liquidate unencumbered assets, such as its investment and trading portfolios, to meet maturing liabilities. Morgan Stanley may be unable to sell some of its assets, or it may have to sell assets at a discount to market value, either of which could adversely affect Morgan Stanley's results of operations, cash flows and financial condition, including with respect to the guarantee obligations of Morgan Stanley in respect of the Notes.

Morgan Stanley's borrowing costs and access to the debt capital markets depend significantly on its credit ratings.

The cost and availability of unsecured financing generally are impacted by Morgan Stanley's short-term and long-term credit ratings. The rating agencies are continuing to monitor certain issuer specific factors that are important to the determination of Morgan Stanley's credit ratings, including governance, the level and quality of earnings, capital adequacy, funding and liquidity, risk appetite and management, asset quality, strategic direction and business mix. Additionally, the rating agencies will look at other industry-wide factors such as regulatory or legislative changes, including, for example, regulatory changes relating to total loss absorbing capacity requirements, macro-economic environment, and perceived levels of third party support, and it is possible that they could downgrade Morgan Stanley's ratings and those of similar institutions.

Morgan Stanley's credit ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as over-the-counter ("OTC") derivative transactions, including credit derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with Morgan Stanley's Institutional Securities business segment, Morgan Stanley may be required to provide additional collateral to, or immediately settle any outstanding liability balance with, certain counterparties in the event of a credit ratings downgrade. Termination of Morgan Stanley's trading and other agreements could cause Morgan Stanley to sustain losses and impair its liquidity by requiring it to find other sources of financing or to make significant cash payments or securities movements. The additional collateral or termination payments which may occur in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and S&P.

The guarantee obligations of Morgan Stanley in respect of the Notes are senior unsecured obligations of Morgan Stanley, and all payments under such guarantee, including the repayment of principal of the Notes, are subject to the credit risk of Morgan Stanley.

Morgan Stanley is a holding company and depends on payments from its subsidiaries.

Morgan Stanley is a holding company and depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including the guarantee obligations of Morgan Stanley in respect of the Notes. Regulatory, tax restrictions or elections and other legal restrictions may limit Morgan Stanley's ability to transfer funds freely, either to or from its subsidiaries. In particular, many of Morgan Stanley's subsidiaries, including its broker-dealer subsidiaries, are subject to laws, regulations and self-regulatory organisation rules that authorise regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances, including steps to "ring fence" entities by regulators outside of the U.S. to protect clients and creditors of such entities in the event of financial difficulties involving such entities. These laws, regulations and rules may hinder Morgan Stanley's ability to access funds that it may need to make payments on its obligations, including the guarantee obligations of Morgan Stanley in respect of the Notes. Furthermore, as a bank holding company, Morgan Stanley may become subject to a prohibition or to limitations on its ability to pay dividends or repurchase its common stock. The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System (the "**Federal Reserve**") and the Federal Deposit Insurance Corporation ("**FDIC**") have the authority, and under certain circumstances the duty, to prohibit or to limit the payment of dividends by the

banking organisations they supervise, including Morgan Stanley and its U.S. bank subsidiaries, Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association (collectively, "**U.S. Bank Subsidiaries**").

Morgan Stanley's liquidity and financial condition have in the past been, and in the future could be, adversely affected by U.S. and international markets and economic conditions.

Morgan Stanley's ability to raise funding in the long-term or short-term debt capital markets or the equity markets, or to access secured lending markets, has in the past been, and could in the future be, adversely affected by conditions in the U.S. and international markets and economies. Global market and economic conditions have been particularly disrupted and volatile in the last several years and may be in the future. In particular, Morgan Stanley's cost and availability of funding in the past have been, and may in the future be, adversely affected by illiquid credit markets and wider credit spreads. Significant turbulence in the U.S., the European Union and other international markets and economies could adversely affect Morgan Stanley's liquidity and financial condition, including with respect to the guarantee obligations of Morgan Stanley in respect of the Notes, and the willingness of certain counterparties and customers to do business with Morgan Stanley.

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation Morgan Stanley may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Morgan Stanley's Anti-Money Laundering and terrorist financing rules and regulations. In today's environment of rapid and possibly transformational regulatory change, Morgan Stanley also views regulatory change as a component of legal, regulatory and compliance risk.

The financial services industry is subject to extensive regulation, which is undergoing major changes that will impact Morgan Stanley's business.

Like other major financial services firms, Morgan Stanley is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in each of the major markets where Morgan Stanley conducts its business. These laws and regulations significantly affect the way Morgan Stanley does business and can restrict the scope of its existing businesses and limit its ability to expand its product offerings and pursue certain investments.

In response to the financial crisis, legislators and regulators, both in the U.S. and worldwide, have adopted, continue to propose and are in the process of adopting, finalising and implementing a wide range of financial market reforms that are resulting in major changes to the way Morgan Stanley's global operations are regulated and conducted. In particular, as a result of these reforms, Morgan Stanley is, or will become, subject to (among other things) significantly revised and expanded regulation and supervision, more intensive scrutiny of its businesses and any plans for expansion of those businesses, new activities limitations, a systemic risk regime that imposes heightened capital and liquidity requirements and other enhanced prudential standards, new resolution regimes and resolution planning requirements, new requirements for maintaining minimum amounts of external total loss-absorbing capacity and external long-term debt, new restrictions on activities and investments imposed by a section of the Banking Holiday Act of 1956, as amend (the "**BHC Act**") added by the Dodd-Frank Act referred to as the "**Volcker Rule**", and comprehensive new derivatives regulation. While certain portions of these reforms are effective, others are still subject to final rulemaking or transition periods. Many of the changes required by these reforms could materially impact the profitability of Morgan Stanley's businesses and the value of assets it holds, expose it to additional costs, require changes to business practices or force it to discontinue businesses, adversely affect its ability to pay dividends and repurchase its stock, or require it to raise capital, including in ways that may adversely impact its shareholders or creditors. In addition, regulatory requirements that are being proposed by foreign policymakers and regulators may be inconsistent or conflict with regulations that Morgan Stanley is subject to in the U.S. and, if adopted, may adversely affect it. While there continues to be uncertainty about the full impact of these changes, Morgan Stanley does know that it is and will continue to be subject to a more complex

regulatory framework, and will incur costs to comply with new requirements as well as to monitor for compliance in the future.

The application of regulatory requirements and strategies in the United States to facilitate the orderly resolution of large financial institutions may pose a greater risk of loss for the security holders of Morgan Stanley.

Pursuant to the Dodd-Frank Act, Morgan Stanley is required to submit to the Federal Reserve and the FDIC an annual resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of Morgan Stanley. In addition, provided that certain procedures are met, Morgan Stanley can be subject to a resolution proceeding under the orderly liquidation authority under Title II of the Dodd-Frank Act with the FDIC being appointed as receiver. The FDIC's power under the orderly liquidation authority to disregard the priority of creditor claims and treat similarly situated creditors differently in certain circumstances, subject to certain limitations, could adversely impact holders of Morgan Stanley's unsecured debt.

Further, because both Morgan Stanley's resolution plan contemplates a single-point-of-entry ("SPOE") strategy under the U.S. Bankruptcy Code and the FDIC has proposed an SPOE strategy through which it may apply its orderly liquidation authority powers, Morgan Stanley believes that the application of an SPOE strategy is the reasonably likely outcome if either its resolution plan were implemented or a resolution proceeding were commenced under the orderly liquidation authority. An SPOE strategy generally contemplates the provision of additional capital and liquidity by Morgan Stanley to certain subsidiaries in an effort to ensure that such subsidiaries have the resources necessary to implement the resolution strategy. Although this strategy, whether applied pursuant to Morgan Stanley's resolution plan or in a resolution proceeding under the orderly liquidation authority, is intended to result in better outcomes for creditors overall, there is no guarantee that the application of an SPOE strategy will not result in greater losses for holders of Morgan Stanley's securities compared to a different resolution strategy for the firm.

Regulators have taken and proposed various actions to facilitate an SPOE strategy under the U.S. Bankruptcy Code, the orderly liquidation authority or other resolution regimes. For example, the Federal Reserve has issued a proposed rule that would require top-tier bank holding companies of U.S. global systemically important banks, including Morgan Stanley, to maintain minimum amounts of equity and eligible long-term debt ("**total loss-absorbing capacity**" or "**TLAC**") in order to ensure that such institutions have enough loss-absorbing resources at the point of failure to be recapitalised through the conversion of debt to equity or otherwise by imposing losses on eligible TLAC where the SPOE strategy is used.

The financial services industry faces substantial litigation and is subject to extensive regulatory investigations, and Morgan Stanley may face damage to its reputation and legal liability.

As a global financial services firm, Morgan Stanley faces the risk of investigations and proceedings by governmental and self-regulatory organisations in all countries in which it conducts its business. Interventions by authorities may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In addition to the monetary consequences, these measures could, for example, impact Morgan Stanley's ability to engage in, or impose limitations on, certain of its businesses. The number of these investigations and proceedings, as well as the amount of penalties and fines sought, has increased substantially in recent years with regard to many firms in the financial services industry, including Morgan Stanley. Significant regulatory action against Morgan Stanley could materially adversely affect its business, financial condition or results of operations or cause it significant reputational harm, which could seriously harm its business. The Dodd-Frank Act also provides compensation to whistleblowers who present the United States Securities and Exchange Commission (the "**SEC**") or the United States Commodity Futures Trading Commission (the "**CFTC**") with information related to securities or commodities law violations that leads to a successful enforcement action. As a result of this compensation, it is possible Morgan Stanley could face an increased number of investigations by the SEC or CFTC.

Morgan Stanley has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, as well as investigations or proceedings brought by regulatory agencies, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal or regulatory actions include claims for substantial

compensatory and/or punitive damages, claims for indeterminate amounts of damages, or may result in penalties, fines, or other results adverse to Morgan Stanley. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress. Like any large corporation, Morgan Stanley is also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information.

Morgan Stanley may be responsible for representations and warranties associated with residential and commercial real estate loans and may incur losses in excess of its reserves.

Morgan Stanley originates loans secured by commercial and residential properties. Further, Morgan Stanley securitises and trades in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. In connection with these activities, Morgan Stanley has provided, or otherwise agreed to be responsible for, certain representations and warranties. Under certain circumstances, Morgan Stanley may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. Morgan Stanley has also made representations and warranties in connection with its role as an originator of certain commercial mortgage loans that it securitised in commercial mortgage-backed securities.

Morgan Stanley currently has several legal proceedings related to claims for alleged breaches of representations and warranties. If there are decisions adverse to Morgan Stanley in those legal proceedings, it may incur losses substantially in excess of its reserves. In addition, Morgan Stanley's reserves are based, in part, on certain factual and legal assumptions. If those assumptions are incorrect and need to be revised, Morgan Stanley may need to adjust its reserves substantially.

Morgan Stanley's commodities activities subject it to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose it to significant costs and liabilities.

In connection with the commodities activities in its Institutional Securities business segment, Morgan Stanley engages in the production, storage, transportation, marketing and execution of transactions in several commodities, including metals, natural gas, electric power, emission credits, and other commodity products. In addition, Morgan Stanley is an electricity power marketer in the U.S. and owns electricity generating facilities in the U.S. and owns a minority interest in Heidmar Holdings LLC, which owns a group of companies that provide international marine transportation and U.S. marine logistics services. As a result of these activities, Morgan Stanley is subject to extensive and evolving energy, commodities, environmental, health and safety and other governmental laws and regulations. In addition, liability may be incurred without regard to fault under certain environmental laws and regulations for the remediation of contaminated areas. Further, through these activities Morgan Stanley is exposed to regulatory, physical and certain indirect risks associated with climate change.

Although Morgan Stanley has attempted to mitigate its environmental risks by, among other measures, selling or ceasing much of its prior petroleum storage and transportation activities and adopting appropriate policies and procedures for power plant operations and implementing emergency response programs, these actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, Morgan Stanley's financial condition, results of operations and cash flows may be adversely affected by these events.

The BHC Act provides a grandfather exemption for "activities related to the trading, sale or investment in commodities and underlying physical properties", provided that Morgan Stanley was engaged in "any of such activities as of September 30, 1997 in the United States" and provided that certain other conditions that are within Morgan Stanley's reasonable control are satisfied. If the Federal Reserve were to determine that any of Morgan Stanley's commodities activities did not qualify for the BHC Act grandfather exemption, then Morgan Stanley would likely be required to divest any such activities that did not otherwise conform to the BHC Act.

Morgan Stanley also expects the other laws and regulations affecting its commodities business to increase in both scope and complexity. During the past several years, intensified scrutiny of certain energy markets by federal, state and local authorities in the U.S. and abroad and the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies conducting the activities in which Morgan Stanley is engaged. In addition, new regulation of OTC

derivatives markets in the U.S. and similar legislation proposed or adopted abroad will impose significant new costs and impose new requirements on Morgan Stanley's commodities derivatives activities. Morgan Stanley may incur substantial costs or loss of revenue in complying with current or future laws and regulations and its overall businesses and reputation may be adversely affected by the current legal environment. In addition, failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties.

A failure to address conflicts of interest appropriately could adversely affect Morgan Stanley's businesses and reputation.

As a global financial services firm that provides products and services to a large and diversified group of clients, including corporations, governments, financial institutions and individuals, Morgan Stanley faces potential conflicts of interest in the normal course of business. For example, potential conflicts can occur when there is a divergence of interests between Morgan Stanley and a client, among clients, or between an employee on the one hand and Morgan Stanley or a client on the other. Morgan Stanley has policies, procedures and controls that are designed to identify and address potential conflicts of interest. However, identifying and mitigating potential conflicts of interest can be complex and challenging, and can become the focus of media and regulatory scrutiny. Indeed, actions that merely appear to create a conflict can put Morgan Stanley's reputation at risk even if the likelihood of an actual conflict has been mitigated. It is possible that potential conflicts could give rise to litigation or enforcement actions, which may lead to Morgan Stanley's clients being less willing to enter into transactions in which a conflict may occur and could adversely affect Morgan Stanley's businesses and reputation.

Morgan Stanley's regulators have the ability to scrutinise its activities for potential conflicts of interest, including through detailed examinations of specific transactions. Morgan Stanley's status as a bank holding company supervised by the Federal Reserve subjects it to direct Federal Reserve scrutiny with respect to transactions between Morgan Stanley's U.S. Bank Subsidiaries and their affiliates.

Risk Management

Morgan Stanley's risk management strategies, models and processes may not be fully effective in mitigating its risk exposures in all market environments or against all types of risk.

Morgan Stanley has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future. Nonetheless, Morgan Stanley's risk management strategies, models and processes, including its use of various risk models for assessing market exposures and hedging strategies, stress testing and other analysis, may not be fully effective in mitigating Morgan Stanley's risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. As Morgan Stanley's businesses change and grow, and the markets in which Morgan Stanley operates evolve, its risk management strategies, models and processes may not always adapt with those changes. Some of Morgan Stanley's methods of managing risk are based upon its use of observed historical market behaviour and management's judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. In addition, many models Morgan Stanley uses are based on assumptions or inputs regarding correlations among prices of various asset classes or other market indicators and therefore cannot anticipate sudden, unanticipated or unidentified market or economic movements, which could cause Morgan Stanley to incur losses.

Management of market, credit, liquidity, operational, legal, regulatory and compliance risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Morgan Stanley's trading risk management strategies and techniques also seek to balance its ability to profit from trading positions with its exposure to potential losses. While Morgan Stanley employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. For example, to the extent that Morgan Stanley's trading or investing activities involve less liquid trading markets or are otherwise subject to restrictions on sale or hedging, Morgan Stanley may not be able to reduce its positions and therefore reduce its risk associated with such positions. Morgan Stanley may, therefore, incur losses in the course of its trading or investing activities.

Competitive Environment

Morgan Stanley faces strong competition from other financial services firms which could lead to pricing pressures that could materially adversely affect its revenue and profitability.

The financial services industry and all aspects of Morgan Stanley's businesses are intensely competitive, and Morgan Stanley expects them to remain so. Morgan Stanley competes with commercial banks, brokerage firms, insurance companies, electronic trading and clearing platforms, financial data repositories, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial or ancillary services in the U.S., globally and through the internet. Morgan Stanley competes on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, technology, reputation, risk appetite and price. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have left businesses, been acquired by or merged into other firms or have declared bankruptcy. Such changes could result in Morgan Stanley's remaining competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity, or new competitors may emerge. Morgan Stanley has experienced and may continue to experience pricing pressures as a result of these factors and as some of its competitors seek to obtain market share by reducing prices. In addition, certain of Morgan Stanley's competitors may be subject to different, and in some cases, less stringent, legal and regulatory regimes, than Morgan Stanley is, thereby putting it at a competitive disadvantage.

Automated trading markets may adversely affect Morgan Stanley's business and may increase competition.

Morgan Stanley has experienced intense price competition in some of its businesses in recent years. In particular, the ability to execute securities, derivatives and other financial instrument trades electronically on exchanges, swap execution facilities, and other automated trading platforms has increased the pressure on bid-offer spreads, commissions, mark-ups or comparable fees. The trend toward direct access to automated, electronic markets will likely continue and will likely increase as additional markets move to more automated trading platforms. Morgan Stanley has experienced and it is likely that it will continue to experience competitive pressures in these and other areas in the future as some of its competitors may seek to obtain market share by reducing bid-offer spreads, commissions, mark-ups or comparable fees.

Morgan Stanley's ability to retain and attract qualified employees is critical to the success of its business and the failure to do so may materially adversely affect its performance.

Morgan Stanley's people are its most important resource and competition for qualified employees is intense. If Morgan Stanley is unable to continue to attract and retain highly qualified employees, or do so at rates or in forms necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Morgan Stanley's performance, including its competitive position, could be materially adversely affected. The financial industry has experienced and may continue to experience more stringent regulation of employee compensation, including limitations relating to incentive-based compensation, clawback requirements and special taxation, which could have an adverse effect on Morgan Stanley's ability to hire or retain the most qualified employees.

International Risk

Morgan Stanley is subject to numerous political, economic, legal, operational, franchise and other risks as a result of its international operations which could adversely impact its businesses in many ways.

Morgan Stanley is subject to political, economic, legal, tax, operational, franchise and other risks that are inherent in operating in many countries, including risks of possible nationalisation, expropriation, price controls, capital controls, exchange controls, increased taxes and levies and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for Morgan Stanley to determine the exact requirements of local laws in every market. Morgan Stanley's inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on its business in that market but also on its

reputation generally. Morgan Stanley is also subject to the enhanced risk that transactions it structures might not be legally enforceable in all cases.

Various emerging market countries have experienced severe political, economic and financial disruptions, including significant devaluations of their currencies, defaults or potential defaults on sovereign debt, capital and currency exchange controls, high rates of inflation and low or negative growth rates in their economies. Crime and corruption, as well as issues of security and personal safety, also exist in certain of these countries. These conditions could adversely impact Morgan Stanley's businesses and increase volatility in financial markets generally.

The emergence of a disease pandemic or other widespread health emergency, or concerns over the possibility of such an emergency as well as natural disasters, terrorist activities or military actions, could create economic and financial disruptions in emerging markets and other areas throughout the world, and could lead to operational difficulties (including travel limitations) that could impair Morgan Stanley's ability to manage its businesses around the world.

As a U.S. company, Morgan Stanley is required to comply with the economic sanctions and embargo programs administered by the U.S. Treasury's Office of Foreign Assets Control and similar multi-national bodies and governmental agencies worldwide, as well as applicable anti-corruption laws in the jurisdictions in which Morgan Stanley operates, such as the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act. A violation of a sanction, embargo program, or anti-corruption law could subject Morgan Stanley, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties.

Acquisition, Divestiture and Joint Venture Risk

Morgan Stanley may be unable to fully capture the expected value from acquisitions, divestitures, joint ventures, minority stakes and strategic alliances.

In connection with past or future acquisitions, divestitures, joint ventures or strategic alliances (including with Mitsubishi UFJ Financial Group, Inc.), Morgan Stanley faces numerous risks and uncertainties combining, transferring, separating or integrating the relevant businesses and systems, including the need to combine or separate accounting and data processing systems and management controls and to integrate relationships with clients, trading counterparties and business partners. In the case of joint ventures and minority stakes, Morgan Stanley is subject to additional risks and uncertainties because it may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under its control.

In addition, conflicts or disagreements between Morgan Stanley and any of its joint venture partners may negatively impact the benefits to be achieved by the relevant joint venture.

There is no assurance that any of Morgan Stanley's acquisitions or divestitures will be successfully integrated or disaggregated or yield all of the positive benefits anticipated. If Morgan Stanley is not able to integrate or disaggregate successfully its past and future acquisitions or dispositions, there is a risk that its results of operations, financial condition and cash flows may be materially and adversely affected.

Certain of Morgan Stanley's business initiatives, including expansions of existing businesses, may bring Morgan Stanley into contact, directly or indirectly, with individuals and entities that are not within its traditional client and counterparty base and may expose it to new asset classes and new markets. These business activities expose Morgan Stanley to new and enhanced risks, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks, and reputational concerns regarding the manner in which these assets are being operated or held.

For more information regarding the regulatory environment in which Morgan Stanley operates, see also "Supervision and Regulation" in Part I, Item 1, page 2 of Morgan Stanley's Annual Report on Form 10-K for the year ended 31 December 2015, which has been incorporated by reference on page 29 of this Prospectus.

RISK FACTORS RELATING TO THE NOTES

Foreign-Currency Risks

Prospective investors should consult their financial and legal advisers as to any specific risks entailed by an investment in Notes that are denominated or payable in a currency other than the currency of the country in which they are resident or in which they conduct their business, referred to as their "home currency". Such Notes are not appropriate investments for investors who are not sophisticated in foreign currency transactions.

Exchange rates and exchange controls may affect the Notes' value or return

General Exchange Rate and Exchange Control Risks. An investment in a Note denominated or payable in currencies other than the investor's home currency entails significant risks. The risks include the possibility of significant changes in rates of exchange between its home currency and the other relevant currencies and the possibility of the imposition or modification of exchange controls by the relevant governmental entities. These risks generally depend on economic and political events over which MSFL and Morgan Stanley have no control.

Exchange Rates Will Affect the Investor's Investment. In recent years, rates of exchange between some currencies have been highly volatile and this volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of any Note. Depreciation against the investor's home currency or the currency in which a Note is payable would result in a decrease in the effective yield of the Note below its coupon rate and could result in an overall loss to an investor on the basis of the investor's home currency.

MSFL and Morgan Stanley Have No Control Over Exchange Rates. Currency exchange rates can either float or be fixed. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to each other. However, from time to time governments may use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes, or changes in interest rates to influence the exchange rates of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. These governmental actions could change or interfere with currency valuations and currency fluctuations that would otherwise occur in response to economic forces, as well as in response to the movement of currencies across borders.

As a consequence, these government actions could adversely affect yields or payouts in the investor's home currency for Notes denominated or payable in currencies other than the investor's home currency.

MSFL will not make any adjustment or change in the terms of the Notes in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting any currency. The investor will bear those risks.

Some Currencies May Become Unavailable. Governments have imposed from time to time, and may in the future impose, exchange controls that could also affect the availability of a currency. Even if there are no actual exchange controls, it is possible that the applicable currency for any security would not be available when payments on that security are due.

The Notes Will Not Have the Benefit of any Cross-Default or Cross-Acceleration with Other Indebtedness of MSFL or Morgan Stanley; A Morgan Stanley Covenant Default or Bankruptcy, Insolvency or Reorganization Event Does Not Constitute an Event of Default With Respect to the Notes

The Notes will not have the benefit of any cross-default or cross-acceleration with other indebtedness of MSFL or Morgan Stanley. In addition, a covenant default by Morgan Stanley, as guarantor, or an event of bankruptcy, insolvency or reorganization of Morgan Stanley, as guarantor, does not constitute an event of default with respect to the Notes.

Secondary trading of the Notes may be limited

There may be little or no secondary market for the Notes. Even if there is a secondary market, it may not provide enough liquidity to allow the investor to sell or trade the Notes easily. Affiliates of MSFL or Morgan Stanley may from time to time make a market in the Notes, but they are not required to do so. If at any time such affiliates of MSFL or Morgan Stanley were to cease making a market in the Notes, it is likely that there would be little or no secondary market for the Notes.

INCORPORATION BY REFERENCE

The following documents (or parts thereof) shall be deemed to be incorporated into and form part of this Prospectus:

- (A) MSFL's Report and Financial Statements for the year ended 31 December 2015 (as set out at http://www.morganstanleyiq.eu/EN/binaer_view.asp?binaernr=4634):
- Independent Auditors' Report on pages 1 to 2;
 - Statement of Financial Condition on page 3;
 - Statement of Income on page 4;
 - Statement of Cash Flows on page 5;
 - Statement of Changes in Member's Equity on page 6; and
 - Notes to Financial Statements on pages 7 to 9;
- (B) MSFL's Report and Financial Statements for the year ended 31 December 2014 (as set out at http://www.morganstanleyiq.eu/EN/binaer_view.asp?binaernr=4633):
- Independent Auditors' Report on pages 1 to 2;
 - Statement of Financial Condition on page 3;
 - Statement of Income on page 4;
 - Statement of Cash Flows on page 5;
 - Statement of Changes in Shareholder's Equity on page 6; and
 - Notes to Financial Statements on pages 7 to 9;
- (C) the Registration Document dated 10 June 2016 (which has been approved by the Luxembourg Commission de Surveillance du Secteur Financier and is available in electronic form at: http://www.morganstanleyiq.eu/EN/binaer_view.asp?binaernr=4636):
- Risk factors on pages 1 to 14;
 - Information Incorporated by Reference on pages 15 to 21;
 - Description of Morgan Stanley on pages 22 to 60;
 - Selected Financial Information of Morgan Stanley on page 61;
 - Description of Morgan Stanley & Co. International plc on pages 62 to 66;
 - Selected Financial Information of Morgan Stanley & Co. International plc on page 67;
 - Description of Morgan Stanley BV on pages 68 to 70;
 - Selected Financial Information of Morgan Stanley B.V. on page 71;
 - Description of Morgan Stanley Finance LLC on pages 72 to 73;
 - Selected Financial Information of Morgan Stanley Finance LLC on page 74;
 - Significant Subsidiaries of Morgan Stanley as at 31 December 2015 on pages 75 to 88; and

- Index of defined terms on page 89;
- (D) the following sections of Morgan Stanley's Annual Report on Form 10-K for year ended 31 December 2015 (as set out at <http://www.sec.gov>):
- Business on pages 1 to 12;
 - Risk Factors on pages 13 to 23;
 - Unresolved Staff Comments on page 23;
 - Properties on page 23;
 - Legal Proceedings on pages 24 to 32;
 - Mine Safety Disclosures on page 32;
 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities on pages 33 to 35;
 - Selected Financial Data on pages 36 to 37;
 - Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 38 to 97;
 - Quantitative and Qualitative Disclosures about Market Risk on pages 98 to 120;
 - Financial Statements and Supplementary Data on pages 121 to 258;
 - Report of Independent Registered Public Accounting Firm for years ended 31 December 2015 and 31 December 2014 on page 121;
 - Consolidated Statements of Income for the years ended 31 December 2015 and 31 December 2014 (the column headed 2013 is specifically omitted from incorporation by reference) on page 122;
 - Consolidated Statements of Comprehensive Income for the years ended 31 December 2015 and 31 December 2014 (the column headed 2013 is specifically omitted from incorporation by reference) on page 123;
 - Consolidated Statements of Financial Condition for the years ended 31 December 2015 and 31 December 2014 on page 124;
 - Consolidated Statements of Changes in Total Equity for the years ended 31 December 2015 and 31 December 2014 (the column headed 2013 is specifically omitted from incorporation by reference) on page 125;
 - Consolidated Statements of Cash Flows for the years ended 31 December 2015 and 31 December 2014 (the column headed 2013 is specifically omitted from incorporation by reference) on page 126;
 - Notes to Consolidated Financial Statements for year ended 31 December 2015 on pages 127 to 250; and
 - Financial Data Supplement (Unaudited) on pages 251 to 258;
 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure on page 259;
 - Controls and Procedures on pages 259 to 261;
 - Other Information on page 261;

- Directors, Executive Officers and Corporate Governance on page 262;
 - Executive Compensation on page 262;
 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters on page 262;
 - Certain Relationships and Related Transactions, and Director Independence on page 262;
 - Principal Accounting Fees and Services on page 262; and
 - Signatures on pages S-1 to S-2;
- (E) the following sections of Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended 31 March 2016 (as set out at <http://www.sec.gov>):
- Financial Statements (Unaudited) on pages 1 to 66;
 - Condensed Consolidated Statements of Income (unaudited) on page 1;
 - Condensed Consolidated Statements of Comprehensive Income (unaudited) on page 2;
 - Condensed Consolidated Balance Sheet (unaudited) on page 3;
 - Condensed Consolidated Statements of Changes in Total Equity (unaudited) on page 4;
 - Condensed Consolidated Statements of Cash Flows (unaudited) on page 5; and
 - Notes to Condensed Consolidated Financial Statements (unaudited) on pages 6 to 66;
 - Report of Independent Registered Public Accounting Firm on page 67;
 - Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 68 to 106;
 - Quantitative and Qualitative Disclosures about Market Risk on pages 107 to 121;
 - Controls and Procedures on page 122;
 - Financial Data Supplement (unaudited) on pages 123 to 125;
 - Legal Proceedings on page 126;
 - Unregistered Sales of Equity Securities and Use of Proceeds on page 127; and
 - Signature on page 128; and
- (F) Morgan Stanley's 2016 Proxy Statement dated 1 April 2016 relating to the 2016 Annual Meeting of Shareholders of Morgan Stanley (as set out at <http://www.sec.gov>):
- Overview of Voting Items on pages 5 to 10;
 - Corporate Governance on pages 11 to 34;
 - Audit Matters on pages 35 to 37;
 - Executive Compensation on pages 38 to 67;
 - Ownership of Our Stock on pages 68 to 70;

- Equity Compensation Plan on pages 71 to 78;
- Shareholder Proposals on pages 79 to 83;
- Information About the Annual Meeting on pages 84 to 88; and
- Annex A: 2007 Equity Incentive Plan (As proposed to Be Amended) on pages A-1 to A-9.

(For ease of reference, the documents listed in (D) to (F) above are available at <http://www.sec.gov/cgi-bin/browse-edgar?company=&CIK=0000895421&State=&SIC=&action=getcompany> and in electronic form on Morgan Stanley's website at <http://www.morganstanley.com/about-us-ir/>.) Any statement contained in this Prospectus, or any other documents incorporated by reference herein, shall be deemed to be modified or superseded to the extent that a statement contained in any later document subsequently incorporated by reference modifies or supersedes such statement.

The documents incorporated by reference in this Prospectus shall not include any documents which are themselves incorporated by reference in such incorporated documents ("daisy chained" documents). Such daisy chained documents shall not form part of this Prospectus. Where only part of the documents listed above have been incorporated by reference only information expressly incorporated by reference herein shall form part of this Prospectus and the non-incorporated parts are either not relevant for the investor or covered elsewhere in this Prospectus.

MSFL will, at its principal executive offices and during the period of twelve months after the date of publication of this Prospectus, make available for inspection during normal business hours and free of charge, upon oral or written request:

- (i) a copy of this Prospectus and any document containing the sections relating to MSFL or Morgan Stanley incorporated by reference in this Prospectus;
- (ii) the certificate of incorporation of MSFL and Morgan Stanley;
- (iii) all reports, letters, and other documents, historical financial information, valuations and statements (if any) prepared by any expert at the request of MSFL or Morgan Stanley which is included or referred to in this Prospectus;
- (iv) the historical financial information of MSFL and Morgan Stanley (or Morgan Stanley and its subsidiaries) for each of the two financial years preceding the publication of this Prospectus; and
- (v) the material contracts and other documents relating to the Guarantee.

HISTORICAL FINANCIAL DATA

MSFL is providing in this Prospectus the selected historical financial information of MSFL and Morgan Stanley. MSFL derived this information from the financial statements of MSFL and Morgan Stanley for each of the periods presented. The information is only a summary and should be read together with the financial information incorporated by reference in this Prospectus. See "Incorporation by Reference" on page 29.

Selected key financial information relating to MSFL:

| | Years Ended | |
|-------------------------|---------------------|---------------------|
| | 31 December 2014 | 31 December 2015 |
| <i>(US\$ thousands)</i> | | |
| Net income | 114,986,489 | 110,072,000 |
| Total assets | 6,797,385,100 | 6,942,318,599 |
| Total liabilities | 6,797,385 | 6,942,319 |

Selected key financial information relating to Morgan Stanley:

| Consolidated Balance Sheet | At 31 December 2014 | At 31 December 2015 | At 31 March (unaudited) | |
|-----------------------------------|---------------------------|---------------------------|-------------------------|---------|
| | | | 2015 | 2016 |
| | | | (US\$ in millions) | |
| Total assets..... | 801,510 | 787,465 | 829,099 | 807,497 |
| Total liabilities and equity..... | 801,510 | 787,465 | 829,099 | 807,497 |

| Consolidated Income Statement | 2014 | 2015 | Three months ended 31 March (unaudited) | |
|--|--------|--------|--|-------|
| | | | 2015 | 2016 |
| | | | (US\$ in millions) | |
| Net revenues..... | 34,275 | 35,155 | 9,907 | 7,792 |
| Income from continuing operations before income taxes | 3,591 | 8,495 | 2,855 | 1,738 |
| Net income | 3,667 | 6,279 | 2,463 | 1,157 |

DESCRIPTION OF MSFL

1. INFORMATION ABOUT MSFL

History and Development

Morgan Stanley Finance LLC was originally formed as a limited liability company pursuant to the Delaware Limited Liability Company Act on 27 March 2002 for an unlimited duration under the name of Morgan Stanley Tower LLC. On 8 January 2016 Morgan Stanley Tower LLC changed its name to Morgan Stanley Finance, LLC. On 12 January 2016 Morgan Stanley Finance, LLC changed its name to Morgan Stanley Finance LLC.

Registered office

MSFL's registered address is at The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. MSFL's principal place of business is 1585 Broadway, New York, NY 10036. Its phone number is 212-761-4000.

Legal and commercial name

MSFL's legal and commercial name is Morgan Stanley Finance LLC.

Legislation

MSFL was formed under, and subject to, the laws of the state of Delaware, United States.

2. OVERVIEW OF ACTIVITIES

Principal Activities

MSFL's principal activity is the issuance of securities.

Principal Markets

MSFL primarily conducts its business from the United States.

3. ORGANISATIONAL STRUCTURE

MSFL has no subsidiaries. It is a directly owned subsidiary of Morgan Stanley. In February 2016, MSFL was converted into a finance subsidiary of Morgan Stanley.

4. MANAGEMENT OF MSFL

The current managers of MSFL, their offices, if any, within MSFL and their principal outside activity, if any, are listed below. The business address of each manager is 1585 Broadway, New York, NY 10036.

| Name | Title | Principal Outside Activity |
|-----------------|-----------------------|--------------------------------------|
| Kevin Woodruff | President and Manager | Managing Director of Morgan Stanley |
| Nikki Tippins | Manager | Managing Director of Morgan Stanley |
| Joshua Schanzer | Manager | Executive Director of Morgan Stanley |

There are no potential conflicts of interest between any duties to MSFL of its managers and their private interests and/or other duties.

5. **BOARD PRACTICE**

MSFL considers itself to be in compliance with all Delaware laws relating to corporate governance that are applicable to it.

6. **MAJOR SHAREHOLDERS**

MSFL is fully and directly owned by Morgan Stanley. For information regarding the beneficial ownership of Morgan Stanley's common stock, please see the section entitled "*Principal Shareholders*" in "*Description of Morgan Stanley*" on page 39 of the Registration Document, which has been incorporated by reference on page 29 of this Prospectus.

7. **LEGAL PROCEEDINGS**

There are no governmental, legal or arbitration proceedings involving MSFL (including any such proceedings which are pending or threatened of which MSFL is aware) during the 12-month period before the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of MSFL.

8. **ADDITIONAL INFORMATION**

Auditors

Deloitte & Touche LLP, 30 Rockefeller Plaza, New York, NY 10112, United States, an independent registered public accounting firm registered with the Public Company Accounting Oversight Board (United States of America) have audited the financial statements of MSFL for the years ended 31 December 2014 and 31 December 2015.

This document does not contain any other information in respect of MSFL that has been audited by Deloitte & Touche LLP.

Trend Information

MSFL intends to continue issuing securities. There has been no material adverse change in the prospects of MSFL since 31 December 2015.

Significant Change

There has been no significant change in the financial or trading position of MSFL since 31 December 2015.

Capitalisation

MSFL is authorised to issue a single class of limited liability company interests. The issued, allotted and fully paid capital of MSFL is USD 1,000.

Limited Liability Company Agreement

MSFL's purpose is set out in Article 1.2 of its Limited Liability Company Agreement dated 27 March 2002 (as amended) and includes any activity for which limited liability companies may be organised in the State of Delaware. Such activities include the issuance of securities.

The Limited Liability Company Agreement was last amended on 21 January 2016.

9. **SELECTED FINANCIAL INFORMATION**

The net income for the years ended 2014 and 2015 was USD 114,986,489 and USD 110,072,000 respectively.

The total assets of MSFL increased from USD 6,797,385,100 at 31 December 2014 to USD 6,942,318,599 at 31 December 2015 with total liabilities increasing from USD 1,678,238,333 at 31 December 2014 to USD 1,713,099,832 at 31 December 2015.

The financial information in respect of MSFL has been prepared in accordance with US GAAP.

DESCRIPTION OF MORGAN STANLEY

Information in relation to Morgan Stanley can be found in this section and on pages 22 to 61 of the Registration Document, incorporated by reference on page 29 of this Prospectus.

History and development of Morgan Stanley

Legal name, place of registration and registration number, date of incorporation

Morgan Stanley was originally incorporated for an unlimited term under the laws of the State of Delaware on 1 October 1981 under registered number 0923632, and its predecessor companies date back to 1924. On 31 May 1997, Morgan Stanley Group, Inc. was merged with and into Dean Witter Discover & Co. ("**Dean Witter Discover**") in a merger of equals. At that time, Dean Witter Discover changed its corporate name to Morgan Stanley, Dean Witter, Discover & Co. ("**MSDWD**"). On 24 March 1998, MSDWD changed its corporate name to Morgan Stanley Dean Witter & Co, and to Morgan Stanley on 20 June 2002. Morgan Stanley is a financial holding company regulated by the Federal Reserve under the BHC Act.

Registered office

Morgan Stanley has its registered office at The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S., and its principal executive offices at 1585 Broadway, New York, NY 10036, U.S., telephone number +1 (212) 761 4000.

Legal and commercial name

As at the date of this Prospectus, Morgan Stanley's legal and commercial name is "Morgan Stanley".

Board of directors

There are no potential conflicts of interests between any duties to Morgan Stanley of its directors and their private interests and/or other duties.

DESCRIPTION OF THE NOTES

General

The Notes comprise \$5,000,000 aggregate principal amount of Global Medium-Term Notes, Series A Fixed Rate Step-Up Senior Notes Due 2026, which are debt securities of MSFL issued under a senior debt indenture dated as of 16 February 2016 between MSFL, as issuer, Morgan Stanley, as guarantor, and The Bank of New York Mellon, a New York banking corporation, as trustee (as supplemented from time to time, the "**Senior Debt Indenture**"). The Notes priced on 17 February 2016 and the settlement date was 22 February 2016 (the original issue date) (the "**Issue Date**").

Notes issued under the Senior Debt Indenture that are part of MSFL's Series A medium-term note program (including the Notes) will constitute a single series under the Senior Debt Indenture, together with any medium-term notes MSFL issues in the future under the Senior Debt Indenture that MSFL designates as being part of that series. MSFL may create and issue additional notes with the same terms as the Notes so that the additional notes will be considered part of the same issuance as the Notes.

The issue price of the Notes was 100%. The Notes are denominated in U.S. dollars, meaning that the "specified currency" applicable to the Notes is U.S. dollars.

The material provisions of the Notes are summarised below.

Definitions. For the purpose of this Prospectus:

A "**business day**" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

"**Depository**" means The Depository Trust Company, New York, New York.

"**Interest Payment Date**" means each of 23 August 2016, 23 February 2017, 23 August 2017, 23 February 2018, 23 August 2018, 23 February 2019, 23 August 2019, 23 February 2020, 23 August 2020, 23 February 2021, 23 August 2021, 23 February 2022, 23 August 2022, 23 February 2023, 23 August 2023, 23 February 2024, 23 August 2024, 23 February 2025, 23 August 2025 and 23 February 2026.

"**Maturity Date**" means 23 February 2026.

The "**record date**" for any Interest Payment Date is the date one business day prior to such Interest Payment Date; *provided, however*, that any interest payable at maturity shall be payable to the person to whom the payment at maturity shall be payable.

References in this Prospectus to "**U.S. dollars**" or "**U.S.\$**" or "**\$**" are to the currency of the United States of America.

Form

The Notes are in global registered form, represented by one or more fully registered global notes deposited with, or on behalf of, the Depository and registered in the name of Cede & Co., the Depository's nominee. The Depository maintains a computerized system that will reflect the interests held by its participants in the global note. An investor's beneficial interest will be reflected in the records of the Depository's direct or indirect participants through an account maintained by the investor with its broker/dealer, bank, trust company or other representative.

Denomination of the Notes

The minimum denomination of the Notes is of \$1,000 and integral multiples of \$1,000 in excess thereof.

Security Identification Number

The security identification numbers of the Notes are as follows:

ISIN: US61767BAA89
CUSIP: 61767BAA8

Ranking of the Notes

The Notes constitute part of the senior debt of MSFL and rank on a parity with all of the other unsecured and unsubordinated debt of MSFL, subject to statutory exceptions in the event of liquidation upon insolvency.

The Notes are fully and unconditionally guaranteed by Morgan Stanley. As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of the Notes if they make claims in respect of the Notes in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley.

Guarantee

The payments due under the Notes will be fully and unconditionally guaranteed by Morgan Stanley pursuant to the Senior Debt Indenture. If, for any reason, MSFL does not make any required payment in respect of the Notes when due, Morgan Stanley will cause the payment to be made at the same address at which MSFL is obligated to make such payment. MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of the securities in a bankruptcy, resolution or similar proceeding. Accordingly, holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Morgan Stanley's guarantees of the payments due on the Notes will be unsecured senior obligations of Morgan Stanley. In addition, if MSFL were to merge with and into Morgan Stanley pursuant to the terms of the Senior Debt Indenture, the guarantee will terminate.

Interest

The Notes bear interest at an annual rate of:

- 3.50% from and including the Issue Date to but excluding 23 February 2021;
- 3.75% from and including 23 February 2021 to but excluding 23 February 2023;
- 4.00% from and including 23 February 2023 to but excluding 23 February 2024;
- 4.25% from and including 23 February 2024 to but excluding 23 February 2025; and
- 5.00% from and including 23 February 2025 to but excluding the Maturity Date,

until the principal is paid or made available for payment.

Interest on the Notes will be calculated on the basis of a 360-day year of 12 30-day months ("**30/360 day count basis**"). Interest on the Notes will accrue from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from and including the Issue Date. Interest will accrue to but excluding the next Interest Payment Date, or, if earlier, the date on which the principal has been paid or duly made available for payment, except as described in the following paragraph. Payments of interest on the Notes will be made on each Interest Payment Date commencing on the Interest Payment Date occurring on 23 August 2016. Interest payments on the Notes will include accrued interest from and including the Issue Date or from and including the last date in respect of which interest has been paid, as the case may be, to but excluding the relevant Interest Payment Date or the Maturity Date or earlier redemption, as the case may be.

If any scheduled Interest Payment Date is not a business day, MSFL will pay interest on the next business day, but interest on that payment will not accrue during the period from and after the scheduled Interest Payment Date. If the Maturity Date or date of redemption is not a business day, MSFL may pay interest and principal on the next succeeding business day, but interest on that payment will not accrue during the period from and after the Maturity Date or date of redemption.

Interest and Principal Payments

Payments of principal and interest on the Notes will be in U.S. dollars.

Recipients of Payments. The paying agent will pay interest to the person in whose name the debt security is registered at the close of business on the applicable record date. However, upon maturity or redemption, the paying agent will pay any interest due to the person to whom it pays the principal of the Notes. The paying agent will make the payment of interest on the Maturity Date or redemption date, whether or not that date is an Interest Payment Date. The paying agent will make the initial interest payment on the Notes on the first Interest Payment Date falling after the date of issuance.

Unclaimed Principal or Interest. If money is paid by MSFL and held by the trustee or any paying agent for payment of the principal or interest on the Notes that remain unclaimed at the end of two years after that principal or interest has become due and payable at maturity or otherwise:

- the trustee or the paying agent will notify the holders of the Notes that money will be repaid to MSFL and any person claiming that money will thereafter look only to MSFL for payment, and
- that money will be repaid to MSFL.

Upon repayment, the trustee or the paying agent for that money will not be liable for the money. However, MSFL's obligation to pay the principal or interest on the Notes as they become due will not be limited in any way.

Redemption and Repurchase

Maturity Date: The Notes will be redeemed at 100% of their principal amount on the Maturity Date.

Optional Redemption by MSFL. The Notes cannot be redeemed prior to the Maturity Date.

Open Market Purchases by MSFL. MSFL may purchase the Notes at any price in the open market or otherwise. Notes so purchased by MSFL may, at its discretion, be held or resold or surrendered to the trustee for cancellation.

Covenants Restricting Pledges, Mergers and Other Significant Corporate Actions

Negative Pledge. Because Morgan Stanley is a holding company, its assets consist primarily of the securities of its subsidiaries. The negative pledge provisions of the Senior Debt Indenture limit Morgan Stanley's ability to pledge some of these securities. The Senior Debt Indenture provides that Morgan Stanley will not, and will not permit any subsidiary to, create, assume, incur or guarantee any indebtedness for borrowed money that is secured by a pledge, lien or other encumbrance except for liens specifically permitted by the Senior Debt Indenture on:

- the voting securities of Morgan Stanley & Co. LLC, Morgan Stanley & Co. International plc or any subsidiary succeeding to any substantial part of the business now conducted by any of those corporations, which are collectively referred to herein as the "principal subsidiaries", or
- the voting securities of a subsidiary that owns, directly or indirectly, the voting securities of any of the principal subsidiaries, other than directors' qualifying shares,

without making effective provisions so that the guarantee issued under the Notes will be secured equally and rateably with indebtedness so secured.

For these purposes, "subsidiary" means any corporation, partnership or other entity of which at the time of determination Morgan Stanley owns or controls directly or indirectly more than 50% of the shares of the voting stock or equivalent interest, and "voting securities" means stock of any class or classes having general voting power under ordinary circumstances to elect a majority of the board of directors, managers or trustees of the relevant subsidiary, other than stock that carries only the conditional right to vote upon the happening of an event, whether or not that event has happened. (Senior Debt Indenture, Section 13.10).

Merger or Consolidation of MSFL, as Issuer, or Morgan Stanley, as Guarantor. The Senior Debt Indenture provides that neither MSFL, as issuer, nor Morgan Stanley, as guarantor, will merge or consolidate with any other person, unless:

- MSFL or Morgan Stanley, as applicable, will be the continuing person; or
- the successor person by merger or consolidation to MSFL or Morgan Stanley, as applicable:
 - will be a person organized under the laws of the United States, a state of the United States or the District of Columbia; and
 - will expressly assume all of MSFL's or Morgan Stanley's obligations, as applicable, under the Senior Debt Indenture and the debt securities or the guarantees, as applicable, issued under the Senior Debt Indenture; and
- immediately after the merger or consolidation, MSFL, Morgan Stanley or that successor person, as the case may be, in its capacity as issuer or guarantor, as applicable, will not be in default in the performance of the covenants and conditions of the indenture applicable to it. (Senior Debt Indenture, Sections 9.01 and 13.11).

For the avoidance of doubt, such successor person may be Morgan Stanley or any subsidiary of Morgan Stanley.

Sale, Lease or Conveyance of MSFL, as Issuer, or Morgan Stanley, as Guarantor. The Senior Debt Indenture provides that neither MSFL, as issuer, nor Morgan Stanley, as guarantor, will sell, lease or convey all or substantially all of its assets to any other person, unless:

- the person that acquires all or substantially all of the assets of MSFL or of Morgan Stanley, as applicable:
 - will be a person organized under the laws of the United States, a state of the United States or the District of Columbia; and
 - will expressly assume all of MSFL's or Morgan Stanley's obligations, as applicable, under the Senior Debt Indenture and the debt securities or the guarantees, as applicable, issued under the Senior Debt Indenture; and
- immediately after the sale, lease or conveyance, that acquiring person, in its capacity as issuer or guarantor, as applicable, will not be in default in the performance of the covenants and conditions of the indenture applicable to it. (Senior Debt Indenture, Sections 9.01 and 13.11).

For the avoidance of doubt, such acquiring person may be Morgan Stanley or any subsidiary of Morgan Stanley.

Absence of Protections against All Potential Actions of MSFL and Morgan Stanley. There are no covenants or other provisions in the Senior Debt Indenture that would afford the holders additional protection in the event of a recapitalization transaction, a change of control of MSFL or Morgan Stanley, or a highly leveraged transaction. The merger covenants described above would only apply if the recapitalization transaction, change of control or highly leveraged transaction were structured to include a merger or consolidation of MSFL or Morgan Stanley, or a sale, lease or conveyance of all or substantially all of the assets of MSFL or Morgan Stanley.

Events of Default

The Senior Debt Indenture provides holders of the Notes with remedies if MSFL, as issuer, fails to perform specific obligations or if MSFL becomes bankrupt. There are no events of default with respect to Morgan Stanley, as guarantor. Holders should review these provisions and understand which actions of MSFL trigger an event of default and which actions do not.

An event of default is defined under the Senior Debt Indenture, with respect to any series of debt securities issued by MSFL under that indenture, as being:

- default in payment of any principal of the debt securities of that series, either at maturity or upon any redemption, by declaration or otherwise;
- default for 30 days in payment of any interest on any debt securities of that series;
- default for 60 days after written notice in the observance or performance by MSFL of any covenant or agreement in the debt securities of that series or the Senior Debt Indenture (other than a covenant or warranty with respect to the debt securities of that series the breach or nonperformance of which is otherwise included in the definition of "event of default");
- events of bankruptcy, insolvency or reorganization of MSFL; or
- any other event of default provided in the supplemental indenture under which that series of debt securities is issued. (Senior Debt Indenture, Section 5.01).

The Notes will not have the benefit of any cross-default or cross-acceleration provisions with other indebtedness of MSFL or Morgan Stanley. **In addition, under the Senior Debt Indenture, a covenant default by Morgan Stanley, as guarantor, or an event of bankruptcy, insolvency or reorganization of Morgan Stanley, as guarantor, does not constitute an event of default.**

Acceleration of the Notes upon an Event of Default. The Senior Debt Indenture provides that:

- if an event of default due to the default in payment of principal of or interest on the debt securities of that series, or due to the default in the performance or breach of any other covenant or warranty of MSFL applicable to the debt securities of that series but not applicable to all outstanding debt securities issued under that indenture occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, voting as one class, by notice in writing to MSFL and to the trustee, if given by security holders, may declare the principal of all debt securities of all affected series and interest accrued thereon to be due and payable immediately; and
- if an event of default due to a default in the performance of any other covenants or agreements of MSFL in that indenture applicable to all outstanding debt securities issued under that indenture or due to specified events of bankruptcy, insolvency or reorganization of MSFL, occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of all outstanding debt securities issued under that indenture, voting as one class, by notice in writing to MSFL and to the trustee, if given by security holders, may declare the principal of all those debt securities and interest accrued thereon to be due and payable immediately. (Senior Debt Indenture, Section 5.01).

Notwithstanding these notice provisions, holders of the Notes have no right to declare the principal of the Notes and interest accrued thereon to be due and payable immediately if Morgan Stanley fails to observe or perform any covenant under the Senior Debt Indenture or in the event of the bankruptcy, insolvency or reorganization of Morgan Stanley, as guarantor of the Notes.

Annulment of Acceleration and Waiver of Defaults. The Senior Debt Indenture provides that:

- in some circumstances, if any and all events of default under the indenture, other than the non-payment of the principal of the securities that has become due as a result of an acceleration, have been cured, waived or otherwise remedied, then the holders of a majority in aggregate principal amount of all series of outstanding debt securities affected, voting as one class, may waive past defaults and rescind and annul past declarations of acceleration of the debt securities. (Senior Debt Indenture, Section 5.01); and
- prior to the acceleration of any debt securities, the holders of a majority in aggregate principal amount of all series of outstanding debt securities with respect to which an event of default has occurred and is continuing, voting as one class, may waive any past default or event of default, other than a default in the payment of principal or interest (unless such default has been cured and an amount sufficient to pay all matured instalments of interest and principal due otherwise than by acceleration has been deposited with the trustee) or a default in respect of a covenant or

provision in the indenture that cannot be modified or amended without the consent of the holder of each debt security affected. (Senior Debt Indenture, Section 5.10).

Indemnification of Trustee for Actions Taken on Behalf of Holders of the Notes. The Senior Debt Indenture contains a provision entitling the trustee, subject to the duty of the trustee during a default to act with the required standard of care, to be indemnified by the holders of the Notes before proceeding to exercise any trust or power at the request of holders. (Senior Debt Indenture, Section 6.02). Subject to these provisions and some other limitations, the holders of a majority in aggregate principal amount of each series of outstanding debt securities of each affected series, voting as one class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee. (Senior Debt Indenture, Section 5.09).

Limitation on Actions by an Individual Holder. The Senior Debt Indenture provides that no individual holder of the Notes may institute any action against MSFL or Morgan Stanley under that indenture, except actions for payment of overdue principal and interest, unless the following actions have occurred:

- the holder must have previously given written notice to the trustee of the continuing default;
- the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, treated as one class, must have (1) requested the trustee to institute that action and (2) offered the trustee reasonable indemnity;
- the trustee must have failed to institute that action within 60 days after receipt of the request referred to above; and
- the holders of a majority in principal amount of the outstanding debt securities of each affected series, voting as one class, must not have given directions to the trustee inconsistent with those of the holders referred to above. (Senior Debt Indenture, Sections 5.06 and 5.09).

Annual Certification. The Senior Debt Indenture contains a covenant that MSFL will file annually with the trustee a certificate of no default or a certificate specifying any default that exists. (Senior Debt Indenture, Section 3.05).

Discharge, Defeasance and Covenant Defeasance

MSFL or Morgan Stanley has the ability to eliminate most or all of its obligations on any series of debt securities prior to maturity if it complies with the following provisions. (Senior Debt Indenture, Section 10.01).

Discharge of Indenture. If at any time MSFL has:

- paid or caused to be paid the principal of and interest on all of the outstanding debt securities in accordance with their terms (or Morgan Stanley has done the same);
- delivered to the applicable trustee for cancellation all of the outstanding debt securities; or
- irrevocably deposited with the applicable trustee cash or, in the case of a series of debt securities payable only in U.S. dollars, U.S. government obligations in trust for the benefit of the holders of any series of debt securities issued under the Senior Debt Indenture that have either become due and payable, or are by their terms due and payable within one year or are scheduled for redemption within one year, in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of and interest on and any mandatory sinking fund payments for, those debt securities (or Morgan Stanley has done the same);

and if, in any such case, MSFL or Morgan Stanley also pays or causes to be paid all other sums payable by MSFL or Morgan Stanley under the indenture with respect to the securities of such series, then the indenture shall cease to be of further effect with respect to the securities of such series, except as to certain rights and with respect to the transfer and exchange of securities, rights of the holders to receive payment and certain other rights and except that the deposit of cash or U.S. government obligations for the benefit of holders of a series of debt securities that are due and payable or are due and payable within one year or are scheduled for redemption within one year will discharge obligations under the Senior Debt Indenture relating only to that series of debt securities.

Defeasance of a Series of Securities at Any Time. MSFL or Morgan Stanley may also discharge all obligations of MSFL and Morgan Stanley, other than as to transfers and exchanges, under any series of debt securities at any time, which is referred to herein as "defeasance".

MSFL and Morgan Stanley may be released with respect to any outstanding series of debt securities from the obligations imposed by Sections 9.01, 13.10 and 13.11 of the Senior Debt Indenture, which sections contain the covenants described above limiting liens and consolidations, mergers, asset sales and leases, and elect not to comply with those sections without creating an event of default or a default. Discharge under those procedures is called "covenant defeasance."

Defeasance or covenant defeasance may be effected only if, among other things:

- MSFL or Morgan Stanley irrevocably deposits with the relevant trustee cash or, in the case of debt securities payable only in U.S. dollars, U.S. government obligations, as trust funds in an amount certified to be sufficient to pay on each date that they become due and payable or a combination of the above sufficient to pay the principal of and interest on, and any mandatory sinking fund payments for, all of the outstanding debt securities of the series being defeased.
- MSFL or Morgan Stanley delivers to the relevant trustee an opinion of counsel to the effect that:
 - the holders of the series of debt securities being defeased will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance or covenant defeasance; and
 - the defeasance or covenant defeasance will not otherwise alter those holders' U.S. federal income tax treatment of principal and interest payments on the series of debt securities being defeased.

In the case of a defeasance, but not in the case of covenant defeasance, this opinion must be based on a ruling of the Internal Revenue Service or a change in U.S. federal income tax law occurring after 19 November 2014, since that result would not occur under current tax law.

Modification of the Senior Debt Indenture

Modification without Consent of Holders. MSFL, Morgan Stanley and the trustee may enter into supplemental indentures without the consent of the holders of the Notes to:

- secure any of the Notes and to secure the guarantee of the Notes;
- evidence the assumption by a successor of the obligations of MSFL or Morgan Stanley, including to evidence the merger of MSFL with and into Morgan Stanley and, in such case, to evidence the elimination of the guarantee;
- add covenants for the protection of the holders of the Notes;
- cure any ambiguity or correct any inconsistency;
- add to, change or eliminate any of the provisions of the Senior Debt Indenture in respect of all or any securities of any series; *provided* that any such addition, change or elimination (i) shall neither (a) apply to any security issued prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (b) modify the rights of any holder of such security with respect to such provision or (ii) shall become effective only when there is no such security outstanding;
- establish the forms or terms of the debt securities of any series; or
- evidence the acceptance of appointment by a successor trustee. (Senior Debt Indenture, Section 8.01).

Modification with Consent of Holders. MSFL, Morgan Stanley and the trustee, with the consent of the holders of not less than a majority in aggregate principal amount of each affected series of outstanding debt securities, voting as one class, may add any provisions to, or change in any manner or eliminate any

of the provisions of, the Senior Debt Indenture or modify in any manner the rights of the holders of those debt securities. However, MSFL, Morgan Stanley and the trustee may not make any of the following changes to any outstanding Notes without the consent of each holder that would be affected by such change:

- extend the final maturity of the principal;
- reduce the principal amount;
- reduce the rate or extend the time of payment of interest;
- reduce any amount payable on redemption;
- change the currency in which the principal and any amount of original issue discount or interest thereon is payable;
- modify or amend the provisions for conversion of any currency into another currency;
- reduce the amount of any original issue discount security payable upon acceleration or provable in bankruptcy;
- alter certain provisions of the Senior Debt Indenture;
- impair the right of any holder to institute suit for the enforcement of any payment on the Notes when due;
- remove the guarantee (except upon the merger of MSFL with and into Morgan Stanley); or
- reduce the percentage of Notes the consent of whose holders is required for modification of the Senior Debt Indenture. (Senior Debt Indenture, Section 8.02).

Replacement of Notes

At the expense of the holder, MSFL may, in its discretion, replace any Notes that become mutilated, destroyed, lost or stolen or are apparently destroyed, lost or stolen. The mutilated Notes must be delivered to the trustee, the paying agent and the registrar, or satisfactory evidence of the destruction, loss or theft of the Notes must be delivered to MSFL, Morgan Stanley, the paying agent, the registrar and the trustee. At the expense of the holder, an indemnity that is satisfactory to MSFL, Morgan Stanley, the principal paying agent, the registrar and the trustee may be required before a replacement Note will be issued.

Notices

Notices to holders of the Notes will be given by mailing the notices to each holder by first-class mail, postage prepaid, at the respective address of each holder as that address appears upon MSFL's books. Notices given to the Depositary, as holder of the registered global securities, will be passed on to the beneficial owners of the Notes in accordance with the standard rules and procedures of the Depositary and its direct and indirect participants, including Clearstream, Luxembourg and Euroclear.

Concerning MSFL and Morgan Stanley's Relationship with the Trustee

Morgan Stanley, MSFL and other subsidiaries of Morgan Stanley and affiliates of MSFL maintain ordinary banking relationships and credit facilities with The Bank of New York Mellon, a New York banking corporation (including as successor to JPMorgan Chase Bank, N.A. and J.P. Morgan Trust Company, National Association).

Governing Law

The Notes, Morgan Stanley's guarantee of the Notes and the Senior Debt Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

LUXEMBOURG TAXATION

The following is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (impôt sur le revenu des collectivités), municipal business tax (impôt commercial communal), a solidarity surcharge (contribution au fonds pour l'emploi), a temporary tax to balance the state budget (impôt d'équilibre budgétaire temporaire) as well as personal income tax (impôt sur le revenu) generally. Investors may further be subject to net wealth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax, the solidarity surcharge and the temporary tax to balance the state budget. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

A holder of Notes will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding Tax

Taxation of Luxembourg non-residents

Under Luxembourg tax law currently in force there is no Luxembourg withholding tax on payments of principal, premium or interest (including accrued but unpaid interest) made to non-resident holders of the Notes. There is also no Luxembourg withholding tax upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes held by non-resident holders of the Notes.

Taxation of Luxembourg residents

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "Relibi Law"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent.

In addition, pursuant to the Relibi Law, Luxembourg resident individuals can opt to self declare and pay a 10 per cent tax (the "Levy") on interest payments made by paying agents located in a Member State of the European Union other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an agreement directly relating to the EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments .

Such withholding tax as described above or the Levy will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth.

Responsibility for the withholding of the tax in application of the Relibi Law as amended will be assumed by the Luxembourg paying agent and not by the Issuer.

Income Taxation of the Holders of Notes

Taxation of Luxembourg non-residents

A non-resident holder of Notes, not having a permanent establishment or permanent representative in Luxembourg to which/whom such Notes are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes. A gain realised by such non-resident holder of Notes on the sale or disposal, in any form whatsoever, of the Notes is further not subject to Luxembourg income tax.

A non-resident corporate holder of Notes or an individual holder of Notes acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which or to whom such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

Taxation of Luxembourg residents

Holders of Notes who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayments of principal except, under certain circumstances, if the repayment proceeds converted into euro exceed the historical acquisition value denominated in euros.

Luxembourg resident individuals

Luxembourg resident individuals acting in the course of the management of his private wealth, are subject to Luxembourg income tax in respect of interest received, accrued but unpaid interest in case of disposal of the Notes, redemption premiums or issue discounts under the Notes except if a withholding tax has been levied on such payments in accordance with the Relibi Law.

Under Luxembourg domestic tax law, gains realised upon the disposal of the Notes by an individual holder of the Notes, who is a resident of Luxembourg for tax purposes and who acts in the course of the management of his private wealth, are not subject to Luxembourg income tax, provided the disposal takes place more than six months after the acquisition of the Notes and the Notes do not constitute zero coupon Notes. Gain realised by an individual holder of zero coupon notes who acts in the course of the management of his private wealth and who is a resident of Luxembourg for tax purposes must include the difference between the disposal price and the issue price of a zero coupon Note in his taxable income.

An individual holder of the Notes, who acts in the course of the management of his private wealth and who is a resident of Luxembourg for tax purposes, has further to include the portion of the gains realised on the Notes corresponding to accrued but unpaid income in respect of the Notes in his taxable income, insofar as the accrued but unpaid interest is indicated separately in the agreement.

Luxembourg resident individual noteholders acting in the course of the management of a professional or business undertaking to which the Notes are attributable, have to include any interest received or accrued, as well as any gain realised on the disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are determined as being the difference between the disposal price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes disposed of.

Luxembourg resident companies

Luxembourg resident joint stock companies (sociétés de capitaux) and other entities of a collective nature (organismes à caractère collectif) which are holders of Notes and which are subject to corporate taxes in Luxembourg without the benefit of a special tax regime in Luxembourg or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and in case of sale, repurchase, redemption or exchange, the difference between the sale, repurchase, redemption or exchange price (received or accrued) converted into euros and the euro book value of the Notes sold, repurchased, redeemed or exchanged.

Luxembourg resident companies benefiting from a special tax regime

A corporate holder of Notes that is governed by the law of 11 May 2007 on family estate management companies, as amended, or by the law of 17 December 2010 on undertakings for collective investment, as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

Net Wealth Tax

A corporate holder of Notes, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which/whom such Notes are attributable, is subject to Luxembourg wealth tax assessed on the euro market value of such Notes, except if the holder of Notes is governed by (i) the law of 11 May 2007 on family estate management companies, as amended, or by (ii) the law of 17 December 2010 on undertakings for collective investment, as amended, or by (iii) the law of 13 February 2007 on specialised investment funds, as amended, or by (iv) the law of 22 March 2004 on securitisation companies, as amended, or by (v) the law of 15 June 2004 on venture capital vehicles, as amended.

The Luxembourg Law of 18 December 2015 has introduced a minimum annual net wealth tax as from 1 January 2016. In this respect, as from the 1 January 2016, a minimum net wealth tax of EUR 3.210 will be levied on any company on whose financial assets, amounts owed by affiliated undertakings, transferable securities and cash at bank (i.e. assets to be accounted for in accounts 23, 41, 50 and 51 of the "Plan Comptable Normalisé") represent more than 90% of its balance sheet and a minimum amount of EUR 350.000. If the company holds 90% or less of financial assets or if those financial assets do not exceed EUR 350.000, a minimum net wealth tax varying between EUR 535 and EUR 32.100 would apply depending on the size of its balance sheet. The minimum annual net wealth tax is applicable to any company (included securitisation entity under the law of 22 March 2004, as amended, and venture capital vehicles under the law of 15 June 2004) except to family estate management companies (law of 11 May 2007), undertakings for collective investment (Law 17 December 2010) and specialised investment funds (law 13 February 2007).

An individual holder of Notes, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by holders of Notes as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes unless the documents relating to the Notes are voluntarily registered in Luxembourg. Proceedings in a Luxembourg court or the presentation of documents relating to the Notes, other than the Notes themselves, to an autorité constituée or the reference to the documents relating to the Notes in a public deed may require registration of the documents, in which case the documents will be subject to registration duties depending on the nature of the documents.

There is no Luxembourg VAT payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the relevant Issuer, if for Luxembourg VAT purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg VAT does not apply with respect to such services.

No Luxembourg inheritance taxes are levied on the transfer of the Notes upon death of a holder of Notes in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax will be levied on the transfer of the Notes by way of gift unless the gift is registered in Luxembourg.

UNITED STATES FEDERAL TAXATION

The following is a general discussion of the material U.S. federal income tax consequences and certain estate tax consequences of the ownership and disposition of the Notes.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein. This discussion does not describe all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, as further discussed below. Additionally, any alternative minimum tax consequences or tax consequences resulting from the Medicare tax on investment income are not discussed in this Prospectus.

Persons considering the purchase of the Notes should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Tax Consequences to Non-U.S. Holders

This section applies only to a Non-U.S. Holder. As used herein, the term "**Non-U.S. Holder**" means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- an individual who is classified as a nonresident alien;
- a foreign corporation; or
- a foreign estate or trust.

The term "**Non-U.S. Holder**" does not include any of the following holders:

- a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes;
- certain former citizens or residents of the United States; or
- a holder for whom income or gain in respect of the Notes is effectively connected with the conduct of a trade or business in the United States.

Such holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the Notes.

Subject to the discussions below concerning backup withholding and FATCA, a Non-U.S. Holder will not be subject to U.S. federal income tax, including withholding tax, on payments of principal or interest on a Note, or proceeds from or gain on the sale or disposition of a Note, provided that:

- the Non-U.S. Holder does not own, directly or by attribution, ten percent or more of the total combined voting power of all classes of Morgan Stanley's stock entitled to vote;
- the Non-U.S. Holder is not a controlled foreign corporation related, directly or indirectly, to Morgan Stanley through stock ownership;
- the Non-U.S. Holder is not a bank receiving interest under Section 881(c)(3)(A) of the Code; and
- the certification requirement described below has been fulfilled with respect to the beneficial owner.

Certification Requirement. The certification requirement referred to in the preceding paragraph will be fulfilled if the beneficial owner of the Note (or a financial institution holding a Note on behalf of the beneficial owner) furnishes to the applicable withholding agent an applicable U.S. Internal Revenue

Service ("**IRS**") Form W-8 on which the beneficial owner certifies under penalties of perjury that it is not a U.S. person.

U.S. Federal Estate Tax

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), should note that, absent an applicable treaty exemption, the Notes will be treated as U.S. situs property subject to U.S. federal estate tax if payments on a Note, if received by the decedent at the time of death, would have been subject to U.S. federal withholding tax (even if the IRS Form W-8 certification requirement described above were satisfied and not taking into account an elimination of such U.S. federal withholding tax due to the application of an income tax treaty or withholding under FATCA).

Non-U.S. Holders should consult their tax advisers regarding the U.S. federal estate tax consequences of an investment in the Notes in their particular situations and the availability of benefits provided by an applicable estate tax treaty, if any.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payment on the Notes at maturity as well as in connection with the proceeds from a sale, exchange or other disposition. A Non-U.S. Holder may be subject to backup withholding in respect of amounts paid to the Non-U.S. Holder, unless such Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person for U.S. federal income tax purposes or otherwise establishes an exemption. Compliance with the certification procedures described above under "**Tax Consequences to Non-U.S. Holders—Certification Requirement**" will satisfy the certification requirements necessary to avoid backup withholding. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability and may entitle the Non-U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Tax Consequences to U.S. Holders

This section applies only to U.S. Holders (as defined below) of Notes who:

- are initial holders;
- purchase Notes at the "issue price", which will equal the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting to the capacity of underwriters, placement agents or wholesalers); and
- hold the Notes as capital assets within the meaning of Section 1221 of the Code.

As used herein, the term "**U.S. Holder**" means, for U.S. federal income tax purposes, a beneficial owner of a Note that is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This section does not describe all of the tax consequences that may be relevant to a U.S. Holder in light of the holder's particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;

- certain dealers and traders in securities or commodities;
- investors holding the Notes as part of a "straddle," conversion transaction, integrated transaction or constructive sale transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- regulated investment companies;
- real estate investment trusts; or
- tax-exempt entities, including "individual retirement accounts" or "Roth IRAs" as defined in Section 408 or 408A of the Code, respectively.

General. The rules applicable to debt instruments that are denominated in a currency other than the U.S. dollar could require gain or loss realized upon the sale, exchange or other disposition (including retirement) of the Notes that is attributable to fluctuations in currency exchange rates ("foreign currency gain or loss") to be recharacterized as ordinary income or loss. The rules applicable to the Notes are complex and their application may depend on the holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a holder should make any of these elections may depend on the holder's particular U.S. federal income tax situation. U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of the Notes.

Payments of Interest on the Notes. A U.S. Holder who uses the cash method of accounting for U.S. federal income tax purposes and who receives a payment of stated interest (or who receives proceeds from a sale, exchange or other disposition (including retirement) attributable to accrued interest) in euros with respect to the Notes will be required to include in income the U.S. dollar value of the euro payment regardless of whether the payment is in fact converted to U.S. dollars at that time, and this U.S. dollar value will be the U.S. Holder's tax basis in the euros.

In the case of a U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes, the holder will be required to include in income the U.S. dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to the Notes during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at an average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. In addition to the interest income accrued as described above, the U.S. Holder will recognize foreign currency gain or loss as ordinary income or loss (which will not be treated as interest income or expense) with respect to accrued interest income on the date the interest payment or proceeds from the sale, exchange or other disposition attributable to accrued interest are actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar value of the euro payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). A U.S. Holder may elect to translate interest income for an interest accrual period into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Tax Basis in the Notes. A U.S. Holder's tax basis in a Note will be the U.S. dollar value of the euro amount paid for such Note determined on the date of the purchase. A U.S. Holder who purchases a Note with previously owned euros will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the euros and the U.S. dollar fair market value of the Note on the date of purchase.

Sale, Exchange or Retirement of the Notes. Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the holder's adjusted tax basis in the Note. For these purposes, the amount realized does not include any amount attributable to accrued but unpaid stated interest. Amounts attributable to accrued but unpaid stated interest are treated as interest as described above. Foreign currency gain or loss recognized upon the sale, exchange or retirement of a Note will be ordinary income or loss that will not be treated as interest income or expense. The amount of foreign currency gain or loss generally will equal the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price in euros of the Note, determined on the date the payment is received in exchange for the Note or the Note is disposed of, and (ii) the U.S. dollar value of the U.S. Holder's purchase price in euros of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on the Notes described above. Foreign currency gain or loss realized upon the sale, exchange or retirement of any Note will be recognized only to the extent of the total gain or loss realized by a U.S. Holder on the sale, exchange or retirement of the Note. Any gain or loss realized by a U.S. Holder in excess of the foreign currency gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of the sale, exchange or retirement the Note has been held for more than one year. If a U.S. Holder recognizes an ordinary loss upon a sale or other disposition of a Note and such loss is above certain thresholds, the holder may be required to file a disclosure statement with the IRS. See "—Disclosure Requirements" below.

A U.S. Holder will have a tax basis in any euros received on the sale, exchange or retirement of a Note equal to the U.S. dollar value of the euros, determined at the time of such sale, exchange or retirement. A cash-method taxpayer who buys or sells a Note that is traded on an established market is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement of the purchase or sale. An accrual-method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations if such obligations are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realized by a U.S. Holder on a sale or other disposition of euros (including the exchange of euros for U.S. dollars or their use to purchase the Notes) will be ordinary income or loss.

Backup Withholding and Information Reporting

Backup withholding may apply in respect of payments on the Notes and the payment of proceeds from a sale or other disposition of the Notes, unless a U.S. Holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. The amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the U.S. Holder's U.S. federal income tax liability provided that the required information is furnished to the IRS. In addition, information returns may be filed with the IRS in connection with payments on the Notes and the payment of proceeds from a sale or other disposition of the Notes, unless the U.S. Holder provides proof of an applicable exemption from the information reporting rules.

Disclosure Requirements

Applicable Treasury regulations require taxpayers that participate in certain "reportable transactions" to disclose their participation to the IRS by attaching Form 8886 to their tax returns and to retain a copy of all documents and records related to the transaction. In addition, organizers and sellers of such transactions are required to maintain records, including lists identifying investors in the transaction, and must furnish those records to the IRS upon demand. A transaction may be a "reportable transaction" based on any of several criteria. Whether an investment in a Note constitutes a "reportable transaction" for any holder depends on the holder's particular circumstances. Holders should consult their tax advisers concerning any possible disclosure obligation that they may have with respect to their investment in the Notes and should be aware that Morgan Stanley (or other participants in the transaction) may determine that the investor list maintenance requirement applies to the transaction and comply accordingly with this requirement.

FATCA Legislation

Legislation commonly referred to as "FATCA" generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. This legislation generally applies to certain financial instruments that are treated as paying U.S.-source interest or other U.S.-source "fixed or determinable annual or periodical" income. Withholding (if applicable) applies to any payment of amounts treated as interest on the Notes and, for dispositions after December 31, 2018, any payment of gross proceeds of the disposition (including upon retirement) of the Notes. If withholding applies to the Notes, Morgan Stanley will not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the potential application of FATCA to the Notes.

PLAN OF DISTRIBUTION

The Agent has represented and agreed that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales of the Notes, and MSFL shall not have responsibility for the Agent's compliance with the applicable laws and regulations or obtaining any required consent, approval or permission.

Purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price of the Notes.

United Kingdom

The Agent has represented and agreed that:

- (1) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") with respect to anything done by it in relation to the relevant Notes in, from or otherwise involving the United Kingdom; and
- (2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any securities in circumstances in which Section 21(1) of the FSMA does not apply to either MSFL, as issuer, or Morgan Stanley, as guarantor.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No.25 of 1948, as amended, the "**FIEA**"). Accordingly, the Notes may not be offered or sold, directly or indirectly, in Japan or to or for the account or benefit of any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to or for the account or benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

WARNING: The contents of this Prospectus not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

The Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and any rules made under that Ordinance or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. No person has issued or may issue or had or may have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the applicable securities law of Hong Kong) other than with respect to the Notes which are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Singapore

This Prospectus has not been registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore, as amended (the "**SFA**"), by the Monetary Authority of Singapore and the Notes will be offered pursuant to exemptions under the SFA. Accordingly, neither this Prospectus or any other

document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA (an "**Institutional Investor**") pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in Section 275(2) of the SFA (a "**Relevant Person**"), or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable exemption or provision of the SFA. Where Notes are subscribed or purchased pursuant to an offer made in reliance on Section 275 by a Relevant Person which is:

- (a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA (an "**Accredited Investor**")) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or
- (b) a trust (where the trustee is not an Accredited Investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor,

the securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred for six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an Institutional Investor or to a Relevant Person, or to any person arising from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 276(4)(i)(B) of the SFA (in the case of that trust);
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) pursuant to Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations.

Switzerland

The Notes may not be offered or sold, directly or indirectly, in or from Switzerland except in circumstances that will not result in the offer of the Notes being a public offering in Switzerland within the meaning of the Swiss Federal Code of Obligations ("**CO**"). Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as that term is understood pursuant to Article 652a or 1156 CO or a listing prospectus pursuant to the listing rules of SIX Swiss Exchange, and neither this Prospectus nor any other offering material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. The Notes are not authorized by or registered with the Swiss Financial Market Supervisory Authority as a foreign collective investment scheme. Therefore, investors do not benefit from protection under the Swiss Federal Act on Collective Investment Schemes or supervision by the Swiss Financial Market Supervisory Authority.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Agent has represented and agreed, and each further agent, dealer and underwriter appointed with respect to any securities will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of securities which are the subject of the offering contemplated by this Prospectus in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such securities to the public in that Relevant Member State at any time:

- (1) to any legal entity which is a qualified investor as defined in the Prospective Directive;

- (2) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant agent, underwriter or dealer nominated by MSFL for any such offer; or
- (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of securities referred to in (1) to (3) above shall require MSFL, as issuer, Morgan Stanley, as guarantor, or any agent, underwriter or dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of securities to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in each Relevant Member State.

Other than with respect to the admission to listing and trading as is specified in this Prospectus, no action has been or will be taken in any country or jurisdiction by MSFL, Morgan Stanley or the Agent that would permit a public offering of any securities or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by MSFL, Morgan Stanley and the Agent to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver securities or have in their possession or distribute such offering material, in all cases at their own expense.

The Agent may make a market in the Notes as applicable laws and regulations permit. The Agent is not obligated to do so, however, and the Agent may cease to make a market at any time without notice. No assurance can be given as to the liquidity of any trading market for the securities or if separable, any other securities included in any units.

USE OF PROCEEDS

The Issuer intends to lend the net proceeds from the sale of the Notes to Morgan Stanley. Morgan Stanley intends to use the proceeds from such loans for general corporate purposes.

BENEFIT PLAN INVESTOR CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), which is referred to herein as a "plan," should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in these securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

In addition, Morgan Stanley and certain of its subsidiaries and affiliates, including MSI plc, may be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Code, with respect to many plans, as well as many individual retirement accounts and Keogh plans (also "plans"). Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if these securities are acquired by or with the assets of a plan with respect to which MSI plc or any of its affiliates is a service provider or other party in interest, unless the securities are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of these securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code may provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any plan involved in the transaction, and provided further that the plan pays no more, and receives no less, than "adequate consideration" in connection with the transaction (the so-called "service provider" exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving these securities.

Because Morgan Stanley may be considered a party in interest with respect to many plans, these securities may not be purchased, held or disposed of by any plan, any entity whose underlying assets include "plan assets" by reason of any plan's investment in the entity (a "plan asset entity") or any person investing "plan assets" of any plan, *unless* such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a plan, transferee or holder of these securities will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of these securities that either (a) it is not a plan or a plan asset entity, is not purchasing such securities on behalf of or with "plan assets" of any plan, or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law") or (b) its purchase, holding and disposition are eligible for exemptive relief or such purchase, holding and disposition are not prohibited by ERISA or Section 4975 of the Code or any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing these securities on behalf of or with "plan assets" of any plan consult with their counsel regarding the availability of exemptive relief.

Each purchaser and holder of these securities has exclusive responsibility for ensuring that its purchase, holding and disposition of the securities do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any of these securities to any plan or plan subject to Similar Law is in no respect a representation by Morgan Stanley or any of its affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan.

**PRINCIPAL EXECUTIVE OFFICES OF
MSFL**

1585 Broadway
New York, New York 10036
U.S.
Tel: +1 (212) 761 4000

**REGISTERED OFFICE OF MSFL IN
DELAWARE**

The Corporation Trust Company
The Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801
U.S.

**PRINCIPAL EXECUTIVE OFFICES OF
MORGAN STANLEY**

1585 Broadway
New York, New York 10036
U.S.
Tel: +1 (212) 761 4000

**REGISTERED OFFICE OF MORGAN
STANLEY IN DELAWARE**

The Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801
U.S.

AGENT

Morgan Stanley & Co. International plc
Cabot Square
Canary Wharf
London E14 4QA
U.K.

PAYING AGENT

The Bank of New York Mellon
101 Barclay Street
New York, New York 10286
U.S.

LEGAL ADVISORS TO THE ISSUER AND THE GUARANTOR

Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
London E14 5JJ
U.K.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF
MSFL And MORGAN STANLEY**

Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281
U.S.