

Q: How do SEC rules help protect me?

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How can I be confident that my assets will be there when I need them?

SUMMARY

The strength and stability of Morgan Stanley Smith Barney LLC ("Morgan Stanley Smith Barney") provides the first, and perhaps most important, measure of protection for your accounts. Built on over 130 years of experience, Morgan Stanley Smith Barney is recognized as one of the leading global wealth management firms. At its core is a commitment to helping clients build, manage and preserve their wealth. Beyond that, your assets are protected in several ways, including SEC rules and regulations, SIPC coverage, "Excess of SIPC" coverage and FDIC insurance on deposit accounts. Keep in mind, however, that this protection only extends to losses caused by a financial institution becoming insolvent. Investment risks and losses are not covered.

Q. How do SEC rules protect me?

A. For most legacy Morgan Stanley clients, Morgan Stanley Smith Barney executes and clears all brokerage transactions and maintains client accounts. Morgan Stanley Smith Barney is registered with the Securities and Exchange Commission ("SEC") as a broker-dealer and investment adviser. Accordingly, we must adhere to strict regulatory standards concerning the safekeeping and segregation of client assets and the preservation of capital reserves.

Q. What are the benefits of account segregation?

A. SEC rules require broker-dealers to segregate client securities from firm positions and maintain a special bank account that is separate from any other bank account to hold cash and funds of its clients. What this means for you is, by law, client securities — such as fully paid stocks and bonds, or excess-margin securities — and cash are held separate

from the firm's positions. Segregation of assets allows broker-dealers to maintain control of client securities and, in the unlikely event of insolvency, protects client assets from the claims of creditors.

Q. How are broker-dealers monitored by regulators?

A. Morgan Stanley Smith Barney is also required to file periodic reports with the SEC and the Financial Industry Regulatory Authority ("FINRA"), who regularly examine broker-dealers to ensure compliance. In addition to account segregation, SEC rules also require broker-dealers to maintain adequate capital reserves to ensure financial resources are available to clients. Morgan Stanley Smith Barney is examined to ensure the capital reserves exceed regulatory requirements.

Q. What is SIPC Protection?

A. Morgan Stanley Smith Barney is a member of the Securities Investor

Protection Corporation (“SIPC”)¹ SIPC is a nonprofit organization of U.S. broker-dealers created in 1970 by an Act of Congress. It is funded by assessments collected from its member securities broker-dealers.

Q. How does SIPC protection work?

A. When a SIPC member firm fails, SIPC provides protection should the failed firm become unable to meet its obligation to clients. In the event of broker-dealer insolvency, a court-appointed SIPC Trustee coordinates the distribution of securities and cash to clients, including the distribution of SIPC funds advanced to the Trustee for that purpose. The SIPC Trustee will examine the records of the failed broker-dealer to make sure that all of the securities are accounted for. If there is a shortfall in the amount of securities or cash owed clients and the failed firm does not have sufficient funds to satisfy client obligations, SIPC can draw from its reserve fund to protect each client up to \$500,000, of which up to \$250,000 may be uninvested cash.

Q. What is “Excess of SIPC” Coverage?

A. In addition, Morgan Stanley Smith Barney has purchased, at no cost to clients, separate insurance protection from certain syndicates of Lloyd’s of London and various underwriters (“Lloyd’s”) that provides additional coverage “Excess of SIPC.” In the unlikely event that client assets are not fully recovered, and SIPC protection limits have been paid, this additional coverage is available to provide protection above the SIPC limits. This coverage is subject to a firmwide cap of \$1 billion with no per-client limit for securities and a \$1.9 million per-client limit for the cash portion of any remaining shortfall. As of July 14, 2011, Lloyd’s of London was rated ‘A’ by A.M. Best and ‘A+’ by Fitch Ratings and Standard & Poor’s.²

Q. What risks are not covered by SIPC and Excess of SIPC coverage?

A. SIPC and Excess of SIPC protection do not insure against losses due to market fluctuations or other losses that are not related to net-equity claims due to the insolvency

of Morgan Stanley Smith Barney. SIPC and Excess of SIPC protection apply to net claims for the value of most securities and cash in the exclusive possession or control of Morgan Stanley Smith Barney. Securities, including certain mutual funds, annuities, life insurance and limited partnerships, which may be redeemed directly from the issuer, carrier or their agents, are generally not covered by SIPC or Excess of SIPC coverage.

Q. What if I have more than one account at the firm?

A. SIPC and Excess of SIPC protection are applied per client for all accounts designated in the same *capacity*. If a client maintains more than one account at the firm in separate capacities (individual, joint, trust), each account would be protected by SIPC and Excess of SIPC up to the client and aggregate limits. For example, if you have an Individual Retirement Account as well as another separate account in your name, you are eligible to receive the \$500,000 maximum SIPC protection for each of these two accounts as well as the additional coverage provided by Morgan Stanley Smith Barney’s Excess of SIPC protection.

Q. How are bank deposits protected?

A. Bank deposits held through the Bank Deposit Program or Global Currency are not covered by SIPC but instead are eligible for coverage by the Federal Deposit Insurance Corporation (“FDIC”).³ Unlike SIPC, the FDIC is an independent agency of the U.S. government. FDIC insurance provides protection for deposits held in a bank or savings-and-loan institution. Bank deposits become eligible for deposit insurance immediately upon deposit at the receiving institution.

Q. What level of protection does FDIC insurance provide?

A. The deposit insurance limit is \$250,000 per customer per depository institution for all insurable capacities. For example, our Bank Deposit Program for legacy Morgan Stanley clients utilizes two affiliated banks, which

results in the following FDIC coverage limits:

- *Single depositors are insured for \$500,000 (\$250,000 per bank)*
- *Joint depositors are insured for \$1,000,000 (\$500,000 per bank)*
- *Certain retirement accounts such as IRAs are insured for \$500,000 (\$250,000 per bank)*

¹ Source: http://www.lloyds.com/Lloyds_Market/Ratings/.

² Clients may obtain a more complete and definitive description of SIPC protection by contacting SIPC at 1-202-371-8300 or by visiting www.sipc.org.

³ Clients may obtain a more complete and definitive description of FDIC coverage by visiting www.fdic.gov. For more information about the Bank Deposit Program and to view current rates, visit: www.morganstanleyindividual.com/accountoptions/activeassets/Investmentfeatures/.

⁴ Certificates of Deposit may be protected by the Federal Deposit Insurance Corporation up to \$250,000 per customer at each participating depository institution.

Types of Assets Covered Under SIPC and Excess of SIPC Protection

- Cash (free credit balance)
- Most stocks (common and preferred stock, options)
- Bonds (corporate, municipals)
- US Treasury/government agency securities (bills, notes, bonds, zeros)
- Asset/mortgage-backed securities
- Certificates of deposit⁴

Types of Assets Not Covered Under SIPC and Excess of SIPC Protection

- Foreign exchange
- Precious metals and other commodities
- Futures
- Annuities and life insurance
- Swaps

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