MORGAN STANLEY
Form 10-Q
November 07, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

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

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

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

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

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

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

As of October 31, 2011, there were 1,927,402,132 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended September 30, 2011

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AVAILABLE INFORMATION

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

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

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

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

Integrity Hotline information.

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

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Part I Financial Information.

Item 1. Financial Statements.

MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in millions, except share data)

(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Cash and due from banks ($362 and $297 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities generally not available to the Company)	$ 12,255	$ 7,341
Interest bearing deposits with banks	41,652	40,274
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	30,864	19,180
Financial instruments owned, at fair value (approximately $132,554 and $129,969 were pledged to various parties at September 30, 2011 and December 31, 2010, respectively):		
U.S. government and agency securities	43,104	48,446
Other sovereign government obligations	34,779	33,908
Corporate and other debt ($3,440 and $3,816 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	76,143	88,154
Corporate equities ($0 and $625 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	47,194	68,416
Derivative and other contracts	54,412	51,292
Investments ($1,814 and $1,873 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	8,323	9,752
Physical commodities	10,296	6,778
Total financial instruments owned, at fair value	274,251	306,746
Securities available for sale, at fair value	27,697	29,649
Securities received as collateral, at fair value	10,899	16,537
Federal funds sold and securities purchased under agreements to resell	169,824	148,253
Securities borrowed	123,904	138,730
Receivables:		
Customers	34,175	35,258
Brokers, dealers and clearing organizations	11,063	9,102
Fees, interest and other	9,392	9,790
Loans (net of allowances of $18 and $82 at September 30, 2011 and December 31, 2010, respectively)	13,453	10,576
Other investments	4,811	5,412
Premises, equipment and software costs (net of accumulated depreciation of $4,722 and $4,476 at September 30, 2011 and December 31, 2010, respectively) ($324 and $321 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,511	6,154
Goodwill	6,709	6,739
Intangible assets (net of accumulated amortization of $865 and $605 at September 30, 2011 and December 31, 2010, respectively) (includes $133 and $157 at fair value at September 30, 2011 and December 31, 2010, respectively)	4,370	4,667
	13,109	13,290

Other assets ($346 and $118 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities, generally not available to the Company)		
Total assets	$ 794,939	$ 807,698

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

(dollars in millions, except share data)

(unaudited)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Deposits (includes $2,796 and $3,027 at fair value at September 30, 2011 and December 31, 2010, respectively)	$ 66,184	$ 63,812
Commercial paper and other short-term borrowings (includes $1,139 and $1,799 at fair value at September 30, 2011 and December 31, 2010, respectively)	2,881	3,256
Financial instruments sold, not yet purchased, at fair value:		
U.S. government and agency securities	19,334	27,948
Other sovereign government obligations	18,089	22,250
Corporate and other debt	9,978	10,918
Corporate equities	26,483	19,838
Derivative and other contracts	48,064	47,802
Physical commodities	16	
Total financial instruments sold, not yet purchased, at fair value	121,964	128,756
Obligation to return securities received as collateral, at fair value	15,035	21,163
Securities sold under agreements to repurchase (includes $354 and $849 at fair value at September 30, 2011 and December 31, 2010, respectively)	110,053	147,598
Securities loaned	27,785	29,094
Other secured financings (includes $15,940 and $8,490 at fair value at September 30, 2011 and December 31, 2010, respectively) ($2,681 and $2,656 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	22,156	10,453
Payables:		
Customers	143,717	123,249
Brokers, dealers and clearing organizations	5,891	3,363
Interest and dividends	2,788	2,572
Other liabilities and accrued expenses ($142 and $117 at September 30, 2011 and December 31, 2010, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	17,298	16,518
Long-term borrowings (includes $39,687 and $42,709 at fair value at September 30, 2011 and December 31, 2010, respectively)	189,093	192,457
	724,845	742,291
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders equity:		
Preferred stock	1,508	9,597
Common stock, $0.01 par value;		
Shares authorized: 3,500,000,000 at September 30, 2011 and December 31, 2010;		
Shares issued: 1,989,377,171 at September 30, 2011 and 1,603,913,074 at December 31, 2010;		
Shares outstanding: 1,927,539,703 at September 30, 2011 and 1,512,022,095 at December 31, 2010	20	16
Paid-in capital	22,501	13,521
Retained earnings	40,710	38,603
Employee stock trust	3,216	3,465
Accumulated other comprehensive loss	(413)	(467)

Common stock held in treasury, at cost, $0.01 par value; 61,837,468 shares at September 30, 2011 and 91,890,979 shares at December 31, 2010		(2,498)		(4,059)
Common stock issued to employee trust		(3,216)		(3,465)
Total Morgan Stanley shareholders equity		61,828		57,211
Noncontrolling interests		8,266		8,196
Total equity		70,094		65,407
Total liabilities and equity	$	794,939	$	807,698

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Investment banking	$ 1,031	$ 1,221	$ 3,940	$ 3,361
Principal transactions:				
Trading	4,961	1,441	11,423	8,552
Investments	(298)	820	433	1,137
Commissions and fees	1,484	1,068	4,224	3,636
Asset management, distribution and administration fees	2,184	1,940	6,499	5,877
Other	390	187	221	640
Total non-interest revenues	9,752	6,677	26,740	23,203
Interest income	1,749	1,851	5,560	5,334
Interest expense	1,609	1,748	5,491	4,722
Net interest	140	103	69	612
Net revenues	9,892	6,780	26,809	23,815
Non-interest expenses:				
Compensation and benefits	3,685	3,685	12,693	11,987
Occupancy and equipment	386	399	1,189	1,190
Brokerage, clearing and exchange fees	447	332	1,268	1,051
Information processing and communications	460	412	1,353	1,223
Marketing and business development	145	134	446	421
Professional services	462	460	1,384	1,351
Other	629	557	1,982	1,573
Total non-interest expenses	6,214	5,979	20,315	18,796
Income from continuing operations before income taxes	3,678	801	6,494	5,019
Provision for (benefit from) income taxes	1,410	(23)	1,696	653
Income from continuing operations	2,268	824	4,798	4,366
Discontinued operations:				
Gain (loss) from discontinued operations	1	(148)	7	619
Provision for (benefit from) income taxes	(24)	35	(24)	349
Net gain (loss) from discontinued operations	25	(183)	31	270
Net income	$ 2,293	$ 641	$ 4,829	$ 4,636
Net income applicable to noncontrolling interests	94	510	469	769
Net income applicable to Morgan Stanley	$ 2,199	$ 131	$ 4,360	$ 3,867

Earnings (loss) applicable to Morgan Stanley common shareholders	$ 2,153	$ (91)	$ 2,335	$ 2,971
Amounts applicable to Morgan Stanley:				
Income from continuing operations	$ 2,174	$ 314	$ 4,329	$ 3,597
Net gain (loss) from discontinued operations	25	(183)	31	270
Net income applicable to Morgan Stanley	$ 2,199	$ 131	$ 4,360	$ 3,867
Earnings (loss) per basic common share:				
Income from continuing operations	$ 1.15	$ 0.07	$ 1.45	$ 2.04
Net gain (loss) from discontinued operations	0.01	(0.14)	0.02	0.18
Earnings (loss) per basic common share	$ 1.16	$ (0.07)	$ 1.47	$ 2.22
Earnings (loss) per diluted common share:				
Income from continuing operations	$ 1.14	$ 0.05	$ 1.43	$ 1.98
Net gain (loss) from discontinued operations	0.01	(0.12)	0.02	0.17
Earnings (loss) per diluted common share	$ 1.15	$ (0.07)	$ 1.45	$ 2.15
Average common shares outstanding:				
Basic	1,848,246,471	1,377,230,354	1,589,519,478	1,336,508,289
Diluted	1,868,743,943	1,443,100,524	1,607,962,757	1,709,544,142

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

(unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$ 2,293	$ 641	$ 4,829	$ 4,636
Other comprehensive income, net of tax:				
Foreign currency translation adjustments(1)	(108)	178	23	215
Amortization of cash flow hedges(2)	1	2	5	7
Net unrealized gain on Securities available for sale(3)	76	145	90	232
Pension, postretirement and other related adjustments(4)	1	4	8	113
Comprehensive income	$ 2,263	$ 970	$ 4,955	$ 5,203
Net income applicable to noncontrolling interests	94	510	469	769
Other comprehensive income applicable to noncontrolling interests	63	91	72	123
Comprehensive income applicable to Morgan Stanley	$ 2,106	$ 369	$ 4,414	$ 4,311

(1) Amounts are net of provision for (benefit from) income taxes of $239 million and $(219) million for the quarters ended September 30, 2011 and 2010, respectively, and $103 million and $(149) million for the nine months ended September 30, 2011 and 2010, respectively.

(2) Amounts are net of provision for income taxes of $2 million and $1 million for the quarters ended September 30, 2011 and 2010, respectively, and $4 million and $5 million for the nine months ended September 30, 2011 and 2010, respectively.

(3) Amounts are net of provision for income taxes of $52 million and $78 million for the quarters ended September 30, 2011 and 2010, respectively, and $62 million and $154 million for the nine months ended September 30, 2011 and 2010, respectively.

(4) Amounts are net of provision for income taxes of $1 million and $2 million for the quarters ended September 30, 2011 and 2010, respectively, and $1 million and $70 million for the nine months ended September 30, 2011 and 2010, respectively.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

(unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,829	$ 4,636
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
(Gain) loss on equity method investees	788	(4)
Compensation payable in common stock and options	1,006	977
Depreciation and amortization	1,187	1,837
Gain on business dispositions	(24)	(514)
Gain on sale of securities available for sale	(130)	
Gain on retirement of long-term debt	(46)	
Insurance reimbursement		(88)
Loss on assets held for sale		1,158
Impairment charges and other-than-temporary impairment charges	57	66
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(11,684)	3,439
Financial instruments owned, net of financial instruments sold, not yet purchased	34,742	4,421
Securities borrowed	14,826	5,067
Securities loaned	(1,309)	4,877
Receivables, loans and other assets	(3,989)	(6,081)
Payables and other liabilities	22,501	2,495
Federal funds sold and securities purchased under agreements to resell	(21,571)	(10,744)
Securities sold under agreements to repurchase	(37,545)	7,710
Net cash provided by (used for) operating activities	3,638	19,252
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (payments for):		
Premises, equipment and software costs	(1,088)	(800)
Business acquisitions, net of cash acquired		(1,028)
Business dispositions, net of cash disposed		800
Japanese securities joint venture with MUFG		247
Purchases of securities available for sale	(13,968)	(23,374)
Sales, maturities and redemptions of securities available for sale	16,809	31
Net cash provided by (used for) investing activities	1,753	(24,124)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Commercial paper and other short-term borrowings	(375)	2,271
Distributions related to noncontrolling interests	(489)	(20)
Derivatives financing activities	54	(76)
Other secured financings	1,705	(409)
Deposits	2,372	(1,013)
Net proceeds from:		
Excess tax benefits associated with stock-based awards	30	4
Public offerings and other issuances of common stock		5,581
Issuance of long-term borrowings	30,063	26,648
Payments for:		
Long-term borrowings	(31,936)	(20,662)

Redemption of junior subordinated debentures related to CIC		(5,579)
Repurchases of common stock for employee tax withholding	(311)	(298)
Cash dividends	(714)	(867)
Net cash provided by (used for) financing activities	399	5,580
Effect of exchange rate changes on cash and cash equivalents	140	171
Effect of cash and cash equivalents related to variable interest entities	362	245
Net increase in cash and cash equivalents	6,292	1,124
Cash and cash equivalents, at beginning of period	47,615	31,991
Cash and cash equivalents, at end of period	$ 53,907	$ 33,115
Cash and cash equivalents include:		
Cash and due from banks	$ 12,255	$ 6,936
Interest bearing deposits with banks	41,652	26,179
Cash and cash equivalents, at end of period	$ 53,907	$ 33,115

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $4,832 million and $4,066 million for the nine months ended September 30, 2011 and 2010, respectively.

Cash payments for income taxes were $791 million and $378 million for the nine months ended September 30, 2011 and 2010, respectively.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

Nine Months Ended September 30, 2011

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2010	$ 9,597	$ 16	$ 13,521	$ 38,603	$ 3,465	$ (467)	$ (4,059)	$ (3,465)	$ 8,196	$ 65,407
Net income				4,360					469	4,829
Dividends				(527)						(527)
Shares issued under employee plans and related tax effects			(917)		(249)		1,873	249		956
Repurchases of common stock							(312)			(312)
Net change in cash flow hedges						5				5
Pension, postretirement and other related adjustments						8				8
Foreign currency translation adjustments						(49)			72	23
Change in net unrealized gains on securities available for sale						90				90
Other increase in equity method investments			86							86
MUFG stock conversion	(8,089)	4	9,811	(1,726)						
Decrease in noncontrolling interests related to distributions to noncontrolling interests									(489)	(489)
Other increases in noncontrolling interests									18	18
BALANCE AT SEPTEMBER 30, 2011	$ 1,508	$ 20	$ 22,501	$ 40,710	$ 3,216	$ (413)	$ (2,498)	$ (3,216)	$ 8,266	$ 70,094

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY (Continued)

Nine Months Ended September 30, 2010

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2009	$ 9,597	$ 15	$ 8,619	$ 35,056	$ 4,064	$ (560)	$ (6,039)	$ (4,064)	$ 6,092	$ 52,780
Net income				3,867					769	4,636
Dividends				(867)						(867)
Shares issued under employee plans and related tax effects			(1,539)		(515)		2,271	515		732
Repurchases of common stock							(298)			(298)
Net change in cash flow hedges						7				7
Pension and postretirement adjustments						113				113
Foreign currency translation adjustments						92			123	215
Gain on Japanese securities joint venture with MUFG			731							731
Change in net unrealized gains on securities available for sale						232				232
Redemption of CIC equity units and issuance of common stock		1	5,578							5,579
Increase in noncontrolling interests related to Japanese securities joint venture with MUFG									1,130	1,130
Increase in noncontrolling interests related to the consolidation of certain real estate partnerships sponsored by the Company									468	468
Decrease in noncontrolling interests related to distributions to noncontrolling interests									(20)	(20)
Other increases in noncontrolling interests									144	144
BALANCE AT SEPTEMBER 30, 2010	$ 9,597	$ 16	$ 13,389	$ 38,056	$ 3,549	$ (116)	$ (4,066)	$ (3,549)	$ 8,706	$ 65,582

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

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

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

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

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

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

Discontinued Operations.

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

Revel Entertainment Group, LLC. On March 31, 2010, the Board of Directors authorized a plan of disposal by sale for Revel Entertainment Group, LLC (Revel), a development stage enterprise and subsidiary of the Company that was primarily associated with a development property in Atlantic City, New Jersey. On February 17, 2011, the Company completed the sale of Revel to a group of investors led by Revel s chief executive officer. The Company did not retain any stake or ongoing involvement. The sale price approximated the carrying value of Revel and, accordingly, the Company did not recognize any pre-tax gain or loss on the sale. Total assets of Revel included in the Company s condensed consolidated statement of financial condition at December 31, 2010 approximated $28 million. The results of Revel are reported as discontinued operations within the Institutional Securities business segment for all periods presented through the date of sale. The three and nine months ended September 30, 2010 included losses of approximately $229 million and approximately $1.2 billion, respectively, in connection with such disposition. See Note 17 for additional information about an income tax benefit related to Revel.

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

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

At September 30, 2011, the Company had approximately $5.6 billion in Financial instruments owned Corporate and other debt, $4.2 billion of physical commodities within Financial instruments owned Physical commodities, and $9.8 billion of financing obligations within Other secured financing in the condensed consolidated statements of financial condition in connection with certain physical commodities swap transactions. Prior to June 30, 2011, the Company accounted for these types of transfers of assets as sales and purchases instead of financings. There was no impact on the Company s results of operations in any period presented as a result of this change. The Company did not restate the balances in connection with such transactions at December 31, 2010 as amounts did not materially affect the Company s condensed consolidated statement of financial condition.

Material intercompany balances and transactions have been eliminated.

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

2. Significant Accounting Policies.

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

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

Financial Instruments and Fair Value.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthinness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk. Adjustments for liquidity risk adjust model derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Allowance for Loan Losses.

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

Condensed Consolidated Statements of Cash Flows.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting Developments.

Goodwill Impairment Test.

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

3. Fair Value Disclosures.

Fair Value Measurements.

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

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

U.S. Government and Agency Securities.

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

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

Other Sovereign Government Obligations.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Corporate and Other Debt.

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

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

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

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

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

Corporate Loans and Lending Commitments. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

transactions and quotations are unobservable. The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Corporate loans and lending commitments are categorized in Level 2 of the fair value hierarchy except in instances where prices or significant spread inputs are unobservable, in which case they are categorized in Level 3 of the fair value hierarchy.

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

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

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

Corporate Equities.

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

Derivative and Other Contracts.

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

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

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy.

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

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments.

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

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

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

Physical Commodities.

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

Securities Available for Sale.

Securities available for sale are composed of U.S. government and agency securities (*e.g.*, U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and collateralized mortgage obligations) and Federal Family Education Loan Program (FFELP) student loan asset-backed securities. Actively traded U.S. Treasury securities and non-callable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through securities, collateralized mortgage obligations and FFELP student loan asset-backed securities are generally categorized in Level 2 of the fair value hierarchy. For further information on securities available for sale, see Note 4.

Deposits.

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

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

Structured Notes. The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Securities Sold under Agreements to Repurchase.

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at September 30, 2011
			(dollars in millions)		
Assets					
Financial instruments owned:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 19,329	$ 21	$	$	$ 19,350
U.S. agency securities	3,913	19,831	10		23,754
Total U.S. government and agency securities	23,242	19,852	10		43,104
Other sovereign government obligations	26,069	8,592	118		34,779
Corporate and other debt:					
State and municipal securities		2,446			2,446
Residential mortgage-backed securities		2,042	386		2,428
Commercial mortgage-backed securities		1,815	146		1,961
Asset-backed securities		884	6		890
Corporate bonds		29,642	1,004		30,646
Collateralized debt obligations		2,368	1,249		3,617
Loans and lending commitments		14,239	11,307		25,546
Other debt		8,472	137		8,609
Total corporate and other debt		61,908	14,235		76,143
Corporate equities(1)	43,504	3,309	381		47,194
Derivative and other contracts:					
Interest rate contracts	1,657	906,548	5,636		913,841
Credit contracts		150,394	19,468		169,862
Foreign exchange contracts	10	89,880	629		90,519
Equity contracts	2,696	58,167	955		61,818
Commodity contracts	5,896	35,382	2,585		43,863
Other		932	326		1,258
Netting(2)	(8,880)	(1,122,162)	(11,501)	(84,206)	(1,226,749)
Total derivative and other contracts	1,379	119,141	18,098	(84,206)	54,412
Investments:					
Private equity funds			2,040		2,040
Real estate funds		5	1,254		1,259
Hedge funds		377	791		1,168
Principal investments	161		3,074		3,235
Other	91	49	481		621
Total investments	252	431	7,640		8,323
Physical commodities		10,296			10,296

Total financial instruments owned	94,446	223,529	40,482	(84,206)	274,251
Securities available for sale	11,491	16,206			27,697
Securities received as collateral	10,806	93			10,899
Intangible assets(3)			133		133
Liabilities					
Deposits	$	$ 2,796	$	$	$ 2,796
Commercial paper and other short-term borrowings		1,137	2		1,139
Financial instruments sold, not yet purchased:					
U.S. government and agency securities:					
U.S. Treasury securities	17,264	1			17,265
U.S. agency securities	1,602	467			2,069
Total U.S. government and agency securities	18,866	468			19,334
Other sovereign government obligations	14,348	3,741			18,089
Corporate and other debt:					
State and municipal securities		6			6

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at September 30, 2011
			(dollars in millions)		
Residential mortgage-backed securities		8	93		101
Commercial mortgage-backed securities		14			14
Corporate bonds		7,811	70		7,881
Unfunded lending commitments		1,411	206		1,617
Other debt		289	70		359
Total corporate and other debt		9,539	439		9,978
Corporate equities(1)	26,234	247	2		26,483
Derivative and other contracts:					
Interest rate contracts	1,713	877,542	4,924		884,179
Credit contracts		149,071	8,935		158,006
Foreign exchange contracts	11	91,673	570		92,254
Equity contracts	2,697	59,919	2,174		64,790
Commodity contracts	6,686	33,284	2,043		42,013
Other		1,022	1,424		2,446
Netting(2)	(8,880)	(1,122,162)	(11,501)	(53,081)	(1,195,624)
Total derivative and other contracts	2,227	90,349	8,569	(53,081)	48,064
Physical commodities		16			16
Total financial instruments sold, not yet purchased	61,675	104,360	9,010	(53,081)	121,964
Obligation to return securities received as collateral	14,938	97			15,035
Securities sold under agreements to repurchase		8	346		354
Other secured financings		15,350	590		15,940
Long-term borrowings	30	38,371	1,286		39,687

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

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

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the quarter ended September 30, 2011, the Company reclassified approximately $1.0 billion of derivative assets and approximately $0.9 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

Financial instruments owned Other sovereign government obligations. During the quarter ended September 30, 2011, the Company reclassified approximately $1.8 billion of other sovereign government obligations assets and approximately $2.1 billion of other sovereign government obligations liabilities from Level 1 to Level 2. These reclassifications primarily related to European peripheral government bonds as transactions in these securities did not occur with sufficient frequency and volume to constitute an active market.

Transfers Between Level 1 and Level 2 During the Nine Months Ended September 30, 2011.

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the nine months ended September 30, 2011, the Company

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reclassified approximately $0.8 billion of derivative assets and approximately $1.2 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

Financial instruments owned Other sovereign government obligations. During the nine months ended September 30, 2011, the Company reclassified approximately $1.8 billion of other sovereign government obligations assets and approximately $2.1 billion of other sovereign government obligations liabilities from Level 1 to Level 2. These reclassifications primarily related to European peripheral government bonds as transactions in these securities did not occur with sufficient frequency and volume to constitute an active market.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

U.S. government and agency securities	20,792	8,857			29,649
Securities received as collateral	15,646	890	1		16,537
Intangible assets(4)			157		157
Liabilities					
Deposits	$	$ 3,011	$ 16	$	$ 3,027
Commercial paper and other short-term borrowings		1,797	2		1,799
Financial instruments sold, not yet purchased:					
U.S. government and agency securities:					
U.S. Treasury securities	25,225				25,225
U.S. agency securities	2,656	67			2,723
Total U.S. government and agency securities	27,881	67			27,948
Other sovereign government obligations	19,708	2,542			22,250

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (dollars in millions)	Counterparty and Cash Collateral Netting	Balance at December 31, 2010
Corporate and other debt:					
State and municipal securities		11			11
Asset-backed securities		12			12
Corporate bonds		9,100	44		9,144
Collateralized debt obligations		2			2
Unfunded lending commitments		464	263		727
Other debt		828	194		1,022
Total corporate and other debt		10,417	501		10,918
Corporate equities(1)	19,696	127	15		19,838
Derivative and other contracts:					
Interest rate contracts	3,883	591,378	542		595,803
Credit contracts		87,904	7,722		95,626
Foreign exchange contracts	2	64,301	385		64,688
Equity contracts	2,098	42,242	1,820		46,160
Commodity contracts	5,871	58,885	972		65,728
Other		520	1,048		1,568
Netting(2)	(8,551)	(761,939)	(7,168)	(44,113)	(821,771)
Total derivative and other contracts	3,303	83,291	5,321	(44,113)	47,802
Total financial instruments sold, not yet purchased	70,588	96,444	5,837	(44,113)	128,756
Obligation to return securities received as collateral	20,272	890	1		21,163
Securities sold under agreements to repurchase		498	351		849
Other secured financings		7,474	1,016		8,490
Long-term borrowings		41,393	1,316		42,709

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.

(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 10.

(3) In June 2010, the Company voluntarily contributed $25 million to certain other investments in funds that it manages in connection with upcoming rule changes regarding net asset value disclosures for money market funds. Based on current liquidity and fund performance, the Company does not expect to provide additional voluntary support to non-consolidated funds that it manages.

(4) Amount represents MSRs accounted for at fair value. See Note 6 for further information on MSRs.

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

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the quarter ended September 30, 2010, the Company reclassified approximately $1.6 billion of derivative assets and approximately $1.6 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

Transfers Between Level 1 and Level 2 During the Nine Months Ended September 30, 2010.

Financial instruments owned Derivative and other contracts and Financial instruments sold, not yet purchased Derivative and other contracts. During the nine months ended September 30, 2010, the Company reclassified approximately $2.2 billion of derivative assets and approximately $2.3 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments owned Corporate equities. During the nine months ended September 30, 2010, the Company reclassified approximately $1.2 billion of certain Corporate equities from Level 2 to Level 1 as transactions in these securities occurred with sufficient frequency and volume to constitute an active market.

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

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Beginning Balance at June 30, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2011	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2011(2)
	(dollars in millions)								
Assets									
Financial instruments owned:									
U.S. agency securities	$ 2	$	$ 18	$ (10)	$	$	$	$ 10	$
Other sovereign government obligations	132	(13)					(1)	118	(13)
Corporate and other debt:									
Residential mortgage-backed securities	509	(28)	147	(193)			(49)	386	(16)
Commercial mortgage-backed securities	136	(3)	7	(49)			55	146	(6)
Asset-backed securities	298	3	1	(297)			1	6	2
Corporate bonds	1,179	(119)	309	(385)			20	1,004	(151)
Collateralized debt obligations	1,650	(115)	189	(303)		(24)	(148)	1,249	(119)
Loans and lending commitments	10,420	(166)	1,525	(968)		(957)	1,453	11,307	(184)
Other debt	163	40	10	(34)		(13)	(29)	137	24
Total corporate and other debt	14,355	(388)	2,188	(2,229)		(994)	1,303	14,235	(450)
Corporate equities	461	(46)	90	(137)			13	381	(62)
Net derivative and other contracts(3):									
Interest rate contracts	317	274	17		(112)	200	16	712	294
Credit contracts	7,392	3,375	107		(383)	(51)	93	10,533	3,277
Foreign exchange contracts	44	62				(47)		59	52
Equity contracts	(1,661)	532	80	(41)	(156)	57	(30)	(1,219)	511
Commodity contracts	316	245				(19)		542	330
Other	(397)	(710)			(5)	16	(2)	(1,098)	(701)
Total net derivative and other contracts	6,011	3,778	204	(41)	(656)	156	77	9,529	3,763
Investments:									
Private equity funds	2,160	(104)	66	(82)				2,040	(126)
Real estate funds	1,290	(15)	7	(28)				1,254	3
Hedge funds	827	(4)	31	(65)			2	791	(4)
Principal investments	3,120	(50)	41	(153)			116	3,074	(72)
Other	525	(34)	1	(8)			(3)	481	(37)
Total investments	7,922	(207)	146	(336)			115	7,640	(236)
Physical commodities	673					(673)			
Intangible assets	133	(1)	1					133	(1)
Liabilities									
Commercial paper and other short-term borrowings	$ 23	$ 1	$	$	$ 1	$ (19)	$ (2)	$ 2	$ 1
Other sovereign government obligations			(31)				31		
Financial instruments sold, not yet purchased:									
Corporate and other debt:									
Residential mortgage-backed securities	41	1	(37)	115			(25)	93	
Corporate bonds	35	122	(34)	168			23	70	39
Unfunded lending commitments	240	(66)				(100)		206	(66)
Other debt	178	98	(7)	9		(2)	(10)	70	97
Total corporate and other debt	494	155	(78)	292		(102)	(12)	439	70

Corporate equities	1	6	(16)	17			6	2	
Securities sold under agreements to repurchase	358	12						346	12
Other secured financings	742	33			27	(146)		590	33
Long-term borrowings	1,251	76			239	(133)	5	1,286	58

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Total realized and unrealized gains (losses) are primarily included in Principal transactions Trading in the condensed consolidated statements of income except for $(207) million related to Financial instruments owned Investments, which is included in Principal transactions Investments.
(2) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2011 related to assets and liabilities still outstanding at September 30, 2011.
(3) Net derivative and other contracts represent Financial instruments owned Derivative and other contracts net of Financial instruments sold, not yet purchased Derivative and other contracts. For further information on Derivative instruments and hedging activities, see Note 10.

Financial instruments owned Corporate and other debt. During the quarter ended September 30, 2011, the Company reclassified approximately $0.8 billion of certain Corporate and other debt, primarily corporate loans, residential mortgage-backed securities, and collateralized debt obligations, from Level 3 to Level 2. The Company reclassified the corporate loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $2.1 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Financial instruments owned Net derivative and other contracts. The net gains in Net derivative and other contracts were primarily driven by widening of credit spreads on underlying reference entities of certain basket default swaps where the Company was long protection.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Beginning Balance at December 31, 2010	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2011	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2011(2)
					(dollars in millions)				
Assets									
Financial instruments owned:									
U.S. agency securities	$ 13	$ 1	$ 54	$ (56)	$	$	$ (2)	$ 10	$ 1
Other sovereign government obligations	73	(5)	56				(6)	118	(3)
Corporate and other debt:									
State and municipal securities	110	(1)		(96)			(13)		
Residential mortgage-backed securities	319	(50)	347	(329)		(1)	100	386	(57)
Commercial mortgage-backed securities	188	10	61	(68)			(45)	146	(9)
Asset-backed securities	13	5	16	(48)			20	6	1
Corporate bonds	1,368	(147)	492	(651)			(58)	1,004	(76)
Collateralized debt obligations	1,659	135	749	(1,191)		(55)	(48)	1,249	(102)
Loans and lending commitments	11,666	(179)	3,504	(1,182)		(2,285)	(217)	11,307	(203)
Other debt	193	43	10	(64)		(11)	(34)	137	
Total corporate and other debt	15,516	(184)	5,179	(3,629)		(2,352)	(295)	14,235	(446)
Corporate equities	484	2	295	(324)			(76)	381	(23)
Net derivative and other contracts(3):									
Interest rate contracts	424	1,255	36		(809)	(239)	45	712	1,152
Credit contracts	6,594	3,860	1,176		(478)	(707)	88	10,533	4,195
Foreign exchange contracts	46	(95)	2			100	6	59	(73)
Equity contracts	(762)	664	187	(130)	(1,373)	67	128	(1,219)	636
Commodity contracts	188	422	457		(321)	(299)	95	542	490
Other	(913)	(571)	1		(120)	424	81	(1,098)	(565)
Total net derivative and other contracts	5,577	5,535	1,859	(130)	(3,101)	(654)	443	9,529	5,835
Investments:									
Private equity funds	1,986	156	189	(362)			71	2,040	84
Real estate funds	1,176	128	40	(90)				1,254	181
Hedge funds	901	(30)	172	(361)			109	791	(32)
Principal investments	3,131	192	285	(618)			84	3,074	(8)
Other	560	16	4	(25)			(74)	481	4
Total investments	7,754	462	690	(1,456)			190	7,640	229
Physical commodities		(48)	721			(673)			
Securities received as collateral	1			(1)					
Intangible assets	157	(27)	5			(2)		133	(28)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Beginning Balance at December 31, 2010	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2011	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2011(2)
	(dollars in millions)								
Liabilities									
Deposits	$ 16	$ 2	$	$	$	$ (14)	$	$	$
Commercial paper and other short-term borrowings	2	1			2	(1)		2	1
Financial instruments sold, not yet purchased:									
Corporate and other debt:									
Residential mortgage-backed securities		(9)	(8)	92				93	1
Commercial mortgage-backed securities		1		1					1
Corporate bonds	44	90	(183)	305			(6)	70	95
Unfunded lending commitments	263	57						206	57
Other debt	194	99	(5)	9		(2)	(27)	70	98
Total corporate and other debt	501	238	(196)	407		(2)	(33)	439	252
Corporate equities	15	6	(18)	12			(1)	2	3
Obligation to return securities received as collateral	1		(1)						
Securities sold under agreements to repurchase	351	4				(1)		346	4
Other secured financings	1,016	(7)			24	(151)	(306)	590	(23)
Long-term borrowings	1,316	66			489	(332)	(121)	1,286	45

(1) Total realized and unrealized gains (losses) are primarily included in Principal transactions Trading in the condensed consolidated statements of income except for $462 million related to Financial instruments owned Investments, which is included in Principal transactions Investments.

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

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

Financial instruments owned Corporate and other debt. During the nine months ended September 30, 2011, the Company reclassified approximately $1.4 billion of certain Corporate and other debt, primarily corporate loans, from Level 3 to Level 2. The Company reclassified these corporate loans as external prices and/or spread inputs for these instruments became observable.

The Company also reclassified approximately $1.1 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Financial instruments owned Net derivative and other contracts. The net gains in Net derivative and other contracts were primarily driven by widening of credit spreads on underlying reference entities of certain basket default swaps where the Company was long protection.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Beginning Balance at June 30, 2010	Total Realized and Unrealized Gains (Losses)(1)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers	Ending Balance at September 30, 2010	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2010(2)
	(dollars in millions)					
Assets						
Financial instruments owned:						
U.S. agency securities	$ 1	$	$	$	$ 1	$
Other sovereign government obligations	73	7	(7)	(8)	65	7
Corporate and other debt:						
State and municipal securities	221	(3)		(118)	100	(1)
Residential mortgage-backed securities	476	2	(335)	94	237	(7)
Commercial mortgage-backed securities	613	61	(83)	(225)	366	44
Asset-backed securities	101	13	(78)	(13)	23	1
Corporate bonds	1,344	29	247	22	1,642	31
Collateralized debt obligations	1,513	120	109	4	1,746	106
Loans and lending commitments	12,747	141	421	(1,199)	12,110	125
Other debt	1,810	1	(4)	(1,590)	217	(6)
Total corporate and other debt	18,825	364	277	(3,025)	16,441	293
Corporate equities	346	(5)	49	50	440	2
Net derivative and other contracts(3):						
Interest rate contracts	516	96	(27)	159	744	112
Credit contracts	8,101	(812)	444	(87)	7,646	(623)
Foreign exchange rate contracts	71	(81)	37	(132)	(105)	(83)
Equity contracts	(998)	(8)	(24)	58	(972)	(75)
Commodity contracts	14	165	75	(78)	176	105
Other	(1,039)	(389)	(27)	21	(1,434)	(393)
Total net derivative and other contracts	6,665	(1,029)	478	(59)	6,055	(957)
Investments:						
Private equity funds	1,839	151	10	(44)	1,956	152
Real estate funds	1,643	323	316		2,282	376
Hedge funds	910	41	(23)	(88)	840	41
Principal investments	2,575	(64)	(53)	(640)	1,818	(73)
Other	444	18	(39)	32	455	13
Total investments	7,411	469	211	(740)	7,351	509
Intangible assets	139	1	(1)		139	1
Liabilities						
Deposits	$ 14	$ (1)	$	$	$ 15	$ (1)
Commercial paper and other short-term borrowings	7			(4)	3	
Financial instruments sold, not yet purchased:						
Corporate and other debt:						
Residential mortgage-backed securities	2		(2)			
Commercial mortgage-backed securities		(1)	(1)			

Corporate bonds	80	(1)	202	(21)	262	(2)
Unfunded lending commitments	335	16	4		323	16
Other debt	221	16	(7)	(5)	193	15
Total corporate and other debt	638	30	196	(26)	778	29
Corporate equities	5	2	12	1	16	
Securities sold under agreements to repurchase		(2)	264		266	(2)
Other secured financings	1,910	(31)	140	(1,005)	1,076	(31)
Long-term borrowings	6,509	(19)	(5,268)	39	1,299	(89)

(1) Total realized and unrealized gains (losses) are primarily included in Principal transactions Trading in the condensed consolidated statements of income except for $469 million related to Financial instruments owned Investments, which is included in Principal transactions Investments.

(2) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2010 related to assets and liabilities still outstanding at September 30, 2010.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments owned Corporate and other debt. During the quarter ended September 30, 2010, the Company reclassified approximately $3.9 billion of certain Corporate and other debt, primarily loans and hybrid contracts, from Level 3 to Level 2. The Company reclassified these loans and hybrid contracts as external prices and/or spread inputs for these instruments became observable and certain unobservable inputs were deemed insignificant to the overall measurement.

The Company also reclassified approximately $0.9 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to certain corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Other secured financings. During the quarter ended September 30, 2010, the Company reclassified approximately $1.0 billion of Other secured financings from Level 3 to Level 2. The reclassifications were due to an increase in available broker quotes and/or consensus pricing such that significant inputs for the fair value measurement were observable.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Beginning Balance at December 31, 2009	Total Realized and Unrealized Gains (Losses)(1)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers	Ending Balance at September 30, 2010	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2010(2)
	(dollars in millions)					
Assets						
Financial instruments owned:						
U.S. agency securities	$ 36	$	$ (35)	$	$ 1	$
Other sovereign government obligations	3	3	62	(3)	65	4
Corporate and other debt:						
State and municipal securities	713	(6)	(534)	(73)	100	(10)
Residential mortgage-backed securities	818	4	(640)	55	237	(10)
Commercial mortgage-backed securities	1,573	99	(698)	(608)	366	(16)
Asset-backed securities	591	13	(438)	(143)	23	4
Corporate bonds	1,038	(13)	568	49	1,642	22
Collateralized debt obligations	1,553	219	(27)	1	1,746	129
Loans and lending commitments	12,506	189	(255)	(330)	12,110	136
Other debt	1,662	25	(48)	(1,422)	217	11
Total corporate and other debt	20,454	530	(2,072)	(2,471)	16,441	266
Corporate equities	536	64	(109)	(51)	440	35
Net derivative and other contracts(3):						
Interest rate contracts	387	136	191	30	744	150
Credit contracts	8,824	(1,167)	1,167	(1,178)	7,646	(371)
Foreign exchange rate contracts	254	(59)	(188)	(112)	(105)	(270)
Equity contracts	(689)	8	(503)	212	(972)	16
Commodity contracts	7	66	158	(55)	176	142
Other	(437)	(855)	(147)	5	(1,434)	(767)
Total net derivative and other contracts	8,346	(1,871)	678	(1,098)	6,055	(1,100)
Investments:						
Private equity funds	1,628	291	43	(6)	1,956	283
Real estate funds	1,087	509	666	20	2,282	666
Hedge funds	1,678	(175)	(327)	(336)	840	(175)
Principal investments	2,642	(87)	(60)	(677)	1,818	(105)
Other	578	55	(177)	(1)	455	(4)
Total investments	7,613	593	145	(1,000)	7,351	665
Securities received as collateral	23		(23)			
Intangible assets	137	25	(23)		139	4
Liabilities						
Deposits	$ 24	$ 1	$	$ (8)	$ 15	$
Commercial paper and other short-term borrowings			3		3	
Financial instruments sold, not yet purchased:						
Corporate and other debt:						

Asset-backed securities	4		(4)			
Corporate bonds	29	3	203	33	262	(4)
Collateralized debt obligations	3		(3)			
Unfunded lending commitments	252	(124)	(53)		323	(124)
Other debt	431	50	(168)	(20)	193	49
Total corporate and other debt	719	(71)	(25)	13	778	(79)
Corporate equities	4	1	6	7	16	
Obligation to return securities received as collateral	23		(23)			
Securities sold under agreements to repurchase		(2)	264		266	(2)
Other secured financings	1,532	(82)	(692)	154	1,076	(82)
Long-term borrowings	6,865	77	(5,323)	(166)	1,299	96

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Total realized and unrealized gains (losses) are primarily included in Principal transactions Trading in the condensed consolidated statements of income except for $593 million related to Financial instruments owned Investments, which is included in Principal transactions Investments.
(2) Amounts represent unrealized gains (losses) for the nine months ended September 30, 2010 related to assets and liabilities still outstanding at September 30, 2010.
(3) Net derivative and other contracts represent Financial instruments owned Derivative and other contracts net of Financial instruments sold, not yet purchased Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 10.

Financial instruments owned Corporate and other debt. During the nine months ended September 30, 2010, the Company reclassified approximately $3.5 billion of certain Corporate and other debt, primarily loans and hybrid contracts, from Level 3 to Level 2. The Company reclassified these loans and hybrid contracts as external prices and/or spread inputs for these instruments became observable and certain unobservable inputs were deemed insignificant to the overall measurement.

The Company also reclassified approximately $1.0 billion of certain Corporate and other debt from Level 2 to Level 3. The reclassifications were primarily related to certain corporate loans and were generally due to a reduction in market price quotations for these or comparable instruments, or a lack of available broker quotes, such that unobservable inputs had to be utilized for the fair value measurement of these instruments.

Financial instruments owned Net derivative and other contracts. The net losses in Net derivative and other contracts were primarily driven by tightening of credit spreads on underlying reference entities of single name and basket credit default swaps.

During the nine months ended September 30, 2010, the Company reclassified approximately $1.1 billion of certain Net derivative contracts from Level 3 to Level 2. These reclassifications were related to certain tranched bespoke credit basket default swaps and single name credit default swaps for which certain unobservable inputs were deemed insignificant.

Fair Value of Investments that Calculate Net Asset Value.

The Company s Investments measured at fair value were $8,323 million and $9,752 million at September 30, 2011 and December 31, 2010, respectively. The following table presents information solely about the Company s investments in private equity funds, real estate funds and hedge funds measured at fair value based on net asset value at September 30, 2011 and December 31, 2010, respectively.

	At September 30, 2011		At December 31, 2010	
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
	(dollars in millions)			
Private equity funds	$ 2,002	$ 971	$ 1,947	$ 1,047
Real estate funds	1,225	505	1,154	500
Hedge funds(1):				
Long-short equity hedge funds	554	5	1,046	4
Fixed income/credit-related hedge funds	119		305	
Event-driven hedge funds	164		143	
Multi-strategy hedge funds	332		140	
Total	$ 4,396	$ 1,481	$ 4,735	$ 1,551

(1) Fixed income/credit-related hedge funds, event-driven hedge funds, and multi-strategy hedge funds are redeemable at least on a six-month period basis primarily with a notice period of 90 days or less. At September 30, 2011, approximately 38% of the fair value

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount of long-short equity hedge funds is redeemable at least quarterly, 31% is redeemable every six months and 31% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds is primarily greater than six months. At December 31, 2010, approximately 49% of the fair value amount of long-short equity hedge funds is redeemable at least quarterly, 24% is redeemable every six months and 27% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds is primarily greater than 90 days.

Private Equity Funds. Amount includes several private equity funds that pursue multiple strategies including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments, and mezzanine capital. In addition, the funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are generally not redeemable with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. At September 30, 2011, it is estimated that 6% of the fair value of the funds will be liquidated in the next five years, another 31% of the fair value of the funds will be liquidated between five to 10 years and the remaining 63% of the fair value of the funds have a remaining life of greater than 10 years.

Real Estate Funds. Amount includes several real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. At September 30, 2011, it is estimated that 18% of the fair value of the funds will be liquidated within the next five years, another 34% of the fair value of the funds will be liquidated between five to 10 years and the remaining 48% of the fair value of the funds have a remaining life of greater than 10 years.

Hedge Funds. Investments in hedge funds may be subject to initial period lock-up restrictions or gates. A hedge fund lock-up provision is a provision that provides that, during a certain initial period, an investor may not make a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

Long-short Equity Hedge Funds. Amount includes investments in hedge funds that invest, long or short, in equities. Equity value and growth hedge funds purchase stocks perceived to be undervalued and sell stocks perceived to be overvalued. Investments representing approximately 12% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions ranged from one to three years at September 30, 2011. Investments representing approximately 30% of the fair value of the investments in long-short equity hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was primarily two years or less at September 30, 2011.

Fixed Income/Credit-Related Hedge Funds. Amount includes investments in hedge funds that employ long-short, distressed or relative value strategies in order to benefit from investments in undervalued or overvalued securities that are primarily debt or credit related. At September 30, 2011, investments representing approximately 42% of the fair value of the investments in fixed income/credit-related hedge funds cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was one year or less at September 30, 2011.

Event-Driven Hedge Funds. Amount includes investments in hedge funds that invest in event-driven situations such as mergers, hostile takeovers, reorganizations, or leveraged buyouts. This may involve the simultaneous purchase of stock in companies being acquired and the sale of stock in its acquirer, hoping

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to profit from the spread between the current market price and the ultimate purchase price of the target company. At September 30, 2011, investments representing approximately 38% of the value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments was primarily one year or less at September 30, 2011.

Multi-strategy Hedge Funds. Amount includes investments in hedge funds that pursue multiple strategies to realize short- and long-term gains. Management of the hedge funds has the ability to overweight or underweight different strategies to best capitalize on current investment opportunities. At September 30, 2011, investments representing approximately 85% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily three years or less at September 30, 2011.

Fair Value Option.

The Company elected the fair value option for certain eligible instruments that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models. The following tables present net gains (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for the quarters and nine months ended September 30, 2011 and 2010, respectively.

	Principal Transactions-Trading	Interest Expense (dollars in millions)	Gains (Losses) Included in Net Revenues
Three Months Ended September 30, 2011			
Deposits	$ 18	$ (30)	$ (12)
Commercial paper and other short-term borrowings	541		541
Securities sold under agreements to repurchase	6		6
Long-term borrowings	5,624	(249)	5,375
Nine Months Ended September 30, 2011			
Deposits	$ 49	$ (90)	$ (41)
Commercial paper and other short-term borrowings	585		585
Securities sold under agreements to repurchase	6		6
Long-term borrowings	4,316	(809)	3,507
Three Months Ended September 30, 2010			
Deposits	$ 2	$ (43)	$ (41)
Commercial paper and other short-term borrowings	(156)		(156)
Securities sold under agreements to repurchase	(2)		(2)
Long-term borrowings	(3,008)	(159)	(3,167)
Nine Months Ended September 30, 2010			
Deposits	$ (13)	$ (136)	$ (149)
Commercial paper and other short-term borrowings	(88)		(88)
Securities sold under agreements to repurchase	(2)		(2)
Long-term borrowings	(481)	(643)	(1,124)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to the amounts in the above table, as discussed in Note 2 to the consolidated financial statements for the year ended December 31, 2010 included in the Form 10-K, all of the instruments within Financial instruments owned or Financial instruments sold, not yet purchased are measured at fair value, either through the election of the fair value option, or as required by other accounting guidance. The amounts in the above table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any.

The changes in overall fair value of the short-term and long-term borrowings (primarily structured notes) are attributable to changes in foreign currency exchange rates, interest rates, movements in the reference price or index for structured notes and (as presented in the table below) an adjustment to reflect the change in credit quality of the Company.

The following tables present information on the Company s short-term and long-term borrowings (primarily structured notes), loans and unfunded lending commitments for which the fair value option was elected.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in millions)			
Short-term and long-term borrowings(1)	$ 3,410	$ (731)	$ 3,465	$ 72
Loans(2)	(318)	195	(438)	205
Unfunded lending commitments(3)	(821)	6	(1,034)	(124)

(1) The change in the fair value of short-term and long-term borrowings (primarily structured notes) includes an adjustment to reflect the change in credit quality of the Company based upon observations of the Company s secondary bond market spreads.
(2) Instrument-specific credit gains were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.
(3) Gains (losses) were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period end.

Amount by Which Contractual Principal Amount Exceeds Fair Value

	At September 30, 2011	At December 31, 2010
	(dollars in billions)	
Short-term and long-term borrowings(1)	$ 2.4	$ 0.6
Loans(2)	27.4	24.3
Loans 90 or more days past due and/or on non-accrual status(2)(3)	22.2	21.2

(1) These amounts do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.
(2) The majority of this difference between principal and fair value amounts emanates from the Company s distressed debt trading business, which purchases distressed debt at amounts well below par.
(3) The aggregate fair value of loans that were in non-accrual status, which includes all loans 90 or more days past due, was $2.2 billion and $2.2 billion at September 30, 2011 and December 31, 2010, respectively. The aggregate fair value of loans that were 90 or more days past due was $1.4 billion and $2.0 billion at September 30, 2011 and December 31, 2010, respectively.

The tables above exclude non-recourse debt from consolidated VIEs, liabilities related to failed sales, pledged commodities and other liabilities that have specified assets attributable to them.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain assets were measured at fair value on a non-recurring basis and are not included in the tables above. These assets may include loans, equity method investments, premises and equipment, intangible assets and real estate investments.

The following tables present, by caption on the condensed consolidated statements of financial condition, the fair value hierarchy for those assets measured at fair value on a non-recurring basis for which the Company recognized a non-recurring fair value adjustment for the quarters and nine months ended September 30, 2011 and 2010, respectively.

Three and Nine Months Ended September 30, 2011.

		Fair Value Measurements Using:				
	Carrying Value At September 30, 2011(1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains(Losses) for the Three Months Ended September 30, 2011(2)	Total Gains (Losses) for the Nine Months Ended September 30, 2011(2)
				(dollars in millions)		
Loans(3)	$ 108	$	$ 47	$ 61	$ (19)	$
Other investments(4)	111			111	(16)	(44)
Premises, equipment and software costs(4)	3			3	(4)	(6)
Intangible assets(5)					(4)	(7)
Total	$ 222	$	$ 47	$ 175	$ (43)	$ (57)

(1) Carrying values relate only to those assets that had fair value adjustments during the quarter ended September 30, 2011. These amounts do not include assets that had fair value adjustments during the nine months ended September 30, 2011, unless the assets also had a fair value adjustment during the quarter ended September 30, 2011.
(2) Losses are recorded within Other expenses in the condensed consolidated statement of income except for fair value adjustments related to Loans and losses related to Other investments, which are included in Other revenues.
(3) Non-recurring change in fair value for loans held for investment was calculated based upon the fair value of the underlying collateral. The fair value of the collateral was determined using internal expected recovery models. The non-recurring change in fair value for mortgage loans held for sale is based upon a valuation model incorporating market observable inputs.
(4) Losses recorded were determined primarily using discounted cash flow models.
(5) Losses were determined primarily using discounted cash flow models or a valuation technique incorporating an observable market index.

There were no liabilities measured at fair value on a non-recurring basis during the quarter and nine months ended September 30, 2011.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three and Nine Months Ended September 30, 2010.

	Carrying Value At September 30, 2010(1)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended September 30, 2010(2)	Total Gains (Losses) for the Nine Months Ended September 30, 2010(2)
				(dollars in millions)		
Loans(3)	$ 641	$	$	$ 641	$ 41	$ 13
Other investments(4)	52			52	(3)	(9)
Intangible assets(5)	86			86	(31)	(66)
Total	$ 779	$	$	$ 779	$ 7	$ (62)

(1) Carrying values relate only to those assets that had fair value adjustments during the quarter ended September 30, 2010. These amounts do not include assets that had fair value adjustments during the nine months ended September 30, 2010, unless the assets also had a fair value adjustment during the quarter ended September 30, 2010.
(2) Losses are recorded within Other expenses in the condensed consolidated statement of income except for fair value adjustments related to Loans and losses related to Other investments, which are included in Other revenues.
(3) Non-recurring change in fair value for loans held for investment were calculated based upon the fair value of the underlying collateral. The fair value of the collateral was determined using internal expected recovery models.
(4) Losses recorded were determined primarily using discounted cash flow models.
(5) Losses primarily related to investment management contracts and were determined using discounted cash flow models.

In addition to the losses included in the table above, the Company incurred a loss of approximately $1.2 billion in connection with the disposition of Revel, which was included in discontinued operations. The loss primarily related to premises, equipment and software costs and was included in discontinued operations (see Note 1). The fair value of Revel, net of estimated costs to sell, included in Premises, equipment and software costs was approximately $40 million at September 30, 2010 and was classified in Level 3. Fair value was determined using discounted cash flow models.

There were no liabilities measured at fair value on a non-recurring basis during the quarter and nine months ended September 30, 2010.

Financial Instruments Not Measured at Fair Value.

Some of the Company s financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: Cash and due from banks, Interest bearing deposits with banks, Cash deposited with clearing organizations or segregated under federal and other regulations or requirements, Federal funds sold and Securities purchased under agreements to resell, Securities borrowed, certain Securities sold under agreements to repurchase, Securities loaned, Receivables Customers, Receivables Brokers, dealers and clearing organizations, Payables Customers, Payables Brokers, dealers and clearing organizations, certain Commercial paper and other short-term borrowings, certain Deposits and certain Other secured financings.

The Company s long-term borrowings are recorded at amortized amounts unless elected under the fair value option or designated as a hedged item in a fair value hedge. For long-term borrowings not measured at fair value, the fair value of the Company s long-term borrowings was estimated using either quoted market prices or discounted cash flow analyses based on the Company s current borrowing rates for similar types of borrowing arrangements. At September 30, 2011, the carrying value of the Company s long-term borrowings not measured

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

at fair value was approximately $12.7 billion higher than fair value. At December 31, 2010, the carrying value of the Company s long-term borrowings not measured at fair value was approximately $1.8 billion higher than fair value.

4. Securities Available for Sale.

The following table presents information about the Company s available for sale securities:

	At September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 11,318	$ 175	$ 2	$	$ 11,491
U.S. agency securities	15,663	56	13		15,706
Corporate and other debt(1)	501		1		500
Total	$ 27,482	$ 231	$ 16	$	$ 27,697

(1) Amounts include FFELP student loan asset-backed securities, which are backed by a guarantee from the U.S. Department of Education.

	At December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 18,812	$ 199	$ 34	$	$ 18,977
U.S. agency securities	10,774	16	118		10,672
Total	$ 29,586	$ 215	$ 152	$	$ 29,649

The table below presents the fair value of investments in debt securities available for sale that have been in an unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
At September 30, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in millions)					
Debt securities available for sale:						

U.S. government and agency securities:						
U.S. Treasury securities	$ 768	$ 2	$	$	$ 768	$ 2
U.S. agency securities	3,027	11	880	2	3,907	13
Corporate and other debt	486	1			486	1
Total	$ 4,281	$ 14	$ 880	$ 2	$ 5,161	$ 16

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2010	Less than 12 Months Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
	(dollars in millions)					
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 1,960	$ 34	$	$	$ 1,960	$ 34
U.S. agency securities	7,736	118			7,736	118
Total	$ 9,696	$ 152	$	$	$ 9,696	$ 152

Gross unrealized losses are recorded in Accumulated other comprehensive income.

The Company does not intend to sell these securities or expect to be required to sell these securities prior to recovery of the amortized cost basis. In addition, the Company does not expect these securities to experience a credit loss given the explicit and implicit guarantee provided by the U.S. government. The Company believes that the debt securities with an unrealized loss in Accumulated other comprehensive income were not other-than-temporarily impaired at September 30, 2011 and December 31, 2010.

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates at September 30, 2011.

	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 2,157	$ 2,171	0.9%
After 1 year but through 5 years	7,744	7,893	1.4%
After 5 years	1,417	1,427	1.4%
Total	11,318	11,491	
U.S. agency securities:			
After 5 years	15,663	15,706	1.1%
Total	15,663	15,706	
Total U.S. government and agency securities	26,981	27,197	1.2%
Corporate and other debt:			
After 5 years	501	500	1.0%
Total Corporate and other debt	501	500	
Total debt securities available for sale	$ 27,482	$ 27,697	1.2%

The following table presents information pertaining to sales of debt securities available for sale:

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	(dollars in millions)	
Gross realized gains	$ 36	$ 132
Gross realized losses	$	$ 2
Proceeds of sales of debt securities available for sale	$ 1,775	$ 14,917

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gross realized gains and losses are recognized in Other revenues in the condensed consolidated statements of income. There were no sales of available for sale securities during the three and nine months ended September 30, 2010.

5. Collateralized Transactions.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers needs and to finance the Company s inventory positions. The Company s policy is generally to take possession of Securities received as collateral, Securities purchased under agreements to resell and Securities borrowed. The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate collateral and the right to offset a counterparty s rights and obligations. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralized. Where deemed appropriate, the Company s agreements with third parties specify its rights to request additional collateral.

The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company s collateral policies significantly limits the Company s credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At September 30, 2011 and December 31, 2010, there were approximately $14.4 billion and $18.0 billion, respectively, of customer margin loans outstanding.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, and certain equity-linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Financial instruments owned (see Note 6).

The Company pledges its financial instruments owned to collateralize repurchase agreements and other securities financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Financial instruments owned (pledged to various parties) in the condensed consolidated statements of financial

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

condition. The carrying value and classification of financial instruments owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At September 30, 2011	At December 31, 2010
	(dollars in millions)	
Financial instruments owned:		
U.S. government and agency securities	$ 5,662	$ 11,513
Other sovereign government obligations	6,780	8,741
Corporate and other debt	14,065	12,333
Corporate equities	22,870	21,919
Total	$ 49,377	$ 54,506

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed and derivative transactions, and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and the related obligation to return the collateral in the condensed consolidated statements of financial condition. At September 30, 2011 and December 31, 2010, the fair value of financial instruments received as collateral where the Company is permitted to sell or repledge the securities was $573 billion and $537 billion, respectively, and the fair value of the portion that had been sold or repledged was $410 billion and $390 billion, respectively.

At September 30, 2011 and December 31, 2010, cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements were as follows:

	At September 30, 2011	At December 31, 2010
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	$ 30,864	$ 19,180
Securities(1)	21,752	18,935
Total	$ 52,616	$ 38,115

(1) Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Federal funds sold and securities purchased under agreements to resell and Financial instruments owned in the condensed consolidated statements of financial condition.

6. Variable Interest Entities and Securitization Activities.

The Company is involved with various SPEs in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Company applies accounting guidance for consolidation of VIEs to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Excluding

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entities subject to the Deferral (as defined in Note 2 to the consolidated financial statements included in the Form 10-K), the primary beneficiary of a VIE is the party that both (1) has the power to direct the activities of a VIE that most significantly affect the VIE s economic performance and (2) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates entities of which it is the primary beneficiary.

The Company s variable interests in VIEs include debt and equity interests, commitments, guarantees, derivative instruments and certain fees. The Company s involvement with VIEs arises primarily from:

Interests purchased in connection with market-making and retained interests held as a result of securitization activities, including re-securitization transactions.

Guarantees issued and residual interests retained in connection with municipal bond securitizations.

Servicing residential and commercial mortgage loans held by VIEs.

Loans and investments made to VIEs that hold debt, equity, real estate or other assets.

Derivatives entered into with VIEs.

Structuring of credit-linked notes (CLN) or other asset-repackaged notes designed to meet the investment objectives of clients.

Other structured transactions designed to provide tax-efficient yields to the Company or its clients.

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

The power to make the most significant economic decisions may take a number of different forms in different types of VIEs. The Company considers servicing or collateral management decisions as representing the power to make the most significant economic decisions in transactions such as securitizations or CDOs. As a result, the Company does not consolidate securitizations or CDOs for which it does not act as the servicer or collateral manager unless it holds certain other rights to replace the servicer or collateral manager or to require the liquidation of the entity. If the Company serves as servicer or collateral manager, or has certain other rights described in the previous sentence, the Company analyzes the interests in the VIE that it holds and consolidates only those VIEs for which it holds a potentially significant interest, generally based on the fair value of interests held by the Company relative to the fair value of the assets of the VIE.

The structure of securitization vehicles and CDOs are driven by several parties, including loan seller(s) in securitization transactions, the collateral manager in a CDO, one or more rating agencies, a financial guarantor in some transactions and the underwriter(s) of the transactions, who serve to reflect specific investor demand. In addition, subordinate investors, such as the B-piece buyer in commercial mortgage backed securitizations or equity investors in CDOs, can influence whether specific loans are excluded from a CMBS transaction or investment criteria in a CDO.

For many transactions, such as re-securitization transactions, CLNs and other asset-repackaged notes, there are no significant economic decisions made on an ongoing basis. In these cases, the Company focuses its analysis on decisions made prior to the initial closing of the transaction and at the termination of the transaction. Based upon factors, which include an analysis of the nature of the assets, including whether the assets were issued in a

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transaction sponsored by the Company and the extent of the information available to the Company and to investors, the number, nature and involvement of investors, other rights held by the Company and investors, the standardization of the legal documentation and the level of the continuing involvement by the Company, including the amount and type of interests owned by the Company and by other investors, the Company concluded in most of these transactions that decisions made prior to the initial closing were shared between the Company and the initial investors. The Company focused its control decision on any right held by the Company or investors related to the termination of the VIE. Most re-securitization transactions, CLNs and other asset-repackaged notes have no such termination rights.

Except for consolidated VIEs included in other structured financings in the tables below, the Company accounts for the assets held by the entities primarily in Financial instruments owned and the liabilities of the entities as Other secured financings in the condensed consolidated statements of financial condition. For consolidated VIEs included in other structured financings, the Company accounts for the assets held by the entities primarily in Premises, equipment and software costs, and Other assets in the condensed consolidated statements of financial condition. Except for consolidated VIEs included in other structured financings, the assets and liabilities are measured at fair value, with changes in fair value reflected in earnings.

The assets owned by many consolidated VIEs cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many consolidated VIEs are non-recourse to the Company. In certain other consolidated VIEs, the Company has the unilateral right to remove assets or provides additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Company s Institutional Securities business segment s securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 11).

The following tables present information at September 30, 2011 and December 31, 2010 about VIEs that the Company consolidates. Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a non-recourse basis.

	At September 30, 2011				
	Mortgage and Asset-backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
			(dollars in millions)		
VIE assets	$ 2,754	$ 101	$ 2,170	$ 857	$ 2,081
VIE liabilities	$ 1,947	$ 73	$ 124	$ 2,614	$ 669

	At December 31, 2010				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
			(dollars in millions)		
VIE assets	$ 3,362	$ 129	$ 2,032	$ 643	$ 2,584
VIE liabilities	$ 2,544	$ 68	$ 108	$ 2,571	$ 1,219

In general, the Company s exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE s assets recognized in its financial statements, net of losses absorbed by third-party holders of the VIE s liabilities. At September 30, 2011 and December 31, 2010, managed real estate partnerships reflected noncontrolling interests in the Company s condensed consolidated financial statements of $1,610 million and

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$1,508 million, respectively. The Company also had additional maximum exposure to losses of approximately $224 million and $884 million at September 30, 2011 and December 31, 2010, respectively. This additional exposure related primarily to certain derivatives (*e.g.*, instead of purchasing senior securities, the Company has sold credit protection to synthetic CDOs through credit derivatives that are typically related to the most senior tranche of the CDO) and commitments, guarantees and other forms of involvement.

The following tables present information about certain non-consolidated VIEs in which the Company had variable interests at September 30, 2011 and December 31, 2010. The tables include all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria. Most of the VIEs included in the tables below are sponsored by unrelated parties; the Company s involvement generally is the result of the Company s secondary market-making activities.

	At September 30, 2011 (dollars in millions)				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 161,330	$ 15,683	$ 6,883	$ 1,920	$ 19,632
Maximum exposure to loss:					
Debt and equity interests(2)	$ 4,639	$ 629	$ 63	$ 975	$ 2,286
Derivative and other contracts	99	854	4,406		1,557
Commitments, guarantees and other	216			784	241
Total maximum exposure to loss	$ 4,954	$ 1,483	$ 4,469	$ 1,759	$ 4,084
Carrying value of exposure to loss Assets:					
Debt and equity interests(2)	$ 4,639	$ 629	$ 63	$ 654	$ 2,284
Derivative and other contracts	97	668			632
Total carrying value of exposure to loss Assets	$ 4,736	$ 1,297	$ 63	$ 654	$ 2,916
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$ 15	$ 138	$	$	$ 72
Commitments, guarantees and other				15	215
Total carrying value of exposure to loss Liabilities	$ 15	$ 138	$	$ 15	$ 287

(1) Mortgage and asset-backed securitizations include VIE assets as follows: $18.5 billion of residential mortgages; $110.0 billion of commercial mortgages; $23.8 billion of U.S. agency collateralized mortgage obligations; and $9.0 billion of other consumer or commercial loans.

(2) Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $1.1 billion of residential mortgages; $1.3 billion of commercial mortgages; $1.7 billion of U.S. agency collateralized mortgage obligations; and $0.5 billion of other consumer or commercial loans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At December 31, 2010				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 172,711	$ 38,332	$ 7,431	$ 2,037	$ 11,262
Maximum exposure to loss:					
Debt and equity interests(2)	$ 8,129	$ 1,330	$ 78	$ 1,062	$ 2,678
Derivative and other contracts	113	942	4,709		2,079
Commitments, guarantees and other				791	446
Total maximum exposure to loss	$ 8,242	$ 2,272	$ 4,787	$ 1,853	$ 5,203
Carrying value of exposure to loss Assets:					
Debt and equity interests(2)	$ 8,129	$ 1,330	$ 78	$ 779	$ 2,678
Derivative and other contracts	113	753			551
Total carrying value of exposure to loss Assets	$ 8,242	$ 2,083	$ 78	$ 779	$ 3,229
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$ 15	$ 123	$	$	$ 23
Commitments, guarantees and other				44	261
Total carrying value of exposure to loss Liabilities	$ 15	$ 123	$	$ 44	$ 284

(1) Mortgage and asset-backed securitizations include VIE assets as follows: $34.9 billion of residential mortgages; $94.0 billion of commercial mortgages; $28.8 billion of U.S. agency collateralized mortgage obligations; and $15.0 billion of other consumer or commercial loans.

(2) Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $1.9 billion of residential mortgages; $2.1 billion of commercial mortgages; $3.0 billion of U.S. agency collateralized mortgage obligations; and $1.1 billion of other consumer or commercial loans.

The Company s maximum exposure to loss often differs from the carrying value of the VIE s assets. The maximum exposure to loss is dependent on the nature of the Company s variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Company has made in the VIEs. Liabilities issued by VIEs generally are non-recourse to the Company. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value writedowns already recorded by the Company.

The Company s maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Company may utilize to hedge these risks associated with the Company s variable interests. In addition, the Company s maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Company owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities totaled $3.8 billion at September 30, 2011. These securities were either retained in connection with transfers of assets by the Company or acquired in connection with secondary market-making activities. Securities issued by securitization SPEs consist of $1.2

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

billion of securities backed primarily by residential mortgage loans, $0.9 billion of securities backed by U.S. agency collateralized mortgage obligations, $0.8 billion of securities backed by commercial mortgage loans, $0.5 billion of securities backed by collateralized debt obligations or collateralized loan obligations and $0.4 billion backed by other consumer loans, such as credit card receivables, automobile loans and student loans. The Company s primary risk exposure is to the securities issued by the SPE owned by the Company, with the risk highest on the most subordinate class of beneficial interests. These securities generally are included in Financial instruments owned Corporate and other debt and are measured at fair value. The Company does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Company s maximum exposure to loss generally equals the fair value of the securities owned.

The Company s transactions with VIEs primarily includes securitizations, municipal tender option bond trusts, credit protection purchased through CLNs, other structured financings, collateralized loan and debt obligations, equity-linked notes, managed real estate partnerships and asset management investment funds. The Company s continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Company-sponsored transactions, interests purchased in the secondary market (both for Company-sponsored transactions and transactions sponsored by third parties), derivatives with securitization SPEs (primarily interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Company has purchased protection in synthetic CDOs), and as servicer in residential mortgage securitizations in the U.S. and Europe and commercial mortgage securitizations in Europe. Such activities are further described in Note 7 to the consolidated financial statements for the year ended December 31, 2010 included in the Form 10-K.

Transfers of Assets with Continuing Involvement.

The following tables present information at September 30, 2011 regarding transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment.

	At September 30, 2011			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$ 43,363	$ 84,333	$ 33,619	$ 18,891
Retained interests (fair value):				
Investment grade	$ 32	$ 28	$ 1,110	$ 3
Non-investment grade	193	42		1,565
Total retained interests (fair value)	$ 225	$ 70	$ 1,110	$ 1,568
Interests purchased in the secondary market (fair value):				
Investment grade	$ 70	$ 143	$ 58	$ 425
Non-investment grade	188	89		18
Total interests purchased in the secondary market (fair value)	$ 258	$ 232	$ 58	$ 443
Derivative assets (fair value)	$ 27	$ 1,238	$	$ 192
Derivative liabilities (fair value)	$ 31	$ 59	$	$ 630

(1) Amounts include assets transferred by unrelated transferors.

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	At September 30, 2011			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$	$ 1,165	$ 8	$ 1,173
Non-investment grade				