

# **MORGAN STANLEY FINANCE LLC**

Interim financial report

June 30, 2022

# **MORGAN STANLEY FINANCE LLC**

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## **MORGAN STANLEY FINANCE LLC**

### **DIRECTORS' REPORT**

**Six Months ended 30 June 2022**

The Directors present their report and interim financial statements (which comprise the statement of financial condition, the statement of comprehensive income (loss), the statement of cash flows, the statement of changes in member's equity (deficit) and the related notes as well as a glossary of common terms and acronyms for Morgan Stanley Finance LLC (the "Company") for the period ended 30 June 2022.

### **RESULTS AND DIVIDENDS**

The comprehensive income for the six months, after tax, was \$779,000,000 (30 June 2021: \$109,000,000).

During the period, no dividends were paid or proposed.

### **PRINCIPAL ACTIVITY**

The Company is wholly owned by Morgan Stanley (the "Parent"), which together with its consolidated subsidiaries, form "the Firm".

The principal activity of the Company is the issuance of Borrowings ("Structured Notes"), the cash proceeds being lent to its Parent and the hedging of the obligations arising pursuant to such issuances.

The Company was established under Delaware law on March 27, 2002. The business office of the Company is at 1585 Broadway, New York, NY 10036, U.S.A.

### **FUTURE OUTLOOK**

There have not been any significant changes in the Company's principal activity during the year, other than those disclosed in the notes to the financial statements and no significant change is expected.

### **BUSINESS REVIEW**

The Company is a "finance subsidiary" of the Parent, as defined in SEC Regulation S-X. The Company issues structured notes to the marketplace that are fully and

unconditionally guaranteed by the Parent. Proceeds from issuances are lent to the Parent in the form of Intercompany notes.

The Company has a rating of A- from S&P.

The issuance of Structured Notes exposes the Company to various types of risk including foreign exchange, equity, interest rate, and commodities risk. The Company hedges these risks through the use of derivative instruments.

The statement of comprehensive income for the six months is set out on page 3 of the unaudited financial statements. The Company did not make any gains or losses over \$1,000,000 in the period.

In the period, Structured Notes that are measured at fair value pursuant to the fair value option election requires presenting unrealized DVA of \$779,000,000 as 'Other comprehensive income' in the statement of comprehensive income.

The statement of financial condition for the Company is set out on page 2 of the unaudited financial statements. At 30 June 2022 the Company's total assets were \$32,959,000,000, an increase of \$3,142,000,000 or 11% compared to 31 December 2021 and total liabilities were \$32,589,000,000 an increase of \$2,363,000,000 or 8%, compared to 31 December 2021.

The changes to the statements of comprehensive income and financial condition are in line with the Company's primary activity during the period due to growth of the business.

The performance of the Company is included in the results of the Firm, which are disclosed in the Firm's Annual Report on Form 10-K and quarterly on Form 10Q to the SEC. The Firm manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing further performance indicators for the Company itself would not enhance an

## MORGAN STANLEY FINANCE LLC

### DIRECTORS' REPORT

Six Months ended 30 June 2022

understanding of the development, performance or position of the business of the Company.

The risk management section below sets out the Company's and the Firm's policies for the management of significant business risks.

#### **Risk management**

The Company's risk management practices are aligned with those of the Firm. These practices are administered on a coordinated global and legal entity basis with consideration given to the Company's specific internal capital requirements.

Risk is an inherent part of the Firm's business and activities. Management believes effective risk management is vital to the success of the Firm's business activities. Accordingly, the Firm has policies and procedures in place to identify, assess, monitor and manage the significant risks involved in the activities of its business and support functions.

The cornerstone of the Firm's risk management philosophy is the pursuit of risk-adjusted returns through prudent risk-taking that protects the Firm's capital base and franchise. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability, and transparency. To help ensure the efficacy of risk management, which is an essential component of the Firm's reputation, senior management requires thorough and frequent communication and the appropriate escalation of risk matters. The fast-paced, complex, and constantly-evolving nature of global financial markets requires that the Firm maintains a risk management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement.

#### *Market risk*

Market risk refers to the risk that a change in the level of one or more market prices, rates, spreads, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Firm incurs market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of the Firm's market risk exposure is generated.

The Company has exposures to a wide range of risks relating to interest rates, equity prices and foreign exchange rates as well as the associated implied volatilities and spreads of the global markets in which the Company conducts its trading activities.

Sound market risk management is an integral part of the Firm's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. Market risk is also monitored through various measures: by use of statistics; by measures of position size and sensitivity; and through routine stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, and scenarios designed by the Market Risk Department in collaboration with business units.

#### *Credit risk*

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Firm. The Firm is primarily exposed to credit risk exposure from institutions and individuals. This risk may arise from a variety of business activities, including, but not limited to, entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Firm; extending credit to clients; 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

**DIRECTORS' REPORT**

**Six Months ended 30 June 2022**

repayment amount; and posting margin and/or collateral to counterparties. This type of risk requires credit analysis of specific counterparties, both initially and on an ongoing basis. The Firm also incurs credit risk in traded securities and whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

The Firm establishes practices to evaluate, monitor and control credit risk exposure both within and across business segments. The Firm is responsible for ensuring timely and transparent communication of material credit risks, ensuring compliance with established limits, and escalating risk concentrations to appropriate senior management. The Firm's credit risk exposure is managed by credit professionals and risk committees that monitor risk exposures, including credit sensitive, higher risk transactions.

*Operational Risk*

Operational risk refers to the risk of loss, or of damage to the Firm's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e.g. cyber attacks or third-party vulnerabilities) that may manifest as, for example, loss of information, business disruption, theft and fraud, legal and compliance risks, or damage to physical assets. The Firm may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g., sales and trading) and control groups (e.g. information technology and trade processing).

The Firm's operational risk framework is established to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Firm and to respond to the changing regulatory and business environment.

*Model Risk*

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision making or damage to the Company's or the Firm's reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions.

Model risk is generated from the use of models impacting financial statements, regulatory filings, capital adequacy assessments and the formulation of strategy.

Sound model risk management is an integral part of our Risk Management Framework. The MRM is a distinct department in Risk Management responsible for the oversight of model risk.

MRM establishes a model risk tolerance in line with the Firm's risk appetite. The tolerance is based on an assessment of the materiality of the risk of financial loss or reputational damage due to errors in design, implementation and/or inappropriate use of models. The tolerance is monitored through model-specific and aggregate business-level assessments, which are based upon qualitative and quantitative factors.

A guiding principle for managing model risk is the "effective challenge" of models. The effective challenge of models is defined as critical analysis by objective, informed parties who can identify model limitations and assumptions and drive appropriate changes. MRM provides effective challenge of models, independently validates and approves models for use, annually recertifies models, identifies and tracks remediation plans for model limitations, and reports on model risk metrics. The department also oversees the development of controls to support a complete and accurate Firm-wide model inventory.

**DIRECTORS' REPORT**

**Six Months ended 30 June 2022**

*Liquidity risk*

Liquidity risk refers to the risk that the Firm will be unable to finance its operations due to a loss of access to capital markets or difficulty in liquidating its assets. Liquidity risk also encompasses the Firm's ability (or perceived ability) to meet its financial obligations in a timely manner without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect our liquidity and may impact our ability to raise new funding. Generally, the Firm incurs liquidity and funding risk as a result of its trading, lending, investing, and client facilitation activities.

The Firm's Liquidity Risk Management Framework is critical to help ensure that the Firm maintains sufficient liquidity reserves and durable funding sources to meet the Firm's daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is a distinct area in Risk Management responsible for the oversight and monitoring of liquidity risk.

The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management.

To execute these responsibilities, the Liquidity Risk Department establishes limits in line with the Firm's risk appetite, identifies and analyzes emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning its Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

**Replacement of London Interbank Offered Rate and replacement or reform of other interest rate benchmarks could adversely affect our business, financial condition and results of operations.**

Central banks around the world, including the Federal Reserve, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs"). A transition away from use of the IBORs to alternative rates and other potential interest rate benchmark reforms is underway and will continue through the cessation dates. The ongoing market transition away from IBORs and other interest rate benchmarks to alternative reference rates is complex and could have a range of adverse impacts on the business, financial condition and results of operations.

The publication of most non-U.S. dollar LIBOR rates ceased as of the end of December 2021. The publication of certain non-U.S. dollar LIBOR rates on the basis of a "synthetic" methodology (known as "synthetic LIBOR") will continue at least until the end of 2022 and certain U.S. dollar LIBOR tenors are expected to continue to be published until June 30, 2023. On March 15, 2022 the U.S. enacted The Adjustable Interest Rate (LIBOR) Act (the LIBOR Act) that is intended to minimize legal and economic uncertainty following U.S. dollar LIBOR's cessation by replacing LIBOR references in certain U.S. law contracts with a SOFR-based rate plus applicable spread adjustment. On July 19, 2022, the Federal Reserve Board proposed its rule, as required by the statute, designating the SOFR-based rate to be applied to in-scope U.S. law governed contracts that reference overnight and one-, three-, six-, and 12-month USD LIBOR following cessation of these rates as of June 30, 2023. While some states had already adopted LIBOR legislation, the LIBOR Act expressly pre-empts any

## **MORGAN STANLEY FINANCE LLC**

### **DIRECTORS' REPORT**

**Six Months ended 30 June 2022**

provision of any state or local law, statute, rule, regulation or standard.

#### **Going Concern**

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Firm's strategy. The Company issues structured notes to the marketplace that are fully and unconditionally guaranteed by the Parent. Proceeds from issuances are lent to the Parent in the form of Intercompany notes. Due to the risk neutral nature of the business, the Company does not maintain significant liquidity or capital. Additionally, the Company has access to Firm capital and liquidity as required.

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

#### **DIRECTORS**

The following Directors held office since the Company was repurposed as a financing subsidiary in the beginning of 2016 and to the date of approval of this report:

Kevin Woodruff

Nikki Tippins

Joshua Schanzer

#### **EVENTS AFTER THE REPORTING DATE**

There have been no significant events since the reporting date.

#### **AUDIT COMMITTEE**

The Company is not required to have an audit committee separate from that of its Parent.

#### **AUDITOR**

Deloitte & Touche LLP will continue as auditor of the Company.

Approved and signed on behalf of the Board by:

  
\_\_\_\_\_  
Kevin Woodruff, President

## MORGAN STANLEY FINANCE LLC


### DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, Kevin Woodruff, Nikki Tippins and Joshua Schanzer, confirm to the best of their knowledge:

- the interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report represented by the Directors' report includes a fair review of the development and

performance of the business that have occurred during the six months ended June 30, 2022 and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by:



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Name: Kevin Woodruff

Title: President and Director



**MORGAN STANLEY FINANCE LLC**  
**STATEMENTS OF FINANCIAL CONDITION**  
(In millions of dollars, except where noted)

	(Unaudited)	(Audited)
	At June 30, 2022	At December 31, 2021
<b>Assets</b>		
Cash	\$ 6	\$ 5
Trading assets at fair value	-	1,687
Receivables:		
Broker dealers	62	14
Notes receivable from Parent	32,833	27,977
Intercompany from Parent	58	134
<b>Total Assets</b>	<b>\$ 32,959</b>	<b>\$ 29,817</b>
<b>Liabilities</b>		
Trading liabilities at fair value	\$ 3,694	\$ -
Payables:		
Broker dealers	12	64
Interest	32	17
Intercompany to Parent	64	-
Borrowings (includes \$28,581 and \$30,017 at fair value)	28,787	30,145
<b>Total Liabilities</b>	<b>\$ 32,589</b>	<b>\$ 30,226</b>
<b>Commitments and contingent liabilities (See Note 8)</b>		
<b>Member's equity:</b>		
Additional paid-in capital	44	44
Accumulated other comprehensive income/(loss)	326	(453)
<b>Total member's equity/(deficit)</b>	<b>370</b>	<b>(409)</b>
<b>Total Liabilities and Member's equity/(deficit)</b>	<b>\$ 32,959</b>	<b>\$ 29,817</b>

See Notes to the Financial Statements

**MORGAN STANLEY FINANCE LLC**  
**STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
(In millions of dollars, except where noted)

	<b>Six months ended June 30, 2022</b>	<b>Six months ended June 30, 2021</b>
<b>Revenues</b>		
Trading <sup>(1)</sup>	\$ (97)	\$ (69)
Interest income	146	104
<b>Total Revenues</b>	<b>49</b>	<b>35</b>
<b>Expenses</b>		
Interest expense	49	35
<b>Total Expenses</b>	<b>49</b>	<b>35</b>
Result before income taxes	-	-
<b>Net result</b>	<b>-</b>	<b>-</b>
Other comprehensive income	779	109
<b>Comprehensive income</b>	<b>\$ 779</b>	<b>\$ 109</b>

(1) Trading revenues comprise of related party and non-related party components. For further information see notes 3 and 5

See Notes to the Financial Statements

**MORGAN STANLEY FINANCE LLC**  
**STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In millions of dollars, except where noted)

	<b>Six months ended June 30, 2022</b>	<b>Six months ended June 30, 2021</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ -	\$ -
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Net changes in asset and liabilities:		
Trading assets, net of Trading liabilities	(44)	889
Broker dealers	(100)	(23)
Intercompany (Parent)	140	(6)
Interest	15	-
<b>Net cash provided by operating activities</b>	<b>11</b>	<b>860</b>
<b>Cash flows from investing activities:</b>		
Net payments for:		
Notes receivable from Parent	(4,915)	(1,427)
<b>Net cash used for investing activities</b>	<b>(4,915)</b>	<b>(1,427)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from:		
Borrowings	7,945	9,269
Payments for:		
Borrowings	(3,040)	(8,705)
<b>Net cash provided by financing activities</b>	<b>4,905</b>	<b>564</b>
Effect of exchange rate changes on cash	-	-
Net increase/(decrease) in cash	1	(3)
Cash at beginning of the period	5	6
<b>Cash at end of the period</b>	<b>\$ 6</b>	<b>\$ 3</b>
<b>Supplemental Disclosure of Cash Flow information:</b>		
Cash payments for interest	\$ 33	\$ 35

See Notes to the Financial Statements

**MORGAN STANLEY FINANCE LLC**  
**STATEMENTS OF CHANGES IN MEMBER'S EQUITY (DEFICIT)**  
(In millions of dollars, except where noted)

	<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive income/(loss)</b>	<b>Total member's equity/(deficit)</b>
<b>Balance, December 31, 2020 (audited)</b>	<b>\$ 44</b>	<b>\$ (730)</b>	<b>\$ (686)</b>
Net change in Accumulated other comprehensive income (unaudited)	-	109	109
<b>Balance, June 30, 2021 (unaudited)</b>	<b>\$ 44</b>	<b>\$ (621)</b>	<b>\$ (577)</b>
<b>Balance, December 31, 2021 (audited)</b>	<b>\$ 44</b>	<b>\$ (453)</b>	<b>\$ (409)</b>
Net change in Accumulated other comprehensive income (unaudited)	-	779	779
<b>Balance, June 30, 2022 (unaudited)</b>	<b>\$ 44</b>	<b>\$ 326</b>	<b>\$ 370</b>

See Notes to the Financial Statements

**MORGAN STANLEY FINANCE LLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND JUNE 30, 2021**  
**(In millions of dollars, except where noted)**

**1. Introduction and Basis of Presentation**

**The Company**

Morgan Stanley Finance LLC (the “Company”), a single member limited liability corporation, is a wholly owned subsidiary of Morgan Stanley (the “Parent”).

The Company is a “finance subsidiary” of the Parent, as defined in SEC Regulation S-X. The Company issues structured notes to the marketplace that are fully and unconditionally guaranteed by the Parent. Proceeds from issuances are lent to the Parent in the form of Intercompany notes.

The Company has a rating of A- from S&P. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout the notes to the financial statements.

**Basis of Financial Information**

The financial statements are prepared in accordance with U.S. GAAP, which requires the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the outcome of legal matters, and other matters that affect the financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of its financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through September 28th, 2022, the date on which the financial statements are available to be issued, and the Company has not identified any recordable or disclosable events, not otherwise reported in the financial statements or the notes thereto.

**2. Significant Accounting Policies**

**Revenue Recognition**

**Trading**

See “Fair Value of Financial Instruments” below for Trading revenue recognition discussions.

**Fair Value of Financial Instruments**

Instruments within Trading assets and Trading liabilities are measured at fair value, as required or allowed by accounting guidance. These financial instruments represent OTC derivatives the Company enters into with the Parent to economically hedge its Borrowings, which are primarily structured notes. Gains and losses on instruments carried at fair value are reflected in Trading revenues in the Company’s Statements of Comprehensive Income.

The fair value of financial instruments, including OTC derivative contracts related to financial instruments and commodities, is presented in the accompanying statements of financial condition on a net-by-counterparty basis, when appropriate.

**Fair Value Option**

The Company has elected the fair value option for certain Borrowings (structured notes) that are risk managed on a fair value basis in order to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions as well as eliminate complexities of applying certain accounting models.

**Fair Value Measurement – Definition and Hierarchy**

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

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group

of financial assets, financial liabilities and non financial items on the basis of its net exposure to either market or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability that are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

*Level 1.* Valuations based on quoted prices in active markets that the Company has the ability to access for identical assets or liabilities. Valuation adjustments, block discounts and discounts for entity-specific restrictions that would not transfer to market participants are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

*Level 2.* Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3.* Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy. For additional information, see Note 4.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

### ***Valuation Techniques***

OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meet its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, correlation, option volatility, and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust model-derived mid-market amounts of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Company applies credit-related valuation adjustments to its Borrowings (structured notes) for which the fair value option was elected. The Company considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for Borrowings. Such credit risk considerations do not impact the valuation of OTC derivative transactions

with the Parent as credit risk would not impact the exit price.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

See Note 4 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

### **Interest Income and Expense**

Interest income and Interest expense are accrued for interest-earning assets and interest-bearing liabilities, including Notes receivable, Receivables and Payables with the Parent, and Borrowings.

Interest income and Interest expense are recorded within the Company's statements of comprehensive income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instruments' fair value, interest is included within Trading revenues. Otherwise, it is included within Interest income or Interest expense.

### **Offsetting of Derivative Instruments**

In connection with its OTC derivatives with the Parent, the Company enters into a master netting agreement with the Parent. This agreement provides the Company with the right, in the event of a default by the Parent, to net Parent's rights and obligations under the agreement and to liquidate against any net amount owed by the Parent.

For further information related to offsetting of derivatives, see Note 6.

### **Income Taxes**

The Company is a single-member limited liability company that is treated as a disregarded entity for federal income tax purposes. All current and deferred taxes have been accrued by the Parent.

### **Receivables from and Payables to Broker Dealers**

Receivables from and Payables to Broker Dealers include amounts related to unsettled trades as well as amounts

receivable for securities failed to deliver by the Company to a purchaser by the settlement date.

### **Foreign Currencies**

Gains or losses resulting from remeasurement of foreign currency transactions are included in Trading revenues, and amounts recognized in statements of comprehensive income are translated at the rate of exchange on the respective date of recognition for each amount.

### **Accounting Updates Adopted**

The FASB has issued certain accounting updates that apply to the Company. During the six months ended June 30, 2022, accounting updates were assessed and are not expected to have a significant impact on the Company's financial statements.

### 3. Related Party Transactions

Notes receivable from Parent represents the proceeds from Borrowings (structured notes) which are lent to the Parent, are payable on demand and bear interest at rates that the Company incurs in funding its business from these proceeds.

Intercompany receivables from and payables to the Parent are unsecured, payable on demand, and bear interest at rates established by the treasury function of the Parent and its consolidated subsidiaries (the “Firm”). These rates reflect rate of interest that the Firm incurs in funding its business.

Receivables from and payables to Broker dealers represent unsettled amounts related to Borrowings (structured notes) that broker dealer affiliates distribute for the Company. These receivables are unsecured and payable on demand.

Trading assets and liabilities and the associated Trading revenues mainly represent OTC derivative transactions the Company enters into with the Parent to economically hedge its Borrowings (structured notes) as well as any mark to market movements on those OTC derivative transactions.

Interest income and expense are calculated daily based on the Notes receivable and Intercompany receivables from and payables to the Parent.

The activities of the Company include significant transactions with affiliates and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had operated as an unaffiliated business.

	At June 30, 2022	At December 31, 2021
<b>Assets and receivables from affiliated companies</b>		
Trading assets	\$ -	\$ 1,687
Receivables – Broker dealers	27	1
Receivables – Notes receivable from Parent	32,833	27,977
Receivables – Intercompany from Parent	58	134
<b>Liabilities and payables to affiliated companies</b>		
Trading liabilities	3,691	-
Payables – Broker dealers	2	-
Payables – Intercompany to Parent	64	-
	<b>Six months ended June 30, 2022</b>	<b>Six months ended June 30, 2021</b>
<b>Revenues and Expenses from (transfer to) affiliated companies:</b>		
Trading	\$ (4,785)	\$ 1,258
Interest income	146	104



## 4. Fair Values

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

At June 30, 2022

	Level 1	Level 2	Level 3	Netting <sup>(1)</sup>	Total
<b>Assets at Fair Value</b>					
Trading assets:					
OTC Derivative contracts:					
Equity contracts	\$ -	\$ 1,019	\$ 12	\$ -	1,031
Interest rate contracts	-	62	17	-	79
Foreign exchange contracts	-	7	-	-	7
Commodity contracts	-	14	-	-	14
Netting <sup>(1)</sup>	-	(1,102)	(29)	-	(1,131)
Total OTC derivative contracts	-	-	-	-	-
Total trading assets	\$ -	\$ -	\$ -	\$ -	-
<b>Total assets at fair value</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>
<b>Liabilities at Fair Value</b>					
Trading liabilities:					
OTC Derivative contracts:					
Equity contracts	\$ -	\$ 2,337	\$ 453	\$ -	2,790
Interest rate contracts	-	1,588	76	-	1,664
Foreign exchange contracts	-	330	23	-	353
Commodity contracts	-	18	-	-	18
Netting <sup>(1)</sup>	-	(1,102)	(29)	-	(1,131)
Total OTC derivative contracts	-	3,171	523	-	3,694
Total trading liabilities	-	3,171	523	-	3,694
Borrowings - Structured Notes	-	27,289	1,292	-	28,581
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 30,460</b>	<b>\$ 1,815</b>	<b>\$ -</b>	<b>32,275</b>

<sup>(1)</sup> Positions classified within the same level that are with the same counterparty are netted within the column for that level. As of 30 June 2022, there were no positions with the same counterparty classified in different levels of the fair value hierarchy. For further information on derivative instruments, see note 6.

**At December 31, 2021**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Netting<sup>(1)</sup></b>	<b>Total</b>
<b>Assets at Fair Value</b>					
Trading assets:					
OTC Derivative contracts:					
Equity contracts	\$ -	\$ 2,535	\$ 76	\$ -	2,611
Interest rate contracts	-	103	22	-	125
Foreign exchange contracts	-	31	8	-	39
Commodity contracts	-	6	2	-	8
Netting <sup>(1)</sup>	-	(950)	(108)	(38)	(1,096)
<b>Total OTC derivative contracts</b>	<b>-</b>	<b>1,725</b>	<b>-</b>	<b>(38)</b>	<b>1,687</b>
<b>Total trading assets</b>	<b>\$ -</b>	<b>\$ 1,725</b>	<b>\$ -</b>	<b>\$ (38)</b>	<b>\$ 1,687</b>
<b>Total assets at fair value</b>	<b>\$ -</b>	<b>\$ 1,725</b>	<b>\$ -</b>	<b>\$ (38)</b>	<b>\$ 1,687</b>
<b>Liabilities at Fair Value</b>					
Trading liabilities:					
OTC Derivative contracts:					
Equity contracts	\$ -	\$ 309	\$ 95	\$ -	404
Interest rate contracts	-	557	32	-	589
Foreign exchange contracts	-	84	18	-	102
Commodity contracts	-	-	1	-	1
Netting <sup>(1)</sup>	-	(950)	(146)	-	(1,096)
<b>Total OTC derivative contracts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total trading liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Borrowings - Structured Notes	-	28,860	1,157	-	30,017
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 28,860</b>	<b>\$ 1,157</b>	<b>\$ -</b>	<b>\$ 30,017</b>

<sup>(1)</sup> For positions with the same counterparty that cross over the levels of the fair value hierarchy, counterparty netting is included in the column titled "Netting". Positions classified within the same level that are the same counterparty are netted within that level. For further information on derivative instruments, see Note 6.

## Valuation Techniques for Assets and Liabilities Measured at Fair Value on a Recurring Basis

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
<p><i>OTC Derivative Contracts</i></p> <ul style="list-style-type: none"><li>• OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, equity prices or commodity prices.</li><li>• Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, and many equity, commodity and foreign currency option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.</li><li>• More complex OTC derivative products are typically less liquid and require more judgment in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with volatility and correlation exposure, equity, and commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings. Where required inputs are unobservable, relationships to observable data points, based on historical and/or implied observations, may be employed as a technique to estimate the model input values.</li></ul> <p>For further information on the valuation techniques for OTC derivative products, see Note 2.</p>	<ul style="list-style-type: none"><li>• Level 2—when valued using observable inputs or where the unobservable input is not deemed significant</li><li>• Level 3 - in instances where the unobservable input is deemed significant</li></ul>
<p><i>Borrowings - Structured Notes</i></p> <ul style="list-style-type: none"><li>• The Company issues structured notes which are primarily comprised of: instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific equity security, a commodity, a credit exposure; and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons.</li><li>• Fair value is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices.</li><li>• Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads, which are based on observed secondary bond market spreads.</li></ul>	<ul style="list-style-type: none"><li>• Level 2—when valued using observable inputs or where the unobservable input is not deemed significant</li><li>• Level 3 - in instances where the unobservable inputs are deemed significant</li></ul>

## Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2022

	Beginning Balance at December 31, 2021	Total Realized and Unrealized Gains (Losses)	Purchases	Sales and Issuances	Settlements	Net Transfers <sup>(1)</sup>	Ending Balance at June 30, 2022	Unrealized Gains (Losses)
<b>Net Liabilities at Fair Value</b>								
Net OTC derivative contracts <sup>(2)</sup> :								
Equity contracts	\$ 19	\$ (400)	\$ -	\$ -	\$ 26	\$ (3)	\$ 441	\$ 399
Interest rate contracts	10	-	-	-	56	(7)	59	-
Commodity contracts	(1)	-	-	-	1	-	-	-
Foreign exchange contracts	10	-	-	-	12	-	23	-
Total net OTC derivative contracts	38	(400)	-	-	95	(10)	523	399
Borrowings – Structured Notes	1,157	330	-	168	(55)	352	1,292	(330)
<b>Total Net Liabilities at Fair Value</b>	<b>\$ 1,195</b>	<b>\$ (70)</b>	<b>\$ -</b>	<b>\$ 168</b>	<b>\$ 40</b>	<b>\$ 342</b>	<b>\$ 1,815</b>	<b>\$ 69</b>

(1) During the six months ended June 30, 2022, the Company transferred from Level 2 to Level 3 \$352 of Borrowings (structured notes) due to an increase in the significance of the unobservable inputs relating to volatility.

(2) Net OTC derivative contracts represent Trading liabilities, net of Trading assets. Amounts are presented before counterparty netting.

## Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2021

	Beginning Balance at December 31, 2020	Total Realized and Unrealized Gains (Losses)	Purchases	Sales and Issuances	Settlements	Net Transfers <sup>(1)</sup>	Ending Balance at June 30, 2021	Unrealized Gains (Losses)
<b>Net Liabilities at Fair Value</b>								
Net OTC derivative contracts <sup>(2)</sup> :								
Equity contracts	\$ (106)	\$ 116	\$ -	\$ -	\$ 184	\$ 3	\$ (35)	\$ 39
Interest rate contracts	30	-	-	-	(18)	-	12	-
Foreign exchange contracts	-	-	-	-	2	1	3	-
Total net OTC derivative contracts	(76)	116	-	-	168	4	(20)	39
Borrowings – Structured Notes	1,763	23	-	122	(59)	(827)	976	25
<b>Total Net Liabilities at Fair Value</b>	<b>\$ 1,687</b>	<b>\$ 139</b>	<b>\$ -</b>	<b>\$ 122</b>	<b>\$ 109</b>	<b>\$ (823)</b>	<b>\$ 956</b>	<b>\$ 64</b>

(1) During the six months ended June 30, 2021, the Company transferred from Level 3 to Level 2 \$827 of Borrowings (structured notes) due to a reduction in the significance of the unobservable inputs relating to volatility.

(2) Net OTC derivative contracts represent Trading liabilities, net of Trading assets. Amounts are presented before counterparty netting.

Total realized and unrealized gains (losses) are primarily included in Trading revenues in the statements of comprehensive income.

The unrealized gains (losses) during the period for assets and liabilities within the Level 3 category may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

## Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements

### Valuation Techniques and Unobservable Inputs

\$ in millions, except inputs	Balance/Range (Average) <sup>(1)</sup>	
	June 30, 2022	December 31, 2021
<b>Net liabilities at fair value</b>		
Net OTC derivative contracts:		
Equity <sup>(2)</sup>	\$ 441	\$ 19
Option Model:		
Equity volatility	7% to 76% (20%)	6% to 85% (19%)
Equity volatility skew	-3% to 0% (0%)	-3% to 0% (0%)
Equity -Equity correlation	46% to 99% (90%)	40% to 99% (87%)
Equity - Foreign exchange correlation	-72% to 18% (-29%)	-72% to 5% (-30%)
Interest rate	\$ 59	\$ 10
Option Model:		
Interest rate – Foreign Exchange correlation	54% to 57% (55% / 55%)	N/M
Interest rate - Curve correlation	50% to 90% (71% / 76%)	N/M
Interest rate volatility skew	74% to 180% (110%/108%)	N/M
Foreign exchange	23	10
Option Model:		
Interest rate – Foreign Exchange correlation	22% to 55% (42% / 43%)	N/M
Borrowings - Structured Notes	\$ 1,292	\$ 1,157
Option Model:		
Equity Volatility	7% to 81% (20%)	7% to 85% (19%)
Equity Volatility skew	-1% to 0% (-1%)	-1% to 0% (0%)
Equity - Equity correlation	50% to 99% (84%)	60% to 95% (85%)
Equity - Foreign exchange correlation	-72% to 10% (-29%)	-55% to 2% (-28%)
Interest rate curve correlation	50% to 90% (71%/76%)	N/M
Interest rate volatility skew	74 to 153% (100%/100%)	N/M

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are more relevant.

(2) Includes OTC derivative contracts with multiple risks (i.e., hybrid products).

The previous tables provide information on the valuation techniques, significant unobservable inputs, and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory of financial instruments. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. Generally there are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique.

An increase (decrease) to the following significant unobservable inputs would generally result in an impact to the fair value, and the magnitude and direction of the impact would depend on whether the Company is long or short the exposure.

- **Correlation:** A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movement of two variables (i.e., how the change in one variable influences a change in the other variable).
- **Interest rate curve:** The term structure of interest rates (relationship between interest rates and the time to maturity) and a market's measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate and foreign exchange derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.
- **Volatility:** The measure of variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.
- **Volatility skew:** The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.

## Financial Instruments Not Measured At Fair Value

At June 30, 2022

	Carrying Value	Fair Value Level			Total
		Level 1	Level 2	Level 3	
<b>Financial Assets</b>					
Cash	\$ 6	\$ 6	\$ -	\$ -	\$ 6
Receivables:					
Brokers dealers	62	-	62	-	62
Notes receivable from Parent	32,833	-	32,833	-	32,833
Intercompany from Parent	58	-	58	-	58
<b>Financial Liabilities</b>					
Payables: <sup>(1)</sup>					
Broker dealers	\$ 12	\$ -	\$ 12	\$ -	\$ 12
Intercompany to Parent	64	-	64	-	64
Borrowings	206	-	206	-	206

At December 31, 2021

	Carrying Value	Fair Value Level			Total
		Level 1	Level 2	Level 3	
<b>Financial Assets</b>					
Cash	\$ 5	\$ 5	\$ -	\$ -	\$ 5
Receivables:					
Brokers dealers	14	-	14	-	14
Notes receivable from Parent	27,977	-	27,977	-	27,977
Intercompany from Parent	134	-	136	-	136
<b>Financial Liabilities</b>					
Payables: <sup>(1)</sup>					
Broker dealers	\$ 64	\$ -	\$ 64	\$ -	\$ 64
Borrowings	128	-	128	-	128

<sup>(1)</sup> Accrued interest payables have been excluded. Carrying value approximates fair value for these payables.

## 5. Fair Value Option

The Company elected the fair value option for Borrowings (structured notes) that are risk managed on a fair value basis in order to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions as well as eliminate complexities of applying certain accounting models.

## Net Revenues from Borrowings under the Fair Value Option

	Trading Revenues	Interest Expense	Net Revenues <sup>(2)</sup>
<b>Six Months ended June 30, 2022</b>			
Borrowings <sup>(1)</sup>	\$ 4,688	\$ (49)	\$ 4,639
<b>Six Months ended June 30, 2021</b>			
Borrowings <sup>(1)</sup>	\$ (1,327)	\$ (35)	\$ (1,362)

<sup>(1)</sup> Unrealized DVA gains/(losses) are recorded in OCI and, when realized, in Trading revenues. For additional information, see Notes 2 and 9.

<sup>(2)</sup> Amounts do not reflect any gains or losses on related economic hedges.

Gains (losses) from changes in fair value are recorded in Trading revenues and are mainly attributable to movements in the reference price or index, interest rates, or foreign exchange rates.

#### Gains (Losses) due to Changes in Instrument-Specific Credit Risk

	Trading Revenues	OCI
<b>Six Months ended June 30, 2022</b>		
Borrowings <sup>(1)</sup>	\$ 2	\$ 779
<b>Six Months ended June 30, 2021</b>		
Borrowings <sup>(1)</sup>	\$ (11)	\$ 109

<sup>(1)</sup> Unrealized DVA gains (losses) are recorded in OCI and, when realized, in Trading revenues. For additional information, see Note 2 and 9.

#### Borrowings Measured at Fair Value on a Recurring Basis

	At June 30, 2022	At December 31, 2021
<b>Business Unit Responsible for Risk Management</b>		
Equity	\$ 19,893	\$ 20,719
Interest rates	8,112	9,023
Foreign exchange	267	161
Commodities	309	114
<b>Total</b>	<b>\$ 28,581</b>	<b>\$ 30,017</b>

#### Difference between Contractual Principal and Fair Value <sup>(1)</sup>

	At June 30, 2022	At December 31, 2021
Borrowings <sup>(2)</sup>	\$ (1,723)	\$ 311

<sup>(1)</sup> Amounts indicate contractual principal greater than or (less than) fair value.

<sup>(2)</sup> Excludes borrowings (structured notes) where the repayment of the initial principal amount fluctuates based on changes in a reference price or index.

## 6. Derivative Instruments

The Company uses OTC swaps, forwards, options and other derivatives referencing, among other things, interest rates, currencies, commodity products, and equity securities as part of the hedging strategy for Borrowings (structured notes). The Company does not apply hedge accounting.

#### Fair Values and Notionals of Derivative contracts

	Bilateral OTC At June 30, 2022			
	Assets		Liabilities	
	Fair Value	Notional <sup>(1)</sup>	Fair Value	Notional <sup>(1)</sup>
<b>OTC Derivative contracts</b>				
Equity contracts	\$ 1,031	\$ 4,024	\$ 2,790	\$ 18,559
Interest rate contracts	79	584	1,664	8,818
Foreign exchange contracts	7	235	353	2,435
Commodity contracts	14	55	18	258
<b>Total gross OTC derivative contracts</b>	<b>1,131</b>	<b>4,898</b>	<b>4,825</b>	<b>30,070</b>
<b>Amounts offset</b>				
Counterparty netting	(1,131)		(1,131)	
<b>Total Trading assets/liabilities</b>	<b>\$ -</b>		<b>\$ 3,694</b>	

<sup>(1)</sup> The Company believes that the notional amounts of derivative contracts generally overstate its exposure. In most circumstances, notional amounts are only used as a reference point from which to calculate amounts owed between the parties to the contract. Furthermore, notional amounts do not reflect the benefit of legally enforceable netting arrangements or risk mitigating transactions.

**Bilateral OTC  
At December 31, 2021**

	Assets		Liabilities	
	Fair Value	Notional <sup>(1)</sup>	Fair Value	Notional <sup>(1)</sup>
<b>OTC Derivative contracts</b>				
Equity	\$ 2,611	\$ 10,157	\$ 404	\$ 9,170
Interest rate	125	2,207	589	5,961
Foreign exchange	39	616	102	1,403
Commodity	8	50	1	55
<b>Total gross OTC derivative contracts</b>	<b>2,783</b>	<b>13,030</b>	<b>1,096</b>	<b>16,589</b>
<b>Amounts offset</b>				
Counterparty netting		(1,096)		(1,096)
<b>Total in Trading assets/liabilities</b>	<b>\$ 1,687</b>		<b>\$ -</b>	

<sup>(1)</sup> The Company believes that the notional amounts of derivative contracts generally overstate its exposure. In most circumstances, notional amounts are only used as a reference point from which to calculate amounts owed between the parties to the contract. Furthermore, notional amounts do not reflect the benefit of legally enforceable netting arrangements or risk mitigating transactions.

The table below summarizes realized and unrealized gains and losses, from OTC derivative and non-derivative financial instruments, included in Trading revenues in the Statements of Comprehensive Income.

**Gains (Losses) Recognized in Trading Revenues by Product Type**

	Six months ended June 30, 2022	Six months ended June 30, 2021
Equity contracts	\$ (81)	\$ (55)
Interest rate contracts	(32)	(19)
Foreign exchange contracts	17	5
Commodity contracts	(1)	-
<b>Total</b>	<b>\$ (97)</b>	<b>\$ (69)</b>

**7. Borrowings**

**Maturities and Terms of Borrowings**

	Fixed Rate <sup>(1)</sup>	Variable Rate <sup>(2)</sup>	At June 30, 2022	At December 31, 2021
<b>Original maturities of one year or less</b>				
Due in the next 12 months	\$ 131	\$ 155	\$ 286	\$ 189
<b>Original maturities greater than a year</b>				
Due in 2022	32	1,532	1,564	3,407
Due in 2023	96	4,609	4,705	4,644
Due in 2024	139	4,422	4,561	4,478
Due in 2025	177	2,340	2,517	1,977
Due in 2026	163	3,079	3,242	3,716
Due in 2027	189	2,197	2,386	1,218
Thereafter	3,748	5,778	9,526	10,516
<b>Total</b>	<b>\$ 4,544</b>	<b>\$ 23,957</b>	<b>\$ 28,501</b>	<b>\$ 29,956</b>
<b>Total Borrowings</b>	<b>\$ 4,675</b>	<b>\$ 24,112</b>	<b>\$ 28,787</b>	<b>\$ 30,145</b>
Weighted average coupon rate at period-end <sup>(3)</sup>	3.75%	N/M		

<sup>(1)</sup> Fixed rate borrowings include instruments with step-up, step-down and zero features.

<sup>(2)</sup> Variable rate borrowings include those that bear interest based on a variety of indices, including LIBOR, federal funds rates and SOFR, in addition to certain notes carried at fair value with various payment provisions, including notes linked to the performance of a specific index, a basket of stocks, a specific equity security, a commodity or a credit exposure.

<sup>(3)</sup> For the fixed rate borrowing, the weighted average coupon rate represents one issuance. All other issuances by the Company are carried at fair value so weighted average coupon is not meaningful.



All of the Company's Borrowings are considered Senior Debt. For the six months ended June 30, 2022 and June 30, 2021, the Company issued notes with a fair value of approximately \$7,945 and \$9,269 respectively.

Certain senior debt securities are denominated in various non-U.S. dollar currencies and primarily structured to provide a return that is linked to equity, credit, commodity or other indices (e.g., the consumer price index). Senior debt also may be structured to be callable by the Company or extendible at the option of holders of the senior debt securities.

*Borrowings (structured notes).* The Company's Borrowings primarily include structured notes carried and managed on a fair value basis. These include instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific equity security, a commodity, a credit exposure, and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons. To minimize the exposure from such instruments, the Company has entered into various OTC derivative interest rate swap contracts and purchased options that effectively convert the borrowing costs into floating rates. The Company carries the entire Borrowings (structured notes) at fair value. The OTC derivative interest rate swaps and purchased options used to economically hedge the embedded features are also carried at fair value. Changes in fair value related to the Borrowings (structured notes) and economic hedges are reported in Trading revenues. See Notes 2 and 4 for further information on Borrowings (structured notes).

## **8. Commitments, Guarantees and Contingencies**

### **Legal**

In the normal course of business, the Company may be named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress.

The Company may also be involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business, and involving, among other matters, sales and trading activities,

accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income.

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings and investigations, the Company cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental agencies seek substantial or indeterminate damages, restitution, disgorgement or penalties. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or ranges of loss or ranges of additional loss can be reasonably estimated for a proceeding or investigation.

For certain other legal proceedings and investigations, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Company's financial statements as a whole.

## 9. Accumulated Other Comprehensive Income

### Changes in AOCI

	<b>Debt Valuation</b>	
Balance at December 31, 2021	\$	(453)
Change in net DVA <sup>(1)</sup>		779
Balance at June 30, 2022	\$	326
<hr/>		
Balance at December 31, 2020	\$	(730)
Change in net DVA <sup>(1)</sup>		109
Balance at June 30, 2021	\$	(621)

<sup>(1)</sup> DVA represents the change in the fair value resulting from fluctuations in the Company's credit spreads and other credit factors related to liabilities carried at fair value.

## 10. Income Taxes

The Company is a single-member limited liability company that is treated as a disregarded entity for federal income tax purposes. The Company is included in the consolidated

federal income tax return filed by the Parent. The Company is included in the combined state and local income tax returns with the Parent and certain other subsidiaries of the Parent. All current and deferred taxes have been accrued by the Parent.

## 11. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through September 28<sup>th</sup>, 2022, the date on which the financial statements are available to be issued, and the Company has not identified any recordable or reportable events, not otherwise reported in the financial statements of the notes thereto.

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## **Glossary of Common Terms and Acronyms**

AOCI – Accumulated other comprehensive income (loss)

The Company – Morgan Stanley Finance LLC

DVA – Debt Valuation Adjustment

FASB – Financial Accounting Standards Board

LIBOR – London Interbank Offered Rate

MRM – Model Risk Management Department

N/M – Not Meaningful

OCI – Other comprehensive income (loss)

OTC – Over-the-counter

The Parent – Morgan Stanley

S&P - Standard & Poor's

SEC – U.S. Securities and Exchange Commission

U.S – United States of America

U.S. GAAP – Accounting principles generally accepted in the United States of America