Registered number: 05065987

Registered office:
20 Bank Street
Canary Wharf
London
E14 4AD
United Kingdom

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

Report and financial statements

31 December 2018

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

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MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Employment Services UK Limited (the "Company") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The principal activity of the Company is to provide employment services to other Morgan Stanley Group undertakings.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group". The Company's immediate parent undertaking is Morgan Stanley International Limited, which, together with its subsidiaries forms the "MSI Group".

The Company is designated a material service entity in the recovery and/or resolution plans of the Morgan Stanley Group and the MSI Group.

Further information on the Morgan Stanley Group is available in the public documents available at www.morganstanley.com/investorrelations.

No significant change in the Company's principal activity is expected.

BUSINESS REVIEW

The Company provides employment services to Morgan Stanley Group's operating undertakings under an employment services agreement. The scope of services provided and contractual arrangements of the Company may continue to evolve as a normal consequence of changes to the recovery and resolution planning requirements or other regulatory changes impacting the Morgan Stanley Group or the MSI Group (including but not limited to the impact of United Kingdom's (the "UK") decision to leave the European Union (the "EU") of which a thorough assessment has been made of various Brexit scenarios. The Company manages these potential impacts on its business by maintaining a constant planning dialogue with all Morgan Stanley Group undertakings supported and accordingly management does not expect any significant impact on the operations and business of the Company arising from these external factors.

Overview of 2018 performance

The income statement for the year is set out on page 9. The Company generated a profit after tax of $3,730,000 compared with a loss of $31,340,000 after tax in the prior year. Current year profit represents a tax benefit arising from tax adjustments in respect of previous years. The prior year results included a higher tax charge arising from deferred compensation expenses which are not tax deductible offset by pre-tax profits generated primarily from investing activities before disposal. Similar tax charges for 2018 have been fully offset by group relief received for no cash consideration. Fee income comprises of management charges to other Morgan Stanley Group undertakings for entire costs incurred in the provision of employments services, which increased from $1,148,472,000 in the prior year to $1,231,285,000 as a result of higher employee numbers and related staff costs for 2018.

The statement of financial position is set out on page 12. Total assets and liabilities have increased year over year primarily driven by an increase of liquidity held for recovery and resolution requirements. The Company sourced financing from a Morgan Stanley Group undertaking for securities purchased under an agreement to resell of $299,595,000. This is offset by decreases in amounts receivable from other Morgan Stanley Group undertakings in respect of management charges for employee services and related liabilities included in 'Trade and other payables' and 'Accruals and deferred income' arising from timing of settlements.

The performance of the Company is included in the results of the Morgan Stanley. The Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

The key risk of the Company is its exposure to other Morgan Stanley Group undertakings. In 2017 the Morgan Stanley Group established a global network of material service entities, and as a material service entity, the Company is subject to additional operational oversight and governance. This additional governance is designed to support the continuity of support services in business as usual and recovery and resolution scenarios. The risks of the Company, expressed in terms of the Morgan Stanley Group risk categories are set out below. Further information on how the Morgan Stanley Group manage these risks is available in the public documents available at www.morganstanley.com/investorrelations.

Market risk
Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Company is exposed to a limited amount of market risk as a result of the deferred cash-based compensation plans outlined in note 21. The economic hedges of this risk are outlined in the same note.

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

As noted above, the primary credit risk of the entity is the concentration of exposure to other Morgan Stanley Group undertakings.

Liquidity risk
Liquidity risk refers to the risk that the Company will be unable to finance its operations. The Company sources its financing from other Morgan Stanley Group undertakings.

As a material service entity the Company maintains minimum liquidity, which is monitored on an ongoing basis to ensure compliance with recovery and resolution requirements as established by Morgan Stanley Group's regulators as described above.

Operational risk
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

The Company acknowledges its responsibility in the management of its own and its customer's operational risks to comply with the contractual provisions of its services. The Company applies the Morgan Stanley Group's globally established procedures which are based on legal and regulatory requirements on a worldwide basis designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed.

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, values and conduct of employees
All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, and Giving Back*. The Morgan Stanley Group is committed to reinforcing and confirming adherence to the core values through our governance framework, tone from the top, management oversight, risk management and controls, and a three lines of defence structure (business, control functions such as Risk Management and Compliance, and Internal Audit). A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct (the "Code") which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code of Conduct.

GOING CONCERN

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Company's strategy. Additionally, the Company has access to Morgan Stanley Group capital and liquidity as required.

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

Approved by the Board and signed on its behalf by

Director S. WATTS
16/04/2019

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 23) for the Company for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was $3,730,000 (2017: $31,340,000 loss after tax).

During the year, no dividends were paid or proposed (2017: $nil).

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

Information regarding risk management and future developments has been included in the Strategic report.

DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report:

L Bainbridge	
C R Styant	(appointed 14 March 2019)
T E E Rowe	(resigned 14 January 2019)
S E Watts	

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company.

DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions (as defined in Section 234 of the Companies Act 2006) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company.

EMPLOYEES

Both the Company and the Morgan Stanley Group place considerable value on the investment in their employees and have continued their practice of keeping employees informed on matters affecting them. Employees are encouraged to present their suggestions and views on the Morgan Stanley Group's performance to management and employees participate directly in the success of the business through the Morgan Stanley Group's various compensation incentive plans.

Every effort is also made to ensure that disabled applicants, or those existing employees who are disabled or may have become disabled, are treated as fairly as possible on terms comparable with those of other employees. Appropriate training is arranged for disabled persons, including retraining for alternative work for employees who become disabled, to promote their career development within the organisation.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

DIRECTORS' REPORT

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

Statement as to disclosure of information to the auditor

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard ("FRS") 101 *Reduced disclosure framework* ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by

Director S. WATTS
16/04/2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced disclosure framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Morgan Stanley Employment Services UK Limited which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED (CONTINUED)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED (CONTINUED)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Partridge, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

29/4/19.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

INCOME STATEMENT
Year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Fee income	4	1,231,285	1,148,472
Net trading (expense)/ income		(9,661)	3,918
Net income from other financial instruments held at fair value	5	-	3,940
Other revenue	6	296	-
Total non-interest revenues		1,221,920	1,156,330
Interest income		35,486	14,266
Interest expense		(17,701)	(8,210)
Net interest income	7	17,785	6,056
Net revenues		1,239,705	1,162,386
Non-interest expense:			
Other expense	8	(1,239,710)	(1,161,059)
Net reversal of impairment loss on financial instruments	9	5	-
PROFIT BEFORE TAXATION		-	1,327
Income tax benefit/ (expense)	10	3,730	(32,667)
PROFIT/ (LOSS) FOR THE YEAR		3,730	(31,340)

All operations were continuing in the current and prior year.

The notes on pages 13 to 33 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	2018	2017
	$'000	$'000
PROFIT/ (LOSS) FOR THE YEAR	3,730	(31,340)
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale reserve:		
Net change in fair value of available-for-sale financial assets	-	(21,340)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	-	(21,340)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	3,730	(52,680)

The notes on pages 13 to 33 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Note	Share capital $'000	Available-for-sale reserve $'000	Retained (losses)/ earnings $'000	Total equity $'000
Balance at 1 January 2017		20,100	21,340	17,820	59,260
Loss for the year		-	-	(31,340)	(31,340)
Other comprehensive income		-	(21,340)	-	(21,340)
Total comprehensive income		-	(21,340)	(31,340)	(52,680)
Transactions with owners:					
Share based payments		-	-	765	765
Balance at 31 December 2017		20,100	-	(12,755)	7,345
Impact of adoption of new accounting standards	2	-	-	(11)	(11)
Profit and total comprehensive income for the year		-	-	3,730	3,730
Balance at 31 December 2018		20,100	-	(9,036)	11,064

The notes on pages 13 to 33 form an integral part of the financial statements.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED
Registered number: 05065987

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Cash and short-term deposits		16	-
Trading financial assets	11	-	4,708
Secured financing	12	299,595	-
Loans and advances	13	157,590	151,964
Trade and other receivables	14	779,694	834,771
TOTAL ASSETS		1,236,895	991,443
LIABILITIES AND EQUITY			
Trading financial liabilities	11	7,643	-
Other payables	15	189,190	377,133
Debt and other borrowings	16	485,754	151,964
Accruals and deferred income		527,162	426,681
Current tax liabilities		16,082	28,320
TOTAL LIABILITIES		1,225,831	984,098
EQUITY			
Share capital	18	20,100	20,100
Retained losses		(9,036)	(12,755)
Equity attributable to owners of the Company		11,064	7,345
TOTAL EQUITY		11,064	7,345
TOTAL LIABILITIES AND EQUITY		1,236,895	991,443

These financial statements were approved by the Board and authorised for issue on 16/04/2019

Signed on behalf of the Board

Director

S. WATTS

The notes on pages 13 to 33 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, at the following registered address: 20 Bank Street, Canary Wharf, London E14 4AD. The Company is a private company and is limited by shares. The registered number of the Company is 05065987.

The Company's immediate parent undertaking is Morgan Stanley International Limited, which has its registered office at 25 Cabot Square, Canary Wharf, London, England, E14 4QA and is registered in England and Wales, UK. Copies of the financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff, CF14 3UZ.

The Company's ultimate parent undertaking and controlling entity and the largest and smallest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable laws), including FRS 101.

The Company meets the definition of a qualifying entity as defined in FRS 100 *Application of financial reporting requirements*. The Company has taken advantage of certain disclosure exemptions available under FRS 101 in relation to share-based payments, financial instruments, fair value measurement, revenue from contracts with customers, capital management, presentation of comparative information in respect of shares outstanding, presentation of a cash-flow statement, accounting standards not yet effective and related party transactions.

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed at note 1.

New standards and interpretations adopted during the year

The following standards, amendment to standards and interpretations relevant to the Company's operations were adopted during the year. These standards, amendments to standards and interpretations did not have a material impact on the Company's financial statements.

An amendment to International Financial Reporting Standards ("IFRS") 2 '*Classification and Measurement of Share-based Payment Transactions*' was issued by the International Accounting Standards Board ("IASB") in June 2016, for application in accounting periods beginning on or after 1 January 2018. The amendment was endorsed by the EU in February 2018.

IFRS 9 '*Financial instruments*' ("IFRS 9") was issued by the IASB in November 2009, reissued in October 2010, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for accounting periods beginning on or after 1 January 2018. The standard was endorsed by the EU in November 2016.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

The main aspects of IFRS 9 which impact the Company are its requirements relating to:

- Classification and measurement of financial assets

  The classification and measurement of financial assets is determined based upon how these financial assets are managed and their contractual cash flow characteristics. Measurement will be either at amortised cost or fair value through profit or loss ("FVPL").

- Impairment of financial instruments

  The impairment requirements are based on expected credit losses ("ECL") and apply to financial assets measured at amortised cost.

As part of the implementation of IFRS 9, the Company performed an evaluation of its business models and a review of the contractual terms of financial assets.

Under the transitional provisions of the Standard, the Company's opening balance sheet at the date of initial application (1 January 2018) has been restated.

The Company's retained earnings have decreased by $11,000 as a result of the implementation of the ECL impairment approach.

Financial assets classified as loans and receivables up to 31 December 2017 were reclassified to financial assets at amortised cost. The Company has updated the presentation of its primary statements on transition to IFRS 9 to provide more relevant information to the users of the financial statements. The comparative period has been re-presented to align to the new format in the annual financial statements.

Note 3 provides the new accounting policies under IFRS 9 applicable from 1 January 2018, alongside the accounting policies applicable to 31 December 2017 under IAS 39.

IFRS 15 '*Revenue from Contracts with Customers*' ("IFRS 15") was issued by the IASB in May 2014 for retrospective application in accounting periods beginning on or after 1 January 2018. In addition, amendments relating to clarifications to IFRS 15 were issued by the IASB in April 2016 requiring application in accounting periods beginning on or after 1 January 2018. The standard and amendments were endorsed by the EU in October 2016. There was no impact to the retained earnings of the Company as at 1 January 2018 as a result of the implementation of IFRS 15.

IFRIC 22 '*Foreign Currency Transactions and Advance Consideration*' was issued by the IASB in December 2016 for application in accounting periods beginning on or after 1 January 2018 and was endorsed by the EU in April 2018.

Amendments to FRS 100 and FRS 101 '*Triennial review 2017 amendments*' were issued by the Financial Reporting Council in December 2017 for application in accounting periods beginning on or after 1 January 2019. The Company has early adopted all these amendments from 1 January 2018.

There were no other standards, amendments to standards or interpretations relevant to the Company's operations which were adopted during the year.

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable UK Accounting Standards, including FRS 101, and UK company law.

2. BASIS OF PREPARATION (CONTINUED)

Critical judgements in applying the Company's accounting policies

No judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the financial statements.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Strategic report on pages 1 to 3.

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements and Strategic and Directors' reports are rounded to the nearest thousand US dollars.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in 'Other revenue' or 'Other expense', except where noted in 3(c) below.

c. Financial instruments

i) Financial instruments mandatorily at fair value through profit and loss

Trading financial instruments

Trading financial instruments, consisting only of derivatives used for the hedging of deferred compensation plans, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, unrealised interest and dividends are reflected in the income statement in 'Net trading (expense)/ income'.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the income statement in 'Other expense'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

i) Financial instruments mandatorily at fair value through profit and loss (continued)

Non-trading financial assets at fair value through profit or loss

Non-trading financial assets at FVPL include secured financing transactions related to securities purchased under agreements to resell.

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair values and are generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL. All subsequent changes in fair value and foreign exchange differences are reflected in the income statement in 'Net income from other financial instruments held at fair value'. For these instruments, interest is not included as a component of fair value, and is therefore included within 'Interest income' or 'Interest expense'.

For all non-trading financial assets at FVPL, transaction costs are excluded from the initial fair value measurement of the financial assets. These costs are recognised in the income statement in 'Other expense'.

ii) Available-for-sale financial assets

Applicable until 31 December 2017

Financial assets classified as available-for-sale comprised of investment securities (unlisted equities).

Financial assets classified as available-for-sale were non-derivative financial assets that were either designated in this category, or not classified in any of the other categories applicable until 31 December 2017. Financial assets classified as available-for-sale were recorded on trade date and were initially recognised and subsequently measured at fair value (see note 3(d) below).

Transaction costs that are directly attributable to the acquisition of an available-for-sale financial asset are added to the fair value on initial recognition.

iii) Financial assets and financial liabilities at amortised cost

Applicable from 1 January 2018

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are solely payments of principal and interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Company becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less ECL allowance. Interest is recognised in the income statement in 'Interest income', using the effective interest rate ("EIR") method as described below. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the income statement in 'Net impairment loss on financial instruments'.

Financial assets at amortised cost include cash and short-term deposits, trade and other receivables and loans and advances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

iii) Financial assets and financial liabilities at amortised cost (continued)

Applicable until 31 December 2017

Financial assets classified as loans and receivables were recognised when the Company became a party to contractual provisions of the instrument. They were initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest was recognised in the income statement in 'Interest income', using the EIR method as described below. Transaction costs that were directly attributable to the acquisition of the financial asset were added to the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables were recognised in the income statement in 'Other expense'.

Financial assets classified as loans and receivables included cash and short-term deposits and trade and other receivables.

Applicable until 31 December 2017 and from 1 January 2018

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the income statement in 'Interest expense' using the EIR method as described below. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

The EIR method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The EIR is established on initial recognition of the financial instrument. The calculation of the EIR includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the EIR.

Financial liabilities classified at amortised cost include other payables and debt and other borrowings.

iv) Secured financing

The Company enters into arrangements which involve the purchase of securities with resale agreements.

From 1 January 2018, securities received by the Company under resale arrangements are generally not recognised on the statement of financial position.

d. Fair value

Fair value measurement

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximises the use of relevant observable inputs and minimises the use of unobservable inputs by requiring that 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 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 – Quoted prices (unadjusted) in an active market for identical assets or liabilities

  Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts 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 judgement.

- Level 2 – Valuation techniques using observable inputs

  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 – Valuation techniques with significant unobservable inputs

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

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 meets 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 financial instruments is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, equity 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.

Valuation process

The Valuation Control ("VC") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VC is independent of the business units and reports to the Chief Financial Officer ("CFO") of the Morgan Stanley Group, who has final authority over the valuation of the Company's financial instruments. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

If the asset has been transferred, and the Company neither transfers nor retains substantially all of the risks and rewards of the asset, then the Company determines whether it has retained control of the asset.

If the Company has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Company has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

The Company derecognises financial liabilities when the Company's obligations are discharged or cancelled or when they expire.

f. Impairment of financial instruments

Applicable from 1 January 2018

The Company recognises loss allowances for ECL for its financial assets classified at amortised cost. ECLs are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR. ECL is recognised in the income statement within 'Net impairment loss on financial instruments' and is presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position.

Applicable until 31 December 2017

At each reporting date, an assessment was made as to whether there was any objective evidence of impairment in the value of a financial asset classified as either available-for-sale or loans and receivables. Impairment losses were recognised if an event had occurred which would have had an adverse impact on the expected future cash flows of an asset and the expected impact could be reliably estimated.

Impairment losses on available-for-sale financial assets were measured as the difference between cost (net of any principal repayment and amortisation) and the current fair value (see note 3(d) above). Where there was evidence that the available-for-sale financial asset was impaired, the cumulative loss that had been previously recognised in other comprehensive income was reclassified from the 'Available-for-sale reserve' and recognised in the income statement.

Impairment losses on loans and receivables were measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original EIR. Such impairment losses were recognised in the income statement within 'Other expense' and were recognised against the carrying amount of the impaired asset on the statement of financial position. Interest on the impaired asset continued to be accrued on the reduced carrying amount based on the original EIR of the asset.

If in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed as described for the relevant categories of financial asset in note 3(c) (ii) and (iii). Any reversal was limited to the extent that the value of the asset would not exceed the original amortised cost of the asset had no impairment occurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Revenue recognition and contract assets and liabilities

Revenues are recognised when employment services are provided to other Morgan Stanley Group undertakings, in an amount that is based on the consideration the Company expects to receive in exchange for those services when such amounts are not probable of significant reversal. Fee income in the income statement comprises of management fees charged to Morgan Stanley Group undertakings for the provision of the related services.

Receivables from contracts with other Morgan Stanley Group undertakings are recognised within 'Trade and other receivables' in the statement of financial position when the underlying performance obligations have been satisfied and the Company has the right per the contract to bill the respective group undertaking. Contract assets are recognised when the Company has satisfied its performance obligations, however, payment is conditional, and are presented within 'Prepayments and accrued income'. Contract liabilities are recognised when the Company has collected payment based on the terms of the contract, but the underlying performance obligations are not yet satisfied, and are presented within 'Accruals and deferred income'.

Incremental costs to obtain the contract are expensed as incurred. Revenues are not discounted when payment is expected within one year.

h. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, net of outstanding bank overdrafts, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

i. Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income tax (continued)

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and current tax liabilities on a net basis.

j. Employee compensation plans

i) Equity-settled share-based compensation plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the Morgan Stanley Group for services rendered to the Company. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock on the date the award is granted, measured as the volume-weighted average price on the date of grant.

Awards generally contain clawback and cancellation provisions. Certain awards provide Morgan Stanley the discretion to cancel all or a portion of the award under specified circumstances. Compensation expense for these awards is adjusted for changes in the fair value of Morgan Stanley's common stock until conversion.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Group chargeback arrangements, the Company pays Morgan Stanley for the procurement of shares. The Company pays Morgan Stanley the grant date fair value and any subsequent movement in fair value up to the time of delivery to the employees.

Share based compensation expense is recorded within 'Other expense' in the income statement.

ii) Deferred cash-based compensation plans

Morgan Stanley awards deferred cash-based compensation on behalf of the Company for the benefit of employees, providing a return to the participating employees based upon the performance of various referenced investments. Compensation expense for deferred cash-based compensation awards is calculated based on the notional value of the award granted, adjusted for changes in the fair value of the referenced investments.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. Forfeitures due to failure to satisfy service conditions are accounted for as they occur.

Deferred cash-based compensation expense is recorded within 'Other expense' in the income statement. The liability for the awards is measured at fair value and is included within 'Accruals and deferred income' in the statement of financial position.

The Company enters into a variety of derivative contracts with other Morgan Stanley Group undertakings to economically hedge the exposure created by these deferred compensation plans. The derivatives are recognised within 'Trading financial instruments' in the statement of financial position and the related gains and losses are recorded within 'Net trading (expense)/ income' in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Employee compensation plans (continued)

ii) Deferred cash-based compensation plans (continued)

Although changes in compensation expense resulting from changes in the fair value of the referenced investments will generally be offset by changes in the fair value of derivative transactions entered into by the Company, there is typically a timing difference between the immediate recognition of gains and losses on the derivatives and the deferred recognition of the related compensation expense over the vesting period.

k. Post-employment benefits

The Company makes contributions to a defined contribution post-employment plan.

Contributions due in relation to the defined contribution post-employment plan are recognised in 'Other expense' in the income statement when payable.

Details of the plans are given in note 22 to these financial statements.

l. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

4. FEE INCOME

	2018 $'000	2017 $'000
Revenue from contacts with customers:		
Management charges to other Morgan Stanley Group undertakings for employment services provided	1,231,285	1,148,472

5. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	2018 $'000	2017 $'000
Available-for-sale financial assets:		
Dividend income from other Morgan Stanley Group undertakings	-	3,940

6. OTHER REVENUE

	2018 $'000	2017 $'000
Net foreign exchange gains	296	-

7. INTEREST INCOME AND INTEREST EXPENSE

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other revenue' (note 6) and 'Other expense' (note 8) and reversals of impairment losses disclosed in 'Net reversal of impairment loss on financial instruments' (note 9).

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other revenue' (note 6) and 'Other expense' (note 8).

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest method for financial assets and financial liabilities measured at amortised cost. Interest income includes realised interest on certain financial assets and financial liabilities measured at FVPL.

	2018 $'000	2017 $'000
Financial asset not measured at FVPL		
Financial assets measured at amortised cost	35,398	14,266
Financial assets measured at FVPL		
Non-trading financial assets at FVPL	88	-
Total interest income	35,486	14,266
Financial liabilities measured at amortised cost	17,701	8,210
Total interest expense	17,701	8,210

In the prior year, financial assets measured at amortised cost were classified as loan receivables.

8. OTHER EXPENSE

	2018 $'000	2017 $'000
Staff costs	1,239,581	1,160,847
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	29	30
Net foreign exchange losses	-	82
Service charge from another Morgan Stanley Group undertaking	100	100
	1,239,710	1,161,059

All staff costs are recharged to other Morgan Stanley Group entities.

The Company has not paid any fees to the Company's auditor for non-audit services provided to the Company in the current or prior year.

8. OTHER EXPENSE (CONTINUED)

Staff costs

The average number of employees of the Company was 2,075 (2017: 1,962), all of whom are engaged in institutional securities and investment management activities for other Morgan Stanley Group undertakings. The Directors of the Company are employed by other Morgan Stanley Group undertakings.

The costs of the staff, including the Directors, are analysed below:

	2018 $'000	2017 $'000
Wages and salaries	1,062,063	1,002,020
Social security costs	152,475	136,332
Pension costs	25,043	22,495
	1,239,581	1,160,847

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the Related Party Disclosures note (note 23).

9. NET REVERSAL OF IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

The following table shows the net ECL charge and reversal for the year. The 2017 charges were calculated under IAS 39:

	2018 $'000	2017 $'000
Trade and other receivables	5	-

All impairment losses, and reversals thereof, were calculated on an individual basis. No collective impairment assessments were made during the year or prior year.

10. INCOME TAX (BENEFIT)/ EXPENSE

Analysis of (benefit)/ expense in the year

	2018 $'000	2017 $'000
Current tax (benefit)/ expense		
UK corporation tax at 19% (2017: 19.25%)		
- Current year	-	20,428
- Adjustments in respect of prior years	(3,730)	6,304
Total current tax	(3,730)	26,732
Deferred tax expense		
Origination and reversal of temporary differences	-	5,935
Effect of changes in tax rates	-	-
Total deferred tax	-	5,935
Income tax (benefit)/ expense	(3,730)	32,667

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020. These reductions in the tax rate may impact the current tax charge in future periods.

Reconciliation of effective tax rate

The current year income tax expense is lower (2017: higher) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2017: 19.25%). The main differences are explained below:

	2018 $'000	2017 $'000
Profit before taxation	-	1,327
Income tax using the average standard rate of corporation tax in the UK of 19% (2017: 19.25%)	-	255
Impact on tax of:		
Currency translation on tax	-	577
Group relief received for no cash consideration	(12,750)	(25,149)
Other permanent differences	325	453
Deferred tax asset not recognised	12,425	50,985
Tax exempt dividends	-	(758)
Tax (over)/ under provided in prior year	(3,730)	6,304
Total income tax (benefit)/ expense in the income statement	(3,730)	32,667

11. TRADING FINANCIAL ASSETS AND LIABILITIES

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	$'000	$'000	$'000	$'000
Fair value				
Swaps with other Morgan Stanley Group undertakings in relation to deferred compensation schemes	-	7,643	4,708	-

There are no terms and conditions of any trading assets or trading liabilities that may individually significantly affect the amount, timing and certainty of future cash flows for the Company.

12. SECURED FINANCING

The following table provides an analysis of secured financing by measurement classification:

	2018	2017
	$'000	$'000
Non-trading FVPL		
Securities purchased under agreements to resell	299,595	-

13. LOANS AND ADVANCES

	2018	2017
	$'000	$'000
Loans and advances at amortised cost		
Amounts due from other Morgan Stanley Group undertakings	157,590	151,964

14. TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with other Morgan Stanley Group undertakings	779,681	812,451
Less: ECL allowance	(6)	-
	779,675	812,451
Other receivables		
Other amounts receivable	19	22,320
Total trade and other receivables (amortised cost)	779,694	834,771

In the prior year, trades and other receivables at amortised cost were classified as loans and receivables.

15. OTHER PAYABLES

	2018 $'000	2017 $'000
Other payables (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	189,184	377,131
Other amounts payable	6	2
	189,190	377,133

16. DEBT AND OTHER BORROWINGS

	2018 $'000	2017 $'000
Debt and other borrowings (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	485,754	151,964

17. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method. The movement in the deferred tax account is as follows:

	2018 $'000	2017 $'000
At 1 January	-	5,935
Amount recognised in the income statement		
Current year timing difference	-	(5,935)
At 31 December	-	-

The deferred tax included in the statement of financial position and changes recorded in 'Income tax expense' are as follows:

	Deferred tax asset 2018 $'000	Income statement 2018 $'000	Deferred tax asset 2017 $'000	Income statement 2017 $'000
Deferred compensation	-	-	-	5,935

A potential deferred tax asset of $58,153,000 (2017: $47,286,000) has not been recognised due to uncertainty over the availability of future taxable profits against which the temporary differences can be utilised.

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020.

18. EQUITY

	Ordinary shares of $1 each Number	Ordinary shares of $1 each $'000
Authorised, allotted and fully paid		
At 1 January 2018 and 31 December 2018	20,100,000	20,100

19. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2018	Less than or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Cash and short-term deposits	16	-	16
Secured financing	299,595	-	299,595
Loans and advances	157,590	-	157,590
Trade and other receivables	779,694	-	779,694
	1,236,895	-	1,236,895
LIABILITIES			
Trading financial liabilities	3,717	3,926	7,643
Other payables	130,005	59,185	189,190
Debt and other borrowings	-	485,754	485,754
Accruals and deferred income	441,399	85,763	527,162
Current tax liabilities	16,082	-	16,082
	591,203	634,628	1,225,831

At 31 December 2017	Less than or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Trading financial assets	2,233	2,475	4,708
Loans and advances	151,964	-	151,964
Trade and other receivables	833,957	814	834,771
	988,154	3,289	991,443
LIABILITIES			
Trade and other payables	306,772	70,361	377,133
Debt and other borrowings	-	151,964	151,964
Accruals and deferred income	371,425	55,256	426,681
Current tax liabilities	28,320	-	28,320
	706,517	277,581	984,098

Total financial liabilities of $9,571,000 (2017: $4,789,000), included in the above, fall due for payment after more than five years from the reporting date.

20. SEGMENT REPORTING

The principal activity of the Company is to provide employment services to other Morgan Stanley Group undertakings in the UK.

21. EMPLOYEE COMPENSATION PLANS

Morgan Stanley maintains various equity-settled share-based and cash-based deferred compensation plans for the benefit of employees.

Equity-settled share-based compensation plans

Morgan Stanley has granted RSU awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are generally subject to vesting over time, generally six months to seven years, and are generally 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 cancelled if employment is terminated before the end of the relevant vesting period, and after the vesting period in certain situations. Recipients of equity-based awards may have voting rights, at Morgan Stanley's discretion, and generally receive dividend equivalents if the awards vest, unless this is prohibited by regulation.

During the year, Morgan Stanley granted 2,780,494 units (2017: 2,475,501 units) of RSU to employees of the Company with a weighted average fair value per unit of $54.74 (2017: $42.74), based on the market value of Morgan Stanley common stock at grant date.

The equity-based compensation expense recognised in the year is $114,099,000 (2017: $136,936,000). The Company has also entered into a chargeback agreement with Morgan Stanley under which it is committed to pay to Morgan Stanley the grant date fair value of awards granted as well as subsequent movements in their fair value. Therefore, the total amount included within 'Staff costs' within 'Other expense' of $111,320,000 (2017: $164,130,000) includes the equity-based compensation expense and the movements in the fair value of the awards granted to employees.

The related liability due to Morgan Stanley at the end of the year, reported within 'Other payables' in the statement of financial position, is $131,935,000 (2017: $131,305,000) and is expected to be settled wholly within one year, other than $59,185,000 (2017: $70,361,000) which is expected to be settled in greater than one year.

The unrecognised compensation cost related to unvested equity-based awards is shown in the table below:

	Unvested awards granted:		
	To 31 December 2018 $'000	**In January 2019 $'000**	**Total $'000**
Expense expected to be recognised in:			
2019	41,996	119,947	161,943
2020	17,122	27,327	44,449
2021	2,803	14,709	17,512
Thereafter	582	2,549	3,131
	62,503	164,532	227,035

21. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Equity-settled share-based compensation plans (continued)

Amounts above do not reflect future forfeitures, cancellations, accelerations or movements in fair value. Awards for the performance year 2018 were granted in January 2019 and will be expensed from February 2019, in line with future service requirements.

Deferred cash-based compensation plans

Morgan Stanley has granted deferred cash-based compensation awards to certain employees which defer a portion of the employees' discretionary compensation. The plans generally provide a return based upon the performance of various referenced investments. Awards under these plans are generally subject to a sole vesting condition of service over time, which normally ranges from one to seven years from the date of grant. All, or a portion of, an award may be cancelled if employment is terminated before the end of the relevant vesting period. The awards are settled in cash at the end of the relevant vesting period.

Awards with a value of $127,593,000 (2017: $86,927,000) were granted to employees of the Company during the year.

The deferred cash-based compensation expense recognised in the year is shown in the table below:

	2018	2017
	$'000	$'000
Deferred cash-based awards	109,621	90,729
Return on referenced investments	468	7,130
	110,089	97,859

The liability to employees at the end of the year, reported within 'Accruals and deferred income' in the statement of financial position, is $158,107,000 (2017: $103,349,000) and is expected to be settled wholly within one year, other than $85,763,000 (2017: $54,969,000) which is expected to be settled in greater than one year.

The unrecognised compensation cost related to unvested deferred cash-based compensation awards above is shown in the table below:

	Unvested awards granted:		
	To 31 December 2018	In January 2019	Total
	$'000	$'000	$'000
Expense expected to be recognised in:			
2019	44,202	81,293	125,495
2020	10,680	36,287	46,967
2021	2,257	10,329	12,586
Thereafter	587	2,102	2,689
	57,726	130,011	187,737

Amounts do not include unrecognised expense for future returns on referenced investments, forfeitures, cancellations or accelerations. Awards for the performance year 2018 compensation were granted in January 2019 and will begin to be amortised in February 2019, in line with future service requirements.

21. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Deferred cash-based compensation plans (continued)

The Company economically hedges the exposure created by these deferred compensation schemes by entering into derivative transactions with other Morgan Stanley Group undertakings. The derivative balance at the end of the year, recognised within 'Trading financial assets' in relation to these deferred compensation plans is $nil (2017: $4,708,000) and recognised within 'Trading financial liabilities' is $7,643,000 (2017: nil). The related loss recorded within 'Net trading expense/ income' for the year is $9,661,000 (2017: $3,918,000 profit).

22. POST-EMPLOYMENT BENEFITS

Plans operated by fellow Morgan Stanley Group undertakings

The Company is a participant in the Morgan Stanley UK Group Pension Plan (the "Plan") operated by Morgan Stanley UK Limited ("MSUKL"). The Plan is a defined contribution scheme with a closed defined benefit section.

Defined contribution

The Company pays fixed contributions to the defined contribution section of the Plan, with no legal or constructive obligation to pay further contributions.

The defined contribution pension charge recognised within 'Staff costs' in 'Other expense' in the income statement was $23,930,000 for the year (2017: $21,386,000) of which $nil was accrued at 31 December 2018 (2017: $nil).

Defined benefit

There is no contractual agreement for charging the net defined benefit cost associated with the defined benefit section and the policy is that there is no apportionment of contributions between participating entities. Further details regarding the Plan are provided in the financial statements of MSUKL.

In addition, the Company is a participant in the Alternative Retirement Plan operated by MSUKL. Under this plan members have the opportunity to notionally invest contributions in a selection of funds, the performance of which determines the amount payable on retirement. The Company recognised an expense within 'Staff costs' in 'Other expense' in respect of its contributions for the year totalling $1,113,000 (2017: $1,109,000).

23. RELATED PARTY DISCLOSURES

Parent relationships

Parent and ultimate controlling entities

The parent and ultimate controlling entities are disclosed in note 1 to the financial statements.

Directors' remuneration

The Company paid no remuneration to its Directors during the current or prior year. The charges in respect of Directors' qualifying services to the Company have been borne by another Morgan Stanley Group undertaking. The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed below:

23. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' remuneration (continued)

	2018 $'000	2017 $'000
Total remuneration of all Directors:		
Aggregate remuneration	20	16
Company Contribution to pension plans	1	-
Long term incentive schemes	1	1
	22	17

Directors' remuneration has been calculated as the sum of cash, bonuses, and benefits in kind.

All Directors who are employees of the Morgan Stanley Group are eligible for shares and share options of the parent company, Morgan Stanley, awarded under the Morgan Stanley Group's equity-based long term incentive schemes. In accordance with Schedule 5 paragraph 1(3)(a) of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the above disclosures include neither the value of shares awarded, nor the gains made on exercise of share options. During the year three Directors received restricted stock unit awards in respect of qualifying services (2017: two).

The value of assets (other than shares or share options) awarded under other long term incentive schemes has been included in the above disclosures when the awards vest, which is generally within three years from the date of the award.

The Morgan Stanley Group operates a defined contribution pension scheme, the Morgan Stanley UK Group Pension Plan. There are three Directors to whom retirement benefits are accruing under this defined contribution scheme (2017: one).

One Director has retirement benefits under a frozen non-UK defined benefits scheme (2017: one). In addition, one Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by the Company (2017: one).

The Company has not provided any loans or other credit advances to its Directors during the year (2017: $nil).