MORGAN STANLEY FINANCE LLC

Interim financial report

June 30, 2021

MORGAN STANLEY FINANCE LLC

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MORGAN STANLEY FINANCE LLC

DIRECTORS' REPORT
Six Months ended 30 June 2021

The Directors present their report and financial statements (which comprise the statement of financial condition, the statement of comprehensive income (loss), the statement of cash flows, the statement of changes in member's equity (deficit) and the related notes as well as a glossary of common terms and acronyms for Morgan Stanley Finance LLC (the "Company") for the period ended 30 June 2021.

RESULTS AND DIVIDENDS

The comprehensive income for the six months, after tax, was $109,000,000 (30 June 2020: $252,000,000).

During the period, no dividends were paid or proposed.

PRINCIPAL ACTIVITY

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

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

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

FUTURE OUTLOOK

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

BUSINESS REVIEW

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

The Company has a rating of BBB+ from S&P.

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

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

In the period, Structured Notes that are measured at fair value pursuant to the fair value option election requires presenting unrealized DVA of $109,000,000 as 'Other comprehensive income' in the statement of comprehensive income (loss).

The statement of financial condition for the Company is set out on page 2 of the unaudited financial statements. At 30 June 2021 the Company's total assets were $27,147,000,000, an increase of $1,581,000,000 or 6% compared to 30 June 2020 and total liabilities were $27,724,000,000 an increase of $1,472,000,000 or 6%, compared to 30 June 2020.

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

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

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

Risk management

Risk is an inherent part of the Company's business and activities. Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company leverages the risk management policies and procedures of the Firm to identify, measure, monitor, advise, challenge and control the principal risks involved in the activities of its business and support functions. The principal risks involved in the Firm's business activities include market (including non-trading risks), credit, operational, model, compliance, cybersecurity, liquidity, strategic, reputational and conduct risk. The policies and procedures include escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company as well as oversight through the Company's Board of Directors.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks.

Market risk
Market risk refers to the risk that a change in the level of one or more market prices, rates, spreads, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Company manages the market risk associated with its trading activities at both a trading division and an individual product level.

It is the policy and objective of the Company not to be exposed to net market risk.

Credit risk
Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events will adversely affect an obligor's ability and willingness to fulfil their obligations.

The CRM establishes Firm-wide practices to evaluate, monitor and control credit risk at the transaction, obligor and portfolio levels. A comprehensive and global Credit Limits Framework is utilized to manage credit risk levels across the Firm. The Credit Limits Framework is calibrated within the Company's risk tolerance and The Framework includes single-name limits and portfolio concentration limits by country, industry and product type. CRM helps ensure timely and transparent communication of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. In addition, credit risk exposure is actively managed by credit professionals and committees within CRM as well as through various risk committees, whose membership includes individuals from CRM.

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

adequacy assessments and the formulation of strategy.

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

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

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

The Firm's Liquidity Risk Oversight Management Framework is critical to help ensure that the Firm, maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is responsible for the oversight and monitoring of the Firm's liquidity risk. Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management.

Operational risk
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes or systems, human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). The Company may incur operational risk across the full scope of its business activities.

The Company leverages the framework established by the Firm which includes escalation to the Company's Board of Directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment.

Legal and compliance risk
Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgements, damages and/ or settlements or loss to reputation that the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes

of conduct applicable to its business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering and terrorist financing, and anti-corruption rules and regulations. The Firm is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

The Firm, principally through the Firm's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

In addition, the Firm has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services industry globally presents a continuing business challenge for the Firm.

Culture, Values and Conduct of Employees

Employees of the Firm are accountable for conducting themselves in accordance with the Firm's core values

Putting Clients First, Do the Right Thing, Leading with Exceptional Ideas, Commit to Diversity and Inclusion and Give Back.

The Firm is committed to reinforcing and confirming adherence to these core values through its governance framework, tone from the top, management oversight, risk management and controls, and the three lines of defence structure (business, control functions such as risk Management and Compliance, and Internal Audit.

The Firm's Board is responsible for overseeing the practices and procedures relating to culture, values and conduct, as set forth in the Firm's Corporate Governance Policies. The Culture, Values and Conduct Committee, along with the Compliance and Conduct Risk Committee, are the senior management committees that oversee the Firmwide culture, values and conduct program and report regularly to the Firm's Board. A fundamental building block of this program is the Firm's Code of Conduct, which establishes standards for employee conduct that further reinforce the Firm's commitment to integrity and ethical conduct. Every new hire and every employee annually is required to certify to their understanding of and adherence to the Code of Conduct. Every new hire and every employee annually is required to certify to their understanding of and adherence to the Code of Conduct.

The employee annual performance review process includes evaluation of employee conduct related to risk management practices and the Firm's expectations. There are also several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. For example, the Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and specifically provides that managers must consider whether their employees effectively managed and/or supervised risk control practices during the performance year. Management committees from control functions periodically meet to discuss employees whose conduct is not in line with our expectations. These results are incorporated into identified employees' performance reviews and compensation and promotion decisions.

The Firm's clawback and cancellation provisions apply to deferred incentive compensation and cover a broad scope of employee conduct, including any act or omission (including with respect to direct supervisory responsibilities) that constitutes a breach of obligation to the Firm or causes a restatement of the Firm's financial results, constitutes a violation of the Firm's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Planned Replacement of London Interbank Offered Rate and Replacement or Reform of Other Interest Rates

Central banks around the world, including the Federal Reserve, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs"). On March 5, 2021, ICE Benchmark Administration, which administers LIBOR publication, announced that it will cease the publication of most LIBOR rates as of the end of December 2021, except for the publication until June 30, 2023 of the most widely used U.S. dollar LIBOR tenors, and the U.K. Financial Conduct Authority ("FCA"), which regulates LIBOR publication, announced that it would not compel panel banks to submit to LIBOR beyond those dates.

Subsequently, the International Swaps and Derivatives Association confirmed that the FCA's announcement constituted an "Index Cessation Event" as defined in the IBOR Fallbacks Supplement, which amended ISDA's interest rate definitions to include robust fallbacks for derivatives linked to LIBOR and certain other interest rate benchmarks, and the ISDA 2020 IBOR Fallbacks Protocol, which incorporates the fallbacks into legacy non-cleared derivatives entered into between Protocol adherents. The FCA's announcement therefore triggered a fixing of the ISDA fallback spread adjustments for all LIBOR benchmarks, to be effective when the contractual fallbacks are implemented. The Alternative Reference Rates Committee also confirmed that the ICE Benchmark Administration and FCA announcements also constituted a "Benchmark Transition Event" with respect to all U.S. Dollar LIBOR settings pursuant to the ARRC's fallback recommendations for new issuances or originations of certain cash products.

Separately, the U.S. banking agencies and the FCA have encouraged banks to cease entering into new contracts referencing LIBOR as soon as practicable, and no later than December 31, 2021.

Further, New York State has enacted legislation that, upon U.S. dollar LIBOR's cessation, is intended to minimize legal and economic uncertainty by replacing LIBOR references in certain contracts governed by New York law with a benchmark based on the SOFR, including any spread adjustment, recommended by the Federal Reserve, the Federal Reserve Bank of New York or the ARRC.

We remain a party to a significant number of LIBOR-linked contracts, many of which extend beyond 2021 and, in the case of U.S. dollar LIBOR, June 30, 2023, composed of derivatives, securitizations, floating rate notes, loans and mortgages and we continue to execute against our Firm-wide IBOR transition plan to promote the transition to alternative reference rates in accordance with industry transition timelines. Our IBOR transition plan is overseen by a global steering committee, with senior management oversight. Firm entities engaged in derivatives have adhered to the ISDA 2020 IBOR Fallbacks Protocol. As noted above, the Protocol is designed to facilitate the transition of covered derivatives contracts to alternative reference rates. The New York State legislation also provides safeguards that help facilitate the transition to alternative reference rates for certain U.S. Dollar LIBOR contracts, although additional regulatory clarity may be needed in some instances.

Going Concern

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

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

DIRECTORS

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

Kevin Woodruff

Nikki Tippins

Joshua Schanzer

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

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

AUDITOR

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

Approved and signed on behalf of the Board by:

Kevin Woodruff, President

MORGAN STANLEY FINANCE LLC

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

- the management report represented by the Directors' report includes a fair review of the development and performance of the business that have occurred during the six months ended June 30, 2021 and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by:

Kevin Woodruff

Name: Kevin Woodruff

Title: President and Director

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

	At June 30, 2021 (Unaudited)	At December 31, 2020
Assets		
Cash	$ 3	$ 6
Trading assets at fair value	1,909	1,524
Receivables:		
Broker dealers	29	6
Notes receivable from Parent	25,157	23,972
Intercompany from Parent	49	58
Total Assets	**$ 27,147**	**$ 25,566**
Liabilities		
Trading liabilities at fair value	$ 8	$ 3
Payables:		
Interest	16	16
Intercompany to Parent	7	22
Borrowings (includes $27,687 and $26,206 at fair value)	27,693	26,211
Total Liabilities	**$ 27,724**	**$ 26,252**
Commitments and contingent liabilities (See Note 8)		
Member's equity:		
Additional paid-in capital	44	44
Accumulated other comprehensive loss	(621)	(730)
Total member's equity (deficit)	**(577)**	**(686)**
Total Liabilities and Member's equity (deficit)	**$ 27,147**	**$ 25,566**

See Notes to the Financial Statements

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

	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenues		
Trading	$ (69)	$ (100)
Interest income	104	139
Total Revenues	**35**	**39**
Expenses		
Interest expense	35	39
Total Expenses	**35**	**39**
Income (loss) before income taxes	-	-
Net income (loss)	**-**	**-**
Other comprehensive income	109	252
Comprehensive income	**$ 109**	**$ 252**

See Notes to the Financial Statements

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

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash flows from operating activities:		
Net income (loss)	$ -	$ -
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Net changes in asset and liabilities:		
Trading assets, net of Trading liabilities	889	288
Broker dealers	(23)	51
Intercompany (Parent)	(6)	(48)
Interest	-	3
Other assets	-	(3)
Net cash provided by operating activities	860	291
Cash flows from investing activities:		
Net payments for:		
Notes receivable from Parent	(1,427)	(3,672)
Net cash used for investing activities	(1,427)	(3,672)
Cash flows from financing activities:		
Proceeds from:		
Borrowings	9,269	6,276
Payments for:		
Borrowings	(8,705)	(2,894)
Net cash provided by financing activities	564	3,382
Effect of exchange rate changes on cash	-	-
Net (decrease)/increase in cash	(3)	1
Cash at beginning of the period	6	3
Cash at end of the period	$ **3**	$ **4**
Supplemental Disclosure of Cash Flow information:		
Cash payments for interest	$ 35	$ 36

See Notes to the Financial Statements

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

	Additional paid-in capital	Accumulated other comprehensive income/(loss)	Total member's equity/(deficit)
Balance, December 31, 2019	**$ 13**	**$ (336)**	**$ (323)**
Net change in Accumulated other comprehensive income	-	252	252
Balance, June 30, 2020	**$ 13**	**$ (84)**	**$ (71)**
Balance, December 31, 2020	**$** 44	**$** (730)	**$ (686)**
Net change in Accumulated other comprehensive income	-	109	109
Balance, June 30, 2021	**$ 44**	**$ (621)**	**$ (577)**

See Notes to the Financial Statements

1. Introduction and Basis of Presentation

The Company

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

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

In 2016, the Company received a rating of BBB+ from S&P. See the "Glossary of Common Terms and Acronyms" for the definition of certain terms and acronyms used throughout the notes to the financial statements.

A reclassification has been made to the prior period to conform to the current presentation as the Company will no longer record income taxes on its financial statements under ASU 2019-12, ***Simplifying the Accounting for Income Taxes***. See Accounting Updates Adopted in 2021 for more information. The Company has adjusted for this retrospectively through Member's equity.

Basis of Financial Information

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

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through September 28th, 2021, the date on which the financial statements are available to be issued, and the Company has not identified any recordable or disclosable events, not otherwise reported in the financial statements or the notes thereto.

2. Significant Accounting Policies

Revenue Recognition

Trading

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

Fair Value of Financial Instruments

Instruments within Trading assets and Trading liabilities are measured at fair value, as required or allowed by accounting guidance. These financial instruments represent derivatives the Company enters into with the Parent to economically hedge its Borrowings, which are primarily structured notes.

Gains and losses on instruments carried at fair value are reflected in Trading revenues in the Company's statements of comprehensive income.

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

Fair Value Option

The Company has elected the fair value option for certain Borrowings (structured notes) that are risk managed on a fair value basis 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.

Fair Value Measurement – Definition and Hierarchy

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

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date. In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

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

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

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

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

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

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

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

Valuation Techniques

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

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

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

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

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

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

Interest Income and Expense

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

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

Offsetting of Derivative Instruments

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

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

Income Taxes

The Company is a single-member limited liability company that is treated as a disregarded entity for federal income tax purposes All current and deferred taxes have been accrued by the Parent. See Accounting Updates Adopted in 2021 ***Simplifying the Accounting for Income Taxes***.

Receivables from and Payables to Broker Dealers

Receivables from and Payables to Broker Dealers include amounts related to unsettled trades as well as amounts receivable for securities failed to deliver by the Company to a purchaser by the settlement date.

Foreign Currencies

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

Accounting Updates Adopted in 2021

Simplifying the Accounting for Income Taxes

This accounting update provided an option for entities that are disregarded by the taxing authorities for income tax purposes to push down income taxes to its financial statements. As a result, the Company has not made such an election and therefore will no longer push down income taxes to its financial statements. The Company has adjusted for this retrospectively through Member's equity. The accounting update also included other changes to ASC 740, Income Taxes, however, such changes did not impact the Company. This update was adopted as of January 1, 2021.

Accounting Development Updates

The FASB has issued certain accounting updates that apply to the Company. During the six months ended June 30, 2021, accounting updates were assessed and are not expected to have a significant impact on the Company's financial statements.

3. Related Party Transactions

Notes receivable from Parent represents the proceeds from Borrowings (structured notes) which are lent to the Parent at rates established by the treasury function of the Parent and its consolidated subsidiaries (the "Firm"), and are payable on demand. These rates are periodically reassessed and intended to approximate the market rate of interest that the Firm incurs in funding its business.

Intercompany receivables from and payables to the Parent are unsecured, payable on demand, and bear interest at rates established by the treasury function of the Firm. These rates are periodically assessed and intended to approximate the market rate of interest that the Firm incurs in funding its business.

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

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

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

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

	At June 30, 2021	At December 31, 2020
Assets and receivables from affiliated companies		
Trading assets	$ 1,909	$ 1,524
Receivables – Broker dealers	29	6
Receivables – Notes receivable from Parent	25,157	23,972
Receivables – Intercompany from Parent	49	58
Liabilities and payables to affiliated companies		
Trading liabilities	4	-
Payables – Intercompany to Parent	7	22

	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenues and Expenses from (transfer to) affiliated companies:		
Trading	$ 1,258	$ (469)
Interest income	104	139

4. Fair Values

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	At June 30, 2021				
	Level 1	Level 2	Level 3	Netting [1]	Total
Assets at Fair Value					
Trading assets:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 2,385	$ 98	$ -	2,483
Interest rate contracts	-	112	30	-	142
Foreign exchange contracts	-	69	3	-	72
Commodity contracts	-	5	1	-	6
Netting [1]	-	(683)	(111)	-	(794)
Total OTC derivative contracts	-	1,888	21	-	1,909
Total trading assets	$ -	$ 1,888	$ 21	$ -	$ 1,909
Total assets at fair value	**$ -**	**$ 1,888**	**$ 21**	**$ -**	**$ 1,909**
Liabilities at Fair Value					
Trading liabilities:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 97	$ 63	$ -	$ 160
Interest rate contracts	-	536	42	-	578
Foreign exchange contracts	-	58	6	-	64
Commodity contracts	-	-	-	-	-
Netting [1]	-	(683)	(111)	-	(794)
Total OTC derivative contracts	-	8	-	-	8
Total trading liabilities	-	8	-	-	8
Borrowings - Structured Notes	-	26,711	976	-	27,687
Total liabilities at fair value	**$ -**	**$ 26,719**	**$ 976**	**$ -**	**$ 27,695**

(1) Positions classified within the same level that are with the same counterparty are netted within the column for that level. Counterparty netting for positions with the same counterparty classified in different levels of the fair value hierarchy is included in the column titled “Netting”. For further information on derivative instruments, see Note 6.

	At December 31, 2020				
	Level 1	Level 2	Level 3	Netting [1]	Total
Assets at Fair Value					
Trading assets:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 1,690	$ 168	$ -	1,858
Interest rate contracts	-	178	15	-	193
Foreign exchange contracts	-	120	-	-	120
Commodity contracts	-	1	-	-	1
Netting [1]	-	(541)	(107)	-	(648)
Total OTC derivative contracts	-	1,448	76	-	1,524
Total trading assets	$ -	$ 1,448	$ 76	$ -	$ 1,524
Total assets at fair value	**$ -**	**$ 1,448**	**$ 76**	**$ -**	**$ 1,524**
Liabilities at Fair Value					
Trading liabilities:					
OTC Derivative contracts:					
Equity contracts	$ -	$ 157	$ 62	$ -	$ 219
Interest rate contracts	-	337	45	-	382
Foreign exchange contracts	-	48	-	-	48
Commodity contracts	-	2	-	-	2
Netting [1]	-	(541)	(107)	-	(648)
Total OTC derivative contracts	-	3	-	-	3
Total trading liabilities	-	3	-	-	3
Borrowings - Structured Notes	-	24,443	1,763	-	26,206
Total liabilities at fair value	**$ -**	**$ 24,446**	**$ 1,763**	**$**	**$ 26,209**

(1) Positions classified within the same level that are with the same counterparty are netted within the column for that level. As of December 31, 2020, there were no positions with the same counterparty classified in different levels of the fair value hierarchy. For further information on derivative instruments, see Note 6.

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

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
OTC Derivative Contracts	
• OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, equity prices or commodity prices.	• Generally Level 2 - OTC derivative products valued using observable inputs, or where the unobservable input is not deemed significant
• Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, and many equity, commodity and foreign currency option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.	• Level 3 - in instances where the unobservable input is deemed significant
• More complex OTC derivative products are typically less liquid and require more judgment in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with volatility and correlation exposure, equity, and commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings. Where these inputs are unobservable, relationships to observable data points, based on historic and/or implied observations, may be employed as a technique to estimate the model input values.	
For further information on the valuation techniques for OTC derivative products, see Note 2.	
Borrowings - Structured Notes	
• The Company issues structured notes which are primarily composed of: instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific equity security, a commodity, a credit exposure; and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons.	• Generally Level 2
	• Level 3 - in instances where the unobservable inputs are deemed significant
• Fair value is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices.	
• Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads, which are based on observed secondary bond market spreads.	

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

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

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

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

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

Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for 2020

	Beginning Balance at December 31, 2019	Total Realized and Unrealized Gains (Losses)	Purchases	Sales and Issuances	Settlements	Net Transfers [1]	Ending Balance at June 30, 2020	Unrealized Gains (Losses)
Liabilities at Fair Value								
Net OTC derivative contracts [2]:								
Equity contracts	$ 5	$ (12)	$ (8)	$ -	$ 12	$ 9	$ 30	$ (15)
Interest rate contracts	(5)	(2)	-	-	(4)	-	(7)	(2)
Total net OTC derivative contracts	-	(14)	(8)	-	8	9	23	(17)
Borrowings – Structured Notes	2,245	23	-	245	(109)	(647)	1,711	24
Total Liabilities at Fair Value	**$ 2,245**	**$ 9**	**$ (8)**	**$ 245**	**$ (101)**	**$ (638)**	**$ 1,734**	**$ 7**

(1) During the six months ended June 30, 2020, the Company transferred from Level 3 to Level 2 $647 of Borrowings (structured notes) due to a reduction in the significance of the unobservable inputs relating to volatility.

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

The unrealized gains (losses) during the period for assets and liabilities within the Level 3 category may include changes in fair value during the period that were attributable to both observable and unobservable inputs. Total realized and unrealized gains (losses) are primarily included in Trading revenues in the statements of comprehensive income.

Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements

Valuation Techniques and Unobservable Inputs

	Balance/Range (Averages)[1]	
$ in millions, except inputs	June 30, 2021	December 31, 2020
Liabilities at fair value		
Net OTC derivative contracts:		
Equity[2]	$ (35)	$ (106)
Option Model:		
Equity volatility	6% to 40% (19%)	7% to 75% (23%)
Equity volatility skew	-3% to 0% (0%)	-2% to 0% (0%)
Equity -Equity correlation	50% to 95% (86%)	40% to 98% (95%)
Equity - Foreign exchange correlation	-68% to -5% (-32%)	-80% to -5% (-35%)
Interest rate	$ 12	$ 30
Option Model:		
Interest rate – Foreign Exchange correlation	26% to 58% (45% / 45%)	15% to 59% (45% / 43%)
Interest rate - Curve correlation	50% to 93% (77% / 84%)	60% to 97% (79% / 84%)
Borrowings - Structured Notes	$ 976	$ 1,763
Option Model:		
Equity Volatility	7% to 22% (15%)	7% to 62% (21%)
Equity Volatility skew	-1% to 0% (0%)	-2% to 0% (0%)
Equity - Equity correlation	55% to 95% (83%)	40% to 98% (96%)
Equity - Foreign exchange correlation	-55% to -5% (-29%)	-80% to -5% (-37%)

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

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

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

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

- *Correlation*: A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movement of two variables (*i.e.*, how the change in one variable influences a change in the other variable).

- *Interest rate curve*: The term structure of interest rates (relationship between interest rates and the time to maturity) and a market's measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate and foreign exchange derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.

- *Volatility*: The measure of variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.

- *Volatility skew*: The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.

Financial Instruments Not Measured At Fair Value

	At June 30, 2021				
		Fair Value Level			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash	$ 3	$ 3	$ -	$ -	$ 3
Receivables:					
Brokers dealers	29	-	29	-	29
Notes receivable from Parent	25,157	-	25,157	-	25,157
Intercompany from Parent	49	-	49	-	49
Financial Liabilities					
Payables: (1)					
Intercompany to Parent	$ 7	$ -	$ 7	$ -	$ 7
Borrowings	6	-	6	-	6

	At December 31, 2020				
		Fair Value Level			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash	$ 6	$ 6	$ -	$ -	$ 6
Receivables:					
Brokers dealers	6	-	6	-	6
Notes receivable from Parent	23,972	-	23,972	-	23,972
Intercompany from Parent	58	-	58	-	58
Financial Liabilities					
Payables: (1)					
Intercompany to Parent	$ 22	$ -	$ 23	$ -	$ 23
Borrowings	5	-	5	-	5

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

5. Fair Value Option

The Company elected the fair value option for Borrowings (structured notes) that are risk managed on a fair value basis 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.

Net Revenues from Borrowings under the Fair Value Option

	Trading Revenues	Interest Expense	Net Revenues(2)
Six Months ended June 30, 2021			
Borrowings(1)	$ (1,327)	$ (35)	$ (1,362)
Six Months ended June 30, 2020			
Borrowings(1)	$ 381	$ (39)	$ 342

(1) DVA gains (losses) are recorded in OCI and, when realized, in Trading revenues. For additional information, see Notes 2 and 9.
(2) Amounts do not reflect any gains or losses on related hedging instruments.

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

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

	Trading Revenues	OCI
Six Months ended June 30, 2021		
Borrowings(1)	$ (11)	$ 109
Six Months ended June 30, 2020		
Borrowings(1)	$ (1)	$ 252

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

Borrowings Measured at Fair Value on a Recurring Basis

	At June 30, 2021	At December 31, 2020
Business Unit Responsible for Risk Management		
Equity	$ 18,553	$ 17,824
Interest rates	8,874	8,177
Foreign exchange	192	150
Commodities	68	55
Total	**$ 27,687**	**$ 26,206**

Difference between Contractual Principal and Fair Value (1)

	At June 30, 2021	At December 31, 2020
Borrowings (2)	$ 376	$ 675

(1) Amounts indicate contractual principal greater than or (less than) fair value.
(2) Excludes borrowings (structured notes) where the repayment of the initial principal amount fluctuates based on changes in a reference price or index.

6. Derivative Instruments

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

Fair Values and Notionals of Derivative contracts

	Bilateral OTC At June 30, 2021			
	Assets		Liabilities	
	Fair Value	Notional (1)	Fair Value	Notional (1)
OTC Derivative contracts				
Equity contracts	$ 2,484	$ 23,852	$ 160	$ 4,886
Interest rate contracts	141	3,273	578	4,992
Foreign exchange contracts	72	944	64	591
Commodity contracts	6	35	-	18
Total gross OTC derivative contracts	**2,703**	**28,104**	**802**	**10,487**
Amounts offset				
Counterparty netting	(794)		(794)	
Total Trading assets/liabilities	**$ 1,909**		**$ 8**	

	Bilateral OTC At December 31, 2020			
	Assets		Liabilities	
	Fair Value	Notional [1]	Fair Value	Notional [1]
OTC Derivative contracts				
Equity	$ 1,858	$ 22,377	$ 219	$ 4,705
Interest rate	193	3,369	382	3,686
Foreign exchange	120	985	48	174
Commodity	1	25	2	18
Total gross OTC derivative contracts	**2,172**	**26,756**	**651**	**8,583**
Amounts offset				
Counterparty netting	(648)		(648)	
Total in Trading assets/liabilities	$ **1,524**		$ **3**	

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

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

Gains (Losses) Recognized in Trading Revenues by Product Type

	Six months ended June 30, 2021	Six months ended June 30, 2020
Equity contracts	$ (55)	$ (96)
Interest rate contracts	(19)	(9)
Foreign exchange contracts	5	6
Commodity contracts	-	(1)
Total	$ **(69)**	$ **(100)**

7. Borrowings

Maturities and Terms of Borrowings

	Fixed Rate [1]	Variable Rate [2]	At June 30, 2021	At December 31, 2020
Original maturities of one year or less				
Due in the next 12 months	$ -	$ 88	$ 88	$ 76
Original maturities greater than a year				
Due in 2021	$ 567	$ 1,222	$ 1,789	3,409
Due in 2022	106	3,251	3,357	3,147
Due in 2023	69	3,362	3,431	3,908
Due in 2024	72	3,869	3,941	2,328
Due in 2025	145	1,740	1,885	2,198
Thereafter	4,525	8,677	13,202	11,145
Total	$ 5,484	$ 22,121	$ 27,605	$ 26,135
Total Borrowings	$ 5,484	$ 22,209	$ 27,693	$ 26,211
Weighted average coupon rate at period-end [3]	3.75%	N/M		

(1) Fixed rate borrowings include instruments with set-up, set-down and zero features.

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

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

All of the Company's Borrowings are considered Senior Debt. For the six months ended June 30, 2021 and June 30, 2020, the Company issued notes with a fair value of approximately $9,269 and $6,276 respectively.

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

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

8. Commitments, Guarantees and Contingencies

Legal

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

The Company may also be involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business, and involving, among other matters, sales and trading activities, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

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

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

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

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

9. Accumulated Other Comprehensive Income (Loss)

Changes in AOCI

		Debt Valuation
Balance at December 31, 2020	$	(730)
Change in net DVA[1]		109
Balance at June 30, 2021	$	(621)
Balance at December 31, 2019	$	(336)
Change in net DVA[1]		252
Balance at June 30, 2020	$	(84)

[1] DVA represents the change in the fair value resulting from fluctuations in the Company's credit spreads and other credit factors related to liabilities carried at fair value.

10. Income Taxes

The Company is a single-member limited liability company that is treated as a disregarded entity for federal income tax purposes. The Company is included in the consolidated federal income tax return filed by the Parent. The Company is included in the combined state and local income tax returns with the Parent and certain other subsidiaries of the Parent. All current and deferred taxes have been accrued by the Parent. See Accounting Updates Adopted in 2021 ***Simplifying the Accounting for Income Taxes***.

11. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in the financial statements through September 28th, 2021, the date on which the financial statements are available to be issued, and the Company has not identified any recordable or reportable events, not otherwise reported in the financial statements of the notes thereto.

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Glossary of Common Terms and Acronyms

AOCI – Accumulated other comprehensive income (loss)

ARRC – Alternative Reference Rates Committee

ASC – Accounting Standards Codification

ASU – Accounting Standards Update

The Company – Morgan Stanley Finance LLC

CRM – Credit Risk Management Department

DVA – Debt Valuation Adjustment

FASB – Financial Accounting Standards Board

ISDA –International Swaps and Derivatives Association

LIBOR – London Interbank Offered Rate

MRM – Model Risk Management Department

N/M – Not Meaningful

OCI – Other comprehensive income (loss)

OTC – Over-the-counter

The Parent – Morgan Stanley

S&P - Standard & Poor's

SEC – U.S. Securities and Exchange Commission

SOFR - Secured Overnight Financing Rate

U.S – United States of America

U.S. GAAP – Accounting principles generally accepted in

the United States of America