

**MORGAN STANLEY CAPITAL GROUP INC.**

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2021  
AND  
INDEPENDENT AUDITOR'S REPORT**

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## **INDEPENDENT AUDITOR'S REPORT**

To Morgan Stanley Capital Group Inc.

### **Opinion**

We have audited the consolidated statement of financial condition of Morgan Stanley Capital Group Inc. and subsidiaries (the "Company") as of December 31, 2021, and the related notes (the "financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statement is available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Deloitte + Touche LLP*

February 25, 2022

**MORGAN STANLEY CAPITAL GROUP INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**As of December 31, 2021**  
(In millions of dollars, except where noted)

<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$	125
Restricted cash		68
Trading assets, at fair value (\$1,820 were pledged to various parties)		8,902
Securities purchased under agreements to resell		1,536
Receivables:		
Brokers, dealers and clearing organizations		5,487
Customers (net of allowance for doubtful accounts of \$12)		1,185
Affiliates		51
Premises and equipment (net of accumulated depreciation of \$18)		19
Intangible assets (net of accumulated amortization of \$56)		4
Other assets		190
<b>Total Assets</b>	<b>\$</b>	<b>17,567</b>
<b>Liabilities and Stockholder's Equity</b>		
Trading liabilities, at fair value	\$	2,980
Other secured financings, at fair value		557
Payables:		
Brokers, dealers and clearing organizations		111
Customers		2,677
Affiliates		101
Other liabilities and accrued expenses		302
Borrowings (includes \$1,511 at fair value)		6,831
<b>Total Liabilities</b>		<b>13,559</b>
<b>Subordinated liabilities (see Note 9)</b>		<b>800</b>
<b>Stockholder's Equity</b>		
Morgan Stanley Capital Group Inc. stockholder's equity:		
Common stock (\$1.00 par value, 100 shares authorized, issued and outstanding)		-
Paid-in-capital		1,547
Retained earnings		1,685
Accumulated other comprehensive loss		(24)
<b>Total Morgan Stanley Capital Group Inc. Stockholder's Equity</b>		<b>3,208</b>
Non-controlling interest		-
<b>Total Stockholder's Equity</b>		<b>3,208</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$</b>	<b>17,567</b>

See Notes to Consolidated statement of financial condition

**MORGAN STANLEY CAPITAL GROUP INC.**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**As of December 31, 2021**  
**(In millions of dollars, except where noted)**

## **1. Introduction and Basis of Presentation**

### **The Company**

MSCGI, together with its subsidiaries (the “Company”), engages mainly in sales, trading and market-making activities in commodities and foreign exchange products. MSCGI was incorporated in 1984 in Delaware. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout the notes to the Consolidated statement of financial condition

The Company is a wholly owned subsidiary of MSDHI (the “Parent”), which is a wholly owned subsidiary of Morgan Stanley (the “Ultimate Parent”).

MSCGI is a non-clearing member or participant of the CME Group Inc. (which includes the New York Mercantile Exchange, Inc.), LMEprecious of the London Metal Exchange Limited, Dubai Mercantile Exchange Limited, and a number of swap execution facilities, regional transmission organizations, independent system operators, and similar commodities related venues. The Company is a clearing member of Nasdaq Commodities of Nasdaq, Inc. for the Company’s principal transactions. Additionally, the FERC has granted the Company market-based rate authorization for wholesale sales of electric energy, capacity and ancillary services. The Dodd-Frank Act requires the registration of, among other entities, “swap dealers” with the CFTC. The Company is provisionally registered with the CFTC as a swap dealer effective October 6, 2021. Additionally, the Company has obtained a number of licenses or authorizations from governmental authorities in connection with the Company’s commodities business activities.

On February 12, 2018, S&P assigned its 'A+' long-term and 'A-1' short-term issuer credit ratings to the Company. The outlook on the ratings is stable, which is linked to the Ultimate Parent’s credit profile.

On October 2, 2020, Moody’s affirmed the Prime-1 short-term ratings and Prime-1(cr) short-term assessments assigned to the Company and also upgraded the A1 issuer rating to Aa3. The outlook on the ratings is stable, which is linked to the Ultimate Parent’s credit profile.

### **Basis of Financial Information**

The Consolidated statement of financial condition is prepared in accordance with U.S. GAAP, which requires the Company to make estimates and assumptions regarding the valuations of certain financial instruments, intangible assets, compensation, deferred tax assets, the outcome of legal and tax matters, and

other matters that affect the Consolidated statement of financial condition and related disclosures.

The Company believes that the estimates utilized in the preparation of the Consolidated statement of financial condition 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 February 25th, 2022, the date in which the Consolidated statement of financial condition is 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.

### **Consolidation**

All material intercompany balances with its subsidiaries have been eliminated in consolidation.

The Consolidated statement of financial condition include the accounts of MSCGI, its wholly owned subsidiaries and other entities in which MSCGI has a controlling financial interest, including certain VIEs. For further information, see Note 11. For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as non-controlling interests. The portion of the stockholder’s equity that is attributable to non-controlling for such subsidiary is presented as non-controlling interest in the Consolidated statement of financial condition.

For entities where the total equity investment at risk is sufficient to enable the entity to finance its activities without additional support and 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 VIEs (*i.e.*, entities that do not meet these criteria), 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. 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.

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.

## 2. Significant Accounting Policies

### *Contracts with Customers*

Receivables from contracts with customers are primarily recognized in Receivables - Customers in the Consolidated statement of financial condition when the underlying performance obligations have been satisfied and the Company has the right per the contract to bill the customer. Contract liabilities are recognized in Other liabilities and accrued expenses when the Company has collected payment from a customer based on the terms of the contract, but the underlying performance obligations are not yet satisfied.

### **Fair Value of Financial Instruments**

Instruments within Trading assets and Trading liabilities are measured at fair value, either as required or allowed by accounting guidance. These financial instruments primarily represent the Company's trading and investment positions and include both cash and derivative products.

The fair value of OTC financial instruments, including derivative contracts related to financial instruments and commodities, is presented in the accompanying Consolidated statement of financial condition on a net-by-counterparty basis, when appropriate. Additionally, the Company nets the fair value of cash collateral paid or received against the fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting agreement.

### *Fair Value Option*

The Company has elected to measure certain eligible instruments at fair value, including certain loans and lending commitments, which are included in Other secured financings and Borrowings.

### *Fair Value Measurement – Definition and Hierarchy*

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

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. Where the Company manages a group of financial assets, financial liabilities, and nonfinancial items accounted for as derivatives on the basis of its net exposure to either market risks 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 and block discounts 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.

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*

Many cash instruments and 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 many cash instruments and 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, interest rate yield curves, credit curves, correlation, creditworthiness 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 and funding in order to arrive at fair value. 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 OTC derivatives, as well as certain Borrowings 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 of certain Borrowings.

For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit rating 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 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 its 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 may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. 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 exposures due to the lack of liquidity in the marketplace.

For further information, see Note 4 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

### **Offsetting of Derivative Instruments**

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off cash collateral against any net amount owed by the counterparty. Derivatives with enforceable master netting agreements are reported net of cash collateral received and posted.

However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime may not support the enforceability of the master netting agreement or collateral agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset. For further information, see Note 5.

The Company's policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases, the Company may agree for such collateral to be posted to its affiliate, MS&Co, or a third-party custodian under a control agreement that enables it to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits.

For information related to offsetting of derivatives and certain collateralized transactions, see Notes 5 and 7, respectively.

### **Income Taxes**

Deferred tax assets and liabilities are recorded based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. When performing the assessment, the Company considers all types of deferred tax assets in combination with each other, regardless of the origin of the underlying temporary difference. If a deferred tax asset is

determined to be unrealizable, a valuation allowance is established. If the Company subsequently determines that it would be able to realize deferred tax assets in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (ii) for those tax positions that meet this threshold, the Company recognizes the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with the related tax authority.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of Cash and due from banks and Restricted cash.

Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are held for investment purposes and are readily convertible to known amounts of cash.

Restricted cash includes cash deposited with exchanges in compliance with exchange requirements.

### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. Transfers that are not accounted for as sales are treated as collateralized financings.

### **Collateralized Financings**

Securities purchased under agreements to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”) are treated as collateralized financings. Reverse repurchase agreements and repurchase agreements, if any, are carried on the Consolidated statement of financial condition at the amounts of cash paid or received, plus accrued interest. Where appropriate, transactions with the same counterparty are reported on a net basis.

The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty, to net a counterparty’s rights and obligations under the agreement and to liquidate and set off collateral held by the Company against the net amount owed by the counterparty.

The Company’s policy is generally to take possession of securities purchased in connection with reverse repurchase agreements and to receive cash under securities sold under agreements to repurchase (with rights of rehypothecation).

For information related to offsetting of certain collateralized transactions, see Note 7.

### **Receivables and Payables – Brokers, Dealers and Clearing Organizations**

Receivables and Payables from Brokers, dealers and clearing organizations include amounts arising from margin requirements posted to affiliates for cleared OTC derivatives, unsettled trades, and other requirements to clearing organizations. Receivables and payables arising from unsettled trades are reported on a net basis.

### **Receivables and Payables – Customers**

Receivables from and Payables to customers include amounts arising from cash collateral received or posted with respect to OTC derivatives. Collateral amounts are offset with related OTC derivatives where eligible in accordance with current accounting guidance.

### **Allowance for Doubtful Accounts**

The Company records an increase in the allowance for doubtful accounts when the prospect of collecting a specific customer account balance becomes doubtful. Management analyzes accounts receivable and historical bad debt experience when evaluating the adequacy of the allowance for doubtful accounts. Should any of these factors change, the estimates made by management will also change, which could affect the level of the Company’s future provision for doubtful accounts. The allowance for doubtful accounts is included in Receivables - Customers on the Consolidated statement of financial condition.

### **Deferred Compensation Plans**

The Company participates in various deferred stock-based and cash-based compensation plans for the benefit of certain current and former employees. The deferred cash-based compensation plans provide a return to the plan participants based upon the performance of various referenced investments. The Company enters into a variety of derivative contracts with certain affiliates to economically hedge its obligations under the deferred cash-based compensation plans.

### **Premises and Equipment**

Premises and equipment consist of land, furniture, fixtures, computer equipment, terminals, pipelines and equipment. Premises and equipment are stated at cost less accumulated depreciation.

Depreciation is determined using the straight-line method over the estimated useful life of the asset. Estimated useful lives for terminals, pipelines and equipment are generally 3 to 30 years. Certain items classified as terminals, pipelines and equipment are depreciated based on production levels.



Premises and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's carrying value may not be fully recoverable in accordance with current accounting guidance.

### Intangible Assets

Amortizable intangible assets are amortized over their estimated useful lives of 3-20 years and reviewed for impairment on an interim basis when certain events or circumstances exist.

### Foreign Currencies

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end exchange rates. Gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in AOCL on the Consolidated statement of financial condition.

## 3. Related Party Transactions

The Company enters into transactions with the Ultimate Parent and its consolidated subsidiaries (the "Firm"), in order to among other things, manage risk, facilitate client demand, meet liquidity requirements, and fund its business activities. These transactions include OTC derivatives, collateralized financings, and other secured financings as described in Notes 5, 7 and 8, respectively.

The Company also obtains funding from the Ultimate Parent and subordinated liabilities from the Parent as described in Note 8 and 9, respectively.

The Company participates in various deferred stock-based and cash-based compensation plans sponsored by the Ultimate Parent for the benefit of certain current and former employees, as described in Note 2, as well as employee benefit plans as described in Note 16. Derivative hedges associated with the deferred cash-based compensation plans are entered into with affiliates. For further information, see Note 5 for additional disclosures on fair value and notional amounts related to the derivatives associated with these deferred compensation plans, included within equity contracts. Additionally, the Company has recognized liabilities to the Ultimate Parent for the deferred stock-based compensation plans which are recorded in Other liabilities and accrued expenses.

Receivables from Brokers, dealers and clearing organizations mainly consist of initial and variation margin requirements posted to exchanges by broker-dealer affiliates that clear certain OTC derivatives for the Company after consideration of eligible offset as described in Note 2.

Receivables from and Payables to Customers include cash collateral from other affiliates with respect to OTC derivative transactions after consideration of eligible offset as described in Note 2.

The Company has agreements with affiliates for other activities, including a tax sharing agreement with the Ultimate Parent as described in Note 17, global transfer pricing policies, and other activities as described further below. Unsettled amounts for these activities are recorded within Receivables from or Payables to Affiliates, are payable on demand, and bear interest at rates established by the Treasury function of the Firm. These rates are periodically reassessed and are generally intended to approximate the rate of interest that the Firm incurs in funding its business (the "Firm proxy rate").

The Company applies global transfer pricing policies among affiliates. These policies are consistent with the 2017 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The Firm has also engaged in negotiations of Advanced Pricing Agreements with selected tax authorities in respect of its key transfer pricing methodologies.

The Company shares the majority of its non-interest expenses with MS&Co., who is the primary employing entity for the U.S. business activities undertaken by the Company, based on the level of business activity transacted on MS&Co. relative to the Company.

The Company has an agreement with an affiliated service entity, MSSG, in which MSSG agrees to provide the Company with certain services including infrastructure group support, information processing and communications, and occupancy and equipment.

At December 31,  
2021

<b>Assets and receivables from affiliated companies:</b>	
Trading assets	\$ 338
Securities purchased under agreements to resell	1,536
Receivables - Brokers, dealers and clearing organizations	5,452
Receivables - Customers	3
Receivables - Affiliates	51
Other Assets	1
<b>Liabilities and payables to affiliated companies:</b>	
Trading liabilities	\$ 275
Other secured financings	557
Payables - Customers	1,966
Payables - Affiliates	101
Other liabilities and accrued expenses	35
Borrowings	5,320

The Ultimate Parent or the Company's affiliates have issued guarantees under certain derivative contracts. For these derivative contracts the Company's obligations to its counterparties are guaranteed by the Ultimate Parent or the Company's affiliates if the Company's financial obligations are not met.

## 4. Fair Values

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

	At December 31, 2021				
	Level 1	Level 2	Level 3	Netting <sup>(1)</sup>	Total
<b>Assets at fair value</b>					
Trading assets:					
Corporate and other debt:					
Loans and lending commitments	\$ -	\$ -	147	\$ -	147
Other debt	-	860	17	-	877
<b>Total corporate and other debt</b>	-	860	164	-	1,024
Corporate equities	2	-	-	-	2
Derivative and other contracts:					
Interest rate contracts	-	373	-	-	373
Credit contracts	-	(7)	-	-	(7)
Foreign exchange contracts	-	1,816	-	-	1,816
Equity contracts <sup>(2)</sup>	-	6	-	-	6
Commodity contracts	3,994	21,595	2,682	-	28,271
Netting	(3,994)	(17,242)	(1,175)	(3,019)	(25,430)
<b>Total derivative and other contracts</b>	-	6,541	1,507	(3,019)	5,029
Investments	1	-	74	-	75
<b>Total Investments</b>	1	-	74	-	75
Physical commodities	-	2,772	-	-	2,772
Total trading assets	3	10,173	1,745	(3,019)	8,902
<b>Total Assets measured at fair value</b>	\$ 3	\$ 10,173	\$ 1,745	\$ (3,019)	\$ 8,902
<b>Liabilities at fair value</b>					
Trading liabilities:					
<b>Corporate and other debt</b>	\$ -	\$ 2	\$ -	\$ -	2
Derivative and other contracts:					
Interest rate contracts	-	379	2	-	381
Credit contracts	-	7	-	-	7
Foreign exchange contracts	-	1,825	-	-	1,825
Equity contracts	-	5	-	-	5
Commodity contracts	4,366	18,386	1,406	-	24,158
Netting	(3,994)	(17,242)	(1,175)	(986)	(23,397)
<b>Total derivative and other contracts</b>	371	3,360	233	(986)	2,978
Total trading liabilities	371	3,362	233	(986)	2,980
Other secured financings	-	557	-	-	557
Borrowings	-	1,511	-	-	1,511
<b>Total Liabilities measured at fair value</b>	\$ 371	\$ 5,430	\$ 233	\$ (986)	\$ 5,048

(1) 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 "Netting." Positions classified within the same level that are with the same counterparty are netted within that level. For further information, see Note 5.

(2) Equity contracts represent the fair value of derivative assets associated with cash-based deferred compensation plans. For further information, see Note 3.

### Unsettled Fair Value of Future Contracts<sup>(1)</sup>

	At December 31, 2021
Brokers, dealers and clearing organizations receivables	\$ 35

(1) These contracts are primarily Level 1, actively traded, valued based on quoted prices from the exchange and are excluded from the previous recurring fair value table.

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

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
<p>Loans and Lending Commitments</p> <ul style="list-style-type: none"> <li>Fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, market observable CDS spread levels obtained from independent external parties adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.</li> </ul>	<ul style="list-style-type: none"> <li>Level 3 - in instances where prices or significant spread inputs are unobservable</li> </ul>
<p>Other Debt</p> <ul style="list-style-type: none"> <li>The fair value of other debt is related to outstanding physical commodities spot purchases and sales and corresponding forward sale or purchases undertaken contemporaneously that are accounted for as financing transactions and other prepaid commodity contracts.</li> </ul>	<ul style="list-style-type: none"> <li>Level 2 - if valued based on observable market data for comparable instruments</li> <li>Level 3 - in instances where prices or significant spread inputs are unobservable</li> </ul>
<p>Corporate equities</p> <ul style="list-style-type: none"> <li>Exchange-traded equity securities are generally valued based on quoted prices from the exchange.</li> </ul>	<ul style="list-style-type: none"> <li>Level 1 – actively traded exchange-traded securities and fund units.</li> </ul>
<p>Derivative Contracts</p> <p><i>Exchange-Traded Derivative Contracts</i></p> <ul style="list-style-type: none"> <li>Exchange-traded derivatives that are actively traded are valued based on quoted prices from the exchange.</li> <li>Exchange-traded derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives.</li> </ul>	<ul style="list-style-type: none"> <li>Level 1 - when actively traded</li> <li>Level 2 - when not actively traded</li> </ul>
<p><i>OTC Derivative Contracts</i></p> <ul style="list-style-type: none"> <li>OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, or commodity prices.</li> <li>Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts, and certain CDS. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.</li> </ul> <p>For further information on the valuation techniques for OTC derivative products, see Note 2.</p>	<ul style="list-style-type: none"> <li>Generally, Level 2 - when valued using observable inputs, or where the unobservable input is not deemed significant</li> <li>Level 3 – if an unobservable input is deemed significant</li> </ul>
<p>Investments</p> <ul style="list-style-type: none"> <li>Investments include direct investments in equity investments, direct private equity investments and privately held investments. Initially, the transaction price is generally considered by the Company as the exit price and is the Company's best estimate of fair value.</li> <li>Fair value after initial recognition is based on an assessment of each investment, considering recent 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.</li> </ul>	<ul style="list-style-type: none"> <li>Level 1 - exchange-traded direct equity investments in an active market</li> <li>Level 3 - non-exchange-traded direct equity investments and investments in various investment management funds where rounds of financing or third-party transactions are not available</li> </ul>

#### Physical Commodities

• The Company trades various physical commodities, including renewable energy credits and other emission credits, natural gas, base metals, and precious metals.

• Fair value is determined using observable inputs, including broker quotations and published indices.

• Level 2 – valued using observable inputs.

#### Other secured financings

• Other secured financings are comprised of agreements to repurchase Physical commodities. For further information, see Note 8.

• Level 2 – valued using observable inputs.

For further information on the determination of fair value, refer to the Physical Commodities and Other debt valuation techniques described herein.

#### Borrowings

• Borrowings include hybrid financial instruments with embedded derivatives.

• Level 2 – when valued using observable inputs, or where the unobservable input is not deemed significant.

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

An increase (decrease) to the following significant unobservable inputs would generally result in a higher (lower) fair value.

#### Valuation Techniques and Unobservable Inputs

	Balance/ Range (Averages) <sup>(1)</sup>	At December 31, 2021
<b>Net Assets at Fair Value on a recurring basis</b>		
<b>Loans and lending commitments</b>	<b>\$</b>	<b>147</b>
Corporate loan model:		
Credit Spread	<b>330 bps (330 bps)</b>	
Expected Recovery:		
Asset Coverage	<b>62% to 100% (72%)</b>	
<b>Net derivative and other contracts:</b>		
<b>Commodity contracts</b>	<b>\$</b>	<b>1,276</b>
Option Model:		
Forward power price	<b>\$4 to \$263 (\$39) per MWh</b>	
Commodity volatility	<b>8% to 385% (22%)</b>	
Cross commodity correlation	<b>43% to 100% (94%)</b>	
<b>Investments</b>	<b>\$</b>	<b>74</b>
Expected Recovery:		
Asset Coverage	<b>0% to 88% (75%)</b>	

(1) Amounts represent weighted averages except where simple averages and the median of the inputs are more relevant.

The previous table provides 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 with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory of financial instruments. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. Generally, there are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique.

- Asset coverage: The ratio of a borrower's underlying pledged assets less applicable costs relative to their outstanding debt (while considering the loan's principal and the seniority and security of the loan commitment).

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

- Credit spread: The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate, typically either U.S. Treasury or LIBOR.
- 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).
- 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.

## Financial Instruments Not Measured at Fair Value

	Carrying Value	At December 31, 2021			Total
		Fair Value Level			
		Level 1	Level 2	Level 3	
<b>Financial Assets:</b>					
Cash and cash equivalents:					
Cash and due from banks	\$ 125	\$ 125	\$ -	\$ -	\$ 125
Restricted cash	68	68	-	-	68
Securities purchased under agreements to resell	1,536	-	1,536	-	1,536
Receivables:					
Brokers, dealers and clearing organizations	5,487	-	5,487	-	5,487
Customers	1,185	-	1,185	-	1,185
Affiliates	51	-	52	-	52
Loans and leading commitments	37	-	-	37	37
Other Assets	1	-	1	-	1
<b>Financial Liabilities:</b>					
Payables:					
Brokers, dealers and clearing organizations	\$ 111	\$ -	\$ 111	\$ -	\$ 111
Customers	2,677	-	2,677	-	2,677
Affiliates	101	-	101	-	101
Other liabilities and accrued expenses	3	-	3	-	3
Borrowings	5,320	-	5,319	-	5,319
Subordinated liabilities	800	-	811	-	811

The previous table excludes all non-financial assets and liabilities.

## 5. Derivative Instruments

The Company trades and makes markets globally in exchange-traded futures and options, OTC swaps, forwards, options and other derivatives referencing, among other things, commodities, interest rates, equities, currencies, loans and credit indices. The Company enters into derivative transactions with external counterparties and affiliates for trading or hedging purposes. For further information, see Note 3. The Company does not apply hedge accounting.

The Company manages its market-making positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options).

The Company manages the market risk associated with its market-making activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis.

## Derivative Fair Values and Notional

	<b>Assets</b>					
	<b>At December 31, 2021</b>					
	Fair Value <sup>(3)</sup>			Notional <sup>(2)</sup>		
	Bilateral OTC	Exchange- Traded	Total	Bilateral OTC	Exchange-Traded	Total
<b>Derivative contracts:</b>						
Interest rate	\$ 373	\$ -	\$ 373	\$ 17,170	\$ 1	\$ 17,171
Credit	(7)	-	(7)	107	-	107
Foreign exchange	1,816	-	1,816	70,121	-	70,121
Equity	6	-	6	180	-	180
Commodity	23,572	4,699	28,271	159,577	60,980	220,557
<b>Total gross derivative contracts</b>	<b>25,760</b>	<b>4,699</b>	<b>30,459</b>	<b>247,155</b>	<b>60,981</b>	<b>308,136</b>
<b>Amounts offset</b>						
Cash collateral netting	(2,806)	-	(2,806)			
Counterparty netting	(17,927)	(4,697)	(22,624)			
<b>Total derivative contracts assets</b>	<b>5,027</b>	<b>2</b>	<b>5,029</b>			
<b>Amounts not offset <sup>(1)</sup></b>						
Financial instruments - collateral	(401)	-	(401)			
<b>Net amounts</b>	<b>\$ 4,626</b>	<b>\$ 2</b>	<b>\$ 4,628</b>			
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable			<b>\$ 260</b>			

	<b>Liabilities</b>					
	<b>At December 31, 2021</b>					
	Fair Value <sup>(3)</sup>			Notional <sup>(2)</sup>		
	Bilateral OTC	Exchange-Traded	Total	Bilateral OTC	Exchange-Traded	Total
<b>Derivatives contracts:</b>						
Interest rate	\$ 381	\$ -	\$ 381	\$ 8,984	\$ 17	\$ 9,001
Credit	7	-	7	974	-	974
Foreign exchange	1,825	-	1,825	68,527	-	68,527
Equity	5	-	5	178	-	178
Commodity	19,041	5,116	24,157	129,485	67,922	197,408
<b>Total gross derivatives contracts</b>	<b>21,259</b>	<b>5,116</b>	<b>26,375</b>	<b>208,148</b>	<b>67,939</b>	<b>276,088</b>
<b>Amounts offset</b>						
Cash collateral netting	(773)	-	(773)			
Counterparty netting	(17,927)	(4,697)	(22,624)			
<b>Total derivative contracts liabilities</b>	<b>2,559</b>	<b>419</b>	<b>2,978</b>			
<b>Amounts not offset <sup>(1)</sup></b>						
Financial instruments - collateral	(9)	-	(9)			
<b>Net amounts</b>	<b>\$ 2,550</b>	<b>\$ 419</b>	<b>\$ 2,969</b>			
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable			<b>\$ 439</b>			

(1) Amounts relate to master netting agreements and collateral agreements that have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

(2) The Company believes that the notional amounts of derivative contracts generally overstate its exposure. In most circumstances notional amounts are used only 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.

(3) See Note 4 for information related to the unsettled fair value of futures contracts, which are excluded from previous tables.

For information related to offsetting of certain collateralized transactions, see Note 7.

## Derivatives with Credit Risk-Related Contingencies

### Net Derivative Liabilities and Collateral Posted

	At December 31, 2021
Net derivative liabilities with credit risk-related contingent features	\$ 1,819
Collateral posted	200

The previous table presents the aggregate fair value of certain derivative contracts that contain credit risk-related contingent features that are in a net liability position for which the Company has posted collateral in the normal course of business.

### Incremental Collateral and Termination Payments upon Potential Future Rating Downgrade

	At December 31, 2021
One-notch downgrade	\$ 131
Two-notch downgrade	287
Bilateral downgrade agreements included in the amounts above <sup>(1)</sup>	\$ 366

<sup>(1)</sup> Amounts represent arrangements between the Company and other parties where upon the downgrade of the counterparty or the Ultimate Parent, the counterparty or the Company must deliver collateral to the other party. These bilateral downgrade arrangements are used by the Company to manage the risk of counterparty downgrades.

The previous table shows the future potential collateral amounts and termination payments for the Company that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers of the Ultimate Parent.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on either the counterparty's or the Ultimate Parent's ratings by either or both of Moody's and S&P.

### Maximum Potential Payout/Notional of Credit Protection Sold <sup>(1)</sup>

	Years to Maturity at December 31, 2021				
	< 1	1-3	3-5	Over 5	Total
<b>Single-name CDS:</b>					
Investment grade	\$ 33	\$ 74	-	-	107
Non-Investment grade	-	-	-	-	-
<b>Total</b>	<b>\$ 33</b>	<b>\$ 74</b>	<b>-</b>	<b>-</b>	<b>107</b>
<b>CDS protection sold with identical protection purchased</b>	<b>\$ 33</b>				

## Fair Value Asset (Liability) of Credit Protection Sold <sup>(1)</sup>

	At December 31, 2021	
<b>Single-name CDS:</b>		
Investment grade	\$	1
Non-Investment grade		-
<b>Total</b>	<b>\$</b>	<b>1</b>

<sup>(1)</sup> Investment grade/non-investment grade determination is based on the internal credit rating of the reference obligation. Internal credit ratings serve as the Credit Risk Management Department's assessment of credit risk and the basis for a comprehensive credit limits framework used to control credit risk. The Company uses quantitative models and judgment to estimate the various risk parameters related to each obligor.

### Protection Purchased with CDS

	At December 31, 2021	
	Fair Value Asset (Liability)	Notional
Single name CDS	\$ (14)	\$ 945
Index and basket CDS	(1)	29
<b>Total</b>	<b>\$ (15)</b>	<b>\$ 974</b>

The Company enters into credit derivatives, principally CDS, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. The Company's counterparties for these derivatives are affiliates. For further information, see Note 3.

The fair value amounts as shown in the previous tables represent the net asset or liability fair value by underlying type prior to cash collateral or counterparty netting.

The purchase of credit protection does not represent the sole manner in which the Company risk manages its exposure to credit derivatives. The Company manages its exposure to these derivative contracts through a variety of risk mitigation strategies, which include managing the credit and correlation risk across single name, non-tranched indices and baskets, and cash positions. Aggregate market risk limits have been established for credit derivatives, and market risk measures are routinely monitored against these limits. The Company may also recover amounts on the underlying reference obligation delivered to the Company under CDS where credit protection was sold.

*Single Name CDS.* A CDS protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium (generally quarterly) over the life of the contract and is protected for the period. The Company, in turn, performs under a CDS if a credit event as defined under the contract occurs. Typical credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay and restructuring of the obligations of the referenced entity.

*Index and Basket CDS.* Index and basket CDS are products where credit protection is provided on a portfolio of single name CDS. Generally, in the event of a default on one of the underlying

names, the Company pays a pro rata portion of the total notional amount of the CDS.

## 6. Receivables from contracts with Customers

Receivables from contracts with customers, which are primarily included in Receivables – Customers balances in the Consolidated statement of financial condition arise when the Company has both recorded revenues and has the right per the contract to bill customers. At December 31, 2021 and December 31, 2020, the balance related to receivables from contracts with customers was \$18 and \$25, respectively.

### Other Liabilities—Contract Liabilities Rollforward

At December 31, 2020	\$	22
Recognized contract liabilities		10
Contract liabilities recognized into revenue		(8)
At December 31, 2021	\$	24

Contract liabilities relate primarily to commodities contracts that are billed in advance and recognized into revenue as the underlying services are provided.

## 7. Collateralized Transactions

The Company enters into securities purchased under agreements to resell and securities sold under agreements to repurchase to, among other things, finance its inventory positions, and meet collateral and liquidity requirements.

The Company monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and requests or posts additional collateral as required under the applicable agreement to ensure such transactions are adequately collateralized, or returns excess collateral.

The risk related to a decline in the market value of collateral pledged or received is managed by setting appropriate market-based margin requirements. Increases in collateral margin calls on repurchase agreements due to market value declines may be mitigated by increases in collateral margin calls on reverse repurchase agreements with similar quality collateral. Additionally, the Company may request lower quality collateral pledged be replaced with higher quality collateral through collateral substitution rights in the underlying agreements.

The Company actively manages its repurchase agreements in a manner that reduces the potential refinancing risk of repurchase agreements of less liquid assets and also considers the quality of collateral when negotiating collateral eligibility with counterparties. The Company utilizes shorter-term repurchase agreements for highly liquid assets and has established longer tenor limits for less liquid assets, for which funding may be at risk in the event of a market disruption.

## Offsetting of Certain Collateralized Transactions

At December 31, 2021					
	Gross	Amounts	Net	Amounts	Net
	Amounts	Offset	Amounts	not offset <sup>(1)</sup>	Amounts
<b>Assets</b>					
Reverse repurchase agreements	\$ 1,536	\$ -	\$ 1,536	\$ (1,536)	\$ -

<sup>(1)</sup> Amounts relate to master netting agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

For further information related to offsetting of derivatives, see Note 5.

The Company pledges its trading assets to collateralize other secured financings and derivatives. Counterparties may or may not have the right to sell or repledge the collateral.

Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the Consolidated statement of financial condition.

### Fair Value of Collateral Received with Right to Sell or Repledge

	At December 31, 2021	
Collateral received with right to sell or repledge	\$	1,723
Collateral that was sold or repledged		615

The Company receives collateral in the form of securities in connection with reverse repurchase agreements and derivatives. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to collateralize repurchase agreements and derivatives.



## 8. Borrowings and Other Secured Financings

### Borrowings

#### Maturities and Terms of Borrowings at December 31, 2021

	Variable Rate
<b>Original maturities of one year or less:</b>	
Next 12 months	\$ 5,327
<b>Original maturities greater than one year:</b>	
Due in 2021	-
Due in 2022	25
Due in 2023	41
Due in 2024	995
Due in 2025	405
Thereafter	38
<b>Total</b>	<b>1,504</b>
<b>Total borrowings</b>	<b>\$ 6,831</b>
Weighted average coupon rate at period-end <sup>(1)</sup>	1.59%

<sup>(1)</sup> Includes only borrowings with original maturities greater than one year. Weighted average coupon is calculated utilizing U.S. dollar interest rates and excludes financial instruments for which the fair value option was elected.

Borrowings with original maturities of one year or less primarily consist of unsecured borrowings from the Ultimate Parent that mature in less than 12 months.

Borrowings with original maturities greater than one year consist of unsecured borrowings from the Ultimate Parent and hybrid financial instruments with embedded derivatives. These unsecured borrowings from the Ultimate Parent are callable with maturities of 13 months or more from when it is called.

Hybrid instruments with embedded derivatives are carried at fair value under the fair value option. For further information, see Note 4.

The interest rates for the unsecured borrowings from the Ultimate Parent are in line with the Firm's proxy rate.

The weighted average maturity of borrowings, based upon stated maturity dates, was approximately 2.70 years at December 31, 2021.

#### Other Secured Financings

	At December 31, 2021
<b>Original maturities:</b>	
Greater than one year	\$ -
One year or less	-
Transfer of assets accounted for as secured financings	557
<b>Total</b>	<b>\$ 557</b>

Other secured financings include amounts related to physical commodities assets which the Company has agreed to repurchase.

These liabilities are generally payable from the cash flows of the related assets accounted for as commodity derivative contracts within Trading assets. For further information, see Notes 4 and 5.

#### Maturities of Transfers of Assets Accounted for as Other Secured Financings

	At December 31, 2021
Due in 2022	\$ -
Due in 2023	557
Due in 2024	-
Due in 2025	-
Due in 2026	-
Thereafter	-
<b>Total</b>	<b>\$ 557</b>

For transfers of assets that fail to meet accounting criteria for a sale, the Company continues to record the assets and recognizes the associated liabilities as Other secured financings in the Consolidated statement of financial condition.

## 9. Subordinated Liabilities

On August 24, 2021 the Company entered into new agreements with its Parent for subordinated liabilities. The agreements consist of a \$400 subordinated loan and a \$1,500 subordinated revolving note, of which \$400 was drawn.

The interest rates for the new agreements are in line with the Firm's proxy rate.

The maturity dates, interest rates and book value of the subordinated notes at December 31, 2021 are as follows

Subordinated Notes	Maturity Date	Interest Rate	Book Value
Cash Subordination Agreement	August 24, 2031	1.66%	\$ 400
Subordinated Revolving Credit Agreement	August 24, 2031	1.66%	400
<b>Total</b>			<b>\$ 800</b>

## 10. Commitments, Guarantees and Contingencies

### Commitments

	Years to Maturity at December 31, 2021				
	Less than 1	1-3	3-5	Over 5	Total
Other financial guarantees	\$ 26	\$ 1	\$ -	\$ -	\$ 27

The Company's commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements as of December 31, 2021 are summarized above by period of expiration.

#### Types of Commitments

*Letters of Credit and Other Financial Guarantees.* The Company has outstanding letters of credit and other financial guarantees

issued by third-party banks to certain of the Company's counterparties. The Company is contingently liable for these letters of credit and other financial guarantees, which are primarily used to provide collateral for securities and commodities traded and to satisfy various margin requirements in lieu of depositing cash or securities with these counterparties.

*Other Commitments.* Other commitments include a binding contingent lending commitment on behalf of a client in connection with the Company's business.

## Guarantees

### Obligations under Guarantee Arrangements at December 31, 2021

	Maximum Potential Payout/Notional				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Credit derivative <sup>(1)</sup>	\$ 33	\$ 74	\$ -	\$ -	\$ 107
Non-credit derivative <sup>(1)</sup>	41,932	6,620	4,456	1,780	54,788
Standby letters of credit	48	1	-	-	49
Performance guarantees	-	7	-	199	206
<b>Total</b>	<b>\$ 42,013</b>	<b>\$ 6,702</b>	<b>\$ 4,456</b>	<b>\$ 1,979</b>	<b>\$ 55,150</b>

	Carrying Amount (Asset)/Liability
Credit derivatives <sup>(1)</sup>	\$ 1
Non-credit derivative <sup>(1)</sup>	1,898
<b>Total</b>	<b>\$ 1,899</b>

<sup>(1)</sup> Carrying amount of derivatives contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 5.

The Company has obligations under certain guarantee arrangements, including contracts and indemnification agreements that contingently require the Company to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the Company to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

*Derivative Contracts.* Certain derivative contracts meet the accounting definition of a guarantee, including certain written options, contingent forward contracts and CDS. For further information, see Note 5 regarding credit derivatives in which the Company has sold credit protection to the counterparty. All derivative contracts that could meet this accounting definition of a guarantee are included in the previous table, with the notional

amount used as the maximum potential payout for certain derivative contracts, such as written foreign currency, written commodities options, and written interest rate caps. The Company evaluates collateral requirements for all derivatives, including derivatives that do not meet the accounting definition of a guarantee. For further information on the effects of cash collateral and counterparty netting, see Note 5.

In certain situations, collateral may be held by the Company for those contracts that meet the definition of a guarantee. Generally, the Company sets collateral requirements by counterparty so that the collateral covers various transactions and products and is not allocated specifically to individual contracts. Also, the Company may recover amounts related to the underlying asset delivered to the Company under the derivative contract.

## Contingencies

### Legal

In the normal course of business, the Company has been 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 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 is also 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, financial products or offerings sold by the Company, and 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 consolidated statement of financial condition and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income.

The Company's legal expenses can, and may in the future, fluctuate from period to period, given the current environment regarding government investigations and private litigation affecting financial services firms, including the Company.

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,

particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. Numerous issues may need to be resolved before a loss or additional loss, or range of loss or additional range of loss, can be reasonably estimated for a proceeding or investigation, 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 consideration of novel or unsettled legal questions relevant to the proceedings or investigations in question.

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 could have a material adverse effect on the consolidated financial condition of the Company as a whole.

Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings and investigations will not have a material adverse effect on the financial condition of the Company, although the outcome of such proceedings or investigations could be material to the Company's operating results and cash flows for a particular period depending on, among other things, the level of the Company's revenues or income for such period.

## 11. Variable Interest Entities

### Overview

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's variable interests in VIEs include debt and equity interests, commitments and guarantees. The Company's involvement with VIEs arises primarily from loans made to and investments in VIEs and derivatives entered into with VIEs.

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 accounts for the assets held by the consolidated VIEs in Trading assets and the liabilities of the VIEs in Other secured financings in the Consolidated statement of financial condition. The assets and liabilities are measured at fair value, with changes

in fair value reflected in earnings. Assets owned by the consolidated VIEs generally are not available to the Company. The related liabilities issued by many consolidated VIEs are non-recourse to the Company. At December 31, 2021 after intercompany eliminations, the Company had no consolidated VIE assets, including assets financed on a non-recourse basis.

In general, the Company's exposure to a loss in consolidated VIEs is limited to losses that would be absorbed on the VIE's assets recognized in its Consolidated financial statements. The Company did not have additional maximum exposure to losses as of December 31, 2021.

	At December 31, 2021
VIE assets	\$ 296
<b>Maximum exposure to loss</b>	
Debt and equity interests	128
Commitments and guarantees	26
<b>Total</b>	<b>\$ 154</b>
<b>Carrying value of variable interests - Assets</b>	
Debt and equity interests	\$ 128
<b>Carrying value of variable interests - Liabilities</b>	
Commitments and guarantees	\$ -

The previous table presents information about certain non-consolidated VIEs in which the Company had variable interests at December 31, 2021. The table includes all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria.

The maximum exposure to loss is dependent on the nature of the Company's variable interest in the VIEs and is limited to notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and fair value of certain investments the Company has made in the VIEs.

The Company's maximum exposure to loss does not include the offsetting benefit of hedges or any reductions associated with 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.

Liabilities issued by VIEs generally are non-recourse to the Company.

## 12. Premises and Equipment

Premises and equipment consisted of the following:

	At December 31, 2021
Terminals, pipelines and equipment	\$ 34
Furniture, fixtures and computer equipment	1
Other assets - ROU	2
<b>Total Premises and equipment</b>	<b>37</b>
Less accumulated depreciation	(18)
<b>Total Premises and equipment - net</b>	<b>\$ 19</b>

## 13. Intangible Assets

### Net Amortizable Intangible Assets Rollforward

At December 31, 2020	\$	14
Amortization expense		(10)
Disposals		-
Other		-
At December 31, 2021	\$	4

### Gross Amortizable Intangible Assets as of December 31, 2021:

	Gross Carrying Amount	Accumulated Amortization	Total
Management Contracts	\$ 60	\$ (56)	\$ 4

## 14. Risk Management

Risk is an inherent part of the Company's business activities. Management believes effective risk management is vital to the success of the Company's business activities. Accordingly, the Company has an established risk management governance structure and framework in place to identify, measure, monitor, advise, challenge and control the principal risks involved in the activities of the Institutional Securities business segment, as well as at the Company level. The principal risks involved in the Company's business activities include market, credit, operational, model, compliance, cybersecurity, liquidity, strategic and reputational risk.

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

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

The Company's risk appetite defines the types of risk that the Company is willing to accept, taking into account market, credit,

operational, model, liquidity, compliance, cybersecurity, strategic, reputational and conduct risk. This risk appetite and the related Board of Directors ("Board") level risk limit framework and risk tolerance statements are reviewed and approved by the Board annually.

### *Risk Governance Structure*

Risk management at the Company requires independent Company-level oversight, accountability of the Company's businesses, and effective communication of risk matters across the Company, to senior management and ultimately to the Board. The Company's risk governance structure is composed of the Board; the RC; senior management oversight; the Internal Audit Department of the Ultimate Parent ("Internal Audit Department"); and risk managers and groups within and across businesses.

*Board of Directors.* The Company's Board has oversight of the risk governance framework, approves the risk limit frameworks and certain risk limits, and is responsible for helping to ensure that the Company's risks are managed in a sound manner. The Board has authorized the RC to help facilitate the Company's risk oversight responsibilities.

*Risk and Asset and Liability Committee.* The RC is a management committee chaired by the Company's Chief Risk Officer to execute the risk governance framework. The RC is composed of the Chief Risk Officer, Chief Financial Officer, Treasurer, Chief Market Risk Officer, Chief Credit Risk Officer, Chief Operational Risk Officer, Chief Liquidity Risk Officer, Chief Compliance Officer, Chief Auditor and members of the trading business unit's risk management group. The RC's responsibilities include oversight of the Company's risk management policies, procedures and limits, the monitoring of capital levels as well as material market, credit, operational, model, liquidity, legal, compliance, cybersecurity, strategic, reputational and conduct risk matters, and other risks, as appropriate, and the steps management has taken to monitor and manage such risks. Among the risk limits presented to the RC by the Independent Risk Management Functions are stress scenarios designed to ensure that the magnitude of potential losses in severe market and liquidity scenarios are appropriate relative to the Company's capitalization and liquidity.

*Chief Risk Officer.* The Chief Risk Officer, who is independent of business units, reports to the Board. The Chief Risk Officer oversees compliance with the Company's risk limits; approves exceptions to the Company's risk limits; independently reviews material market, credit, operational, model and liquidity risks; and reviews results of risk management processes with the Board and the RC, as appropriate.

*Independent Risk Management Functions.* The Company's risk management functions (Market Risk, Credit Risk, Operational Risk and Liquidity Risk Management departments) are independent of the Company's business units and report to the Chief Risk Officer. These functions assist senior management and the RC in monitoring and controlling the Company's risk.

The Independent Risk Management Functions assess a variety of stress scenarios and calibrate limits that are informed by the Company's liquidity and loss-absorbing capacity. Further discussion about the responsibilities of the risk management functions may be found under "Market Risk," "Credit Risk," "Operational Risk," and "Liquidity Risk." The Company leverages the Ultimate Parent's Model Risk function, which is independent of the Company's business units and reports to the Ultimate Parent's Chief Risk Officer. Further discussion may be found under "Model Risk."

*Internal Audit Department.* The Internal Audit Department reviews and tests the Company's compliance with internal guidelines set for risk management and risk monitoring, as well as external rules and regulations governing the Company.

### **Risk Management Process**

The following is a discussion of the Company's risk management policies and procedures for the Company's primary risks.

### **Risk Limits Framework**

Risk limits and quantitative metrics provide the basis for monitoring risk taking activity and avoiding outsized risk-taking. The Company's highest-level risk limits incorporate stress scenarios and are informed by the Company's capitalization and levels of liquidity. Additionally, the Company maintains risk limits and quantitative metrics to support and implement the Company's risk appetite statement. The Company's risk limit frameworks support linkages between the overall risk appetite, which is reviewed by the Company's Risk Committee and is set by the Board, and more granular risk-taking decisions and activities. Risk limits and associated limit frameworks are reviewed and updated on at least an annual basis, with more frequent updates as necessary. Board-level risk limits and approved frameworks address the most important Company-wide aggregations of risk, including, but not limited to, stressed market, credit and liquidity risks. Additional risk limits approved by the RC address more specific types of risk and are bound by the higher-level Board risk limits.

### **Market Risk**

Market risk refers to the risk that a change in the level of one or more commodity prices, market prices, rates, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities.

During 2021, the Company had exposures to a wide range of interest rates, equity prices, and foreign exchange rates – and the associated implied volatilities and spreads – related to the global markets in which the Company conducts its trading activities.

Sound market risk management is an integral part of the Company's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The control groups help ensure that these

risks are measured and closely monitored and are made transparent to senior management. Market Risk professionals are responsible for ensuring transparency of material market risks, monitoring compliance with established limits and escalating risk concentrations to appropriate senior management. Market risk is also monitored through various measures: by use of statistics (including VaR); by measures of position sensitivity; and through routine stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, and scenario analyses conducted in collaboration with business units.

### **Credit Risk**

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. The Company primarily incurs credit risk exposure to institutions and individuals. This risk may arise from a variety of business activities, including, but not limited to, entering into swap or derivative contracts under which counterparties may have obligations to make payments to the Company; extending credit to clients; providing short- or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral to clearinghouses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; placing funds on deposit at other financial institutions to support the Company's clearing and settlement obligations; and investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans. This type of risk requires credit analysis of specific counterparties, both initially and on an ongoing basis. The Company also incurs credit risk in traded securities whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

The Company establishes practices to evaluate, monitor and control credit risk exposure both within and across its business activities. The Company's credit risk exposure is actively managed by credit professionals and the RC who monitor risk exposures, including margin loans and credit sensitive, higher-risk transactions. The Company is responsible for ensuring timely and transparent communication of material credit risks, compliance with established limits, approving material extensions of credit, and escalating 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, from 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, including revenue-generating activities and support and control groups (e.g., information technology and trade processing).

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

### **Model Risk**

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision making or damage to the Company's 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 Company's Risk Management Framework. MRM is a distinct department in Risk Management responsible for the oversight of model risk. MRM establishes a model risk tolerance in line with the Ultimate Parent'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 the critical analysis by objective, informed parties who can identify model limitations and assumptions and drive appropriate changes. MRM provides effective challenge of models, independently validates and approves models for use, annually recertifies models, identifies and tracks remediation plans for model limitations and reports on model risk metrics. The department also oversees the development of controls to support a complete and accurate Firm-wide model inventory.

### **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. Generally, the Company incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

The Company's Liquidity Risk Management Framework is critical to help ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet the

Company's daily obligations and to withstand unanticipated stress events.

The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department establishes limits in line with its risk appetite, identifies and analyzes emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning its Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

## **15. Employee Stock-Based Compensation Plans**

Certain current and former U.S. employees of the Company participate in the Ultimate Parent's stock-based compensation plans. The cost of stock-based compensation awarded to the Company's employees is recognized over the vesting period relevant to each separately vesting portion of the award.

### ***Restricted Stock Units***

RSUs are subject to vesting over time, generally three years from the date of award, contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All or a portion of an award may be forfeited if employment is terminated before the end of the relevant vesting period or cancelled after the relevant vesting period in certain situations. Recipients of RSUs may have voting rights, at the Ultimate Parent's discretion, and generally receive dividend equivalents if the awards vest. The Ultimate Parent determines the fair value of RSUs based on the grant-date fair value of its common stock, measured as the volume-weighted average price on the date of grant.

## **16. Employee Benefit Plans**

### **Morgan Stanley 401(k) Plan**

The Company's employees meeting certain eligibility requirements may participate in the Morgan Stanley 401(k) Plan sponsored by the Parent. Eligible employees receive discretionary 401(k) matching cash contributions as determined annually by the Firm. In 2021, the Company matched employee contributions up to 5% of eligible pay, up to the IRS limit. Matching contributions were invested among available funds according to each participant's investment direction on file.

## **17. Income Taxes**

The Company is included in the consolidated federal income tax return filed by the Ultimate Parent. Federal income taxes have generally been provided on a modified separate entity basis. The Company is included in the combined state and local income tax returns with the Ultimate Parent and certain other subsidiaries of

the Ultimate Parent. State and local income taxes have been provided on separate entity income at the effective tax rate of the Company's combined filing group.

In accordance with the terms of the Tax Sharing Agreement, current taxes (federal, combined and unitary states) are settled periodically with the Ultimate Parent, who pays these taxes on behalf of the Company.

### Net Deferred Tax Assets

	December 31, 2021
<b>Gross deferred tax assets</b>	
Intangibles	\$ 40
Net operating loss and tax credit carryforwards	29
Employee compensation and benefit plans	14
Valuation of investments	15
Other	3
Total deferred tax assets	101
Deferred tax assets valuation allowance	30
Deferred tax assets after valuation allowance	\$ 71
<b>Net deferred tax assets</b>	<b>\$ 71</b>

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse.

The Company's net deferred tax asset is included in Other assets within the Consolidated statement of financial condition.

The Company had tax credit carryforwards for which a related deferred tax asset of \$4 was recorded at December 31, 2021. These carryforwards are subject to annual limitations on utilization, with the earliest expiration beginning in 2030, if not utilized. The Company believes that it is more likely than not that a portion of these tax credit carryforwards would not be realized based on expectations as to future taxable income in the jurisdictions in which it operates. As such, there is a full valuation allowance on the tax credit carryforwards.

The Company has non-U.S. net operating loss carryforwards of \$21 for which a deferred tax asset was recorded at December 31, 2021. These carryforwards are subject to annual limitations on utilization, with the earliest expiration beginning 2026, if not utilized. The Company believes that it is more likely than not that these net operating loss carryforwards would not be realized. As such, there is a full valuation allowance on the net operating losses.

The Company has state net operating loss carryforwards of \$4 (net of federal benefit of state) for which a deferred tax asset was recorded at December 31, 2021. These carryforwards are subject to annual limitations on utilization, with the earliest expiration beginning 2026, if not utilized. The Company believes that it is

more likely than not that a portion of these net operating loss carryforwards would not be realized based on expectations as to future taxable income in the jurisdictions in which it operates. As such, there is a valuation allowance on the net operating losses of \$3 (net of federal benefit of state).

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions.

Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the relevant accounting guidance. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for 2021:

<b>Rollforward of Unrecognized tax benefits</b>	
Balance at December 31, 2020	\$ 1.3
Balance at December 31, 2021	\$ 0.5
Net unrecognized tax benefits <sup>(1)</sup>	\$ 0.4

(1) Represent ending unrecognized tax benefits adjusted for the impact of the federal benefit of state issues, competent authority arrangements and foreign tax credit offsets. If recognized, these net benefits would favorably impact the effective tax rate in future periods.

It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the Company's effective tax rate over the next 12 months.

Interest and penalties related to unrecognized tax benefits are recognized as a component of the provision for income taxes. There were no accrued penalties related to unrecognized tax benefits.

**Earliest Tax Year Subject to Examination in Major Tax Jurisdictions:**

Jurisdiction	Tax Year
United States	2017
New York State and City	2010
Utah	2005

the calculation of the applicable regulatory capital requirement under 17 CFR § 23.101 and no additional capital was required by the NFA at December 31, 2021.

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The Company, through its inclusion in the return of the Ultimate Parent, is under continuous examination by the IRS and other tax authorities in certain states and localities in which the Company has significant business operations, such as New York.

The Company believes that the resolution of these tax examinations will not have a material effect on the Consolidated statement of financial condition, although a resolution could have a material impact in the Income statement and on the effective tax rate for any period in which such resolution occur.

**18. Regulatory Requirements**

The Dodd-Frank Act requires the registration of “swap dealers” and “major swap participants” with the CFTC (collectively, “Swaps Entities”). MSCGI is a provisionally registered swap dealer and, accordingly, is subject to the minimum capital requirements of the CFTC.

Under these rules, MSCGI is required to maintain minimum Capital as defined under CFTC Rule 23.101 (a)(1)(i), of

(A) \$20 of common equity tier 1 capital, as defined under the BHC regulations in 12 CFR 217.20, as if the swap dealer itself were a BHC subject to 12 CFR part 217;

(B) An aggregate of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital, all as defined under the BHC regulations in 12 CFR 217.20, equal to or greater than 8.0% of the swap dealer's BHC equivalent risk-weighted assets; provided, however, that the swap dealer must maintain a minimum of common equity tier 1 capital equal to 6.5% of its BHC equivalent risk-weighted assets; provided further, that any capital that is subordinated debt under 12 CFR 217.20 and that is included in the swap dealer's capital for purposes of this paragraph (a)(1)(i)(B) must qualify as subordinated debt under § 240.18a-1d of this title; and

(C) An aggregate of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital, all as defined under the BHC regulations in 12 CFR 217.20, equal to or greater than 8.0% of the amount of uncleared swap margin, as that term is defined in § 23.100;

(D) The amount of capital required by a registered futures association of which the swap dealer is a member.

At December 31, 2021, MSCGI’s CET1 Capital Ratio was 9.9% and Total Capital Ratio was 12.4%, which were greater than the uncleared swap margin requirements. MSCGI is compliant with



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

AOCL – Accumulated other comprehensive loss

BHC – Bank Holding Company

CDS – Credit Default Swaps

CFTC – Commodity Futures Trading Commission

CRM – Credit Risk Management Department

FERC – Federal Energy Regulatory Commission

IRS – Internal Revenue Service

LIBOR – London Interbank Offered Rate

MOODY's – Moody's Investors Service, Inc

MRM – Model Risk Management Department

MSCGI – Morgan Stanley Capital Group, Inc

MS&Co – Morgan Stanley & Co, LLC

MSDHI – Morgan Stanley Domestic Holdings, Inc.

MSSG – Morgan Stanley Service Group, Inc

NFA – National Futures Association

OECD – Organization for Economic Cooperation and Development

OTC – Over the Counter

RC – Risk and Asset and Liability Operating Committee

ROU – Right of Use

RSU – Restricted Stock Units

SPEs – Special-Purpose Entities

S&P – Standard & Poor's Global Ratings

U.S. – United States of America

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

VaR – Value-at-Risk

VIEs – Variable Interest Entities