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 2019

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 2019.

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.

There have not been any significant changes in the Company's principal activity in the year under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

The Company provides support services to Morgan Stanley Group's operating undertakings. 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"). 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.

The statement of comprehensive income for the year is set out on page 10. The Company generated a $nil result before tax as it received full cost recovery for the current and prior year through management charges to other Morgan Stanley Group undertakings. Management charges recognised within 'Fee income' for recovery of costs incurred in the provision of employment services decreased from $1,231,285,000 to $788,173,000. This was primarily due to a reduction in staff costs from $1,239,581,000 to $795,175,000, following the transfer of 1,779 employees to another Morgan Stanley Group undertaking during the year. There were 284 employees remaining on the Company as at 31 December 2019. The Company also recognised a tax expense of $282,000 in the current year. The prior year profit after tax of $3,730,000 represented a tax benefit arising from tax adjustments in respect of previous years.

The statement of financial position is set out on page 12. Total assets and liabilities have decreased year on year as a result of the transfer of employees. Liquidity requirements for recovery and resolution have decreased due to lower operational costs. Financial resources held for these requirements include cash and short-term deposits, loans and advances and securities purchased under an agreement to resell which decreased by $364,203,000 to $92,998,000 as at 31 December 2019. The Company sources financing for its operational activities including liquidity requirements from another Morgan Stanley Group undertaking which is recognised within 'Debt and other borrowings' which has decreased by $393,910,000 to $91,844,000. 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' have also decreased.

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.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Emergence of COVID-19

The coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets, increased unemployment, and operational challenges such as the temporary closures of businesses, sheltering-in-place directives and increased remote work protocols. Governments and central banks around the world have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates, though it is unclear whether these or future actions will be successful in countering the economic disruption. If the pandemic is prolonged or the actions of governments and central banks are unsuccessful, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of Morgan Stanley and the Company will be adversely affected.

Since the emergence of the pandemic each business segment of Morgan Stanley and the business of the MSI Group has been impacted and such impact will likely be greater in the future if conditions persist (e.g., decline and volatility of asset prices, reduction in interest rates, widening of credit spreads, credit deterioration, market volatility and reduced investment banking advisory activity). Operationally, although Morgan Stanley and the Company have initiated a work remotely protocol and restricted business travel and have not experienced any significant loss of operational capability, if significant portions of Morgan Stanley's or the MSI Group's workforce, including key personnel, are unable to work effectively because of illness, government actions, or other restrictions in connection with the pandemic, the business impact of the pandemic could be exacerbated

While the emergence of the COVID-19 pandemic has negatively impacted the results of Morgan Stanley, the extent to which it, and the related global economic crisis, affects the businesses, the results of operations and financial condition, as well as the regulatory capital and liquidity ratios of Morgan Stanley and the MSI Group, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties in response to the pandemic, and the effects on our customers, counterparties, employees and third-party service providers. Morgan Stanley and the MSI Group continue to use their Risk Management framework, including Stress testing, to understand the attendant uncertainties and their potential impact on our operations, liquidity and capital. Morgan Stanley is maintaining an active dialogue with all its relevant global regulators during this period.

Risk management

The key risk of the Company is its exposure to other Morgan Stanley Group undertakings. The Morgan Stanley Group has 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 manages 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 19. The economic hedges of this risk are outlined in the same note.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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.

Operational risk
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, human factors 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.

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's core values drive a shared set of behaviours and attributes that help employees make decisions consistent with the expectations of our clients, shareholders, regulators, Board of Directors and the public. 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.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

STRATEGIC REPORT

GOING CONCERN

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. In particular, the Company's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 (coronavirus) for the foreseeable future. The existing and potential effects of COVID-19 (coronavirus) on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. The Company has access to further Morgan Stanley 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.

SECTION 172 (1) STATEMENT

Directors of the Company are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in so doing have regard, among other matters to: the likely consequences of any decision in the long term; the interests of the Company's employees, the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

The Board is comprised of senior executives from across the infrastructure divisions of the MSI Group, including Human Resources. Engagement with the stakeholders listed in s172 of the Companies Act 2006 generally takes place at an operational level with each Director able to provide the Board with insights into the views of stakeholders relevant to them in their executive capacity. In addition, stakeholder engagement activities also take place at MSI Group level, particularly when matters are of MSI Group-wide significance or may have the potential to effect the reputation of the MSI Group. For more information on key stakeholders and stakeholder engagements activities undertaken by MSI in the current year see MSI's annual report and financial statements for the year ended 2019 which can be obtained as detailed at note 1.

The Board receives regular reporting on a variety of topics to assist in its oversight of the Company's business including updates on MSE Governance (including the activities of the relevant management committees, regulatory matters, resilience, communications, reporting and service monitoring), together with metrics regarding financials. This, along with insights into the views of key stakeholders provided by individual Directors, gives the Board the information it needs to meet its duties under s172 of the Companies Act 2006 when making decisions.

A principal decision taken by the Board in 2019 was the transfer of 1,779 employees from MSES to MSIP. When making this decision, the Board considered the results of an employee consultation, the effects of the transfer on those employees, the interests of the wider Morgan Stanley Group, and the long term consequences of the decision as part of its consideration of the interests of relevant stakeholders.

Approved by the Board and signed on its behalf by

DocuSigned by:

Sue Watts

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S E Watts - Director

21 April 2020

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 22) for the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was $282,000 (2018: $3,730,000 profit after tax).

During the year, no dividends were paid or proposed (2018: $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	
T E E Rowe	(resigned 14 January 2019)
C R Styant	(appointed 14 March 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.

STAKEHOLDER RELATIONSHIPS AND ENGAGEMENTS

Details of engagement activities undertaken by the Board in 2019 with employees, suppliers, clients and other stakeholders and how they inform decision making are provided in the s172 (1) statement on page 4.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

DIRECTORS' REPORT

EVENTS AFTER THE REPORTING DATE

Since the balance sheet date the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company. For further detail, refer to the 'Emergence of COVID-19' section on page 2 of the Strategic 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 United Kingdom 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

DocuSigned by:
Sue Watts
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S E Watts - Director
21 April 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley Employment Services UK Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its result 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 which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 22.

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 Financial Reporting Council ("FRC") 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.

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 FRC 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.

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

21 April 2020

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Fee income	4	788,173	1,231,285
Net trading expense		(224)	(9,661)
Other revenue	5	-	296
Total non-interest revenues		787,949	1,221,920
Interest income		51,546	35,486
Interest expense		(39,423)	(17,701)
Net interest income	6	12,123	17,785
Net revenues		800,072	1,239,705
Non-interest expense:			
Other expense	7	(800,076)	(1,239,710)
Net reversal of impairment loss on financial instruments	8	4	5
PROFIT BEFORE TAXATION		-	-
Income tax (expense)/ benefit	9	(282)	3,730
(LOSS)/ PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(282)	3,730

All results were derived from continuing operations.

The notes on pages 13 to 30 form an integral part of the financial statements.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Note	Share capital	Retained (losses)/ earnings	Total equity
		$'000	$'000	$'000
Balance at 1 January 2018		20,100	(12,755)	7,345
Impact of adoption of new accounting standards		-	(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
Loss and total comprehensive income for the year		-	(282)	(282)
Share based payments	16	-	109	109
Balance at 31 December 2019		20,100	(9,209)	10,891

The notes on pages 13 to 30 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 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and short-term deposits		130	16
Secured financing	10	92,868	299,595
Loans and advances	11	-	157,590
Trade and other receivables	12	527,619	779,694
TOTAL ASSETS		620,617	1,236,895
LIABILITIES AND EQUITY			
Trading financial liabilities	13	7,220	7,643
Other payables	14	140,687	189,190
Debt and other borrowings	15	91,844	485,754
Accruals and deferred income		369,693	527,162
Current tax liabilities		282	16,082
TOTAL LIABILITIES		609,726	1,225,831
EQUITY			
Share capital	16	20,100	20,100
Retained losses		(9,209)	(9,036)
Equity attributable to owners of the Company		10,891	11,064
TOTAL EQUITY		10,891	11,064
TOTAL LIABILITIES AND EQUITY		620,617	1,236,895

These financial statements were approved by the Board and authorised for issue on 20 April 2020.

Signed on behalf of the Board

DocuSigned by:
Sue Watts
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S E Watts - Director

The notes on pages 13 to 30 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address: 20 Bank Street, Canary Wharf, London E14 4AD, United Kingdom. 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, United Kingdom. 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 Accounting Standards ("IAS") 19 '*Plan Amendment, Curtailment or Settlement*' was issued by the International Accounting Standards Board ("IASB") in February 2018, for retrospective application to plan amendments, curtailments or settlements occurring on or after 1 January 2019. The amendment was endorsed by the EU in March 2019.

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the IASB made amendments to the following standards that are relevant to the Company's operations: IAS 12 '*Income Taxes*' and IAS 23 '*Borrowing Costs*', for application in accounting periods beginning on or after 1 January 2019. The amendments were endorsed by the EU in March 2019.

IFRIC 23 '*Uncertainty over Income Tax Treatments*' was issued by the IASB in June 2017 for application in accounting periods beginning on or after 1 January 2019. The interpretation was endorsed by the EU in October 2018.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

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.

Critical accounting judgements and key sources of estimation uncertainty

No critical accounting 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. There are no key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

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 statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, are reflected in the statement of comprehensive income in 'Net trading expense'.

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

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

Non-trading financial assets at fair value through profit or loss ("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 statement of comprehensive income 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 statement of comprehensive income in 'Other expense'.

ii) Financial assets and financial liabilities at amortised cost

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

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 expected credit losses ("ECL") allowance. Interest is recognised in the statement of comprehensive income 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 statement of comprehensive income in 'Net impairment loss on financial instruments'.

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

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)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

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

3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income 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.

iii) Secured financing

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

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.

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 – 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, block discounts and discounts for equity specific restrictions that would not transfer to market participants are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

- 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 over-the-counter ("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 and funding.

Valuation process

Valuation Control ("VC") within Finance 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.

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

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 statement of comprehensive income within 'Net reversal of 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. Where there has been a reduction in ECL, this will be recognised within 'Net reversal of impairment loss on financial instruments'.

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 statement of comprehensive income 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 before taxation as reported in the statement of comprehensive income 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income tax (continued)

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 ("VWAP"). The fair value of RSUs not entitled to dividends until conversion is measured at VWAP reduced by the present value of dividends expected to be paid on the underlying shares prior to scheduled conversion date.

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 Morgan Stanley 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 statement of comprehensive income.

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 that employees select.

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 statement of comprehensive income. 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' in the statement of comprehensive income.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 'Staff costs' in 'Other expense' in the statement of comprehensive income when payable.

Details of the plans are disclosed in note 20 to these financial statements.

4. FEE INCOME

	2019 $'000	2018 $'000
Revenue from contacts with customers:		
Management charges to other Morgan Stanley Group undertakings for employment services provided	788,173	1,231,285

5. OTHER REVENUE

	2019 $'000	2018 $'000
Net foreign exchange gains	-	296

6. INTEREST INCOME AND INTEREST EXPENSE

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.

	2019 $'000	2018 $'000
Financial asset not measured at FVPL		
Financial assets measured at amortised cost	49,802	35,398
Financial assets measured at FVPL		
Non-trading financial assets at FVPL	1,744	88
Total interest income	51,546	35,486

	2019 $'000	2018 $'000
Financial liabilities measured at amortised cost	39,423	17,701
Total interest expense	39,423	17,701

6. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

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 5) and 'Other expense' (note 7) and reversals of impairment losses disclosed in 'Net reversal of impairment loss on financial instruments' (note 8).

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other revenue' (note 5) and 'Other expense' (note 7).

7. OTHER EXPENSE

	2019 $'000	2018 $'000
Staff costs	795,175	1,239,581
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	30	29
Net foreign exchange losses	4,871	-
Service charge from another Morgan Stanley Group undertaking	-	100
	800,076	1,239,710

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.

Staff costs

The average number of employees of the Company was 1,204 (2018: 2,075), all of whom were 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:

	2019 $'000	2018 $'000
Wages and salaries	686,678	1,062,063
Social security costs	94,750	152,475
Pension costs	13,747	25,043
	795,175	1,239,581

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

7. OTHER EXPENSE (CONTINUED)

On 1 July 2019, 1,779 employees were transferred from the Company to Morgan Stanley & Co. International plc. At 31 December 2019, 267 employees engaged in investment management and institutional securities activities for other Morgan Stanley Group undertakings remained on the Company.

The Directors of the Company are employed by other Morgan Stanley Group undertakings.

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 21).

8. NET REVERSAL OF IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

The following table shows the net ECL charge and reversal for the year.

	2019	2018
	$'000	$'000
Trade and other receivables	4	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.

9. INCOME TAX

	2019	2018
	$'000	$'000
Current tax		
UK corporation tax at 19% (2018: 19%)		
- Current year	282	-
- Adjustments in respect of prior years	-	(3,730)
Total current tax	282	(3,730)
Deferred tax		
Origination and reversal of temporary differences	-	-
Adjustments in respect of prior years	-	-
Effect of changes in tax rates	-	-
Total deferred tax	-	-
Income tax expense/ (benefit)	282	(3,730)

A potential deferred tax asset of $58,701,000 (2018: $58,153,000) has not been recognised due to uncertainty over the availability of future taxable profits against which the temporary differences can be utilised.

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

9. INCOME TAX (CONTINUED)

Finance (No.2) Act 2015 reduced the UK main rate of corporation tax to 17% with effect from 1 April 2020. However, following the UK Budget on 11 March 2020 and subsequent resolutions given statutory effect under the Provisional Collection of Taxes Act 1968, for the financial year 2020 the UK statutory rate is 19%. While this change does not affect the income tax charge for the year, it will affect future periods.

Had this change in rate been effective at the balance sheet date for 2020 and subsequent years, due to revaluation the net deferred tax asset not recognised at 31 December 2019 would have been $65,226,000.

The current year income tax expense is higher (2018: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2018: 19%). The main differences are explained below:

Reconciliation of effective tax rate

	2019 $'000	2018 $'000
Profit before taxation	-	-
Income tax using the average standard rate of corporation tax in the UK of 19% (2018: 19%)	-	-
Impact on tax of:		
Group relief received for no cash consideration	(1,848)	(12,750)
Other permanent differences	62	325
Deferred tax asset not recognised	2,068	12,425
Tax over provided in prior year	-	(3,730)
Total income tax expense/ (benefit) in the statement of comprehensive income	282	(3,730)

10. SECURED FINANCING

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

	2019 $'000	2018 $'000
Non-trading FVPL		
Securities purchased under agreements to resell	92,868	299,595

11. LOANS AND ADVANCES

	2019 $'000	2018 $'000
Loans and advances at amortised cost		
Amounts due from other Morgan Stanley Group undertakings	-	157,590

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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12. TRADE AND OTHER RECEIVABLES

	2019 $'000	2018 $'000
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with other Morgan Stanley Group undertakings	527,621	779,681
Less: ECL allowance	(2)	(6)
	527,619	779,675
Other receivables		
Other amounts receivable	-	19
Total trade and other receivables (amortised cost)	527,619	779,694

13. TRADING FINANCIAL LIABILITIES

	2019 $'000	2018 $'000
Derivatives with other Morgan Stanley Group undertakings in relation to deferred compensation schemes	7,220	7,643

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.

14. OTHER PAYABLES

	2019 $'000	2018 $'000
Other payables (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	140,488	189,184
Other amounts payable	199	6
	140,687	189,190

15. DEBT AND OTHER BORROWINGS

	2019 $'000	2018 $'000
Debt and other borrowings (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	91,844	485,754

MORGAN STANLEY EMPLOYMENT SERVICES UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

16. EQUITY

	Ordinary shares of $1 each	Ordinary shares of $1 each
	Number	$'000
Authorised, allotted and fully paid		
At 1 January 2019 and 31 December 2019	20,100,000	20,100

Retained earnings

During the year, $109,000 of awards were forfeited after their vesting period (2018: $nil) and have been recognised as share based payments in the statement of changes in equity.

17. 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 2019	Less than or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Cash and short-term deposits	130	-	130
Secured financing	92,868	-	92,868
Trade and other receivables	527,619	-	527,619
	620,617	-	620,617
LIABILITIES			
Trading financial liabilities	3,511	3,709	7,220
Other payables	67,753	72,934	140,687
Debt and other borrowings	-	91,844	91,844
Accruals and deferred income	260,880	108,813	369,693
Current tax liabilities	282	-	282
	332,426	277,300	609,726

17. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

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

Total financial liabilities of $6,112,000 (2018: $9,571,000), included in the above, fall due for payment after more than five years from the reporting date.

18. SEGMENT REPORTING

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

19. 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 forfeited if employment is terminated before the end of the relevant vesting period or cancelled 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.

19. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Equity-settled share-based compensation plans (continued)

During the year, Morgan Stanley granted 4,075,516 RSUs (2018: 2,780,494 RSUs) to employees of the Company with a weighted average fair value per unit of $41.37 (2018: $54.74), based on the market value of Morgan Stanley common stock at grant date.

The equity-based compensation expense recognised in the year is $120,783,000 (2018: $114,099,000). 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 $133,449,000 (2018: $111,320,000) 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 $134,682,000 (2018: $131,935,000). $61,747,000 (2018: $72,750,000) expected to be settled wholly within one year and $72,935,000 (2018: $59,185,000) thereafter.

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

	Unvested awards granted: To 31 December 2019 $'000	In January 2020 $'000	Total $'000
Expense expected to be recognised in:			
2020	704	856	1,560
2021	254	535	789
2022	47	328	375
Thereafter	9	28	37
	1,014	1,747	2,761

Amounts above do not reflect forfeitures, cancellations or accelerations or adjustments to fair value for certain awards.

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 forfeited 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 $132,048,000 (2018: $127,593,000) were granted to employees of the Company during the year.

19. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Deferred cash-based compensation plans (continued)

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

	2019	2018
	$'000	$'000
Deferred cash-based awards	73,773	109,621
Return on referenced investments		
Carried Interest	1,993	-
Other	11,923	468
	87,689	110,089

The liability to employees at the end of the year, reported within 'Accruals and deferred income' in the statement of financial position, is $165,341,000 (2018: $158,107,000). $80,006,000 (2018: $72,344,000), expected to be settled wholly within one year, and $85,335,000 (2018: $85,763,000) thereafter.

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

	Unvested awards granted:		
	To 31 December 2019	In January 2020	Total
	$'000	$'000	$'000
Expected to be recognised in:			
2020	8,638	18,269	26,907
2021	2,614	6,761	9,375
2022	214	2,353	2,567
Thereafter	10	115	125
	11,476	27,498	38,974

Amounts above do not reflect forfeitures, cancellations, accelerations or assumptions about future market conditions.

The Company generally 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 liabilities' in relation to these deferred compensation plans is $7,220,000 (2018: $7,643,000). The related loss recorded within 'Net trading income' for the year is $224,000 (2018: $9,661,000 loss).

20. 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.

20. POST-EMPLOYMENT BENEFITS (CONTINUED)

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 statement of comprehensive income was $13,154,000 for the year (2018: $23,930,000) of which $nil was accrued at 31 December 2019 (2018: $nil).

Defined benefit

Under Group contractual arrangements, no cost associated with the defined benefit section of the Plan is charged to the Company. 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 $593,000 (2018: $1,113,000).

21. 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:

	2019 $'000	2018 $'000
Total remuneration of all Directors:		
Aggregate remuneration	17	20
Company Contribution to pension plans	2	1
Long term incentive schemes	1	1
Payments for loss of office	1	-
	21	22

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

21. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' remuneration (continued)

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 do not include the value of shares awarded. During the year three Directors received restricted stock unit awards in respect of qualifying services (2018: three).

The value of assets (other than shares) 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 four Directors to whom retirement benefits are accruing under this defined contribution scheme (2018: three).

One Director has retirement benefits under a frozen non-UK defined benefits scheme (2018: one). In addition, one Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by the Company (2018: one).

The Company has not provided any loans or other credit advances to its Directors during the year (2018: $nil).

22. EVENTS AFTER THE REPORTING DATE

Since the balance sheet date the emergence of the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company. For further detail, refer to the 'Emergence of COVID-19' section on page 2 of the Strategic Report.